

Decision No. 47906

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
CALIFORNIA WATER & TELEPHONE COMPANY )  
to increase rates for water service ) Application No. 33106  
in its Monterey Peninsula Division. )

(Appearances and list of witnesses  
are set forth in Attachment 1)

OPINION AND ORDER

California Water & Telephone Company, operating water and telephone systems at various locations in California and with principal executive offices in San Francisco, filed the above-entitled application on February 4, 1952 for authority to increase its water rates in the Monterey Peninsula Division to yield additional revenue of approximately \$296,000, based on the year 1951. Applicant's proposed rates are set forth in Exhibit "E" attached to the application.

Interim Order

On May 1, 1952, following the first two days of public hearing on this application, a motion by applicant's counsel requesting interim relief was taken under submission. On May 27, 1952, the Commission issued Decision No. 47203 under the above application number denying applicant's request for interim relief on the basis that applicant's showing was not complete without a functional cost analysis. On June 16, 1952, the applicant complied with the Commission's order and filed a cost study. On June 17, 1952, it renewed the motion for interim relief; however, the Commission did not act on this request but instead granted the company an interim

increase in telephone rates<sup>1/</sup> on the understanding that the major requirement for new capital by the company for 1952 was to provide new telephone service. A final rather than an interim increase in water rates is being authorized at this time; accordingly, the interim motion is denied.

#### Public Hearings

A total of six days of public hearings were held on this application at Monterey before Examiner M. W. Edwards during the period April 30, 1952 to September 11, 1952. During the first part of this period the Commission's staff and other parties analyzed the company's application and cross-examined the company's witnesses. Statements by public witnesses and their representatives and the positions of interested parties and protestants were introduced into the record prior to the interim order. Later, studies by the protestants and the Commission's staff were placed in evidence. The record encompasses 58 exhibits and over 800 pages of transcript.

#### Applicant's Operations

California Water & Telephone Company is engaged in the business of furnishing public utility water service in three widely separated geographical service divisions in California; namely, Monterey Peninsula, San Gabriel Valley, and San Diego Bay. The California Water & Telephone Company also furnishes telephone service in portions of Los Angeles, Riverside, San Bernardino and San Diego Counties.

Due to the widespread geographical locations of the various service areas the company maintains a central general or executive office in San Francisco. Each division operates as a separate entity under local managership. As a matter of operating

<sup>1/</sup> Decision No. 47506, July 22, 1952, under Application No. 33010 seeking an increase in telephone rates by this company.

economy and expediency the company's metering and billing operations are centralized in each division. The local office for the Monterey Division is located in the City of Monterey, California.

Certain general management and control functions for each division are performed by the personnel in the San Francisco office. The San Francisco office is also the general office for several affiliated corporations or corporations which are controlled, or substantially controlled, through stock ownership by the same interests. The expenses incurred at the main office are charged to divisions on the basis of work directly performed for any one division or on the basis of relative gross revenue from each division for company work not assignable to any specific division.

#### Brief History

The California Water & Telephone Company originally was known as The Sweetwater Water Corporation up until 1935, The Sweetwater Corporation having been incorporated under the laws of the State of California on December 27, 1926. Following the change in name in 1935 additional water systems and the telephone system were added. Presently the original water properties are known as the Sweetwater District of the San Diego Bay Division. The Monterey Peninsula Division was formed when the applicant acquired the Central California Water Supply Company and the Monterey County Water Works in 1935. The history and operations of this division were discussed in Decision No. 43856, the previous rate increase case, and need not be further considered herein.

#### Postwar Increases

During the period of inflation in prices and wages which has existed since the end of World War II in 1945, applicant has been authorized one previous increase in water rates in the Monterey Peninsula Division. In 1949 applicant proposed rates

which it alleged would increase annual revenues by approximately \$65,000. The Commission staff's study at that time showed that the proposed rates would yield a rate of return of about 5.3% in 1950 if the proposed rates were applied to both the utility and Del Monte contract operations<sup>2/</sup>. The conclusion was reached in Decision No. 43856, Application No. 30025, dated February 20, 1950, that the rates proposed by applicant would not yield a return at a level in excess of that to which applicant is entitled, whereupon the full rate increase as proposed by applicant at that time was authorized.

Position of Applicant

The applicant seeks an approximate 39% increase in its 1951 operating revenue. The applicant proposes rates which it estimates will result in a rate of return of approximately 6.12% after allowing for all expenses in its Monterey water division based on the level of business for 1951. Such a rate of return is approximately 0.8% greater than the Commission authorized early in 1950 in Decision No. 43856. Applicant contends this increase in rate of return is necessary to yield a reasonable return on the value of properties and facilities devoted to the rendition of water service.

In the application it is stated that if the rates which are presently effective in the Monterey Peninsula Division had been effective during the entire year 1951 and had applicant been paid at such rates for nonutility service to Del Monte Properties Company, and if federal income taxes were computed at 52% and depreciation on a 5% sinking fund basis, applicant would have realized a rate of return of only 4.15%. A part of the reason for

<sup>2/</sup> Service to the Del Monte Properties is under a 50-year contract rate that is lower than the regular metered water rate.

such low earnings, it states, is due to increases in cost of materials and services utilized in the maintenance and repair of properties, and an increase in income tax rates, since the last rate decision by the Commission on February 20, 1950.

Nature of Evidence

Evidence was offered by applicant, certain protestants, and members of the Commission's staff. In addition, counsel and representatives for certain protestants made oral statements and cross-examined all of the witnesses.

The exhibits as presented by the applicant, protestants and the staff covered such subjects as: rates, balance sheets, operating revenues, operating expenses, financial matters, depreciation, taxes, and results of operation.

For the purpose of determining whether or not the applicant is entitled to a permanent increase in rates, the Commission considers, among other things, the relationship of the revenues over some reasonable future period, such as the next 12 to 18 months, to the probable over-all cost of rendering the utility service during the same future period. The costs considered include the operating and maintenance expense connected with the production, transmission and distribution of water, commercial and general expenses, depreciation expense, city, county, state and federal taxes, and interest or return paid for the use of capital necessary to provide plant facilities for the public service.

Applicant's Exhibit No. 8 shows that its rate of return after payment of the expenses above enumerated was 4.69% in 1949, 4.69% in 1950, and 4.25% in 1951 with Del Monte use charged at the contract rates. Comparable figures assuming Del Monte use billed at the utility's presently filed rates are 4.92% in 1949, 4.92% in 1950, and 4.46% in 1951. The Commission staff's study,

Exhibit No. 53, showed a rate of return of 4.21% in 1951 with Del Monte use charged at the contract rates. After adjusting 1951 to current levels of wages and taxes the staff determined that the 1951 rate of return would have fallen to 3.82%. A comparable adjusted year 1951 figure, assuming the Del Monte use at the presently filed meter rates resulted in a rate of return of 4.07%

#### Evidence of Future Earnings

Both the applicant and the staff presented estimates of earnings of the Monterey Peninsula Division of the California Water & Telephone Company for the entire year 1952. The estimates, which are summarized below, were prepared on the basis of the present rates and the proposed rates as set forth in Exhibit "E" of the application assuming Del Monte use billed at the filed and proposed rates.

#### ESTIMATED EARNINGS IN 1952

Item	Applicant Exhibit No. 8		Staff Exhibit No. 53	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenue	\$ 829,798	\$1,154,218	\$ 850,080	\$1,184,790
Operating Expenses				
Source of Water Sup.	13,850	13,850	13,560	13,560
Pumping	46,100	46,100	45,930	45,930
Purification	18,500	18,500	18,240	18,240
Transmission & Dist.	57,300	57,300	54,570	54,570
Commercial & Uncol.	53,100	53,100	51,260	51,260
General & Misc.	90,550	90,550	81,300	81,300
Subtotal	279,400	279,400	264,860	264,860
Taxes	198,075	373,002	217,200	397,600
Depreciation	42,604	42,604	107,000	107,000
Total Oper. Exp.	520,079	695,006	589,060	769,460
Net Revenue	309,719	459,212	261,020	415,330
Rate Base	7,333,177	7,333,177	6,228,000	6,228,000
Rate of Return	4.22%	6.26%	4.19%	6.67%

A comparison of the above figures shows differences in depreciation expense and rate base. The applicant used an undepreciated rate base and a 5% sinking fund method in computing depreciation expense, while the staff used a depreciated rate base and a straight-line remaining life method of computing depreciation expense.

Applicant's counsel did not take particular exception to the staff's study other than to question the basis of the 1952 revenue estimate. He pointed out that 12 of the 38 canneries were shut down and introduced rebuttal testimony to show that the greatest growth in the area is taking place in East Monterey where average water usage of the new customers is about one-half of the average for the system as a whole. He also questioned the staff's method of computing revenues from the Del Monte usage wherein 36 delivery points had been assumed instead of one point.

The staff's estimate of revenue from the Del Monte usage at the proposed general meter rate for 1952 is \$88,900 compared to \$74,287 estimated by the applicant. Applicant's cost study shows that the cost of rendering the Del Monte service in 1951 was \$8,100 below the revenue computed at the general meter rate on its basis of computation. With the cost study placed in evidence by applicant pursuant to our Decision No. 47203, the method of figuring revenue by assuming rates to the Del Monte Properties at the general meter rate will not be necessary. A cost of approximately \$65,000 is estimated for 1952 for service rendered to Del Monte which amount will be used as the revenue for rate making purposes. With such adjustment, the staff's revenue estimate becomes \$1,160,890, which is approximately 0.6% greater than applicant's estimate. The staff's estimate was made on an average or normal year basis. No further revenue adjustment to the staff's estimate appears warranted for the purposes of this decision.

The largest difference between the staff's and the applicant's estimates of operating expenses, before taxes and depreciation, is in the general and miscellaneous expenses. A representative for certain water users opposed the assignment of any of the general expenses of the San Francisco office to this division. The staff's allowance is about 10% lower than the applicant's estimate for general expenses and in our opinion is not unreasonably high. The staff's total estimate of operating expenses before taxes and depreciation is approximately 5.2% below applicant's estimate.

The representative of certain water users also opposed including in operating expenses for rate-making purposes an amount representing the company's cost in connection with rate case proceedings. The Commission has recognized this cost as a proper operating expense for the purpose of rate regulation in prior decisions involving this company as well as other utilities and has made some provision therefor. It then becomes a question as to how much should be allowed for this expense. Upon consideration of the company's recent experience as to the cost of these proceedings and the frequency with which such proceedings occur, the staff amount of \$5,000 for this item on an average year basis appears reasonable.

#### Depreciation

A staff representative recommended the straight-line remaining life method for determining future depreciation accruals. He testified that the remaining life method tends to adjust for over-accruals and under-accruals to the depreciation reserve by spreading such corrective factor over the remaining life of the existing plant. For the purpose of the remaining life method, the staff allocated the company's book reserve for depreciation maintained in total only, to plant accounts as of December 31, 1951, on the basis of a staff reserve requirement study.



This reserve requirement study indicated that the book depreciation reserve may be on the low side.

Counsel for Water Consumers Committee suggested that the difference between the amounts of reserve requirement and book reserve, which amounts to approximately \$400,000, should be charged to surplus instead of being made up over the remainder of the life of the plant. The staff's study was not made for the purpose of determining a depreciation reserve requirement as such but rather as the means of segregating the existing book depreciation reserve to the individual plant accounts in order to facilitate the remaining life depreciation computation.

Until 1949 the applicant's depreciation expense was a judgment amount. The expense was reviewed periodically by management and company engineers. The expense was increased when it appeared to the company to be necessary. Starting in 1949 the company adopted certain rates by depreciable plant accounts. These rates were based on a company study of its property and rates used by other water utilities.

It is apparent that the reserve accumulation under such method was less than if a straight-line method had been used from the start. However, the ratepayers have enjoyed lower rates in the past due to the use of such methods compared to a straight-line method. The theory of remaining life depreciation contemplates the existing book reserve be used and any excess or deficiency be spread equitably over the remaining life of the plant. The Commission is of the opinion that it is to the future interest of both the customers and the investors to place the depreciation question on a more sound basis by changing to the remaining life straight-line method at this time, as recommended by the staff.

Income Taxes

The representative for certain water users requested the Commission not to allow as an expense the increase in income tax since the start of the Korean conflict in 1950. At that time the combined normal and surtax rate was 38% and currently is 52%. Also since the start of the Korean conflict an excess profits tax has been introduced. The staff witness testified that he allowed for the current normal and surtax rate and that he did not know what portion, if any, is war emergency tax. In the staff's study no provision for excess profits tax was included.

The Commission has recently given consideration to income tax allowances for rate-making purposes in the Southern California Gas Company rate case<sup>2/</sup> and held that income taxes, both state and federal, are a proper charge to operating expenses based upon the decisions of the Supreme Court of the United States. We feel obliged to follow the ruling of the Supreme Court on this subject. A utility is constitutionally entitled to an opportunity to earn a reasonable return upon its investment reasonably employed in the public service. To the extent that taxes are disallowed in computing such a return, to such extent is that return reduced.

Rate Base

The rate base is composed of capital invested in plant plus working capital items consisting of materials and supplies and working cash, less such items as customers' advances for construction, donations in aid of construction and nonoperative property. Applicant used an underpreciated rate base in determining rate of return. The staff used a depreciated rate base which requires deduction of the book depreciation reserve.

<sup>2/</sup> Decision No. 46878, Application No. 32675, March 17, 1952.

The rate base for the year 1952 as estimated by applicant is compared to staff's estimate and is set forth in more detail below:

ESTIMATED RATE BASE FOR 1952

	<u>Applicant's Exhibit No.13</u>	<u>Staff's Exhibit No.53</u>
Plant Capital	\$7,594,878	\$7,566,000
Working Capital		
Material and Supplies	100,000	97,000
Working Cash	23,100	21,000
Subtotal	<u>7,717,978</u>	<u>7,684,000</u>
Adjustments		
Donations in Aid of Construction	-	(119,000)
Consumers's Advances for Constr.	(315,500)	(322,000)
Nonoperative Property	-	(36,000)
Physically Retired Plant	-	(3,000)
Depr. Res., Motor Vehicles, etc.	(69,301)	-
Total Adjustments	<u>(384,801)</u>	<u>(480,000)</u>
Rate Base - Underpreciated	7,333,177	7,204,000
Depreciation Reserve	<u>-</u>	<u>976,000</u>
Rate Base - Depreciated	-	6,228,000

(Red Figure)

The staff deduction for depreciation reserve used in developing the depreciated rate base included the reserve for motor vehicles which it is customary to set out separately when developing an underpreciated rate base.

In addition to the deduction of the above amounts for donations, the staff gave recognition to the fact that during 1948, 1950 and 1951 certain amounts were received and credited to capital surplus for transmission pipe relocation work. The cost of plant displaced plus cost of removal and less salvage was charged to the depreciation reserve. To give effect in part to these advances for relocation work the staff increased the book depreciation reserve as of the first of the years 1951 and 1952 by amounts of \$10,482 and \$16,578, respectively, to reflect the realized depreciation not provided by reserves at time of retirement.

The staff excluded 160 acres of land in the Los Padres watershed and buildings on the Girotti land as being nonoperative, and made a deduction of \$36,000 for these items in developing the 1952 rate base. Counsel for Water Consumers Committee requested that the Syndicate Dam Site, East Monterey lots and the right of way for pipe line and other items, as set forth on page 50 of Exhibit 53 also be excluded from the rate base as being non-operative. The staff considered these lands as reasonably held for future use and did not exclude them from the rate base. In our opinion the staff's treatment was reasonable and no additional deduction should be made.

Counsel also challenged the amount of \$118,000 for working capital and claimed that with a steady revenue and with the working capital position indicated by the balance sheet there was no need for such an allowance. Of the \$118,000 the staff allowed \$97,000 for material and supplies and \$21,000 for working cash. It is customary to allow for a normal level of material and supplies, such as is necessary to carry on the business. This figure is \$11,000 lower than the amount figured by the staff for 1951 and in our opinion is not unreasonable. The working cash figure was computed on the basis of one month's purchased power and two months' other operating expenses, excluding uncollectibles, taxes and depreciation. The estimated gross working cash requirement thus obtained was reduced to give some recognition to the availability and use of federal taxes accrued ahead of payment. No detailed study was made of the amount advanced by investors for working cash as represented by the lag in payments by customers for service and the lag by the company in payment of its bills. The Commission for years has used the empirical formula method and only lately on the largest utilities have lag studies been made.

In the absence of such study an allowance of \$21,000 for working cash will be adopted and in addition thereto an allowance of \$97,000 for material and supplies will be adopted.

#### Conclusion on Earnings

After giving consideration to both estimates of operating results for the year 1952 and to the contentions of applicant and the protestants, it is concluded that the staff's estimates of revenue, expense and rate base, adjusted as hereinabove outlined are reasonable amounts for measuring the earning power of this division of the utility under average conditions.

For the year 1952 we adopt a depreciated rate base of \$6,228,000 and find that applicant's present rates, with Del Monte revenue assumed as equivalent to the estimated cost of \$65,000, will result in a net revenue of \$258,950 if the same were to be effective for the full year, and will result in a rate of return of 4.16%.

#### Trend of Rate of Return

The staff's study, Exhibit No. 53, shows that there is an increase of 0.09% to 0.12% in rate of return between the year 1951 and 1952 when wage rates and tax rates are placed on a comparable basis for the two periods. Many utility returns during the postwar period of inflation have shown the reverse or a declining tendency, as is now being experienced in applicant's telephone division, and in fixing a rate of return the Commission has in certain cases allowed an amount to offset such decline over a reasonable future period. In the Monterey Peninsula Division, however, the trend is upward and will be so recognized in setting the current and permanent rate of return.

#### Rate of Return

In making this application for increases in rates applicant seeks rates which according to Exhibit No. 8 will result in a rate of return of 5.97% with Del Monte use billed at contract rates. If Del Monte use is figured at the general meter rate it seeks a

return of 6.26%. Applicant's Exhibit No. 18 shows the estimated cost of new capital (including retained earnings) raised in the period January 1, 1946 to December 31, 1951 at 5.90%. In Exhibit No. 21 applicant estimates the cost of new capital in 1952 at 7.30%. Such cost includes a 3-7/8% rate on bonds and at 10.8% earning on equity capital.

The representative for the Water Consumers Committee made an analysis of the net proceeds from financing and the annual dividend and interest requirements which when segregated by construction periods as set forth in Exhibit No. 35 results in the following segregation:

COST OF MONEY DECEMBER 31, 1951,  
AS COMPUTED BY PROTESTANTS

Division	Allocated Proceeds	Annual Cost	Effective Rate
Monterey Peninsula	\$6,548,710.23	\$ 336,448.56	5.138%
San Gabriel and San Diego	9,838,118.96	521,193.07	5.298
Telephone	12,009,310.17	739,464.56	6.157
Total	<u>28,396,139.36</u>	<u>1,597,106.19</u>	<u>5.624</u>

The higher cost for telephone division money is mainly due to the extensive postwar growth in this division compared to the other divisions. The protestants' conclusion, from their study, Exhibit No. 58, was that the applicant is entitled to an increase between \$50,539 and \$145,392, the lower figure being based on a 7.668% cost of equity capital and the higher figure on a 10.19% cost of equity capital.

The Commission does not necessarily agree with the protestants' method of allocating capital to various divisions since the company has raised and will continue to raise capital for the company as a whole. It is noted, however, that protestants' conclusion that money costs less in the water division agrees in principle with that contained in applicant's Exhibit No. 16 which

concludes that a water company can support a higher debt ratio by an adequate margin than can the telephone industry. Such higher debt ratio indicates a lower over-all cost of money for water operations compared to telephone operations.

In giving weight to the various matters affecting rate of return, the cost of equity capital based on current dividend rates or some higher figure developed from earnings-price ratios of other utility companies, we must keep in mind the influence of general market conditions and the many other factors not susceptible of statistical comparison which have to be considered. The investor's appraisal of the market value of the stock changes from time to time. The Commission also necessarily is concerned with the interests of the customers and will not substitute a mathematical formula for its informed judgment based on all relevant facts. These other factors include, among other things, construction requirements, territory, growth factor, characteristics of operation, expense controls, public relations, management, rate history, prevailing interest rates and other economic conditions, the trend of rate of return, and past financing success and future outlook for the utility.

In considering the problem of rate of return, counsel for the Water Consumers Committee asked that the Commission reconsider the treatment of use of surplus in place of raising new capital. He contends that from the ratepayer's standpoint it is cheaper to raise new money than to use surplus. Counsel for applicant claimed that earned surplus is a part of capital and earnings in excess of bare dividend requirements have not been excessive. The problem of whether to pay out all earnings as dividends or retain part for

reinvestment in property is a management problem. The Commission's main concern is that over-all earnings are not excessive. In view of the fact that many other factors than cost of money are used in determining the rate of return, no change in applicant's past handling of surplus appears warranted.

Conclusion on Rate of Return

Upon a careful consideration of the evidence of record and statements by various counsel and representatives, we find that a net revenue equivalent to 5.6% on a depreciated rate base of \$6,228,000 based on the estimated level of business for 1952 is sufficient to allow applicant's Monterey Peninsula water division a rate of return for the future of at least 5.75% on a depreciated rate base, which rate of return we hereby find to be fair and reasonable. When a rate of return of 5.6% is applied to the depreciated rate base an over-all increase in gross revenues of \$195,000 is indicated in contrast to the increase of \$334,700 which the staff computed applicant's proposed rates would produce.

Cost of Service Study

By Exhibit No. 27 applicant prepared a functional cost analysis on the basis of the sales, customers, revenues and



expenses of operation for the calendar year 1951. The result of the cost study segregated by classes is set forth below:

Class	Indicated: 1951 Cost	1951 Revenue	Ratio of Revenue to Indicated-Cost:
<u>Commercial</u>			
Domestic and Commercial	\$ 581,300	\$ 607,900	104.5%
Presidio	11,100	15,400	138.5
Naval Line School	21,000	20,900	99.5
Monte Regio Water System	5,800	7,000	120.8
Total Commercial	619,200	651,200	105.3
<u>Industrial</u>			
Canneries	19,600	25,000	127.4
Other	17,200	26,300	153.0
Total Industrial	36,800	51,300	139.1
<u>Municipal</u>			
Pacific Grove Golf Course	4,700	3,400	72.3
Other	8,500	8,500	100.0
Total Municipal	13,200	11,900	90.1
<u>Fire Protection</u>	76,400	23,100	30.2
Total Utility	745,600	737,500	99.0
Del Monte Contract	49,200	57,300*	116.5
Grand Total	794,800	794,800	100.0

\* Del Monte Revenue at General Meter Rates

In addition to the cost study, the applicant, by Exhibit No. 27-B, supplied data as to density of customers (number of services per mile of main).

The density study indicates that within the Cities of Monterey, Pacific Grove and Carmel-by-the-Sea there are approximately 75 services per mile of main on the average and outside of the cities the density averages about 40 services per mile of main. The customer component of distribution cost tends to vary inversely with density. On the basis of this analysis it is the Commission's opinion that the cost to serve varies over the service area and that the company should study the problem with the view to establishing districts with different levels of rates. There is not

sufficient evidence in the record to enable the Commission to establish rate districts at this time.

### General Service

The following table compares the present, proposed and authorized general service rates:

#### A. Present Rates

First	300 cu.ft. or less per month....	\$1.40
Next	700 cu.ft., per 100 cu.ft.....	.30
Next	29,000 cu.ft., per 100 cu.ft.....	.25
Over	30,000 cu.ft., per 100 cu.ft.....	.21

#### B. Applicant's Proposed Rates

First	300 cu.ft. or less per month....	\$2.00
Next	700 cu.ft., per 100 cu.ft.....	.43
Next	29,000 cu.ft., per 100 cu.ft.....	.35
Next	70,000 cu.ft., per 100 cu.ft.....	.29
Over	100,000 cu.ft., per 100 cu.ft.....	.25

#### C. Authorized Rates

First	300 cu.ft. or less per month....	\$1.80
Next	700 cu.ft., per 100 cu.ft.....	.37
Next	9,000 cu.ft., per 100 cu.ft.....	.31
Over	10,000 cu.ft., per 100 cu.ft.....	.25

In the authorized rates the blocking has been shortened to enable the large customers to reach the terminal rate more quickly. For the smaller type of customer on the general service rate it does not appear prudent to go below the proposed 25-cent terminal rate. For the larger commercial or industrial users, a seasonal type of rate is being formulated that will grant a lower rate to customers with favorable load characteristics such as high load factor or off-peak usage.

### Commercial and Industrial Service

The Monterey Fish Processors Association on April 22, 1952 adopted a resolution protesting the proposed rate increase and stated that the fish canning industry in Monterey is one which requires tremendous gallonages of fresh water during normal operations. It is noted that maximum usage of water for this

industry usually occurs near the end of or after the summer peak usage season. With a seasonal form of rate for industrial usage, this industry should be able to earn improved rates by taking advantage of the lower rates being set for winter usage.

The following table compares the present general service rate with the proposed and newly authorized rates for larger commercial and industrial service:

		6 Winter Months Nov.-April	6 Summer Months May-Oct.
<u>A. Present Rates (General Service)</u>			
First	300 cu.ft. or less per month	\$1.40	\$1.40
Next	700 cu.ft., per 100 cu.ft...	.30	.30
Next	29,000 cu.ft., per 100 cu.ft...	.25	.25
Over	30,000 cu.ft., per 100 cu.ft...	.21	.21
<u>B. Applicant's Proposed Rates (Gen'l. Serv.)</u>			
First	300 cu.ft. or less per month	\$2.00	\$2.00
Next	700 cu.ft., per 100 cu.ft...	.43	.43
Next	29,000 cu.ft., per 100 cu.ft...	.35	.35
Next	70,000 cu.ft., per 100 cu.ft...	.29	.29
Over	100,000 cu.ft., per 100 cu.ft...	.25	.25
<u>C. Authorized New Rates (Com. &amp; Ind. Serv.)</u>			
First	1,000 cu.ft., per 100 cu.ft...	\$0.50	\$0.50
Next	9,000 cu.ft., per 100 cu.ft...	.25	.30
Next	90,000 cu.ft., per 100 cu.ft...	.22	.26
Over	100,000 cu.ft., per 100 cu.ft...	.19	.24

#### Municipal Service

Applicant proposes to increase the quantity charge for sprinkling streets and roads from 24 cents to 34 cents per 100 cubic feet, to increase the rate for fire hydrants from \$3 to \$4 per month and to grant 25% discount on the general metered rate for water served to the Pacific Grove golf course. The cost study fully justifies the proposed increase in fire hydrant rates but does not justify a 25% discount in rates to the golf course or an increase as great as 10 cents as proposed for the sprinkling rate. The golf course discount of 25% from the general service rate will be removed.

and in lieu thereof the commercial and industrial rate will be opened to this service. The sprinkling rate will be increased to 30 cents per one hundred cubic feet.

The Cities of Monterey, Pacific Grove and Carmel-by-the-Sea submitted exhibits showing the annual cost of water purchased from the applicant, and in effect requested special consideration. By establishing a commercial and industrial rate and opening such rate to municipal service we have given some recognition to the budget problems of these cities. The Commission prefers that municipal service be handled on the regularly filed tariff schedules applicable to other customers. The applicant will be required to give further study to this problem in connection with the analysis of district rates. Pending such study, revenues from the cities will be based on the regularly filed tariffs for water service.

#### Resale Service

The Monte Regio Water Company presented a statement of the 1951 cost of water showing a usage of 3,240,400 cu. ft. with a present billing of \$6,960 and a proposed billing of \$8,815. This water system buys all of its water from the applicant on the general service rate and resells it to customers in its service area. It protests the proposed increase and requests that a special resale rate be drawn.

After reviewing this request it is the Commission's opinion that the new commercial and industrial service rate, Schedule No. 2, should be opened to this customer in lieu of establishing a separate resale schedule. Such rate would increase this customer's bill from \$6,960 to approximately \$7,600 based on the 1951 sales level.

#### Private Fire Service

A representative of the Monterey Bowl protested the present rate of \$40 per month for an 8-inch connection for fire service sprinkler system. Exhibit No. 1 was introduced by this

representative for the purpose of showing that rates for this service on certain other water systems vary from \$8 to \$12 per month. Counsel for applicant objected to the introduction of the exhibit on the ground that comparability of the other water systems based on their costs of providing service are not shown.

Counsel for the Monterey Bowl made a motion that this schedule be revised to conform to the practices of other companies and suggested a standby charge of \$1 for each inch of pipe diameter. In view of the results of the cost study, showing that fire protection service is being rendered at rates substantially below indicated cost, we cannot grant counsel's motion for as great a lowering of such rate as proposed. Sprinkler fire protection service rates on these other systems were probably set on some other basis than a consideration of the cost of service. The rates for the 4-inch and 6-inch connections will be retained at the present levels but the rate for the 8-inch connection will be reduced to \$30 per month. The private fire hydrant rates will be set at the levels proposed by applicant.

#### Conclusion

After reviewing all of the evidence of record and the statements by counsel and protestants and giving full weight to the improving trend in rate of return, it is our conclusion that an order should be issued increasing the rates to all customers excluding Del Monte properties in the amount of \$195,000 in the manner outlined herein and to the extent set forth in Exhibit "A" following the order.

All motions inconsistent with the findings of this opinion and order are denied.

O R D E R

California Water & Telephone Company having applied to this Commission for an order authorizing increases in water rates and charges in its Monterey Peninsula Division, public hearings having been held, the matter having been submitted and being ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified, and that present rates in so far as they differ from those herein prescribed for the future are unjust and unreasonable; therefore,

IT IS ORDERED AS FOLLOWS:

1. Applicant is authorized and directed to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, revised schedules with changes in rates, terms and conditions as set forth in Exhibit "A" attached hereto, and after not less than five (5) days' notice to this Commission and to the public to make said rates effective for service rendered on and after December 1, 1952.
2. At the time of making effective the rates authorized by Section 1 hereof, applicant may withdraw and cancel all present schedules and transfer the customers on such schedules to the appropriate new schedules.
3. Applicant shall review annually the accruals to depreciation reserve which shall be based upon spreading the original cost of the plant, less estimated net salvage, and less depreciation reserve, over the estimated remaining life of the property on the straight-line method, and shall submit the results of the reviews annually to the Commission.
4. Applicant shall prepare a study and submit a report within 180 days after the effective date of this order regarding the feasibility of creating districts to reflect the variation in cost of rendering service over the Monterey Peninsula area, taking into account

density and other rate-making factors and giving weight to the rate contentions of the Cities of Carmel-by-the-Sea, Pacific Grove and Monterey.

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

Dated at San Francisco, California, this 3rd day of November, 1952.

R. T. [Signature]  
President.

Justin J. Casper  
Harold P. [Signature]

[Signature]  
[Signature]  
Commissioners.

## Attachment 1

LIST OF APPEARANCES

For Applicant: Claude N. Rosenberg and Hudson, Martin, Ferrante and Street  
by W. L. Hudson.

Protestants: Monte Regio Water System by Douglas Brookman; Water Consumers Committee by S. Pedder, Kenneth Ferguson and E. Jones, Jr.; City of Carmel-by-the-Sea by Thomas R. Perry; City of Monterey by R. Zaches; City of Pacific Grove by R. E. Foster; County of Monterey by Furr Scott; Water Users by Zenas L. Potter; Monterey Peninsula Garden Club by Mrs. W. M. O'Donnell; Monterey Bowl by C. E. Brooks, Brooks & Winter.

Interested Parties: Owens-Illinois Glass Company by M. E. Sinclair;  
12th Naval District by A. E. Laffsa.

Commission Staff: Harold J. McCarthy, C. G. Ferguson and John F. Donovan.

LIST OF WITNESSES

Evidence was presented on behalf of applicant by: Peter A. Nenzel (balance sheet, income statement, construction requirements, results of operations), Wilford J. Hays (revenues, expenses, depreciation, capital), Alfred L. Burke (capitalization, stock earnings, cost of money), John L. Lillenthal (increased revenue required).

Evidence was presented on behalf of the protestants and interested parties by: Peter Mawdsley, Frank Fargo, Alfred Coons, W. S. Van Winkle, Douglas Brookman, C. Neill, Z. Potter.

Evidence was presented on behalf of the Commission's staff by: Stewart Weber (general operations, introduction, history, present operations, general expenses, taxes, working cash capital, summary of earnings), John Donovan (general operations, balance sheet, income statement, clearing accounts), John D. Reader (revenues, production, transmission, distribution and commercial expenses, uncollectibles and customer distribution rates), Greville Way (depreciation reserve and expense), G. B. Weck (fixed capital, rate base).



EXHIBIT A  
Page 1 of 4

Schedule No. 1

GENERAL METERED WATER SERVICE

APPLICABILITY

Applicable to all domestic, commercial, industrial and municipal water service customers.

TERRITORY

Monterey, Pacific Grove, Carmel-by-the-Sea and contiguous territory in the Monterey Peninsula Division.

RATES

Quantity Charge:		Per Meter Per Month
First	300 cu. ft. or less.....	\$1.80
Next	700 cu. ft., per 100 cu. ft.....	.37
Next	9,000 cu. ft., per 100 cu. ft.....	.31
Over	10,000 cu. ft., per 100 cu. ft.....	.25

Minimum Charge:

For	1/2, 5/8 x 3/4 or 3/4-inch meter.....	\$ 1.80
For	1-inch meter.....	2.50
For	1 1/2-inch meter.....	5.00
For	2-inch meter.....	8.00
For	3-inch meter.....	13.00
For	4-inch meter.....	25.00
For	6-inch meter.....	40.00
For	8-inch meter.....	60.00

The Minimum Charge will entitle the consumer to the quantity of water which that monthly minimum charge will purchase at the Quantity Rate.

EXHIBIT A  
Page 2 of 4

## Schedule No. 2

COMMERCIAL AND INDUSTRIAL WATER SERVICEAPPLICABILITY

Applicable to commercial, industrial, municipal and resale water service on metered basis subject to seasonal minimum charges payable in advance.

TERRITORY

Monterey, Pacific Grove, Carmel-by-the-Sea and contiguous territory in the Monterey Peninsula Division.

RATES

		<u>Per Meter For Month</u>	
		Winter	Summer
		Months	Months
		November -	May -
		April	October
Quantity Charge:			
First	1,000 cu. ft., per 100 cu. ft.....	\$0.50	\$0.50
Next	9,000 cu. ft., per 100 cu. ft.....	.25	.30
Next	90,000 cu. ft., per 100 cu. ft.....	.22	.26
Over	100,000 cu. ft., per 100 cu. ft.....	.19	.24
Minimum Charge:			
	Winter season.....	\$200.00	
	Summer season.....		300.00

SPECIAL CONDITIONS

1. Minimum charges will be payable in advance on the regular November bill for the winter months and on the regular May bill for the summer months. Usage during months subsequent to October and April will be credited against such minimum advances until the minimums are used up. Any unused winter or summer minimums will not be carried over into the next season.

2. Service beginning during months other than November and May will be required to advance a prorated minimum according to the time service will be rendered between November 1 and April 30, and between May 1 and October 31. No rebate of unused minimum will be made when customers discontinue service.

3. If customers on this rate request that service rendered under this rate be transferred to some other applicable rate, the customer cannot be re-transferred to this rate within a 12-month period.

Schedule No. 3

MUNICIPAL WATER SERVICE

APPLICABILITY

Applicable to the cities of Monterey, Pacific Grove and Carmel-by-the-Sea, and to Carmel Highlands and Seaside Fire Districts.

TERRITORY

Entire area served by Monterey Peninsula Division.

RATES

Quantity Charge:

For sprinkling streets and roads,  
per 100 cubic feet..... \$0.30

All other uses at General Metered Water Service  
rate or Commercial and Industrial Water  
Service rate.

Fire Hydrants:

Per hydrant per month..... 4.00

EXHIBIT A  
Page 4 of 4

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all domestic, commercial and industrial customers.

TERRITORY

Monterey, Pacific Grove, Carmel-by-the-Sea and contiguous territory in the Monterey Peninsula Division.

RATES

Private Fire Service Connections:	<u>Per Month</u>
2-inch and smaller.....	\$3.50
3-inch.....	4.25
4-inch.....	5.75

Fire Service for Sprinkler Systems:	
4-inch connection.....	\$10.00
6-inch connection.....	20.00
8-inch connection.....	30.00