

Decision No. 51634**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 authoriz-)
 ing it to increase rates charged for)
 water service in Chico and vicinity.)

Application No. 35961

McCutchen, Thomas, Matthew, Griffiths & Greene
 by Robert Minge Brown, for applicant.
 County of Butte by Charles H. Andrews, county
 counsel; City of Chico by Grayson Price,
 city attorney, interested parties.
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 Chico, and vicinity, in Butte 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 5, 1955, at Chico. The Los Angeles hearing concerned the over-all operations of applicant, while that held in Chico concerned applicant's Chico District operations. Oral argument, heard on May 19, 1955, at San Francisco, concerned certain allocation factors and the treatment to be accorded customers' advances for construction applicable to all districts.

1/ For the Commission's conclusions on such subjects see Decision No. 51619 in Application No. 35959, issued June 28, 1955

Rates, Present and Proposed

Applicant's existing rates for its Chico District were authorized by this Commission's Decision No. 45655 in Application No. 31429, issued May 8, 1951, and became effective June 16, 1951. Such rates were designed to produce additional revenues of approximately \$55,850 annually. The rate increases which applicant now seeks would produce additional revenues of about \$52,000 annually, based on the normalized level of business during 1954.

The existing rate structure provides that residential customers may, at their option, be served at either flat or meter rates. Other classes of customers are served at meter rates. A comparison of charges under existing and proposed rates is as follows:

Flat Rate Residential Service

<u>Item</u>	<u>Present Charge</u>	<u>Proposed Charge</u>
Average 6-Room House	\$ 2.18	\$ 2.60
Average Apartment	2.04	2.45
Garden Irrigation		
1,000 sq.ft.	.34	.40
2,000 sq.ft.	.68	.80
3,000 sq.ft.	1.02	1.20
6,000 sq.ft.	1.43	1.68

Metered Service
(5/8x3/4-Inch Meter)

<u>Usage in Cubic Feet</u>	<u>Present Charge</u>	<u>Proposed Charge</u>
500	\$ 1.35	\$ 2.00
1,000	2.10	2.63
1,500	2.85	3.25
2,000 (Average Use)	3.60	3.88
2,500	4.35	4.50
5,000	7.10	7.33
10,000	12.10	12.83

Applicant proposes no increase in charges for public fire hydrant service. The present rate schedule for private automatic fire sprinkler service includes rates for service

through 2-inch, 4-inch, 6-inch and 8-inch connections. Applicant now proposes a schedule of rates for private fire protection service to include additional sizes of connections and to increase certain of the existing rates, but to eliminate charges for inside hose connections.

As of the end of 1954 the company served approximately 889 residential, 614 business, 11 industrial and 35 other service connections at meter rates, and 5,443 residential, 9 business, 1 industrial, 5 municipal and 256 fire hydrants at flat rates. In 1955 it expects to add about 353 new commercial service connections and 14 fire hydrants.

The System, Growth and Cost Trends

Chico District is one of applicant's 21 operating districts. Its water system was acquired by applicant in 1927. The water supply is obtained from 23 company-owned wells, 14 of which are located within the city limits of Chico. Each of the 23 wells is pumped directly into an interconnected distribution system consisting of more than 500,000 feet of mains which range in size up to 14 inches in diameter. Floating on the system are 4 elevated steel storage tanks with an aggregate capacity of 850,000 gallons. All 4 tanks are within the city limits of Chico.

The last rate increase in Chico was made necessary by increased costs of construction and operation encountered up to the end of 1950. At that time labor and material costs had more than doubled over the same costs before World War II. The processes of inflation have continued and applicant's present-day costs, on the average, are approximately 27 per cent above the average during 1950. Since 1950 applicant has added net plant in the Chico District totaling approximately \$509,000. Its construction budget for 1955 will add an additional \$157,388 in plant facilities.

As indications of the magnitude of plant growth, witnesses for applicant testified that since 1951 the City of Chico has completed 26 annexations of territory and presently has four proposed additional annexations before it. As extensions of or improvements to the fire system within the city, applicant has expended more than \$147,000 in the past 10 years. Further programmed reinforcement of the fire system will bring such amount to a total of over \$188,000.

Financing of Properties

The record shows that the amount which applicant has invested in Chico since 1950 is more than one and one-half times the aggregate net revenues received from the District. Monies for investment in Chico, therefore, could come only from sale of securities. In meeting its capital requirements through issuance of securities, applicant must provide for all of its plants and not for Chico alone. In general, it has financed its investment in plant through the issue of bonds, notes, preferred stock and common stocks. 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 demands for service. From the rate and earning viewpoint its standing in the money market must be on at least the level of 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 following tabulation is a summary of the presentations respecting results of operations of the Chico 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^a</u>				
Net Revenue	\$ 68,391	\$ 69,375	\$ 92,273	\$ 93,237
Rate Base (Depr.)	1,420,300	1,423,650	1,420,300	1,423,650
Rate of Return	4.82%	4.87%	6.50%	6.55%
<u>Estimated Year 1955</u>				
Net Revenue	\$ 71,781	\$ 74,698	\$ 97,023	\$ 100,068
Rate Base (Depr.)	1,570,000	1,566,700	1,570,000	1,566,700
Rate of Return	4.57%	4.77%	6.18%	6.39%

- a. Adjusted to eliminate certain dues, donations and contributions and to place certain non-recurring 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 Commission staff.

It is apparent 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 the increased water revenues which its proposed rates might produce during the full year 1955 and will not realize the returns indicated in the above tabulation. 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 full calendar year in which new rates may be fully effective. Such a rate of return is reasonable.

Position of City of Chico

In this proceeding, as in the 1951 rate proceeding, the City of Chico urged the specification of zone rates in which the incorporated city limits would be adopted as zone boundaries, with one level of water rates applicable to service within the city and

another level applicable to service outside the city boundaries. Since there seems to be some misconception respecting such a situation, we shall reiterate our position on this subject.

This Commission has long adhered to the premise that no distinction, without other controlling reasons, should be recognized either in rates charged consumers or in rules governing service to them by reason of the fact that a political boundary, such as that determined by the limits of a city, separated one consumer from another. If such a distinction were to be made, political rates, rather than service rates, might soon follow,-- a condition abhorrent to the general public interest and to the clear mandate of law that no unreasonable discrimination shall exist.

Since its inception, this Commission has studiously avoided the placing of arbitrary and frivolous restrictions and delimitations upon rates and service to public utility consumers. City limits are boundaries which may change without any relationship to the utility facilities used and useful in serving the public. Indeed, there have been 26 such boundary changes in Chico in just the past three years. Has the utility service to any consumer in the Chico District in any way been changed by the fact that, through annexation, his property on a particular date became part of an incorporated area? We think not; and certainly no showing has ever been made before this Commission that such has been the case. We see no just cause for the establishment of a rate differential based upon whether the utility service is rendered within or without the political boundaries of a city.

The city again contends that much of the increasing cost of service is attributable to increased construction costs of recent plant additions outside the city as compared with the cost of the older portions of plant within the city. But utility plant inside the city is not static. Every extension, every reinforcement,

every replacement and each operating service rendered in the city is at increased costs also. Over one-half of applicant's construction budget for 1955 is devoted to plant and utility facilities situated within the existing city limits. If the four annexations now under consideration by the city are consummated such proportion will be even greater. On this subject of cost comparisons of "inside versus outside" operations, perhaps two elements directly applicable to Chico are sufficient for illustration. The increased costs of the reinforcement of the public fire protection service inside the city do not result from expansion of plant outside the city, nor does an average 96 per cent increase in the costs of replacing pavement in the city result from expansion of plant outside the city. In short, we find no convincing support for a contention that water rates inside the city should be less than those outside the city on the assumption that construction costs are less inside the city. The record will not permit of such a conclusion.

Conclusions

We find that applicant is in need of and entitled to the increased revenues sought. The rates which it has proposed are reasonable and will be authorized. The rates authorized for service to employees will be set in accordance with those being made effective in other of applicant's districts.

Initial billings under the new rates will be prorated on the basis of average daily consumption for metered service and on the ratio of days remaining to total calendar days for flat rate service.

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 Chico 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 August 1, 1955.

IT IS HEREBY FURTHER ORDERED that applicant, within thirty days of the effective date of this order, shall file four copies each of an appropriate tariff service area map of the Chico District system in conformity with the provisions of General Order No. 96 and of a comprehensive map of the Chico District system, to an indicated scale of approximately 400 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 5th day of July, 1955.

Justin J. Casner
President
Walter Lutzger
William J. ...
B. Hardy

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

Commissioners

APPENDIX A
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Schedule No. 1

Chico Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The incorporated City of Chico and vicinity, Butte County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 500 cu.ft. or less	\$ 2.00
Next 2,500 cu.ft., per 100 cu.ft.125
Next 27,000 cu.ft., per 100 cu.ft.11
Over 30,000 cu.ft., per 100 cu.ft.07
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 2.00
For 3/4-inch meter	2.35
For 1-inch meter	3.10
For 1 1/2-inch meter	4.80
For 2-inch meter	6.75
For 3-inch meter	12.50
For 4-inch meter	18.75
For 6-inch meter	33.00
For 8-inch meter	47.00
For 10-inch meter	60.00

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

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Schedule No. 2

Chico Tariff Area

RESIDENTIAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all water service rendered to residential customers on a flat rate basis.

TERRITORY

The incorporated City of Chico and vicinity, Butte County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
For each residence of five rooms or less, exclusive of bath or toilet facilities and irrigated areas	\$1.85
a. For each additional room in excess of five15
b. In addition, for each flush toilet, bathtub or shower30
c. In addition, for all irrigation or sprinkling of lawns or gardens, payable throughout the year at the following rates:	
First 3,000 sq.ft., per 100 sq.ft.04
For all over 3,000 sq.ft., per 100 sq.ft.016

SPECIAL CONDITION

Any new applicant for residential service may select either flat or meter rates. Any residential customer heretofore served at meter rates may exercise his option to be served at flat rates and, likewise, any residential customer heretofore served at flat rates may exercise his option to be served through a meter; provided, however, that when an applicant or customer has exercised his option to be served under either schedule, such applicant or customer must agree, while he remains a customer, to accept such service at the selected rates for a period of at least twelve (12) consecutive months.

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Schedule No. 3

Chico Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all water service rendered for public fire protection to municipal, county, or other political subdivisions of the State.

TERRITORY

The incorporated City of Chico, Butte County.

RATES

Per Month

For first 115 fire hydrants and not more than 17 fire cisterns	\$275.00
For each additional fire hydrant	1.00

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 rates 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. 4

Chico Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

The incorporated City of Chico and vicinity, Butte County.

RATES

	<u>Per Month</u>
For each 1 $\frac{1}{2}$ -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.

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.

Schedule No. 4

Chico Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

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. 5

Chico 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 Chico and vicinity, Butte County.

RATE

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