

ORIGINAL

Decision No. 47633

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 it to increase rates ) Application No. 32878  
charged for water service in the )  
City of Bakersfield and vicinity. )

McCutchen, Thomas, Matthew, Griffiths & Greene, by  
Robert M. Brown, for applicant; Charles Carlstroem,  
City Attorney, and Leland Gunn, City Manager, by  
Charles Carlstroem, for City of Bakersfield, prot-  
estant; Roy Gargano, County Counsel, and Clayton T.  
Cochran, Assistant County Counsel, by Clayton T.  
Cochran, for County of Kern, protestant; Bruce McKnight,  
for City of Bakersfield and County of Kern, protestants;  
John Power, John F. Donovan and Carol T. Coffey, for  
the Commission staff.

O P I N I O N

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

Public hearings in the matter were held before Examiner  
Emerson on May 22 and 23, 1952 at Bakersfield and the matter was  
submitted on the latter date.

Rates, Present and Proposed

The rate schedules now in effect in the company's  
Bakersfield District, except for fire protection service, are those  
filed March 9, 1949 and made effective March 16, 1949, as authorized  
by the Commission's Decision No. 42504, dated February 15, 1949 in  
Application No. 29565.

The rates applicable to unmeasured water service rendered to domestic or residential consumers, now in effect and as proposed by the company, are tabulated for comparative purposes as follows:

Domestic Flat Rate Service

<u>Classification of Use</u>	<u>Per Service per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
For each dwelling house, flat, or apartment of three rooms or less, and bathroom .....	\$1.15	\$1.35
For each additional room.....	.15	.175
For each toilet, bathtub or.... shower in private residences...	.23	.27
For watering lawns and grounds planted to shrubbery on lots less than 200 feet deep, including water for trees, shubbery in front thereof, per front foot .....	.017	.02
On lots 200 feet or more deep, per front foot .....	.034	.04
Water used for fire protection purposes only, not metered, on individual services: For each inch of diameter of service pipe .....	1.15	-

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

Quantity Rates:	<u>Per Meter per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
First 500 cu.ft. or less .....	\$ 1.00	\$ 1.40
Next 2,000 cu.ft., per 100 cu.ft.	.12	.115
Next 27,500 cu.ft., per 100 cu.ft.	.074	.09
Over 30,000 cu.ft., per 100 cu.ft.	.06	.07

Minimum Charge:

For 5/8-inch meter .....	\$ 1.00	\$ 1.40
For 3/4-inch meter .....	1.40	1.75
For 1-inch meter .....	2.40	2.40
For 1 1/2-inch meter .....	4.00	4.00
For 2-inch meter .....	7.00	6.00
For 3-inch meter .....	12.00	11.00
For 4-inch meter .....	20.00	17.00
For 6-inch meter .....	40.00	30.00
For 8-inch meter .....	60.00	44.00
For 10-inch meter .....	-	60.00

The schedule of rates for temporary flat rate service, rendered to consumers other than domestic or residential consumers until meters can be installed, contained 16 listings, varying from \$1.36 to \$64 per month, when filed on March 9, 1949. This schedule has now been reduced to five listings, each at \$1.92 per month as presently in effect. The company seeks to increase this rate, for each of the same five listings, to \$2.25 per month.

During the year 1951 the company served an average of 18,004 service connections at flat rates and 5,098 at metered rates.

The present rate schedule for private automatic fire sprinkler service, originally filed July 21, 1937, for 4-inch, 6-inch and 8-inch connections, was refiled on September 11, 1951, to include a rate for service through a 2-inch connection, with no other changes, and became effective October 11, 1951. The company now proposes a schedule for private fire protection service to include additional sizes of connections and to increase the existing rates, but eliminating rates for inside hose connections. At the same time it has also eliminated from the domestic flat rate service schedule the rate of \$1.15 per month for each inch of diameter of service pipe, for water used for fire protection purposes only, not metered, on individual services.

The presently filed fire hydrant rate of \$1.50 per hydrant per month has been in effect since December 1, 1934, and the company proposes to continue this rate as applicable to public fire hydrants attached to its distribution mains for fire protection. In 1951 the company served an average of 803 fire hydrants.

Under the rates proposed by applicant the average residential customer would experience an average increase of 55 cents per month. The over-all increase in revenues which would result from

the proposed rates would amount to 17.8% based upon 1950 water use tables, the latest available at the time of the hearings in this proceeding.

#### The System and Its Growth

Two predecessor systems, Electric Water Company and the Bakersfield Water Works, served Bakersfield prior to their consolidation by California Water Service Company. The former of these had previously purchased the Weible and Scribner plant, dating to 1883; the latter was a consolidation of the Summer Water Company, dating prior to 1887, and the Bakersfield Water Company. The outstanding common stocks of the two systems were purchased as of October 15, 1926 by Federal Water Service Corporation, a holding company. As of April 19, 1927, these stocks were transferred to California Water Service Company, then a subsidiary of Federal. Subsequent additions to the Bakersfield District by years include:

Kellogg Orange Acres Water Company	1929
Descanso Park Mutual Water Company	1930
Frieson Subdivision Water Company	1930
Skyline Park Water System	1938
Wayside Park Water System	1945
Primavera Mutual Water Company	1947

Bakersfield District of applicant is one of 21 operating districts. As of December 31, 1951, this district secured all of its water supply from 77 company-owned and one leased well. These wells range in size from 8 to 18 inches diameter of casing and are from 60 to 682 feet deep.

Water is lifted from the wells into the transmission and distribution system by means of deep-well pumps driven by electric motors. There are 10 electrically powered booster pumping plants which increase the pressures and flow of water to serve the upper zones. A portable pump with a gasoline engine is stored at a central location and can be connected as a standby at the various booster plants when needed.

As of the end of the year 1951, there were nine separate pressure zones in this district, serving 18,623 flat rate customers, 5,101 meter rate customers and 821 fire hydrants through 1,620,177 feet of transmission and distribution mains, ranging in size from 3/4 to 21 inches. Pressures are maintained and water provided for peak periods of consumption and emergencies by means of 19 storage tanks and a reservoir with a combined capacity of 10,310,000 gallons, and four pressure tanks with a combined volume of 23,700 gallons. Additional wells, pumps, mains and services are being installed during the current year to take care of additional customers, which are expected to total 1,300.

#### 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>Adjusted Year 1951</u>	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Applicant</u>	<u>CPUC Staff</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Net Revenue	\$ 232,915	\$ 226,700	\$ 309,737	\$ 303,077
Rate Base (Deprec.)	4,989,995	4,962,000	4,989,995	4,962,000
Rate of Return	4.7%	4.56%	6.2%	6.11%

#### Estimated Year 1952

Net Revenue	\$ 232,875	\$ 241,733	\$ 313,745	\$ 323,096
Rate Base (Deprec.)	5,342,492	5,331,000	5,342,492	5,331,000
Rate of Return	4.4%	4.53%	5.9%	6.06%

#### Rate Base

In developing a rate base on which applicant may be entitled to earn a return, applicant used as a starting point the same fixed capital and 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.

Protestants did not develop a rate base but instead indicated that their position is that applicant should be allowed a return on applicant's investment as represented solely by its capitalization. They further urged that the allowable rate of return exactly equal the historical cost of money. On the basis of 1951 adjusted income, protestant's witness suggested that applicant should receive increased revenues in the amount of approximately \$60,000.

For the year 1951 applicant derived a depreciated rate base of \$4,989,995 while the staff derived a corresponding base of \$4,962,000. The depreciated rate bases of applicant and staff, for the estimated year 1952, are \$5,342,492 and \$5,331,000, respectively. The differences in these bases arise from the manner in which consumers' advances for construction have been treated and from the methods employed in determining the amount of working cash capital required.

In view of the evidence we shall adopt as reasonable, for the purposes of this proceeding, average depreciated rate bases of \$4,975,000 for the adjusted year 1951 and \$5,340,000 for the estimated year 1952.

#### Operating Revenues and Expenses

As in its development of rate base, applicant, in the main, adopted Commission staff procedures in adjusting its results of past operations and in estimating most of its future operating expenses.

For the adjusted year 1951 and the estimated year 1952, on a modified sinking fund basis in which 4½% interest on the depreciation reserve is included as an operating expense, the respective presentations for the Bakersfield District are summarized as follows:

	Adjusted : Operating Revenues		Operating Expenses	
	Year 1951: Present Rates	Proposed Rates	Year 1951: Present Rates	Proposed Rates
Applicant	\$936,443	\$1,103,157	\$703,528	\$793,420
Staff	936,443	1,103,156	710,073	800,079

	Estimated: Operating Revenues		Operating Expenses	
	Year 1952: Present Rates	Proposed Rates	Year 1952: Present Rates	Proposed Rates
Applicant	\$988,050	\$1,163,550	\$755,175	\$849,805
Staff	993,600	1,170,419	751,867	847,323

The differences in revenue estimates arise from the respective methods used to determine growth in customers. [Revenues as adopted herein recognize a lesser rate of growth than either applicant or staff developed.] Expense estimates differ, primarily, by the respective treatments accorded the account for electric power required for pumping and the normalization of certain expenses. In this respect applicant included an allowance for an increase in electric utility rates in 1952 which has not occurred.

In view of the evidence we shall adopt as reasonable estimates of operating revenues, operating expenses and net revenues for the adjusted year 1951 and the estimated year 1952 the amounts set forth in the following tabulation for operations under present and proposed rates:

Item	Adjusted Year 1951		Estimated Year 1952	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$936,443	\$1,103,157	\$992,000	\$1,163,000
Operating Expenses	705,400	799,000	753,000	848,000
Net Revenues	231,043	304,157	239,000	315,000

Rate of Return

The above-adopted reasonable net revenues when related to the depreciated rate bases hereinabove found to be reasonable indicate rates of return as follows:

Item	Adjusted Year 1951		Estimated Year 1952	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Net Revenues	\$ 231,043	\$ 304,157	\$ 239,000	\$ 315,000
Rate Base (Deprec.)	4,975,000	4,975,000	5,340,000	5,340,000
Rate of Return	4.64%	6.11%	4.48%	5.90%

It is apparent, from this tabulation, that applicant is not now earning a reasonable return and is faced with a declining rate of return both under the present and the proposed rates.

We take official notice of the recent series of earthquakes which have done appreciable damage in the Bakersfield area. The extent of damage to the facilities of applicant is not fully determined. <sup>relief</sup> The monetary effect of such destruction and damage may not be determined for some time to come. That it will effect an unforeseen increase in applicant's fixed capital and operating expenses cannot be questioned. In view of this it seems most probable that applicant will not earn the above-indicated return at present rates in 1952. The tabulation reasonably represents the declining trend in rate of return which will continue for a normal 12-month period, however. It is clear that with such trend applicant's proposed rates will produce no more than a 5-3/4% return on its Bakersfield operations. Applicant is entitled to rate relief in the total amount sought.



Financing of Properties

The company has financed its net investment in the properties located in the Bakersfield District, as well as those located in the other 20 districts in which it operates, primarily through the issue of first mortgage bonds, shares of preferred and common stocks and through the use of retained earnings from operations. As shown in Exhibit 20, its capital structure at the close of 1951 was as follows:

	<u>Amount</u>	<u>Per Cent of Total</u>
First mortgage bonds due 1975		
Series C, 3-1/4's	\$17,822,000	
Series D, 3-5/8's	<u>3,000,000</u>	
Total first mortgage bonds	\$20,822,000	55.8%
Serial notes	240,000	.6
Preferred stock		
Series C, 4.4%	3,475,000	
Series D, 5.3%	1,522,375	
Series E, 5.28%	964,400	
Series F, 5.36%	<u>1,622,925</u>	
Total preferred stock	7,584,700	20.3
Equity capital		
Common stock	6,523,000	
Surplus	<u>2,200,020</u>	
Total equity capital	8,723,020	23.3
Total	<u>37,369,720</u>	100.0

During June, 1952, the company sold 50,000 shares of its common stock (\$1,250,000 par value) to net it \$28 per share before allowance for expenses of issue.

The testimony and exhibits in evidence show the average effective interest rate associated with the securities outstanding on December 31, 1951, to be 3.08% on bonds, 4.78% on preferred stock and 3.52% as the average on bonds, preferred stock and a small issue of serial notes. It appears that prior to 1951 the company issued \$17,822,000 of 3-1/4% bonds on an average basis of 2.98%, that in September, 1951, it issued \$3,000,000 of 3-5/8% bonds on a 3.69% basis and that no issues have been made since that date. As to the preferred stock, the evidence shows that several issues have been

made on bases ranging from a low of 4.19% in 1945 to a high of 5.31% in October, 1950, the date of the latest offering.

With reference to the common stock the record shows that since 1942 the company has paid annual dividends of \$2, being at the rate of 8% of the par value. During the period from 1946<sup>1/</sup> to 1951, inclusive, the annual earnings per share averaged \$2.64, the book value per share averaged \$33, and the earnings on book value averaged 3.05%.

#### Return on Investment

A witness for the company indicated that in his opinion a return of 6% was necessary to enable the company to continue to attract the new capital required to finance its construction program. A witness called on behalf of protestants urged a return of 5.2%.

The conclusion as to what constitutes a reasonable rate of return must take into consideration numerous factors, including, among other things, prevailing interest levels and other economic conditions, reasonable construction requirements, and the amounts of securities presently outstanding as well as the amounts needed for future issue.

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 rates is directly related to the investment in plant, it appears that the book figures as recorded should be considered. Exhibit 20 shows that at the end of 1951 the investment in equity

<sup>1/</sup> Prior to 1946 all the outstanding shares of common stock were held by General Water, Gas and Electric Company.

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 equity capital and that the earnings of the company have not been sufficient to maintain the financial integrity of the enterprise.

The determination by the Commission of a proper rate of return cannot be based on formulae alone but 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 protestant'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.

#### Conclusion

It is apparent from the evidence that the present rates will yield inadequate income from future service rendered in Bakersfield. The record likewise indicates and we hereby find that the rate of return of 5-3/4%, which applicant will receive from its proposed schedules of increased rates, is reasonable. The requested rates are reasonable and will be authorized.

#### O R D E R

California Water Service Company having applied to this Commission for an order authorizing increases in rates and charges

for water service rendered in Bakersfield and vicinity; Kern 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 schedule of rates set forth in Table 2 of Exhibit No. 2 in this proceeding, in conformance with General Order No. 96, and, after not less than five (5) days' notice to the Commission and to the public to make said rates effective for service rendered on and after October 1, 1952.

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

Dated at San Francisco, California, this 14th day of August, 1952.

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 President.  
Justice J. Casper  
Harold P. Kula  
Demetrius Patten  
John C. Mitchell  
 Commissioners.

Commissioner R. E. Mittelstaedt being necessarily absent, did not participate in the disposition of this proceeding.