

Decision No. 51618

**ORIGINAL**

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. 35959
it to increase rates charged for )	
water service in the Dixon district. )	

McCutchen, Thomas, Matthew, Griffiths & Greene,  
 by Robert Minge Brown and A. Crawford Greene, Jr.,  
 for applicant;  
 City of Dixon, by Joseph W. Raftery, interested party;  
Mary Moran Pajalich and Carol T. Coffey, for the  
 Commission staff.

O P I N I O N

By the above-entitled application, filed November 9, 1954, and as amended March 11, 1955, California Water Service Company, a California corporation, seeks an order of this Commission authorizing increases in rates and charges for water service rendered in the City of Dixon and vicinity in Solano County.

Public hearings in the matter were held before Commissioner Ray E. Untereiner and Examiner F. Everett Emerson on April 20, 1955, at Los Angeles and on May 4, 1955, at Dixon. Oral argument was heard on May 19, 1955, at San Francisco.<sup>1/</sup>

Rates, Present and Proposed

The basic rates presently in effect in the Dixon District became effective February 1, 1948, pursuant to this Commission's Decision No. 41092 in Application No. 28617. Such rates are of the

<sup>1/</sup> Applications for rate increases in applicant's Dixon, Broadmoor, Chico, Los Altos, South San Francisco and Hermosa-Redondo districts were consolidated for hearing on April 20 for a presentation of over-all company financial data and were again consolidated on May 19 for oral argument respecting certain allocation factors and the treatment to be accorded customers' advances for construction applicable to all districts.

"minimum charge" type whereby the delivery of 500 cubic feet of water is made at a stated and minimum charge with additional usage being charged through three steps or blocks of usage at a relatively high initial rate and a low terminal rate.

The basic rates which applicant now seeks to make effective are "service charge" rates. The service charge is a "readiness-to-serve" charge to which a quantity charge, at a constant and relatively low rate, is added for each 100 cubic feet of water used.

On a yearly basis, the sum of the 12 monthly bills under either type of rate theoretically would be the same. The service charge type of rate, however, has the advantage, to the customer and the utility alike, of lessening the usually wide variations in billings for winter and summer water usage. Under such a rate the winter bills would be somewhat higher and the summer bills somewhat lower than those computed under an equivalent minimum charge type of rate.

Present and proposed water rates are compared in the following tabulation. The average residential and business customers would have their annual billings increased by approximately 36 per cent under the proposed rates, based on the level of business during 1954.

Billing Comparisons  
(5/8 x 3/4-inch meter)

<u>Usage (Cu.Ft.)</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Per Cent Increase</u>
500	\$1.25	\$2.85	128%
1,000	2.15	3.60	67.4
1,500	3.05	4.35	42.6
1,700 (avg.usage)	3.41	4.65	36.4
2,000	3.95	5.10	29.1
2,500	4.85	5.85	20.6
3,000	5.75	6.60	14.8
4,000	7.10	8.10	14.1
5,000	8.45	9.60	13.6

The rate applicable to public fire hydrant service presently consists of a flat monthly charge of \$60. Applicant proposes to continue such charge for the existing service to 51 hydrants but to make an additional monthly charge of \$1.20 for each additional hydrant

served. All other charges for public water service would be at the general metered service rates.

The present rate schedule for private automatic fire sprinkler service includes rates for service through 4-, 6-, and 8-inch connections. The company now proposes a schedule of rates for private fire protection service to include additional sizes of connections and to increase the existing rates, but eliminating rates for inside hose connections.

As of the end of 1954 the company served approximately 642 residential, 89 business, 6 industrial, 17 municipal connections and 51 fire hydrants. In 1955 it expects to add about 48 new commercial service connections.

#### The System, Growth and Cost Trends

Dixon District is one of applicant's 21 operating districts. Its water system was acquired by applicant in 1927. The water supply is obtained from 4 wells at 2 locations in the City of Dixon, the wells ranging in depth from 300 to 578 feet. All pumps are controlled by a float control in an elevated tank of 75,000 gallons capacity. The distribution system contains more than 58,000 feet of mains. During the past 5 years an average of 43 new customers have been added to the system each year.

The last rate increase in Dixon was made necessary by increased costs of construction and operation encountered up to the end of 1947. At that time labor and materials costs had doubled over the same costs before World War II. The processes of inflation have continued and applicant's present-day costs are, on the average, approximately 40 per cent above the average during 1947. The evidence is clear that labor costs paid to construction contractors have risen 22 per cent while the increased prices of materials vary from 30 per cent for 6-inch asbestos-cement pipe and 52 per cent for 6-inch steel

pipe to 60 per cent for the copper tubing used for service connections. During the same period the cost of fittings has risen 26 per cent, the cost of meters 35 per cent and the price of pump motors approximately 33 per cent. In addition, federal taxes on income have increased from 38 per cent in 1947 to the present 52 per cent corporate rate. Such rising costs of operation and construction have so reduced its earnings in the Dixon District that, according to applicant, substantial rate relief has become imperative. Since 1947 applicant's utility plant in Dixon has doubled, to reach a total of more than \$242,000. During the same period the number of new customers added to the system has increased by only 50 per cent.

#### Financing of Properties

The record shows that the amount which applicant has invested in Dixon in the last 4 years is 1.9 times the aggregate net revenues received from the District. Monies for investment in Dixon, therefore, primarily come from the sale of securities although certain sums are available from internal sources. In meeting its capital requirements through issuance of securities applicant must provide for all of its plants and not for Dixon alone. In general it has financed its investment in plant through the issue of bonds, notes, preferred stock and common stock. Its securities are widely distributed. In passing upon the present proceeding the Commission must consider, among other things, the maintenance of applicant's earnings at such a level as will afford the utility an opportunity to earn a reasonable return on the capital reasonably employed by it so as to maintain its credit and attract capital sufficient to enable it to discharge its public duty in meeting the reasonable demands for service. From the rate and earning viewpoint its standing in the money market must be on at least the same level as other utilities of like characteristics or it may not be able to obtain the amount of capital necessary to its expanding growth in plant.

Summary of Presentations

The tabulation below is a summary of the presentations respecting results of operations of the Dixon District as made by applicant and the Commission staff.

	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Applicant</u>	<u>CPUC Staff</u>	<u>Applicant</u>	<u>CPUC Staff</u>
<u>Adjusted Year 1954<sup>a</sup></u>				
Net Revenue	\$ 6,012	\$ 5,751	\$ 11,551	\$ 11,373
Rate Base (Deprec.)	169,700	169,860	169,700	169,860
Rate of Return	3.54%	3.39%	6.81%	6.70%
<u>Estimated Year 1955</u>				
Net Revenue	\$ 5,765	\$ 5,862	\$ 11,584	\$ 11,792
Rate Base (Deprec.)	184,000	183,900	184,000	183,900
Rate of Return	3.13%	3.19%	6.29%	6.41%

- a. Adjusted to eliminate certain dues, donations and contributions and to place certain nonrecurring or abnormal costs or expenses on a normalized basis.

From the above summary it may be seen that there is no substantial disagreement between the results of operations as presented by applicant and as independently determined by the staff.

It is apparent from the above tabulation that applicant is experiencing a less than reasonable return and is also faced with a declining rate of return under the proposed rates. Applicant cannot enjoy increased water revenues which its proposed rates might produce for the full year 1955 and will not realize the returns above indicated. It is reasonable to expect, because of the downward trend indicated by the record in this proceeding, that applicant will realize a rate of return not significantly higher than 6 per cent in the first 12-month period in which new rates may be fully effective. Such a rate of return is reasonable.

Position of City of Dixon

The City of Dixon made no specific presentation during the course of this proceeding. The city attorney and mayor, however, participated in the cross-examination of witnesses throughout the

hearing. Both expressed full confidence that this Commission would arrive at a just decision in the matter on the basis of the evidence received.

#### Allocations to Districts

Of little dollarwise influence in the Dixon District but of seeming importance as a matter of principle to all districts and to the operations of applicant as a whole is the problem of allocating to each district its proper share of those general expenses of operation not directly chargeable to a district. Such problem engendered both direct and cross-examination testimony, as respects each of the six applications of this utility for rate increases now before us, and culminated in oral argument on a consolidated record at the conclusion of hearings in each of the districts.

In this series of rate proceedings the Commission staff used an allocation formula based upon four factors; that is, the staff used the average percentage resulting from the relation of (1) district employee payroll, (2) number of district customers, (3) district capital and (4) total of direct district operating expenses before taxes and depreciation, to the over-all operations of the utility.

Applicant used a three-factor formula which included (1) the number of district employees and factors (2) and (3) included above but excluded the fourth factor. It believes that the three factors which it uses are reasonably related to the types of expenses that are themselves to be prorated but it has no objection to the substitution of the "district employee payroll" factor used by the staff in place of the "district employee" factor used by it. Applicant is of the opinion that its position is somewhat unique in that it has among its 21 districts some systems whose water supply is solely from wells, some systems whose total supply is purchased water and some systems where either the well supply or the purchased supply is augmented or supplemented by the other. Applicant insists that the fourth factor, as applied to its operation, distorts the allocation to districts and

disproportionately assigns general expenses to those districts whose supply of water is wholly or substantially purchased. Applicant urges that the Commission make a finding as to which formula should be applied to it and points out that such a finding would enable it to follow orderly, stable accounting in its various rate proceedings and that it also would provide a most convenient allocation method for use in applicant's other business transactions and in its annual financial reporting to the Commission.

If it were possible to relate indirect expenses positively to specific tangible elements there would be no need for deriving composite allocation percentages. Historically, various formulae have been used to allocate general expenses the staff and some utilities on occasion having used only one factor or as many as five, but there has been a progressive development over the years to a general acceptance of a four-factor formula. The reasonableness of any allocation formula or of any specific factor within a formula resolves into one of judgment. Neither the three-factor nor the four-factor formula appears to be unreasonable as applied to this particular utility; and counsel for applicant and the staff agree that such is the case. In the light of the evidence in this record and after consideration of the full arguments on the subject, we are of the opinion that a three-factor formula including (1) district employee payroll, (2) number of district customers and (3) district capital is preferable for this particular utility and we are disposed to accept its use for rate making and for financial reporting purposes for this specific utility. It has the advantage of relative stability in that the allocation of general expenses will not widely fluctuate because of variations in climatic conditions and the resulting variations in amounts of purchased water; nor be importantly influenced by the timing of rate proceedings. It will permit applicant to standardize its rate

application accounting with that used in the preparation of its annual district reports.

Extension Deposits - Customers' Advances for Construction

As in the case of the allocation formulae above discussed, of little influence to the Dixon District but of seeming importance to applicant's over-all operations, is the matter of the treatment of unexpended portions of main extension deposits as related to the determination of a rate base on which applicant may be entitled to earn a reasonable rate of return. This subject also was argued at the conclusion of this series of hearings. In prior rate proceedings involving applicant, the treatment accorded unexpended extension deposits has not been at issue.

In viewing the evidence on this subject we note that neither applicant's nor the staff's approach or treatment respecting the same would produce rates of return on the respective depreciated rate bases, presented in this series of proceedings, of sufficient significance to warrant the granting of any lesser or greater amounts of increased revenues than those which our respective rate authorizations will produce. Although of admitted importance as a matter of principle and perhaps of significance in some of applicant's districts not now before the Commission for rate consideration, we are of the opinion that the record in the present proceedings is not sufficient to warrant a finding as to what treatment shall be accorded these advances on a company-wide basis. The over-all problem is intimately associated with applicant's main extension rule, practices and accounting and should be viewed in a record including completely detailed evidence respecting such items, among others, as (1) the periods of time such advances are in the hands of the utility and the periods of time over which refunds are made, (2) relationship to materials and supplies, (3) relationship to construction work in progress, and (4) relationship to "back-up" facilities



required for service to new subdivisions. The present record either does not contain evidence or is inconclusive respecting these items. We are of the opinion that in the next rate proceeding involving applicant, applicant and our staff may appropriately further advise the Commission on the general subject and on these specific elements of the problem.

Conclusions as to Earnings

Based upon the evidence and the foregoing findings and opinions thereon we conclude that applicant is in need of and entitled to increased revenues in its Dixon District in the total amount sought and that the rate of return of approximately 6 per cent which such increased revenues will produce on an average depreciated rate base of approximately \$184,000 is fair and reasonable.

Authorized Rates

The service charge plus commodity charge type of rate schedule proposed by applicant is reasonable and will be authorized. The level of the proposed rates was predicated on a "cost of service" study made by applicant. Such study has been carefully analyzed and the Commission is of the opinion that the proposed service charge of \$2.10 is slightly in excess of that which should be authorized. Therefore the rates authorized herein will have a basic service charge of \$2.00 and will carry a commodity charge of 16 cents per 100 cubic feet of water delivered.

Initial billings under the new rates will be prorated on the basis of average daily consumption.

O R D E R

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

for water service rendered in its Dixon District, public hearing thereon having been held, the Commission having been fully advised and 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 from those herein authorized, are for the future 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 and in conformity with the provisions of General Order No. 96, the tariffs attached to this order as Appendix A and, on not less than five days' notice to the public and to this Commission to make said tariffs effective for all service rendered on and after July 25, 1955.

IT IS HEREBY FURTHER ORDERED that applicant, within 30 days of the effective date of this order, shall file four copies each of an appropriate tariff service area map of the Dixon District system, in conformity with the provisions of General Order No. 96, and of a comprehensive map of the Dixon District system, to an indicated scale of approximately 300 feet to the inch, on which will be delineated the various tracts of land and territory served and

appropriate markings showing the principal water production, storage, transmission and distribution facilities within such district.

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

Dated at San Francisco, California, this 28<sup>th</sup> day of June, 1955

John E. Nettell  
President

Justus J. Calme

Paul E. Hancock

William D. Fisher

R. V. Knicker  
Commissioners

APPENDIX A  
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Schedule No. 1

Dixon Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The incorporated City of Dixon and vicinity, Solano County.

RATES

	<u>Per Meter Per Month</u>
Service Charge:	
For 5/8 x 3/4-inch meter .....	\$ 2.00
For 3/4-inch meter .....	2.20
For 1-inch meter .....	2.40
For 1 1/2-inch meter .....	4.00
For 2-inch meter .....	5.80
For 3-inch meter .....	10.60
For 4-inch meter .....	13.80
For 6-inch meter .....	21.00
For 8-inch meter .....	29.00
For 10-inch meter .....	40.00
Quantity Rate:	
For all water delivered, per 100 cu.ft. ....	\$ 0.16

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rate.

Schedule No. 2

Dixon Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all water service rendered for public fire protection to the City of Dixon.

TERRITORY

The incorporated City of Dixon, Solano County.

RATES

	<u>Per Month</u>
For the first 51 fire hydrants or less, minimum charge .....	\$60.00
For each additional fire hydrant .....	1.20

SPECIAL CONDITIONS

1. The above rates include use of water for fire protection and for no other purpose. Quantities of water delivered through fire hydrants for any other purpose will be estimated or measured and charges will be made at the monthly quantity rate under Schedule No. 1, General Metered Service.
2. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

Schedule No. 3

Dixon Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service rendered for privately owned fire protection systems.

TERRITORY

The incorporated City of Dixon and vicinity, Solano County.

RATES

	<u>Per Month</u>
For each 1½-inch service connection .....	\$ 2.25
For each 2-inch service connection .....	3.00
For each 3-inch service connection .....	4.50
For each 4-inch service connection .....	6.00
For each 6-inch service connection .....	9.00
For each 8-inch service connection .....	12.00
For each 10-inch service connection .....	15.00

SPECIAL CONDITIONS

1. The fire protection service connection will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.

Schedule No. 3

Dixon Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.

3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water.

4. For water delivered for other than fire protection purposes, charges will be made therefor under Schedule No. 1, General Metered Service.

5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

Schedule No. 4  
Dixon Tariff Area

SERVICE TO COMPANY EMPLOYEES

APPLICABILITY

Applicable to water service furnished for domestic use at the place of residence of the employee.

TERRITORY

The incorporated City of Dixon and vicinity, Solano County.

RATES

The filed rate or rates applicable to the type of service in the territory where service is supplied, less 25% discount.