

**ORIGINAL**

Decision No. 51635

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 author- )	Application No. 35962
izing it to increase rates charged )	
for water service in the Los Altos )	
District. )	

McCutchen, Thomas, Matthew, Griffiths & Greene  
 by Robert Minge Brown, for applicant.  
 City of Los Altos by Gardner Bullis, city  
 attorney, interested party.  
Mary Moran Pajalich and Carol T. Coffey, for  
 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 Los Altos and vicinity in Santa Clara 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 18, 1955, at Los Altos. The Los Angeles hearing concerned the over-all operations of applicant, while that held in Los Altos concerned applicant's Los Altos 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.<sup>1/</sup>

<sup>1/</sup> For the Commission's conclusions on such subjects see Decision No. 51618 in Application No. 35959 issued June 28, 1955.

Rates, Present and Proposed

Applicant's existing rates, for its Los Altos District have been in effect since 1926 when they were set by this Commission for applicant's predecessor. When applicant acquired the water system in 1931, it adopted its predecessor's rates as its own and has continued them in effect, without change, through all the succeeding years. The rate increases which applicant now seeks would produce additional revenues of about \$43,400 annually, based on the normalized level of business during 1954, and would amount to an average increase of approximately 32 per cent. A comparison of charges under existing and proposed rates is as follows:

<u>Billing Comparisons</u> (5/8x3/4-Inch Meter)			
<u>Usage</u> (Cubic Feet)	<u>Present</u> <u>Charge</u>	<u>Proposed</u> <u>Charge</u>	<u>Per Cent</u> <u>Increase</u>
100	\$ 1.50	\$ 2.22	48.0%
500	1.50	3.10	106.7
1,000	2.75	4.20	52.7
1,500	4.00	5.30	32.5
2,000 (Avg. Usage)	5.00	6.40	28.0
2,500	6.00	7.50	25.0
3,000	7.00	8.60	22.9
5,000	11.00	13.00	18.2
10,000	21.00	24.00	14.3

The existing rates for residential and business service are of the "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 proposed rates are of the "service charge" type. The service charge is a "readiness-to-serve" charge to which a quantity charge, at a 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 variation in billings for winter and summer 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.

At present, applicant serves three customers on an irrigation schedule and one customer at an hourly rate. These types of charges are outmoded and applicant proposes to withdraw the existing schedules for such service and to place these customers on the general service schedule.

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 2,159 residential, 138 business, 10 municipal, 2 irrigation and 6 other metered service connections, and 125 fire hydrants at flat rates. In 1955 it expects to add about 148 new residential and 11 new business customers and to supply 15 new fire hydrants.

The System, Growth and Cost Trends

Los Altos District is one of applicant's 21 operating districts. Its water system was acquired in 1931. The water supply is obtained primarily from 10 company-owned wells and 1 leased well. As a supplement to the well supply and as a means of meeting

peak demands, applicant purchases water from San Jose Water Works through a pipeline jointly used by the Los Altos and Suburban Districts of applicant. Of a total production of 406,465,000 gallons in 1953, 404,820,000 gallons were obtained from wells. Total water storage for the Los Altos District consists of 1 elevated and 10 surface tanks aggregating 983,110 gallons. The transmission and distribution mains exceed 200,000 feet in length and include sizes up to 18 inches in diameter.

As an indication of the magnitude of the company's problem in meeting costs of construction and operation, a witness for applicant testified that the over-all costs of construction have increased 87 per cent since 1946 and that the costs in that year were doubled over the same costs before World War II. Today, the costs of distribution mains have increased 54 per cent, water meters 34 per cent, storage facilities 90 per cent, electric motors 33 per cent, construction labor 22½ per cent and general wage rates, including retirement and other wage benefits, 126 per cent over those of 1946. Such rising costs of operation and construction have so reduced its earnings in the Los Altos District that, according to applicant, substantial rate relief has become imperative. Since 1946 applicant's utility plant in Los Altos has almost quadrupled, to reach a total of more than \$870,000. During the same period the increase in the number of new customers added to the system has only doubled, to reach a total of approximately 2,600.

#### Financing of Properties

The record shows that the amount which applicant has invested in Los Altos in the last four years is substantially greater than the net revenues received from the District. Monies for investment in Los Altos, 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 Los Altos 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 Los Altos 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	\$ 32,540	\$ 30,713	\$ 52,527	\$ 50,544
Rate Base (Depr.)	761,400	793,200	761,400	793,200
Rate of Return	4.27%	3.87%	6.90%	6.37%
<u>Estimated Year 1955</u>				
Net Revenue	\$ 32,512	\$ 32,460	\$ 53,811	\$ 53,685
Rate Base (Depr.)	884,000	892,000	884,000	892,000
Rate of Return	3.68%	3.64%	6.09%	6.02%

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

From a comparison of rate of return percentages for the estimated year 1955 in 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 record and 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 of somewhat less than 6 per cent in the first 12-month period in which new rates may be fully effective. Such a rate of return will be within the zone of reasonableness, however.

Position of City of Los Altos

The City of Los Altos made no specific presentation during the course of this proceeding. The city attorney, however, participated in the cross-examination of witnesses and expressed full confidence that this Commission would arrive at a just decision in the matter on the basis of the evidence received.

Conclusions

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 Los Altos 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 \$892,000 is fair and reasonable.

In connection with the present series of rate increase applications, the Commission, in Decision No. 51452, directed applicant to file a tariff sheet applicable to service to its employees at a rate of 75 per cent of the appropriate rate schedule. In a number of this utility's districts, other than those districts in which rate increases are now sought, existing tariffs applicable to employees are at a 50 per cent rate. In order that such employee rates may be uniform in all districts, applicant will be directed to file a comparable tariff sheet for each district, setting forth the 25 per cent discount which we have hitherto found to be reasonable.

The rates which applicant has proposed are reasonable and will be authorized. 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 Los Altos 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 Appendix B 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 Los Altos District system, in conformity with the provisions of General Order No. 96, and of a comprehensive map of the Los Altos District system, to an indicated scale of approximately 800 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 5<sup>th</sup> day of July, 1955.

Justus F. Gaebel  
President  
Paula L. Linterman  
Montgomery  
W. Hardy  
Commissioners

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

APPENDIX A  
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Schedule No. 1

Los Altos Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The incorporated City of Los Altos and vicinity, Santa Clara County.

RATES

	<u>Per Meter</u> <u>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 1½-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 .....	28.40
For 10-inch meter .....	40.00

Quantity Rates:

First 30,000 cu.ft., per 100 cu.ft. ....	0.22
Over 30,000 cu.ft., per 100 cu.ft. ....	0.17

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 Rates.

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Schedule No. 2  
Los Altos Tariff Area  
PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all water service rendered for public fire protection to a public authority such as a municipality, county, or other political subdivision of the State.

TERRITORY

The incorporated City of Los Altos and vicinity, Santa Clara County.

RATES

Per Hydrant Per Month

Owned by:	Hydrant:	Size of:	Type:	2" or 2 1/2" Main:	to 3" Main:	to 4" Main:	or Larger:
							:If Attached:
							to 6" Main:
Authority	2"	Wharf	\$0.75	\$1.00	\$1.25	\$1.50	
Utility	2"	Wharf	1.00	1.25	1.50	1.75	
Authority	2 1/2"	Wharf	1.00	1.25	1.50	1.75	
Utility	2 1/2"	Wharf	1.25	1.50	1.75	2.00	
Authority	3"	Wharf	-	1.50	1.75	2.00	
Utility	3"	Wharf	-	1.75	2.00	2.25	
Authority	4"	Standard	-	-	2.00	2.50	
Utility	4"	Standard	-	-	2.50	3.00	
Authority	6"	Standard	-	-	-	3.00	
Utility	6"	Standard	-	-	-	3.50	

(Continued)

APPENDIX A  
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Schedule No. 2 - Contd.

Los Altos Tariff Area

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS

1. Hydrants owned by the public authority will be installed, maintained, painted, inspected and relocated at the expense of the public authority. The utility will install and own the tee in the main, the hydrant branch and the control valve.
2. Hydrants owned by the utility will be maintained by it. The utility will install and own the tee in the main, the hydrant branch, the valve, and the bury and hydrant. The public authority will pay for the relocation of any hydrants owned by the utility.
3. Number of outlets in standard outlets will be limited to two 2½" outlets.
4. The above rates include use of water for fire protection and for no other purpose. For water delivered through fire hydrants for any other purpose, charges will be made therefor at the monthly quantity rates 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. 3

Los Altos Tariff AreaPRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

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

TERRITORY

The incorporated City of Los Altos and vicinity, Santa Clara County.

RATESPer Month

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.

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.

(Continued)

Schedule No. 3

Los Altos 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. 4

Los Altos Tariff Area

SERVICE TO COMPANY EMPLOYEES

APPLICABILITY

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

TERRITORY

The incorporated City of Los Altos and vicinity, Santa Clara County.

RATE

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

APPENDIX B

Schedule No. \_\_\_\_\_

Tariff Area

SERVICE TO COMPANY EMPLOYEES

APPLICABILITY

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

TERRITORY

(To conform to territory specified on applicable sheets for the area.)

RATE

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