

ORIGINAL

Decision No. 47941

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)	
PACIFIC GAS AND ELECTRIC COMPANY for)	
an order of the Public Utilities)	
Commission of the State of California)	
authorizing applicant to file and)	Application No. 32272
make effective the attached proposed)	(Amended)
tariff schedules (rates, rules and)	
regulations) applicable to water service)	
in its Vacaville Water Service Area, etc.)	
(Water))	

Ralph W. DuVal, Frederick T. Searles and W. S. Love,
 by Frederick T. Searles and W. S. Love, for applicant;
Paul M. Sapp, for Public Housing Administration,
 interested party; G. Douglas Thompson for Vacaville
 Chamber of Commerce, protestant; Erobeck, Phleger and
Harrison, by George D. Rives, for Basic Vegetable
 Products, Inc., interested party; S. M. Dobbins, City
 Attorney, for City of Vacaville, protestant; John D.
Reader for the Commission staff.

O P I N I O N

By the above-entitled application, filed April 5, 1951 and as amended on August 20, 1952, Pacific Gas and Electric Company seeks authority to increase rates and charges for water service rendered in Vacaville and vicinity, Solano County.

Public hearings in the matter were held before Examiner Emerson on August 26 and 27, 1952 in Vacaville and on September 10, 1952 in San Francisco. The matter was submitted on the latter date.

Rates, Present and Proposed

The rates which applicant proposes would increase the monthly water bill of the average consumer who uses 1,980 cubic feet per month, about \$3.76, an increase of 111.7%.

The following tabulation is a general comparison of monthly charges for water delivered to domestic and commercial consumers at present rates and at the rates which applicant requests be placed in effect:

Quantity (cubic feet)	Monthly Bill		
	Present Rate	Proposed Rate	Per Cent Increase
0	\$ 1.50	\$ 3.00	100.0%
800	1.50	3.00	100.0
1,000	1.87	3.70	97.9
1,500	2.64	5.45	106.4
2,000	3.39	7.20	112.4
2,500	4.14	8.95	116.2
3,000	4.77	10.05	110.7
5,000	7.01	14.45	106.1
10,000	10.88	21.95	101.7

Applicant serves approximately 1,040 residential and commercial customers and two large users, one a public housing project and one an industrial user. The latter two are served at special rates under contracts heretofore approved by this Commission. Both contracts are on an annual basis, terminable upon 30 days' notice. Applicant proposes that these two consumers now be placed on filed tariffs, the housing project on the general metered rate and the industry on a separate industrial schedule. The housing project would thereby experience an increase of about 100% in its water bills and the industrial plant would experience an increase of about 80%.

Applicant estimates that on the level of 1951 business the rates proposed would produce a gross revenue increase of \$51,384. At the anticipated 1952 level of business the requested gross increase amounts to \$55,520. The record shows that approximately \$24,800 of the \$55,520 increase in revenues would be required to pay applicant's increased taxes on its Vacaville water operations.

Summary of Presentations

The tabulation below is a summary of presentations respecting results of operations as made by applicant and the Commission staff. Protestants and interested parties made no comparable showing.

Adjusted Year 1951	Present Rates		Proposed Rates	
	Applicant	CPUC Staff	Applicant	CPUC Staff
Gross Revenues	\$ 54,386	\$ 54,386	\$105,770	\$ -)
Operating Expenses	46,455	47,488	70,955	-)
Net Revenues	7,931	6,898	34,815	-) <u>1/</u>
Rate Base	494,010*	448,898#	494,010*	-)
Rate of Return	1.6%	1.54%	7.0%	-)
<u>Estimated Year 1952</u>				
Gross Revenues	\$ 58,420	\$ 55,490	\$113,940	\$108,660
Operating Expenses	54,454	55,677	78,744	77,845
Net Revenues	3,966	(187)	35,196	30,815
Rate Base#	629,901	549,150	629,901	549,150
Rate of Return	0.63%	loss	5.59%	5.61%

(Loss)

* Undepreciated base

Depreciated base, 4% modified
S. F. method; expenses correspond.

1/ Applicant amended its rate proposal on August 20, 1952. Between that date and the first date of hearing (3 working days) the Commission staff had insufficient time to permit a recalculation of the effect of the newly proposed rates on 1951 operations, hence no figures are here shown.

Rate Base

Applicant's estimated 1952 rate base totals \$629,901. The rate base developed by the Commission engineer totals \$549,150. The primary difference occurs in the fixed capital accounts involving a 200,000-gallon settling basin, a 1,000,000-gallon storage reservoir and a booster pump station consisting of four electrically operated pumps with two auxiliary gasoline engines

for emergency standby service. Applicant has included the full cost of such facilities in its rate base. The Commission staff included only one third of the cost in its 1952 rate base. The facilities became operative in December, 1951.

The Commission engineer testified that these facilities are in excess of those necessary for the Vacaville water system as it exists in 1952. In view of the evidence supporting such testimony we shall, for the purpose of this proceeding, adopt the staff-developed rate base of \$549,150 for the year 1952.

Applicant's prudence in installing these facilities is not here questioned. Planning for future expansion and the establishment of operating margins is one of the problems with which utility management is concerned. In the Vacaville situation, applicant's engineers, after engineering and economic studies, determined that system storage capacity should be increased and the facilities have been installed and are functioning. They are believed to be adequate for about a 100% increase in customers. According to the General Superintendent of applicant's water systems the facilities may not be used to their full capabilities for a period of three to five years. This situation, together with other related factors, is further discussed hereinafter.

Revenues

With respect to estimates of 1952 revenues the Commission staff engineer determined an average usage per customer over the last three-year period for the domestic and commercial class of customers and applied such average to the average number of 1952 customers, including an estimated increase of 100 customers. The staff estimate may, therefore, be considered to be normalized. Applicant's witness, on the other hand, used anticipated 1952

consumption, giving full effect to the last portion of the year and including an estimated increase of 115 customers. The witness stated, "Actual 1952 sales may reasonably be expected to be somewhat less than shown here".

The respective estimates of revenues to be obtained from the system's one industrial customer, as made by applicant, staff and protestant, were based upon usage estimates varying from 150,000 Ccf to 212,000 Ccf annually. In each instance the estimator indicated that his estimate was on an assumed normal basis.

From the record in this proceeding we conclude that, on a normalized basis, revenues for the estimated year 1952 at present rates would be \$56,200 and at the rates proposed by applicant would total \$109,810.

Expenses

Differences between applicant's and the staff's expense estimates in the main arise from two factors. The first involves those expenses directly applicable to the booster, filter and reservoir facilities above discussed. In this connection both applicant and staff included full operating and maintenance expenses, although in different amounts. The second factor is that of recent wage increases under negotiation at the time of the original hearing in this proceeding. Before the adjourned hearing these wage negotiations were completed. Applicant, therefore, revised its expense estimates so as to give full-year effect to the wage increases.

We conclude that reasonable total operating expenses, on the 4% sinking fund, remaining life ~~method~~ for the estimated normal year 1952, would be \$55,000 under ~~present~~ present rates and \$78,500 under proposed rates. R. J. M.

Rate of Return

The above-adopted revenue and expense estimates, when related to the depreciated rate base hereinabove found to be reasonable, indicate rates of return of 0.2% for present rates and 5.7% for proposed rates in 1952. It is apparent that applicant is not now earning a reasonable return on its Vacaville water properties.

Protestants' Position

Protestants, City and Chamber of Commerce, took exception to applicant's rate spread wherein approximately one third of the domestic and commercial customers would, under the proposed rates, suffer an average increase of about 115% while the remaining two thirds would receive an increase of about 100%. From the record it appears that such disproportionate spread arises only from the manner in which applicant's witness converted gallons to cubic feet and rounded out the resulting usage blocks. Such method, while perhaps convenient, may easily be altered. No evidence was presented that would indicate that the disproportionate spread proposed is warranted. Accordingly, the rates hereinafter to be authorized will fully recognize the present customer usage relationship and, for domestic and commercial customers, increases will be more uniformly spread.

Protestants' further position is that because of the uncertainty of the expansion and growth of the general area and of applicant's system requirements for the future, applicant may realize an unduly high rate of return during 1953 and succeeding years if applicant's rate request is fully granted at the present time. No computations respecting past year's operations or estimated 1952 operations were projected into future operations by either applicant or staff. Opinions of witnesses indicate

a growth possibility of between 200 and 1,100 new consumers in the next one- to three-year period. However, no specific growth figures or trends were presented. The area, economically, is dependent to a large degree upon the nearby Travis Air Force Base and its expansion in the present federal defense program and to the processing plant of Basic Vegetable Products, Inc., the sole large industry in the area. If the opinions as to growth become fact, it is probable that the number of water customers on the Vacaville system will double within the next two years. Recognizing such uncertainty as to the future operations and revenue growth in Vacaville, counsel for applicant proposed that, as soon as figures are available for full operations of the system for 1953, the company would submit a report reviewing the results of 1953 operations with a view to re-examination of the rate situation without the necessity of the city instituting a new rate proceeding.

The industrial user, Basic Vegetable Products, Inc., contends that applicant's proposed industrial schedule is inappropriate in two respects. The first involves the rate form by which applicant would bill Basic a minimum charge based upon maximum rate of flow and with a constant charge of 13.5 cents per hundred cubic feet of water used. The second involves two special conditions in the rate schedule, the first of which would require a five-year contract and the second of which provides that service to Basic might be interrupted or discontinued without notice. The matters are somewhat interrelated in that the proposed rate schedule purports to be on a "firm" basis while the special conditions may be interpreted in such a way as to be applicable to a "priority" or "interruptible" and nonpermanent type of service. Applicant now serves this industry under a special contract approved by this Commission.

The industrial plant uses approximately one third of the entire amount of water produced by applicant's Vacaville system. Its demand is about 27% of the average peak day system demand. The plant's general manager testified to the plant's operations with respect to water usage over the past several years and as to expected 1953 operations. He urged that his 1953 estimated water usage of 212,000 Ccf be considered normal usage. At the request of Basic, applicant presented, as Exhibit No. 8, a cost of service study for the estimated year 1952. While such cost of service study is useful as a general guide to the level of rates which this customer may be charged, it is, however, but one element considered by this Commission when fixing rates.

Conclusions and Authorized Rates

The meter rates presently in effect for general service in Vacaville have remained without change since June 1, 1916. The record in this proceeding shows that these rates, during the past six years, have produced rates of return lying between 0.63% and 2.82%. Such low rates of return cannot be said to be reasonable. During these years, when nearly all other costs have risen, customers have been enjoying relatively low water rates.

From the record it appears that the imminent growth of the Vacaville system is far greater than a normal growth rate. It may well be that water rates fixed on the basis of 1952 conditions alone will not be appropriate for more than a period of a few months after their earliest possible effective date. No evidence was presented which can indicate otherwise. The record indicates considerable uncertainty as to the immediate future. In this connection applicant's counsel stated, "Any

estimate which we made under existing circumstances would have many elements of --- I won't say speculation, but, at least, uncertainty about them. The time when the new customers might come in, whether all of the anticipated new customers will be added to the system, the engineering of the increase in the company's facilities to serve these proposed new customers, are all matters that are not yet determined with any degree of certainty that in our opinion justified an estimate."

In view of the evidence and after careful consideration of the statements by applicant's counsel, protestants and interested parties, it is our conclusion that special consideration must be given the circumstances of this particular system. It is a relatively small part of a large system. Although its earnings have been deficient for many years, applicant has not seen fit to request revised rates until recently. While the estimates in the record might tend to justify the granting of applicant's request, by which rates would be more than doubled, it appears that 1953 is a year of transition and uncertainty as to the results of this system's operations. In fairness to all parties we believe that an intermediate step upward in rates should be authorized at this time, with the understanding that, if applicant so elects; a supplemental application in this proceeding may be made in 1954 after 1953 results of operations are known. It is our conclusion, therefore, that increased rates should be authorized that will produce an over-all increase of about \$36,400 in gross revenues, based upon estimated consumption in 1952. The general service consumer will experience an increase of about 64% in his average bill and the company will receive gross revenues of approximately \$91,900 from all classes of service. After deduction of operating expenses of \$69,500

including depreciation and taxes, with income taxes based upon authorized rates for the estimated year 1952, a net revenue of \$22,400 would result. Such net revenue, when related to the depreciated rate base of \$549,150 hereinabove found to be reasonable indicates a rate of return of 4.08%. For the purposes of this proceeding we find such rate base and rate of return to be within the zone of reasonableness.

Typical domestic and commercial billings under the rates hereinafter authorized, together with billings at present rates, are as follows:

Quantity (cubic feet)	Monthly Bill	
	Present Rate	Authorized Rate
0	\$ 1.50	\$ 2.50
800	1.50	2.50
1,000	1.87	3.00
1,500	2.64	4.25
2,000	3.39	5.50
2,500	4.14	6.70
3,000	4.77	7.70
5,000	7.01	11.70
10,000	10.88	18.20

The industrial schedule will be authorized with a quantity charge of 12½ cents per 100 cubic feet. The special conditions of such schedule will be modified so as to remove the ambiguity respecting responsibility for interruption of service. Rule and Regulation T-14, now applicable to general service, will also be applicable to this service. In effect such modifications will place the industrial user on a firm schedule.

The water contracts presently in effect will not be disturbed in this order, but applicant has the option of terminating such contracts, in accordance with their terms, and placing the contract customers on the regularly filed schedules.

Applicant will be authorized to file new rules, as requested.

ORDER

Pacific Gas and Electric Company, having applied to this Commission for an order authorizing increases in rates and charges for water service rendered in Vacaville and vicinity, Solano County, public hearings having been held, the matter having been submitted and being now 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 and charges, 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 after the effective date of this order, in conformity with the provisions of General Order No. 96, the tariffs set forth in Exhibit No. 3 in this proceeding as specifically modified by Exhibit A attached hereto and, after not less than five (5) days' notice to the Commission and to the public, to make said tariffs effective for service rendered on and after December 15, 1952.

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

Dated at San Francisco California, this 18th day of November, 1952.

R. P. [Signature]
President
Harold A. [Signature]
[Signature]
[Signature]

Commissioners.

EXHIBIT A
Page 1 of 3

The tariff schedules set forth in Exhibit No. 3 in this proceeding are approved as specifically modified below:

Title Page, Table of Contents, Preliminary Statement, Service Area Map

Approved without change.

Schedule No. 1, General Metered Service

Approved with the following rates:

Quantity Charge:	Per Meter Per Month
First 800 cu. ft. or less.....	\$2.50
Next 1,600 cu. ft., per 100 cu. ft.....	.25
Next 2,600 cu. ft., per 100 cu. ft.....	.20
Over 5,000 cu. ft., per 100 cu. ft.....	.13

Minimum Charge:

For 5/8 x 3/4-inch meter.....	\$ 2.50
For 3/4-inch meter.....	3.25
For 1-inch meter.....	4.00
For 1 1/2-inch meter.....	5.00
For 2-inch meter.....	10.00
For 3-inch meter.....	20.00
For 4-inch meter.....	30.00
For 6-inch meter.....	75.00
For 8-inch meter.....	100.00

Schedule No. 2, Industrial Service

Approved with the following modifications of "Quantity Charge" and "Special Conditions":

Quantity Charge:

For all water supplied..... \$0.125 per 100 cubic feet.

Special Conditions:

(a) Service under this schedule is available only under contract for an initial period of three(3) years and thereafter under contract renewable annually.

(b) Upon the request of the customer, the Company may increase the contracted maximum rate of flow if, in its opinion, present and future water supply and Company facilities are adequate to provide service at the higher rate of delivery and providing a new three(3) year contract is obtained at any time the contracted rate of delivery is increased by 100 gallons or more per minute.

(e) Service under this schedule is subject to discontinuance without notice in case of actual or threatened shortage of water in accordance with Rule and Regulation No. T-14 and whether due to insufficient supply of water or to inadequate transmission or delivery capacity or facilities when such insufficiency or inadequacy is caused by circumstances beyond the Company's control.

EXHIBIT A
Page 2 of 3

Schedule E-1. Service to Company Employees

Approved without change.

Schedule F-1. Fire Hydrant Service

Approved without change.

Schedule F-2. Private Fire Protection Service

Approved without change.

Rules Nos. T-1, T-2, T-3, T-4, T-5

Approved without change.

Rule No. T-6

Change Section B to read as follows:

B. Re-establishment of Credit.

1. An applicant who previously has been a customer of the Company and during the last 12 months of that prior service has had his water service discontinued because of nonpayment of bills, may be required to re-establish his credit by depositing the amount prescribed in Section B-2 of Rule and Regulation No. T-7.
2. A customer who fails to pay bills as provided in Section A of Rule and Regulation No. T-11 and who further fails, upon second notice of not less than five days, to pay said bills in time required by the second notice, may be required to pay said bills and to re-establish his credit by depositing the amount prescribed in Section B-2 of Rule and Regulation No. T-7.
3. A customer whose service has been discontinued for failure to pay bills as provided in Section A of Rule and Regulation No. T-11 may be required, before service is resumed, to pay said bills and to re-establish his credit by depositing the amount prescribed in Section B-2 of Rule and Regulation No. T-7.

Rule No. T-7

Change Section C-2 to read as follows:

2. After the customer has, for 12 consecutive months, paid all bills for service, without discontinuance for nonpayment thereof, the Company will refund the deposit with interest thereon, as provided in Section D.

EXHIBIT A
Page 3 of 3

Rule No. T-8

Change Section B to read as follows:

B. Notices from Customers.

Notices from a customer to the Company shall be given by the customer or his authorized representative orally or in writing at the Company's operating office or to an employee of the Company or its agent duly authorized to receive notices or complaints, or shall be sent by mail to the Company's nearest operating office.

Rules Nos. T-9, T-10, T-11

Approved without change.

Rule No. T-12

Delete Section C, New Rates, and reletter subsequent section.

Rules Nos. T-13, T-14, T-15

Approved without change.

Rule No. T-16

Change second paragraph of Section E to read as follows:

The customer will be held responsible for damage to Company's meters and other property resulting from the use or operation of appliances and facilities on customer's premises, including but not limited to damage caused by steam, hot water and chemicals.

Rule No. T-17

Delete the following from Section A:

Meter tests will be conducted in accordance with the water standard requirements of the Public Utilities Commission of the State of California.

Rule No. T-18

Approved without change.