

ORIGINAL

Decision No. 47664

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. 32886
it to increase rates charged for)
water service in the City of San Carlos)
and vicinity.)

McCutchen, Thomas, Matthew, Griffiths & Greene,
by Robert Minge Brown, for applicant;
Mrs. A. L. Alexander for San Carlos Home Owners
Association, interested party; 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 San Carlos and vicinity, San Mateo County.

Public hearings in the matter were held before Examiner Emerson on June 19 and 20, 1952 at San Carlos. The matter was submitted, on receipt of three exhibits ordered at the hearings, on July 2, 1952.

Rates, Present and Proposed

A comparison of present rates and the readiness-to-serve charge rate schedule proposed by applicant is shown in the following tabulation:

General Metered Service

| | | <u>Per Meter Per Month</u> | |
|------------------------|-----------------------------------|----------------------------------|-----------------------------------|
| | | <u>Proposed Rates</u> | |
| <u>Quantity Rates:</u> | | <u>Present Rates^a</u> | <u>Service Charge^b</u> |
| First | 400 cu.ft., or less | \$ 1.65 | \$ 0.30 |
| Next | 2,600 cu.ft., per 100 cu.ft..... | .396 | .30 |
| Next | 600 cu.ft., per 100 cu.ft..... | .396 | .30 |
| Next | 26,400 cu.ft., per 100 cu.ft..... | .376 | .30 |
| Over | 30,000 cu.ft., per 100 cu.ft..... | .376 | .30 |

Minimum Charge or Service Charge:

| | | | |
|-----|----------------------------|---------|---------|
| For | 5/8 x 3/4-inch meter | \$ 1.65 | \$ 1.60 |
| For | 3/4-inch meter | 2.20 | 1.85 |
| For | 1-inch meter | 3.30 | 2.30 |
| For | 1 1/2-inch meter | 6.60 | 3.70 |
| For | 2-inch meter | 9.90 | 5.00 |
| For | 3-inch meter | 19.80 | 17.00 |
| For | 4-inch meter | 31.00 | 25.00 |
| For | 6-inch meter | - | 34.00 |
| For | 8-inch meter | - | 50.00 |

- a. A ten per cent (10%) reduction is applied to the amount by which each bill exceeds the monthly minimum charge, computed at the quantity rates. In no case is a monthly bill less than any one of the monthly minimum charges listed.
- b. Under this schedule, the charge at the quantity rate of \$0.30 per 100 cu. ft. is to be added to the readiness-to-serve charge for the size of meter through which service is rendered.

The rate increase proposed by applicant would amount to approximately 70 cents per month for the average residential consumer, computed on an annual basis.

By the Commission's Decision No. 23875, dated July 7, 1931, in Application No. 17509, California Water Service Company was authorized to acquire the properties and businesses of three companies, including the San Carlos Water Company operating a public utility water system in San Carlos. For its operations in this area the company adopted the schedule of rates then in effect. On February 9, 1932, the company filed a complete set

of rules and regulations for this district under its own name. A special rate for private automatic fire sprinkler service was filed by the company on July 21, 1937.

By Decision No. 31570, dated December 19, 1938, in Application No. 22138, the Commission granted to California Water Service Company a certificate of public convenience and necessity to operate a water works in Brittan Acres and certain other subdivisions in the Town of San Carlos at the rates and subject to the rules and regulations then in effect in the Town of San Carlos. Pursuant to the Commission's order, rate filings were made by the company on December 21, 1938, and January 12, 1939.

Of the above filings, some of the rules and regulations and all of the rate schedules have been superseded and supplemented by subsequent filings, the principal ones pertaining to rates being as follows:

- a. A filing dated April 10, 1940, put into effect a 7% reduction on charges for metered service rendered during six summer months.
- b. By a refiling of the meter rate schedule, made effective July 11, 1944, the 7% reduction was superseded by a 10% reduction applied to the amount by which each bill exceeds the monthly minimum charge and made applicable to all 12 months of the year.
- c. Effective January 1, 1944, the schedule for public fire hydrants was revised to reduce the charges for hydrants attached to mains less than 4 inches in diameter.
- d. The schedule of rates for private fire extinguishing service has been refiled twice to include rates for connections of larger sizes.
- e. By Decision No. 45307 dated January 30, 1951, in Application No. 32015, the Commission authorized the company to file a revision of its schedule for general metered service to increase the rates about 12%, made necessary by the increase in the water rates charged by the Water Department of the City of San Francisco, which is the sole source of supply for water in the company's San Carlos District. The schedule was filed January 31, 1951, and made effective February 1, 1951.

The presently effective schedule of rates for general metered service is the one authorized by the Commission's Decision No. 45307, as explained above. The company now proposes to replace this schedule with a basic service charge type of rate schedule.

The present schedule of rates applicable to fire protection service for public use was filed January 26, 1944, and was made effective January 1, 1944. The company proposes to continue these rates in effect without change, with all other public or municipal use to be paid for at the general metered service rates. Following are the charges applicable to all hydrants owned by the company and attached to its distribution system:

| | <u>Per Month</u> |
|------------------------------------|------------------|
| For each standpipe and wharf head: | |
| attached to a 2-inch main | \$1.00 |
| attached to a 3-inch main | 1.25 |
| For each standard hydrant attached | |
| to a 4-inch main or larger | 1.50 |

The present rate schedule for private fire extinguishing service was refiled April 25, 1951, effective June 1, 1951, to include a rate for a 10-inch connection. 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.

During the year 1951 applicant served an average of 5,152 residential and business customers, 35 industrial services, 14 municipal connections, 2 other utilities and 7 miscellaneous connections at metered rates. Flat rate service was rendered to 7 connections and 300 fire hydrants.

System History and Growth

Commission records reveal that the first water system serving this district was installed by San Carlos Park Syndicate around 1910 to supply what was then known as San Carlos Subdivision. That corporation became insolvent and the bondholders formed San Francisco Peninsula Company which, in 1915, took over all of the properties under foreclosure proceedings, subject to a Deed of Trust from the predecessor to Mercantile Trust Company of San Francisco. The Peninsula Company also became involved financially and the trust company was obliged to foreclose, thus obtaining title to the water system in 1917, along with all of the unsold lots in the subdivision. The trust company was authorized in 1922 to transfer the original system and the various additions made by the different owners, to the newly formed San Carlos Water Company. In 1928, Pacific Water Company, Incorporated, acquired San Carlos Water Company by purchasing all of its outstanding stock, but continued to maintain its separate corporate status. California Water Service Company purchased the outstanding stock of San Carlos Water Company in 1931, and thereafter caused the sale and transfer of the business, franchise, water system and properties, to be operated as a district of California Water Service Company, rather than as a separate utility.

In 1925 a water system was installed to furnish domestic service in a portion of what is known as Devonshire Hills, a subdivision adjacent to San Carlos. Municipal Properties Company, a corporation, was granted a certificate of public convenience and necessity, in 1928, to operate this domestic water system under the name of Devonshire Water Company. In February, 1929, Municipal Properties Company passed into the hands of a receiver

who continued the operation of the water system until August, 1929, when service was discontinued. At the request of the Commission, San Carlos Water Company, which was then operating in adjacent territory, undertook to continue the service to meet the emergency situation. In 1931, California Water Service Company succeeded by purchase, to the San Carlos Water Company and continued the emergency operations. Following the appointment of the receiver for Municipal Properties Company, the properties of the company were sold at a trustee's sale to Sierra Financial Corporation, which thereupon retransferred them to Sierra Realty Corporation, an affiliated organization. Sierra Realty Corporation organized Sierra Water Service Company in 1933 which relieved the California Water Service Company from its emergency operations. California Water Service Company acquired the properties, water system, franchises and operative rights of the Sierra Water Service Company in 1940.

Another small water system was installed in 1926 by the developers of the White Oaks Tract, Beverly Hills Tract, White Oaks Annex and Sunset Highlands. This water system was later acquired by Consolidated Development Company. Present applicant purchased these distribution facilities in 1939.

In 1934, the developers of the Brittan Acres Subdivision installed a water system to serve its tracts. These facilities were subsequently acquired in 1938 by California Water Service Company and integrated with the rest of its distribution mains.

San Carlos District of applicant comprises the City of San Carlos and adjacent unincorporated territory in San Mateo County. The lower portion of the service area is relatively flat, varying from a few feet above sea level at the northeast edge of the territory to an elevation of approximately 50 feet in the

city's business district and adjacent residential district. The southern and southwestern portions of the service area become quite steep, however, reaching an elevation of over 500 feet at the highest property served directly from the company's facilities.

In addition to the territory served directly by the utility, water is furnished to some of the residents within the company's certificated area who are located at a higher elevation than the highest utility storage tank. These customers receive the water through a master meter, with subsequent pumping, transmission, storage and distribution being handled by the customers. Water is also sold for emergency and peak load consumption to San Carlos Manor Water System, a small utility serving the San Carlos Manor Tract.

The company purchases all of the water for this district from the City of San Francisco's Water Department. Three connections to the city's mains supply water to some of the area without additional pumping being necessary. Water is lifted from the lower zones into storage tanks by means of booster pumps, thereby maintaining pressures in the higher zones. Subsequent pumping from this storage into still higher tanks establishes progressively higher zones of service. Nine principal pressure zones are maintained to serve the varying elevations, with several intermediate zones being established by means of pressure regulating valves to keep the pressures in various isolated areas within reasonable limits.

As of the end of the year 1951 this district served 5,305 meter rate customers, 9 flat rate customers and 303 fire hydrants through 356,900 feet of transmission and distribution mains ranging in size from 1 inch to 12 inches. Pressures are maintained and water provided for peak periods of consumption

and emergencies by means of 13 tanks and reservoirs with a combined capacity of 2,285,000 gallons and three pressure tanks with a combined volume of 5,500 gallons. Seven booster pumping stations are operated to fill the various tanks and reservoirs.

In this proceeding applicant estimated that 300 new customers would be added to the system during 1952. The Commission staff estimated that 347 new customers would be added.

Cost Trends

A witness for applicant testified that construction to meet growth and the demands of existing customers has been at ever-increasing costs, particularly during the postwar years. During the past six years the company has installed about 125,000 feet of main and 2,869 service connections. Storage facilities have been increased by approximately 1,600,000 gallons. Gross additions to fixed capital during the same six-year period have amounted to approximately \$753,000. Budgeted construction during 1952 exceeds \$105,000.

Over-all costs of construction have risen, on the average, about 120% since 1941. Evidence in this proceeding shows that, for example, 6-inch cast-iron main had an installed cost of \$1.64 per foot in 1941 whereas the installed cost today is \$3.30 per foot. In 1941 a 6-inch fire hydrant cost \$164 installed; today the same size hydrant costs \$310 installed. A 3/4-inch domestic service with meter cost \$25.30 in 1941. Today the cost is \$61.50.

The record herein shows that applicant has had to meet six rounds of wage increases in the postwar period.

The conclusion is inescapable that applicant has been affected by the same spiraling costs of inflation experienced by all individuals as well as industries in the past several years.

Summary of Presentations

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

| | <u>Present Rates</u> | | <u>Proposed Rates</u> | |
|----------------------------|----------------------|--------------|-----------------------|--------------|
| | <u>Applicant</u> | <u>Staff</u> | <u>Applicant</u> | <u>Staff</u> |
| <u>Adjusted Year 1951</u> | | | | |
| Net Revenue | \$ 46,161 | \$ 42,736 | \$ 64,752 | \$ 61,306 |
| Rate Base (Deprec.) | 1,037,888 | 1,038,000 | 1,037,888 | 1,038,000 |
| Rate of Return | 4.4% | 4.12% | 6.2% | 5.91% |
| <u>Estimated Year 1952</u> | | | | |
| Net Revenue | \$ 47,515 | \$ 47,346 | \$ 66,904 | \$ 67,264 |
| Rate Base (Deprec.) | 1,116,302 | 1,119,000 | 1,116,302 | 1,119,000 |
| Rate of Return | 4.3% | 4.23% | 6.0% | 6.01% |

Rate Base

Depreciated rate bases presented by applicant and the Commission staff, as testified to in this proceeding, are developed from weighted average undepreciated rate bases from which have been deducted an adjusted depreciation reserve on a $4\frac{1}{2}\%$ sinking fund basis. Applicant and the staff both used the $4\frac{1}{2}\%$ sinking fund remaining life method of calculating depreciation herein, applicant having altered its books of account thereto as of January 1, 1952.

As will be noted from the above summary tabulation, there is no substantial difference between the respective rate bases. The fixed capital base used by the staff for the estimated year 1952 is slightly higher than that of applicant primarily because the staff assumed that a greater number of customers would be added to the system.

In view of the evidence in this proceeding we find that reasonable depreciated rate bases are \$1,038,000 for the adjusted year 1951 and \$1,118,000 for the estimated year 1952.

Operating Revenues and Expenses

Operating revenues and expenses as presented by applicant and the Commission staff are summarized as follows:

| | <u>Operating Revenues</u> | | <u>Operating Expenses</u> | |
|----------------------------|---------------------------|-----------------------|---------------------------|-----------------------|
| | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Present Rates</u> | <u>Proposed Rates</u> |
| <u>Adjusted Year 1951</u> | | | | |
| Applicant | \$307,365 | \$347,710 | \$261,204 | \$282,958 |
| Staff | 307,360 | 347,704 | 264,624 | 286,398 |
| <u>Estimated Year 1952</u> | | | | |
| Applicant | 322,900 | 364,978 | 275,385 | 298,074 |
| Staff | 328,350 | 371,619 | 281,004 | 304,355 |

For the adjusted year 1951, the differences in operating expenses result from methods of presentation of basic data. The staff used a pro forma basis, reflecting 1952 wage rates, increased materials costs and 1952 postal rates. Applicant's presentation more nearly reflected actual 1951 operations. Both applicant and staff normalized costs of repairs to transmission and distribution facilities. The respective 1951 expenses are reconcilable when these items, together with the taxes affected thereby, are recognized.

With respect to the estimated year 1952, the revenue differences result both from the difference in anticipated customer growth and from the average use per customer. In this latter calculation the staff based its estimate on customer averages by classes. The expense estimates differ by the taxes based on revenues, the pumping account in which applicant assumed an electric rate increase, and other minor items in various accounts. An example of the latter is the account for regulatory expense in which applicant made a proration over a three-year period while the staff used a four-year period.

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 normal operations under present rates and under the rates proposed by applicant:

| <u>Item</u> | <u>Adjusted Year 1951</u> | | <u>Estimated Year 1952</u> | |
|--------------------|---------------------------|-----------------------|----------------------------|-----------------------|
| | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Present Rates</u> | <u>Proposed Rates</u> |
| Operating Revenues | \$307,360 | \$347,700 | \$327,000 | \$369,000 |
| Operating Expenses | 264,000 | 284,200 | 279,500 | 302,000 |
| Net Revenues | 43,360 | 63,500 | 47,500 | 67,000 |

Rate of Return

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

| <u>Item</u> | <u>Adjusted Year 1951</u> | | <u>Estimated Year 1952</u> | |
|---------------------|---------------------------|-----------------------|----------------------------|-----------------------|
| | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Present Rates</u> | <u>Proposed Rates</u> |
| Net Revenues | \$ 43,360 | \$ 63,500 | \$ 47,500 | \$ 67,000 |
| Rate Base (Deprec.) | 1,038,000 | 1,038,000 | 1,118,000 | 1,118,000 |
| Rate of Return | 4.18% | 6.12% | 4.25% | 5.99% |

It is apparent, from this tabulation, that applicant is not now earning a reasonable return.

Customer Participation

On the average, 37 of applicant's customers were in attendance throughout the two days of hearings in this matter. Of and for these customers several presented billing comparisons under present rates and under those proposed by applicant. Also, from their testimony, it is apparent that a number of the larger users of water have resorted to private wells for garden or lawn irrigation or sprinkling. The record herein clearly shows that, on the basis of arithmetical averages, the average water user in San Carlos uses 1,200 cubic feet of water per month. Such an

average consumer would experience an increase of about 70 cents per month at applicant's proposed increased rates.

As shown in Table 9-A of Exhibit No. 22 in this proceeding, applicant's proposed rates would produce varying increase percentages and some decreases depending upon actual usage. Representative quantities and increases or decreases would be as follows:

| <u>Quantity Cubic Feet</u> | <u>Approx. Increase, Proposed Rates over Present Rates, %.</u> |
|--------------------------------|--|
| 0 | (3) |
| 100 | 15 |
| 200 | 33 |
| 400 | 70 |
| 800 | 30 |
| 1,500 | 21 |
| 2,000 | 3 |
| 3,000 | (3) |
| 6,000 | (4) |
| 10,000 | (3) |
| 20,000 | (5) |

(Decrease)

Up to the present time there has never been a rate which has recognized the incremental aspects of the costs of serving the large water user in San Carlos. Applicant's proposed rates, based upon the cost-of-service study presented in this proceeding, will recognize such users. The rate form proposed is equitable and will be authorized.

The San Carlos Home Owners Association, through its witness, indicated that, although it sought no increase in water rates, it was not opposed to any rate increase which would result in a rate of return to applicant of not to exceed 6%.

One customer complained of poor water pressure and applicant was ordered, at the hearing, to submit copies of recording pressure charts from the main supplying this customer. The charts were subsequently duly received as Exhibit No. 19.

They indicate that at the 3/4-inch tap to 657 Knoll Drive an average pressure of about 46 psi is maintained. The lowest pressure recorded was 35 psi. Such pressures should be adequate for normal usage. We believe that if the customer requires greater pressure or if his usage is at such an elevated point that the company's pressure is lost in his private piping, the customer has the responsibility of boosting the pressure to suit his individual desires.

Conclusion

It is apparent from the evidence that the present rates will yield inadequate income from future service rendered in San Carlos. 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 \$1,118,000 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.

ORDER

California Water Service Company having applied to this Commission for an order authorizing increases in rates and charges for water service rendered in San Carlos and vicinity, San Mateo 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 Exhibit A 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 October 15, 1952.

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

Dated at San Francisco California, this 2nd day of September, 1952.

R. J. [Signature]
President.
Justin J. [Signature]
[Signature]
[Signature]

Commissioners.

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

Change title to read: "General Metered Service".

Balance of schedule approved with modification of readiness-to-serve charges as follows:

| | <u>Per Meter</u> <u>Per Month</u> |
|---------------------------|--------------------------------------|
| For 5/8-inch meter..... | \$ 1.50 |
| For 3/4-inch meter..... | 1.80 |
| For 1-inch meter..... | 2.25 |
| For 1 1/2-inch meter..... | 3.70 |
| For 2-inch meter..... | 5.00 |
| For 3-inch meter..... | 17.00 |
| For 4-inch meter..... | 25.00 |
| For 6-inch meter..... | 34.00 |
| For 8-inch meter..... | 50.00 |

Schedule No. 2, Public Fire Protection Service

Approved without change.

Schedule No. 3, Private Fire Protection Service

Approved without change.