

ORIGINAL

Decision No. 47609

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CALIFORNIA WATER SERVICE COMPANY, a)
corporation, for an order authorizing) Application No. 32882
it to increase rates charged for water)
service in the City of Petaluma and)
vicinity.)

McCutcheon, Thomas, Matthew, Griffiths & Greene
by Robert Minge Brown, for applicant; Karl Brooks,
City Attorney, and Bruce McKnight for City of
Petaluma, protestant; John Power and C. G. Ferguson
for the Commission staff.

O P I N I O N

In this application, filed November 8, 1951, California Water Service Company seeks authority to increase rates and charges for water service rendered in the City of Petaluma and vicinity in Sonoma County.

Public hearings in the matter were held before Examiner Emerson on May 26 and 27, 1952, at Petaluma. Except for the protestant city no one came forward at the hearing to register any objection to an increase in water rates or otherwise to offer information or comments upon applicant's rate request or its service.

Rates, Present and Proposed

The rate schedules now in effect in the company's Petaluma District, except for private fire protection service, are those filed June 10, 1948, and made effective July 1, 1948, as authorized by the Commission's Decision No. 41635, dated May 25, 1948 in Application No. 28831.

The following tabulation shows the schedule of rates for general metered service as presently in effect and as proposed by the company:

General Metered Service

Quantity Rates:	Per Meter per Month	
	Present Rates	Proposed Rates
First 400 cu.ft. or less.....	\$ 1.55	\$ 2.00
Next 2,100 cu.ft., per 100 cu.ft....	.36	.43
Next 12,500 cu.ft., per 100 cu.ft....	.27	.34
Over 15,000 cu.ft., per 100 cu.ft....	.19	.24
Minimum Charge:		
For 5/8-inch meter.....	\$ 1.55	\$ 2.00
For 3/4-inch meter.....	2.00	2.90
For 1-inch meter.....	3.25	4.70
For 1 1/2-inch meter.....	6.00	9.25
For 2-inch meter.....	9.50	14.00
For 3-inch meter.....	17.50	25.50
For 4-inch meter.....	27.50	41.00
For 6-inch meter.....	50.00	71.00
For 8-inch meter.....	-	103.00

The schedule of rates for commercial flat rate service, applicable to unmeasured water service rendered to residential and business consumers until meters can be installed, contains 24 classifications of establishments and fixtures with rates varying from \$0.22 to \$4.50 per month, as filed June 10, 1948. The company proposes a similar schedule for the same classifications to increase these rates uniformly by 26%.

The present Schedule No. 2 for service to political subdivisions, applicable to all water service rendered to municipal, county and other political subdivisions of the state is proposed to be continued as a fire hydrant rate at \$2.50 per hydrant per month.

The present rate schedule for private fire protection service, previously filed June 10, 1948 was refiled on February 7, 1951, to include a rate for service through an 8-inch connection and became effective March 15, 1951. The company now proposes a schedule for private fire protection service to include additional sizes of connections and to increase the existing rates to a level applicable on a company-wide basis.

Under the proposed rates the average residential and commercial customer in Petaluma would experience an increased charge of approximately 75 cents per month.

The System and Its Growth

Petaluma's first public water system was installed about 1882. Applicant obtained the system in 1928.

In 1951, this district secured a portion of its water supply from two intakes on Copeland Creek, located approximately 7 miles northeast of Petaluma at elevations 1,270 and 1,210. This water is piped down to a point on Adobe Creek at an elevation of 1,090, where it is mixed with water from that creek and flows through a large concrete line into the 74,000,000-gallon Lawler Reservoir at an elevation of 1,010. Water from Lawler Creek is also delivered to this reservoir through a wooden flume.

Water from the Copeland Creek Intakes and Upper Adobe Creek Intake can by-pass Lawler Reservoir and be blended with water stored in that reservoir. It then flows down past Lower Adobe and Inman Creeks Intake at elevation 550, where water from that intake is piped into the same transmission main. From there, the water flows on down through the company's filter plant at elevation 420, located approximately 6-3/4 miles northeast of Petaluma. From the filter plant, the water is delivered directly into the lower transmission and distribution system of the district.

Supplementing the gravity supply, additional water is obtained from 13 company-owned and three leased wells. These wells range in size from 12 to 16 inches diameter of casing and are from 83 to 502 feet deep. Water is lifted from the wells into the transmission and distribution system by means of deep-well pumps driven by electric motors. At some of the plants, the water is not delivered directly to the system but is pumped into aerating tanks, and subsequently boosted into the system by electrically powered pumps.

Pressures are maintained and water provided for peak periods of consumption and emergencies by means of the 2,000,000-gallon storage capacity of Oak Hill Reservoir, at elevation 170, on the west side of the city. Water from this reservoir is pumped into the 100,000-gallon Hillside Tank at elevation 260 to serve an intermediate zone, from which it is again boosted to the 20,000-gallon La Cresta Tank at elevation 400 to serve the top zone.

As of the end of the year 1951, there were 59 flat rate customers, 4,115 meter rate customers and 155 fire hydrants, served through 349,738 feet of transmission and distribution mains, varying in size from 3/4 to 30 inches.

Since the last rate proceeding for Petaluma District in 1948, the company has constructed more than 28,000 feet of distribution mains and connected 606 new services in the area. Gross additions to fixed capital have amounted to more than \$186,000 in the same period. Petaluma has had a steady growth, although not a rapid one. It is expected that between 175 and 200 new service connections will be served in 1952.

Increases in the production of water are difficult to accomplish in the Petaluma area. During the past six years the company has drilled five wells which, combined, produced only 515 gallons per minute. These five wells, one of which had to be abandoned because of quicksand, cost approximately \$40,400. Water supply and purification capital in Petaluma District is about three times the average of similar costs on a company-wide basis. The construction budget for 1952 totals \$47,500, the sum needed to supply additional customers and other normal growth. The company anticipates that it will be faced with an even greater construction program in 1953.

Summary of Presentations

The tabulation below is a summary of the presentations respecting results of operations as made by applicant and the Commission staff. The components thereof are discussed in succeeding paragraphs.

	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Applicant</u>	<u>CPUC Staff</u>	<u>Applicant</u>	<u>CPUC Staff</u>
<u>Adjusted Year 1951</u>				
Net Revenue	\$38,179	\$36,538	\$60,230	\$58,491
Rate Base (Deprec.)	1,048,822	1,021,000	1,048,822	1,021,000
Rate of Return	3.6%	3.58%	5.7%	5.73%
<u>Estimated Year 1952</u>				
Net Revenue	\$38,262	\$38,401	\$61,209	\$61,136
Rate Base (Deprec.)	1,070,609	1,038,000	1,070,609	1,038,000
Rate of Return	3.6%	3.70%	5.7%	5.89%

Rate Base

In developing a rate base on which applicant may be entitled to earn a return, applicant used as a starting point substantially the same methods heretofore established or followed by the Commission's staff of engineers. Depreciated rate bases were developed from the weighted average undepreciated rate bases by deducting the adjusted depreciation reserve on a 4½% sinking fund basis. In this latter connection, applicant by letter agreement with the staff, dated March 20, 1952, adopted the 4½% sinking fund remaining life method of depreciation accounting and correspondingly altered its books of account thereto as of January 1, 1952.

The City of Petaluma did not develop a rate base but instead indicated that its position is that applicant should be allowed a return on applicant's investment as represented solely by its capitalization. The witness for the city urged that the allowable rate of return exactly equal the cost of money.

The rate bases developed by applicant and the staff differ only in two principal respects. The first is the amount of fixed capital additions necessary to supply anticipated new customers, applicant having estimated 175 customers would be served while the

staff included 198 customers in its estimate. The second difference arises from the respective treatments accorded landed capital.

Depreciated rate bases of \$1,025,000 for 1951 and \$1,040,000 for the estimated year 1952 are adopted as reasonable for the purpose of establishing bases upon which the reasonableness of applicant's rate proposal may be tested.

Operating Revenues and Expenses

There is no substantial disagreement between the operating revenues and expenses developed by applicant and the staff. Both were based on procedures heretofore used by the staff.

For the adjusted year 1951 and the estimated year 1952, on a modified sinking fund basis in which $4\frac{1}{2}\%$ interest on the depreciation reserve is included as an operating expense, the respective presentations for the Petaluma District are summarized as follows:

: Adjusted :	: Operating Revenues :		: Operating Expenses :	
	: Year 1951 :	: Present Rates: Proposed Rates:	: Present Rates: Proposed Rates:	:
Applicant.	\$194,102	\$241,763	\$155,833	\$181,533
Staff	194,102	241,763	157,564	183,272

: Estimated :	: Operating Revenues :		: Operating Expenses :	
	: Year 1952 :	: Present Rates: Proposed Rates:	: Present Rates: Proposed Rates:	:
Applicant	\$203,040	\$252,838	\$164,778	\$191,629
Staff	201,600	250,958	163,199	189,822

The differences for 1952, apparent above, are occasioned primarily by the differences in anticipated number of new customers to be served. Complete accuracy is not possible in estimating and either presentation appears equally to be within reasonable limits of the accuracy possible. For the purposes of this proceeding, however, we shall adopt the staff's determinations as set forth in the above tabulation.

Net Revenues and Rate of Return

The above adopted revenues, expenses and rate bases indicate rates of return as follows:

Item	Adjusted Year 1951		Estimated Year 1952	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$194,102	\$241,763	\$201,600	\$250,958
Operating Expenses	157,564	183,272	163,199	189,822
Net Revenues	36,538	58,491	38,401	61,136
Rate Bases (Deprec.)	1,025,000	1,025,000	1,040,000	1,040,000
Rates of Return	3.56%	5.71%	3.69%	5.88%

It is apparent from the above tabulation that applicant is not realizing a reasonable return under present rates.

Applicant is entitled to rate relief.

Financing of Properties and Return on Investment

The record in this proceeding contains a considerable amount of evidence indicating, among other things, the company's capital structure, interest and preferred stock dividend requirements, earnings and dividends on common stock and their trends, the terms under which applicant has disposed of its securities, comparative statistics of other utilities, earnings-price ratios and calculation of the cost of equity capital.

The record is clear that applicant has acquired or constructed properties through the use of common funds provided by the issue and sale of its securities and by retained earnings. Applicant contends that it must attract new capital for the financing of its construction program which is company-wide. The accounting witness for the City of Petaluma urged a return of 5.2% based, primarily, on the use of earnings-price ratios and a percentage allocation to the Petaluma District of all of applicant's outstanding securities.

Calculations of earnings-price ratios and yields are useful as background financial information. However, such

calculations merely reflect the investor's appraisal of the market value of the stock, as influenced by general market conditions and the prices at which shares are being traded. They do not indicate the cost of the physical property or the amount the company is required to pay with respect to capital already committed to the enterprise.

The determination by the Commission of a proper rate of return must represent the exercise of judgment, taking into consideration all the circumstances surrounding each particular case. If this Commission were to adopt the methods urged upon it by the City's witness it would necessarily follow that rates would be changed at every instance when the company's capitalization ratios changed or the cost of money altered. We are concerned that the rates authorized will be reasonable from the standpoint of the customers and at the same time that they will be sufficient to afford the utility an opportunity to earn a reasonable return on the capital reasonably employed by it so as to maintain its credit and attract capital sufficient to discharge its public duty in meeting the reasonable demands for service. The record shows the extent to which applicant has been compelled to extend its plant during the postwar years and the estimated expenditures with which it still is faced. [It is only fair that the customers should pay such reasonable amounts as will enable the company to sell securities in the amount reasonably necessary to finance the additional facilities which reasonably will be required to provide them with the service they may reasonably demand.] *Insert*

The records of the Commission show that applicant has acquired the systems it operates and has issued all its securities under authorization granted by the Commission and, under the circumstances and considering that our regulatory action in fixing

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rates is directly related to the investment in plant, it appears that the book figures as recorded should be considered. Exhibit 18 shows that at the end of 1951 the investment in equity capital amounted to \$33.69 a share but that the market values of the common stock since 1947 have been considerably lower than the book figures. Information filed with the Commission shows the most recent sale of common stock by the company, in June of this year, was at \$28 a share for subsequent reoffering to the public at \$29.25. This indicates that investors have been and are unwilling to risk their funds under the same terms as those which prevailed for prior investors who have invested in equity capital and that the earnings of the company have not been sufficient to maintain the financial integrity of the enterprise.

In May of 1948 the Commission fixed rates designed to yield the company a return in its Petaluma District equivalent to 5% on an undepreciated rate base and 5.3% on a depreciated base. The record now before the Commission shows that since that time the company has been faced with increasing costs in disposing of its securities, that, in general, interest rates have risen and that, as a matter of fact, the company did not earn the return allowed in the 1948 decision.

Customer Opposition

As above mentioned, no consumer appeared at the hearing to protest a rate increase or to complain regarding service conditions. The City of Petaluma through its City Attorney and City Manager, however, protested the continuance of fire hydrant charges at their present level and requested that such charges be reduced and, if necessary, that other customers make up the amount by which fire hydrant charges might be reduced.

Fire hydrants in Petaluma numbered 155 as of December 31, 1951. The costs of installation and maintenance are borne by the City. Applicant charges the City \$2.50 per month per hydrant and has proposed no change in such charge. The present charge was established by an ordinance adopted by the City in 1914. Throughout all of the years since 1914 the rate has remained unchanged and in rate proceedings prior to this one the historical significance of the City having itself first established the rate has been recognized and the rate left undisturbed.

In connection with its request to receive reduced fire hydrant rates the City presented no study of costs upon which the merits of its request might be judged. The testimony of the City's witness merely showed that charges for fire hydrant service are not uniform in 18 of the 21 districts of the company. We are aware that such charges vary widely not only on applicant's various systems but throughout all of California. Rates in this state range from \$1 to \$6.50 per month per hydrant, depending on ownership of the hydrant and the responsibility for its maintenance. Most fire hydrant rates have been based on arbitrary charges which most probably never were compensatory and which were established in the early beginnings of water service. Some hydrant rentals were first established by city ordinance. Very few, if any, have been based upon a recognition of any elements of the cost of providing the service. While cost of service is only one of many factors considered by this Commission in rate making, it is an important factor in fire protection standby service such as that supplied by hydrants. Until such time as a proper study may be undertaken and presented to us for consideration we are of the opinion that the present charges within the City of Petaluma may, with propriety, be continued.

Conclusion

It is apparent from the evidence that the present rates will yield inadequate income from future service rendered in Petaluma. The rates which applicant has proposed will produce net revenues slightly in excess of those required to produce a rate of return of 5-3/4% on a depreciated rate base of \$1,040,000 hereinabove found to be reasonable for the estimated year 1952. The schedules of rates to be authorized in the following order should produce a rate of return of 5-3/4% on said base and for the purposes of this proceeding we hereby find such return to be reasonable. Initial billings will be prorated on the basis of average daily consumption.

O R D E R

California Water Service Company having applied to this Commission for an order authorizing increases and charges for water service rendered in Petaluma and vicinity, Sonoma County, a public hearing thereon having been held and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that the existing rates, in so far as they differ therefrom, are unjust and unreasonable, therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission the schedules of rates set forth in Table 2 of Exhibit No. 2 in this proceeding as specifically modified in Exhibits A and B attached hereto, in conformance with

General Order No. 96, and, after not less than five (5) days' notice to the Commission and the public to make said rates effective for service rendered on and after September 16, 1952.

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at San Francisco California, this 19th day of August, 1952.

A. J. [Signature]
 President.

Justice J. [Signature]

Harold P. [Signature]

[Signature]

 Commissioners.

Commissioner Kenneth Potter, being necessarily absent, did not participate in the disposition of this proceeding.

EXHIBIT A

The rate schedules set forth in Table 2 of Exhibit No. 2 are specifically approved or modified as follows:

Schedule No. 1, General Metered Service

Schedule approved with modification of Quantity Rates and Minimum Charges as follows:

	<u>Per Meter Per Month</u>
Quantity Rates:	
For first 400 cu.ft. or less.....	\$ 1.90
For next 2,100 cu.ft., per 100 cu.ft.....	.43
For next 12,500 cu.ft., per 100 cu.ft.....	.33
For all over 15,000 cu.ft., per 100 cu.ft.....	.24
Minimum Charges:	
For 5/8-inch meter.....	\$ 1.90
For 3/4-inch meter.....	2.80
For 1-inch meter.....	4.65
For 1 1/2-inch meter.....	9.20
For 2-inch meter.....	14.00
For 3-inch meter.....	25.25
For 4-inch meter.....	40.00
For 6-inch meter.....	70.25
For 8-inch meter.....	102.00

Schedule No. 2, Public Fire Hydrant Service

Approved without change.

Schedule No. 3, Temporary Commercial Flat Rate Service

Substitute for those proposed the schedule of rates attached hereto as Exhibit B.

Schedule No. 4, Fire Protection Service

Change title to read: "Private Fire Protection Service". Number the Special Conditions and omit last paragraph. Balance of schedule approved without change.

EXHIBIT B
Page 1 of 2

Schedule No. 3

SPECIAL COMMERCIAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all unmeasured water service rendered to business consumers until meters can be installed.

TERRITORY

In the City of Petaluma, Sonoma County, and in the vicinity thereof.

RATES

	<u>Per Month</u>
Business offices.....	\$1.85 each plus fixtures
Dentists' offices.....	1.85 each plus fixtures
Doctors' offices.....	1.85 each plus fixtures
Stores.....	1.85 each plus fixtures
Beauty shops.....	1.85 each plus fixtures
Barber shops.....	1.85 each plus fixtures
Soda fountains.....	1.85 each plus fixtures
Ledge offices.....	1.85 each plus fixtures
Delicatessens.....	1.85 each plus fixtures
Bakeries.....	3.65 each plus fixtures
Photo studios.....	3.65 each plus fixtures
Cafes.....	5.50 each plus fixtures
Rooming houses.....	.25 ea. rm. plus fixtures

Fixtures

Private wash stands.....	\$0.35
Public wash stands.....	.75
Private water closets.....	.90
Public water closets.....	1.80
Urinals.....	.35
Bathtub in rooming house.....	2.25
Developing tank in photo studio.....	.75
Developing tank in dentist office.....	.35
Dentist chair.....	.55
Barber or beauty chair.....	.45
Water cooling system.....	4.60

EXHIBIT B
Page 2 of 2

Schedule No. 3

SPECIAL COMMERCIAL FLAT RATE SERVICE
(Continued)

SPECIAL CONDITIONS

1. No new applications will be received for service under this schedule.
2. Existing commercial consumers receiving service under this schedule will be placed on metered service, as soon as the arrangement of piping will permit, and thereafter charged at the General Metered Service rates, Schedule No. 1.