

**ORIGINAL**Decision No. 55,359

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 )  
 in its Monterey Peninsula Division. )

Application No. 38116

(Appearances and witnesses  
 are listed in Appendix B)

O P I N I O NApplicant's Request

California Water & Telephone Company, a California corporation, engaged in the public utility business of rendering water service in portions of Los Angeles, San Diego and Monterey Counties and of rendering telephone service in portions of Los Angeles, Riverside and San Bernardino Counties, with principal executive offices in San Francisco, filed the above-entitled application on June 11, 1956, requesting authority to make effective the rates and charges set forth in Exhibit E attached to the application. Applicant represents that based upon estimated water use for the year 1956 the proposed rates would produce additional annual gross revenues in the amount of \$200,000 or 16.7 per cent above the \$1,199,200 which would be produced under existing rates.

Public Hearing

After due notice, a total of seven days of public hearing was held before Commissioner Rex Hardy and Examiner Manley W. Edwards in Monterey on the following days: October 8, 1956 and January 9 and 10, March 6, 7, 8 and 22, 1957. Applicant presented 11 exhibits and testimony by four witnesses in support of its application. The

Commission staff presented three exhibits, testimony by four witnesses, and cross-examined applicant's witnesses for the purpose of developing a full record to aid the Commission in deciding the matter.

The cities of Pacific Grove, Carmel-by-the-Sea, Seaside, Del Rey Oaks and Monterey, through their city attorneys, stated their opposition on the basis that this application was unwarranted and unnecessary in light of all the facts and circumstances. Also opposition was expressed by public witnesses from various sections of the applicant's service area.

The United States Government appeared as an interested party in the proceeding, cross-examined certain of the witnesses and on March 20, 1957 filed a statement of position. Closing statements were filed by counsels for the applicant and the staff on April 8, 1957. The matter is now ready for decision.

Monterey Peninsula Division

The Monterey Peninsula Division is comprised of the cities of Monterey, Pacific Grove, Carmel, Del Rey Oaks and portions of Seaside, and of certain unincorporated areas in the county of Monterey. This division also serves water for domestic, irrigation and commercial purposes to Del Monte Properties Company under private contract in Monterey County. The properties and facilities owned by applicant and devoted to the service of water in the Monterey Division are comprised of two dams on the Carmel River, transmission lines, reservoirs, buildings, pipelines and all other plant and equipment necessary for the rendition of such service.

The water supply is mainly from diversion of the Carmel River at two reservoirs, namely San Clemente and Los Padres. A minor source of water is the three wells in the City of Seaside.

These wells produce between 2 and 3 per cent of the approximately 350,000,000 cubic feet annual requirement for water of the system. In the Carmel River Valley are six wells which are held as a standby source.

The division operates under a manager who has authority over local operations. Centralized administration is from the company's general office in San Francisco. As of September 30, 1956, the transmission and distribution system consisted of about 335 miles of various types and sizes of pipe. As of the end of 1955, there were 18,072 metered customers and 821 flat rate fire protection customers, both public and private. The estimated population served is approximately 71,000 persons.

Applicant's position

The present rates have been in effect since 1952<sup>1</sup> and applicant states that in this time interval four successive wage increases have occurred, costs of materials and supplies have increased and other developments have occurred which have resulted in a substantial increase in the annual operating expenses in the Monterey Division. Applicant represents that it has not realized the rate of return which was contemplated when the existing rates were authorized by the Commission, that the present rates are inadequate and insufficient to allow a reasonable return on either the fair value or the original cost of the properties devoted to rendering water service in the Monterey Peninsula Division.

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<sup>1</sup> Decision No. 47906, dated November 3, 1952, as amended by first supplemental order, Decision No. 47940, dated November 18, 1952, under Application No. 33106.

Applicant also represents that its earnings have exhibited a down trend as illustrated by the following figures:

<u>Year</u>	<u>Rate of Return</u>
1954 Recorded	5.08%
1955 Recorded	4.95
1955 Adjusted	4.67
1956 Estimated	4.60
1957 Estimated	4.66

In making these computations for the year 1955 adjusted, 1956 and 1957 estimated, the applicant assumed average or normalized conditions and a rate base which excludes advances and contributions.

#### Earning Position

The Commission staff prepared an independent study of applicant's earnings, for the years 1956 and 1957 estimated, and computed the following trend of rate of return:

<u>Year</u>	<u>Rate of Return</u>
1956 Estimated with Straight-Line Tax Depreciation	4.99
1956 Estimated with Accelerated Tax Depreciation	5.14
1957 Estimated with Straight-Line Tax Depreciation	5.25
1957 Estimated with Accelerated Tax Depreciation	5.46

A more detailed summary of the applicant's and the staff's computations for the year 1957 under applicant's present and proposed rates follows.

## COMPARATIVE EARNINGS ESTIMATES FOR YEAR 1957

Item	Present Rates		Proposed Rates	
	Applicant	Staff	Applicant	Staff
Operating Revenues	\$1,257,700	\$1,334,050	\$1,470,900	\$1,565,720
Operating Expenses				
Source of Supply	26,710	20,000	26,710	20,000
Pumping	61,850	58,400	61,850	58,400
Water Treatment	26,020	26,900	26,020	26,900
Transmission and Distr.	81,650	77,800	81,650	77,800
Customer Accounts	53,300	54,900	53,300	54,900
Sales Expenses	8,800	7,820	8,800	7,820
Administrative General and Miscellaneous	138,960	135,930	138,960	135,930
Wage Increase	10,900	10,370	10,900	10,370
Subtotal	408,190	392,120	408,190	392,120
Taxes Other than Income	139,650	139,830	139,650	139,830
Depreciation	147,000	146,830	147,000	146,830
Income Taxes				
Straight-Line Tax Deprec.	221,730	271,080	336,690	395,990
Accel. Tax Depreciation	-	255,980	-	380,890
Total Oper. Expenses				
With S.L. Tax Deprec.	916,570	949,860	1,031,530	1,074,770
With Accel. Tax Deprec.	-	934,760	-	1,059,670
Net Revenue				
With S.L. Tax Deprec.	341,130	384,190	439,370	490,950
With Accel. Tax Deprec.	-	399,290	-	506,050
Rate Base, Deprec.	7,314,000	7,318,800	7,314,000	7,318,800
Rate of Return				
With S.L. Tax Deprec.	4.66%	5.25%	6.01%	6.71%
With Accel. Tax Deprec.	-	5.46	-	6.91

Revenues

The principal difference between the staff's and applicant's revenue estimates was due to the fact that the staff computed the sales to Del Monte Properties Company at the regular system utility rates rather than at the contract rates. The differences are:

Revenues from Del Monte Properties

	Staff	Applicant	Difference
Year 1957, Present Rates	\$116,400	\$45,600	\$70,800
Year 1957, Proposed Rates	139,500	45,600	93,900

Another difference was due to the fact that the staff assumed the employees would be charged for water at 25 per cent discount from regular rates rather than receiving free water service. Also, the staff's estimate of number of new customers for 1957 was slightly higher than the applicant's estimate.

Revenue from Del Monte Properties Company

The applicant showed the revenue from Del Monte Properties Company at \$45,600 for the estimated year 1957 based on an existing contract. Applicant's cost study indicated that the contract level of rates yields a rate of return of only 2.14 per cent on the capital allocated to this service. In the last rate case in 1952, the Commission credited, for rate-making purposes, the revenue from this service at \$65,000 (equivalent to the then computed cost of rendering the service at the then authorized rate of return of 5.75 per cent). The cost computation now is approximately \$75,000 on the basis of the applicant's cost study, if a 4.79 per cent rate of return is computed for this service.

The staff priced the Del Monte sales out on the basis of the present regular tariff rates at \$116,400 and the proposed rates at \$139,500 for the estimated year 1957, but did not advocate that the Commission use as high a revenue as \$139,500 for current rate-making purposes. Rather it suggested that the applicant's over-all cost analysis be used only as a guide to set up a general meter rate schedule which would closely approximate the computed costs to serve all customers, pricing the Del Monte service at that rate level.

The staff questioned the allocation of certain of the distribution lines between the Del Monte properties and the regular domestic customers in computing costs. Applicant's witness discussed this matter and indicated that other engineers might assign different ratios in these allocations and if all of the distribution mains in question were assigned in full it would add only \$40,000 to the \$512,000 rate base which applicant assigned to the utility plant devoted to service to Del Monte Properties. This would indicate that applicant's cost of service allocation to Del Monte was on the low side, especially when the question as to the adequacy of allocation of fire service costs to the Del Monte Properties is considered. We are of the opinion that something higher than \$75,000 is now reasonable. The sum of \$85,000 is adopted as reasonable under the present rates.

For the purposes of this decision, we are of the opinion that a present-day cost of service to said Del Monte Properties is \$100,000 at the rate of return herein found reasonable.

Expenses

The principal differences between the two expense estimates were in the items of source of supply expenses and taxes on income. The staff's source of supply expenses were some \$6,700 lower, due mainly to the spreading out of expenses that will not recur in 1957 at the level experienced in 1956. For example: the utility replaced some flashboards in 1956 which it stated should be done only once in 10 years; there were expenses due to a forest fire which were spread out over 5 years; and there were certain road-grading expenses which were estimated to occur only once in 5 years. Also the staff estimated that a lower percentage of the payroll in connection with source of supply should be charged to operating expenses and more to construction. The higher income tax expense was due in part to the considerably higher revenue estimated by the staff for the Del Monte service. The other differences were generally within the range of reasonable variation found in independent estimates.

The staff, in its analysis, showed income tax liability computed on straight-line tax depreciation basis, and also under accelerated tax depreciation as permitted by Section 167 of Internal Revenue Code, which latter method passes the benefit of lower taxes to the ratepayers. This is commonly called the "flow-through" method.

The applicant herein, as shown in its annual report to its stockholders has elected to depreciate fixed assets acquired subsequent to January 1, 1954 on an accelerated depreciation basis for income tax purposes for 1956, and has claimed a refund for 1954 and 1955 taxes as paid. This method of computing depreciation has the result of increasing the taxable deductions in the current taxable year and thus decreasing the net taxable income, and in turn decreasing the taxes paid. For rate-making purposes applicant has computed its results on the higher income taxes which would be paid under the straight-line method which are in excess of those actually paid.

This Commission has not authorized this practice, and now has under submission Applications Nos. 38372 and 38382 filed by Southern California Edison Company, under which this Commission was asked to authorize such methods and to authorize the carrying of such excess taxes into a tax deferral reserve.

The Commission is of the opinion that the determination in the first instance, of depreciation for federal income tax, under a method authorized by Section 167 of the Internal Revenue Code of 1954, rests with the taxpayer and, so far as applicant is concerned, is a prerogative of management. The establishment of utility rates requires estimates of future revenue and future expenses of operation, including taxes, and a just and reasonable return to the utility, and, therefore, in deciding this matter the Commission must estimate the taxes which applicant will actually pay for the year 1957. The estimated sum of federal income taxes for 1957, adopted by the Commission as shown in the table of "Comparative Estimates", supra, is the sum estimated to be paid by applicant because of its adoption of a permitted accelerated depreciation for income tax purposes. Applicant's memorandum, filed with the Commission on April 8, 1957, states that its proposed rates are fully justified even if accelerated depreciation is employed for tax purposes. Traditionally, federal income taxes on an estimated as paid basis have been allowed by the Commission as an expense of operation. Applicant seeks a change in this traditional policy. Until the Commission changes its policy it will continue to allow as an expense of operation the federal income taxes on such as paid basis irrespective of the method applicant shall choose as to the determination of depreciation for the purpose of such tax. When, as and if, this Commission issues its decision on the aforesaid applications of Southern California Edison Company, it will give consideration to the issuance of such supplemental order herein as may be appropriate.

The treatment which we have herein accorded to federal income taxes is for this proceeding alone, and shall not be taken as a precedent for other cases. We find that the result flowing from such treatment is just, fair and equitable to applicant based upon the record herein.



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 a deduction for depreciation. The build-up of the applicant's and the staff's estimated rate bases for 1957 is summarized below:

	<u>Applicant</u>	<u>Staff</u>
<u>Plant, as of 1-1-56</u>		
Intangible Plant	\$ 134,896	\$ 134,896
Landed Plant	280,883	280,883
Reservoirs, Source of Supply	1,942,508	1,942,508
Wells, Structures etc.	122,659	122,659
Pumping Plant	152,667	152,667
Water Treatment Plant	202,166	202,166
Reservoirs, Tanks, Structures	462,846	462,846
Transmission and Distribution Lines	4,128,156	4,128,156
Services and Meters	998,986	998,986
Hydrants	152,053	152,053
General Plant	189,403	189,403
Subtotal	<u>8,767,223</u>	<u>8,767,223</u>
Estimated 1956 and 1957 Net Additions	583,137	626,587
Total Weighted Average Plant	9,350,360	9,393,810
<u>Modifications</u>		
Contributions or Donations in Aid of Construction	(321,000)	(349,600)
Advances for Construction	(322,000)	(320,900)
Relocations of Mains	-	(13,995)
Total Modifications	<u>(643,000)</u>	<u>(684,495)</u>
Weighted Avg. Material and Supplies	100,000	102,000
Working Cash Allowance	40,000	36,900
Total Before Deduction for Depreciation	8,847,360	8,848,215
Deduction for Depreciation	1,533,760	1,529,400
Weighted Avg. Depreciated Rate Base	7,313,600	7,318,815
Use	7,314,000	7,318,800

(Red Figure)

There is little difference between the two estimated rate bases and for all practical purposes either one could be used in testing the level of rates. However, since we are going to adopt operating revenues higher than the applicant's, the staff's higher rate base will be used.

Adopted Operating Results

The following revenues, expenses, rate base and rate of return under the present rates assuming the use of actual taxes paid are hereby adopted for the estimated year 1957 and found reasonable for the purpose of testing the adequacy of applicant's present rate levels. For purposes of comparison, the estimates by the applicant and the staff also are shown:

Item	: Comparative Estimates :		
	: Applicant : : Exh.No.1-A :	Staff : Exh.No. 11 :	: Adopted for : Year 1957 :
<b>Operating Revenues</b>			
Commercial	\$1,042,700	\$1,048,000	\$1,048,000
Industrial	42,100	41,000	41,000
Public Authorities	69,100	70,000	70,000
Private Fire Protection	5,200	5,750	5,750
Public Fire Protection	37,900	38,000	38,000
Sales to Naval Line School	12,000	12,000	12,000
Other Metered Sales	700	1,000	1,000
Del Monte Properties Co.	45,600	116,400	85,000
Miscellaneous	2,400	1,900	1,900
Total Operating Revenues	1,257,700	1,334,050	1,302,650
<b>Operating Expenses</b>			
Source of Supply	26,710	20,000	20,000
Pumping	61,850	58,400	58,400
Water Treatment	26,020	26,900	26,900
Transmission and Distribution	81,650	77,800	77,800
Customer Accounts	53,300	54,900	54,900
Sales Expenses	8,800	7,820	7,820
Administrative, Gen. and Misc.	138,960	135,930	135,930
Wage Increase	10,900	10,370	10,370
Depreciation	147,000	146,830	146,830
Taxes Other than Income	139,650	139,830	139,830
Income Taxes	221,730	255,980	239,050
Total Oper. Expenses	916,570	934,760	917,830
Net Revenue	341,130	399,290	384,820
Rate Base (Depreciated)	7,314,000	7,318,800	7,318,800
Rate of Return	4.66%	5.46%	5.26%

Rate of Return

Applicant requested permission to place in effect the set of rates as proposed, but did not predicate its computations upon a given rate of return which it considers reasonable under present-day conditions. In its closing statement the applicant expressed the opinion that under existing conditions a rate of return in excess of 6.45 per cent would be fully justified. Applicant mentions the fact that since the last rate proceeding when the Commission allowed a rate of return of 5.75 per cent, interest rates on debt securities have increased approximately 1 per cent and that investors have expected corresponding increases in the yields on preferred and common stocks.

Applicant's position is essentially that if a rate of return of 5.75 per cent on the public utility service was reasonable in 1952, a return of at least 1 per cent in excess of that figure would be fully justified under existing conditions. Applicant represents that the proposed rates will yield substantially less than that regardless of whether the Commission adopts the estimates of the staff or of its witness.

The United States took the position that the applicant should be allowed to earn a rate of return for its Monterey Peninsula Division comparable to that earned by other water companies, but that the return under the proposed rates appears to be excessive. It stated that a rate of return of 6 per cent is more in line with the usual return for water companies.

Conclusion on Rate of Return

In considering the question of rate of return the Commission has considered its finding of 5.75 per cent as a fair rate

of return for this operation in connection with Decision No. 47906, dated November 3, 1952. In that decision considerable weight was given to the evidence of both the applicant and protestants, and the conclusion was reached that there was a lower over-all cost of money for applicant's water operations as compared to its telephone operations. The Commission also recited a number of elements considered in arriving at its informed judgment. A basic change that has occurred since the issuance of that decision has been an increase in the cost of money. Some new issues of securities carried a yield as much as 1 per cent or more greater than similar issues of the past. However, when weighted in with the capital of prior years the increase in the over-all total cost of capital has been less.

Upon a careful consideration of the evidence of record, we find that the applicant is in need of increased gross revenues in the amount of \$198,000, which increase we hereby find to be justified and reasonable. Taking this amount and using the hereinbefore adopted results when applied to a depreciated rate base of \$7,318,800 results in a rate of return of 6.5 per cent, which we find just and reasonable under the conditions specified. After assigning \$15,000 of this increase to Del Monte Properties, the Commission finds that an over-all increase in gross revenues of \$183,000, exclusive of Del Monte Properties, is reasonable for the purpose of prescribing rates for the future. This increase is approximately 88 per cent of the \$208,570 which the staff computed applicant's proposed rates would produce, and 86 per cent of the \$213,200 which the applicant estimated its increase to produce in 1957, exclusive of Del Monte Properties.

#### Cost of Service

In Exhibit No. 6 applicant presented an analysis of the indicated costs of service by classes of service for the estimated

and adjusted year 1956. This study shows the rates of return by classes as follows:

<u>Class</u>	<u>Rate of Return</u>	
	<u>Present Rate</u>	<u>Proposed Rate</u>
Commercial	5.24%	6.75%
Industrial	3.07	4.00
Public Authority	4.97	6.95
Fire	0.62	1.11
Naval Line School	3.66	4.86
Total Utility	4.79	6.22
Nonutility (Del Monte Properties Co.)	<u>2.14</u>	<u>2.14</u>
Total	4.59	5.93

Applicant presented another study, Exhibit No. 2, to show the indicated added costs to serve customers at higher elevations for the year 1955. Applicant represents that due to the sharply varying elevations at which water is delivered on the Monterey Peninsula it has had to provide a fairly extensive added system in the way of pumping plants and storage and for the vertical rise in the mains that connect the pumps and storage facilities. Applicant's studies indicate that the customers readily may be segregated in four zones: (a) gravity, (b) Lift Zone No. 1, (c) Lift Zone No. 2, (d) Lift Zone No. 3.

As to the volume of sales and the number of customers by zones, applicant's studies show the following percentages:

<u>Zone</u>	<u>Percentage of Water Sales</u>	<u>Per Cent of Customers (Number of Bills)</u>
Gravity	77.5%	72.1%
No. 1	19.8	24.5
No. 2	2.6	3.3
No. 3	0.1	0.1
Total	<u>100.0</u>	<u>100.0</u>

After allowing the capital cost involved in the 16 pumping plants for Zone 1, the six added pumps for Zone 2, the one added pump for Zone 3,

the 30 storage tanks involved in the 3 pumping zones, and the added cost of power for pumping, applicant computed the following extra unit costs for delivering the water:

<u>Pumping Zone No.</u>	<u>Extra Cost per 100 cu.ft.</u>
1	8.1¢
2	29.6
3	105.1

Applicant's cost study did not show the unit costs of water delivered from the transmission system and from the distribution system. Based upon information given by the applicant's witness, the examiner has computed the following average unit costs:

Production and Transmission:

Demand per Ccf sold	10.1¢
Commodity per Ccf sold	10.0
Subtotal	<u>20.1</u>

Distribution:

Demand per Ccf sold	6.4¢
Commodity per Ccf sold	3.4
Subtotal	<u>9.8</u>

Customer, per customer month \$1.85

Lower Rates Requested for Carmel Valley

A representative of the Carmel Valley Property Owners Association requested special rate consideration because the homes in Carmel Valley are closer to the source of supply of water than the average customer on the system. He also mentioned that certain of the customers receive service directly from the transmission main and suggested that the cost to serve such customers should be lower than for the average customer on the system. The applicant's witness opposed special or lower rates to the Carmel Valley customers because serving them reduces the capacity of the remaining transmission line to serve the majority of the customers who reside in Monterey,

Pacific Grove and Carmel. He stated that the transmission line was built primarily to serve the customers below Carmel Valley, that the line has about reached its capacity and tapping the line up near the source of water reduces its peak hour capacity. He stated that because of their location they create a greater burden and suggested that all customers should be treated the same.

In order to have more factual information to aid in ruling on this request, the presiding officers directed the applicant to supply certain statistics as to customer density and investment. Applicant's Exhibit No. 7 shows that in Carmel Valley, for those customers not served directly from the transmission line, the average footage of distribution main per customer is 203 feet whereas for the system as a whole it is 85 feet, that the investment in lands, reservoirs and tanks in Carmel Valley is \$69 per customer whereas the system average is only \$52.71 per customer for the lands, reservoirs, tanks and transmission mains below Carmel Valley, and that the cost of power in 1955 for pumping, other than transmission boosters, was \$8.88 per customer in Carmel Valley whereas it is only \$4.11 per customer for all pumping zones.

Based upon a consideration of all relevant facts, it is the Commission's conclusion that the average customer in Carmel Valley is more costly to serve than the average system customer and that rates lower than system average are not warranted, and that no special rate treatment should be accorded those customers who take service directly from the transmission line.

#### Lower Rates Requested for Carmel Highlands

A practically similar request was made by a representative for the Carmel Highlands Association. He stated the present rates

are excessive and pointed to rates in large cities like Chicago, Los Angeles and New York as being lower. He did not show comparability as to type of operation (private vs. municipal), size of city, nor unit cost to produce and transmit water in these other cities. Obviously, such comparisons are of little help to the Commission in solving this matter. He questioned several items like fair valuation of company's properties, depreciation allowances and operating expenses. The Commission has carefully considered these several items and has eliminated any such items that appear excessive or questionable for rate-making purposes.

Certain of the statistical comparisons mentioned for Carmel Valley are even more distorted for Carmel Highlands. For example, the investment per customer in lands, reservoirs and tanks was \$137 per customer against the \$69 figure for Carmel Valley and \$52.71 for the average system customer. Furthermore, there is a long section of 8-inch subtransmission line from the main transmission line that is primarily used to serve Carmel Highlands. If the 18,987 feet in this 8-inch main is divided by the 142 customers in Carmel Highlands a unit figure of 133.5 feet per customer results which is way beyond the 8.3 feet of transmission main per average customer on the system.

The Commission's conclusion on this request is that the average customer in Carmel Highlands is considerably more costly to serve than the system average customer and that lower rates should not be granted.

#### Lower Rates Requested for City of Seaside

The city of Seaside took the general position that it should be favored with lower rates because of the fact that some of its water is obtained from local wells and presumably is of lower cost than that transported long distances from the Upper Carmel



Valley. Applicant's witness studied this matter and testified that the applicant has invested about \$70,000 in the three wells in Seaside and based on a water delivery of some 16,000,000 cubic feet from the wells the indicated cost was about 21½ cents per Ccf. The witness stated that this computed cost was about ½ cent more per Ccf than the average production and transmission cost on a system basis of approximately 21 cents per Ccf, and that about 28 per cent of the water used in Seaside was from the wells. The witness' conclusions were that at the present time the costs are about the same, and in the future when it becomes necessary to augment the supply by a very large investment in a new transmission line over the hill from Carmel Valley, than an even larger portion of the cost would have to be assigned to Seaside and their rates would have to be much higher than the rates in other areas. Moreover, one of the wells has a rather obnoxious odor which may have to be abandoned, the well or its use limited to only emergency conditions.

#### Rate Zoning Proposed by Applicant

Applicant proposed that three zones be adopted for the general metered water service, that is (1) Gravity Zone, (2) First Pumping Zone, and (3) Second Pumping Zone. It suggested rates about 7 cents per Ccf higher in the first pumping zone than for the gravity zone, and about 14 cents per Ccf higher for the second pumping zone than in the gravity zone. Because of the small numbers of customers in the third pumping zone, it suggested that such customers currently be included in the second pumping zone for rate-making purposes.

#### Density Statistics

The Commission considers customer density or feet of distribution main per customer as one guide in rate zoning. In

Revised Exhibit No. 13 the applicant furnished the following statistics of areas and distribution main per customer as of December 31, 1956:

<u>Area</u>	<u>Customers</u>	<u>Feet of Distr. Main</u>	<u>Feet of Distr.Main per Customer</u>
Carmel, City of	2,434	130,704	53
Seaside, City of	2,515	135,676	54
Pacific Grove, City of	3,963	264,249	66
Del Rey Oaks, City of	466	28,054	60
Monterey, City of	5,714	429,408	75
Subtotal	15,092	988,101	65.5
Pacific Grove Outside #1	393	81,920	208
Pacific Grove Outside #2	626	69,838	111
Monterey Outside No. 1	147	44,081	299
Monterey Outside #3	175	32,912	188
Carmel Outside #1	381	137,742	361
Carmel Outside #2	1,419	116,991	82
Carmel Outside #5	184	55,346	301
Carmelo	52	14,103	271
Tularcitos	588	100,917	172
Subtotal	3,965	653,850	164.9

#### Customer Location

Another factor considered by the Commission in rate zoning is the location of the customer with reference to the source of water supply, the main terminating reservoirs and the interconnecting main transmission line. For the purposes of this decision this main transmission line is considered to be that portion of main between the San Clemente Dam and Reservoir and the Forest Lake and Pacific

Grove Reservoirs. The next tabulation shows the approximate distance of customer groups from this main transmission line:

<u>Area or Customer Group</u>	<u>Miles from Main Transmission</u>
Carmel, City of	0 to 1
Seaside, City of	3.5 to 5
Pacific Grove, City of	0 to 1
Del Rey Oaks, City of	4 to 4.5
Monterey, City of	0.1 to 4
Pacific Grove Outside #1	0 to 1
Pacific Grove Outside #2	0 to 0.5
Monterey Outside #1	0 to 1
Monterey Outside #3	3 to 5
Carmel Outside #1	0 to 1
Carmel Outside #2	0.1 to 1.5
Carmel Outside #5	2 to 5
Carmelo	0 to 1
Tularcitos	0 to 1

#### Conclusions on Rate Zoning

Applicant's proposal for zoning of rates because of increased pumping at higher elevations appears reasonable and will be adopted in principle. One customer, who testified regarding high water pressure at his residence, suggested that the rate differential proposed by the applicant would be too great a shock percentagewise and that a smaller differential should be authorized. Also he pointed out to the Commission that there may be other groups more costly to serve than those located at the high elevation or which require a pump lift because of other factors involved. In the Commission's opinion there is such a large difference in the density of customer groups that eventually more than three zones should be provided. For the present we will adopt applicant's proposed three-zone plan but will require additional study of this subject by applicant.

General Service Rates

Applicant is proposing three levels of general service rates and is proposing to eliminate former Schedule No. 2, Commercial and Industrial Water Service, which provided for a special winter rate and had rate blocks beginning at 1,000, 9,000, 90,000 and 100,000 cubic feet. The proposed new blocks for the general service are 300, 1,700, 18,000 and 20,000 cubic feet with no special winter rate.

The United States Government points out that it is second only to the Del Monte Properties Company as a user of water produced by the applicant and as a source of revenue to the applicant. The Government stated it has an interest to see that it pays no more for the water it consumes than is warranted by the record in this case. The Government contends that consideration should be given to the results of the cost of service study in establishing the rates. It points out that at present rates public authorities provide a rate of return of 4.97 per cent while under proposed rates they will provide a 6.95 per cent rate of return, a 40 per cent increase. The Government suggested that the Commission could eliminate the rate disparity between classes of service at this time by prescribing schedules to require each class of customers to provide approximately the same rate of return.

Applicant, in its closing statement, labels as untrue the Government's statement that a 40 per cent increase is proposed for public authorities; reciting that, related to the adjusted year 1956 revenue from public authority consumption under present rates is in the sum of \$66,200 and would be \$83,200 under proposed rates, an increase of \$17,000 or a 25.7 per cent increase in cost to the consumer. Also the applicant points out that if the Presidio of Monterey takes water from the gravity zone and does its own pumping the increase

would be only 17.4 per cent in this class of service under the proposed rates.

While applicant saw no justification for any lowering of the proposed rate to public authority customers, the Commission has carefully considered the position of the Government and is of the opinion that it and the larger consumers are entitled to more consideration than proposed by the applicant. In providing for elimination of Schedule No. 2 the applicant did not propose a blocking that would provide a reasonable increase to the larger users being transferred from Schedule No. 2. The proposed general service rate drops down to the terminal block after 20,000 cubic feet of usage whereas the present Schedule No. 2 has a terminal block after 100,000 cubic feet. In authorizing elimination of Schedule No. 2 we will provide for two longer blocks in the general service rates which will provide a lesser increase to the larger commercial and industrial users than proposed by the applicant.

The present quantity charges under the general service and commercial and industrial rates, applicant's proposed quantity rates and those being authorized are:

<u>Present Gen. Service</u>				<u>Present Ind. &amp; Comml.</u>			
						<u>Winter</u>	<u>Summer</u>
First	300 ft. -		\$1.85	1,000 -		50¢	50¢
Next	700 ft. per Ccf		.38	9,000 per Ccf		25¢	30¢
Next	9,000 ft. " "		.31	90,000 " "		22¢	26¢
Over	10,000 ft. " "		.25	100,000 " "		19¢	24¢

Proposed General Service Rates by Applicant

			<u>Gravity</u>	<u>1st Lift</u>	<u>2nd Lift</u>
First	300 ft. or less		\$2.10	\$2.31	\$2.52
Next	1,700 ft. per Ccf		.40	.47	.54
Next	18,000 ft. " "		.32	.39	.46
Over	20,000 ft. " "		.27	.34	.41

Authorized Rates for General Service

		<u>Zones</u>		
<u>Blocking</u>		<u>#1</u>	<u>#2</u>	<u>#3</u>
First	300 ft. -	\$2.10	\$2.25	\$2.35
Next	1,700 ft. per Ccf at	.40	.45	.48
Next	18,000 ft. " " at	.32	.37	.40
Next	80,000 ft. " " at	.27	.32	.35
Next	700,000 ft. " " at	.24	.29	.32
Over	800,000 ft. " " at	.20	.25	.28

The present, proposed and authorized minimum charges under these schedules follow:

Present General Service - Sch. No. 1 - Minimum

For	1/2, 5/8 x 3/4 or 3/4-inch meter	\$ 1.85
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

Present Industrial & Commercial - Sch. No. 2 - Minimum

Winter season	\$200.00
Summer season	300.00

Proposed General Service Minimums by Applicant

		<u>Gravity</u>	<u>1st Lift</u>	<u>2nd Lift</u>
For	1/2, 5/8 x 3/4 or 3/4-inch meter..	\$ 2.10	\$ 2.31	\$ 2.52
For	1-inch meter..	3.00	3.35	3.70
For	1-1/2-inch meter..	5.50	6.00	6.50
For	2-inch meter..	9.00	9.00	9.00
For	3-inch meter..	18.00	18.00	18.00
For	4-inch meter..	30.00	30.00	30.00
For	6-inch meter..	60.00	60.00	60.00
For	8-inch meter..	90.00	90.00	90.00

Authorized Minimum Charges

	Gravity	Zones	
		First Elevation	Second Elevation
For 5/8 x 3/4-inch meter.....	\$ 2.10	\$ 2.25	\$ 2.35
For 3/4-inch meter.....	2.40	2.60	2.70
For 1-inch meter.....	3.00	3.25	3.35
For 1-1/2-inch meter.....	5.50	6.00	6.50
For 2-inch meter.....	9.00	9.00	9.00
For 3-inch meter.....	18.00	18.00	18.00
For 4-inch meter.....	30.00	30.00	30.00
For 6-inch meter.....	60.00	60.00	60.00
For 8-inch meter.....	90.00	90.00	90.00

Applicant presently has in service a small number of 1/2-inch meters. Service through meters of this size is not in accordance with good water works practice and it will therefore be required that such meters be replaced. Applicant should apply rates and charges for 5/8 by 3/4-inch meters for such service until the 1/2-inch meters are replaced.

Although applicant requested that service rendered through 3/4-inch meters be limited to existing customers it offered no evidence as to why this service presently offered should be withdrawn. The authorized rates will contain a minimum charge for a 3/4-inch meter slightly higher than for a 5/8 x 3/4-inch meter. Customers served through existing 3/4-inch meters will continue to have their minimum charge based on a 5/8 x 3/4-inch meter until such time as they are offered the option of service through any meter size.

Municipal Water Service

Applicant is proposing to raise the rate for sprinkling streets and roads from 30 to 35 cents per Ccf, or by 16.7 per cent. Also it is proposing to raise the rate for fire hydrants from \$4.00 to \$4.50, or by 12.5 per cent. In view of the indicated low earning position for fire service, applicant's requested 50-cent increase on the fire hydrants appears fully warranted; however, the 5 cents per Ccf increase proposed for sprinkling appears too great and it will be reduced to 4 cents.

Private Fire Protection Service

Applicant's present level of rates for private fire protection service vary from \$3.50 for a 2-inch or smaller connection up to \$30 for an 8-inch sprinkler connection. No increase is proposed by applicant in the level of private fire protection rates.

Employee Discounts

Presently residential water is furnished without charge to permanent employees. The staff pointed out that the applicant did not have an employee service rate on file with the Commission and in effect was in violation of its tariffs. Applicant maintained that the provision of free water to employees was part of their compensation and made for good public relations. In the Commission's opinion a preferred practice is to require the employee to pay for water service to prevent wastage but to allow a discount. Historically a 25 per cent discount has been found to be reasonable and will be authorized in this case.

Findings and Conclusions

It is a matter of common knowledge, and is of record in this proceeding, that costs have risen since the present rates were set in 1952. While the staff's study shows some growth in sales and customers over the last few years, the growth in revenue has not been sufficient to offset the increasing costs of operation and increasing cost of money.

Based on the evidence of record the applicant is not currently earning a reasonable rate of return and higher rates are warranted but not quite as high on the average as requested by applicant. Accordingly, the Commission finds that the increase in rates and charges authorized herein are justified; that the existing rates, in so far as they differ therefrom for the future are unjust and unreasonable; and that an order should be issued authorizing the increased rates as set forth in Appendix A herein.

It will be noted that the estimated revenue to applicant from Del Monte Properties Company is on an approximate cost of service basis, including the fair rate of return to applicant hereinbefore established. The Commission's records fail to show that the contract hereinbefore referred to, by which applicant collects only \$45,600 annually from Del Monte Properties, has been presented to or formally authorized by



the Commission. Applicant is hereby authorized to put the Water service to Del Monte Properties under Schedule No. MO-1, being hereinafter authorized and under which it would receive the approximate \$100,000 revenue hereinbefore found to be reasonable for such service. This authority is permissive only, but for the purpose of determining applicant's over-all revenue for fixing rates in this proceeding, applicant will be credited with said \$100,000.

O R D E R

The 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; therefore,

IT IS ORDERED as follows:

1.a. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, the schedule of rates shown in Appendix A attached hereto, and after not less than five days' notice to this Commission and the public to make said rates effective for service rendered on and after September 1, 1957.

b. At the time of making effective the rates hereinabove authorized, applicant shall withdraw and cancel all presently filed schedules and transfer the customers on such schedules to the appropriate new schedule.

c. Applicant shall establish for, and apply to, Schedule No. MO-1 authorized hereinabove rate zones designated "gravity zone", "first elevation zone" and "second elevation zone" for which the boundaries shall be substantially as set forth on Exhibit 16 in this proceeding.

2. Applicant shall revise, within forty days after the effective date of this order, in conformity with General Order No. 96, its presently filed preliminary statement and service area map tariff sheets for its Monterey Division in a manner acceptable to this

Commission to provide for the rate zones being established by this order. Such tariff sheets shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

3. Applicant shall file, within thirty days after the effective date of this order, four copies of a comprehensive map drawn to an indicated scale not smaller than 300 feet to the inch, delineating by appropriate markings the various tracts of land and territory served, the three authorized rate zones, the principal water production, storage, transmission and distribution facilities and the location of the various properties of applicant in its Monterey Division.

4. Applicant shall, within ninety days after the effective date of this order, replace all  $\frac{1}{2}$ -inch meters being used to render service to customers, with  $\frac{5}{8}$  by  $\frac{3}{4}$ -inch meters or such larger size meters as any customer affected by this requirement may elect under filed tariff schedules. Applicant shall advise the Commission in writing of the completion of the replacement of all such meters, within ten days thereafter.

5. Applicant shall proceed to prepare a comprehensive study of additional rate zoning as between customers in dense or built-up areas and those in sparse or rural territory, taking into consideration existing rate zoning systems as effective for gas, telephone and electric service in the general area of its Monterey Division, and which shall develop cost differential criteria for establishing rate zones considering (a) customer density, (b) customer location with respect to main transmission and terminal storage facilities, and (c) any other factors which would effect improvement in rate zoning or rate design. Applicant shall submit, within 180 days

after the effective date of this order, a report acceptable to this Commission setting forth the results of such study.

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 August, 1957.

John E. Rothwell  
President  
William D. ...  
W. J. ...

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

*I dissent because of the treatment of accelerated depreciation.*  
*Edwin Fox*

APPENDIX A  
Page 1 of 7

## Schedule No. MO-1

Monterey Peninsula Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all water furnished on a metered basis.

TERRITORY

The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Ray Oaks, and a portion of Seaside, and vicinity, Monterey County.

RATES

Quantity Rates:	Per Meter Per Month		
	Gravity Zone	1st Elevation Zone	2nd Elevation Zone
First 300 cu.ft. or less .....	\$ 2.10	\$ 2.25	\$ 2.35
Next 1,700 cu.ft., per 100 cu.ft..	.40	.45	.48
Next 18,000 cu.ft., per 100 cu.ft.	.32	.37	.40
Next 80,000 cu.ft., per 100 cu.ft.	.27	.32	.35
Next 700,000 cu.ft., per 100 cu.ft.	.24	.29	.32
Over 800,000 cu.ft., per 100 cu.ft.	.20	.25	.28
Minimum Charge:			
For 5/8 x 3/4-inch meter .....	\$ 2.10	\$ 2.25	\$ 2.35
For 3/4-inch meter .....	2.40	2.60	2.70
For 1-inch meter .....	3.00	3.25	3.35
For 1 1/2-inch meter .....	5.50	6.00	6.50
For 2-inch meter .....	9.00	9.00	9.00
For 3-inch meter .....	18.00	18.00	18.00
For 4-inch meter .....	30.00	30.00	30.00
For 6-inch meter .....	60.00	60.00	60.00
For 8-inch meter .....	90.00	90.00	90.00

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

Schedule No. MC-1

Monterey Peninsula Tariff Area

GENERAL METERED SERVICE

SPECIAL CONDITIONS--Contd.

1. The boundaries of the three zones in which the above rates apply are as set forth in the Preliminary Statement and delineated on the Tariff Service Area Maps filed as part of these tariff schedules.

2. For a customer receiving service through a 3/4-inch meter as of August 1, 1957, the minimum charge shown above for a 5/8 x 3/4-inch meter will apply until such time as the 3/4-inch meter is removed by the utility for any reason. Thereafter, the customer will be billed on the basis of the applicable charge shown in this schedule for the size of the meter through which he elects to be served.

Schedule No. MO-4  
Monterey Peninsula Tariff Area  
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Ray Oaks, and a portion of Seaside, and vicinity, Monterey County.

RATES

	<u>Per Month</u>
Fire protection service other than sprinkler systems:	
For each 2-inch connection, or smaller .....	\$ 3.50
For each 3-inch connection .....	4.25
For each 4-inch connection .....	5.75
Fire protection service for sprinkler systems:	
For each 4-inch connection .....	10.00
For each 6-inch connection .....	20.00
For each 8-inch connection .....	30.00

SPECIAL CONDITIONS

1. All water used for other than fire extinguishing purposes shall be paid for at general metered service rates.
2. Connections for private fire protection systems shall be equipped with standard detector type meters approved by the Board of Fire Underwriters and the cost of the meter and appurtenant structure shall be paid, without refund, by the applicant.
3. If a distribution main of adequate size to serve a private fire service in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served hereunder, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of the applicant. The amounts paid by the applicant hereunder to establish private fire protection service shall not be subject to refund.

Schedule No. MO-4

Monterey Peninsula Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS--Contd.

4. Service under this schedule will be furnished only for fire protection systems which are completely isolated from all other water pipes and services of the customer.

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 its system.

6. The customer shall indemnify the utility and save it harmless against any and all claims arising out of the service under this schedule and shall further agree to make no claim against the utility for any loss or damage resulting from the services hereunder.

Schedule No. MO-5

Monterey Peninsula Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to fire hydrant service furnished to municipalities, duly organized or incorporated fire protection districts or other political subdivisions of the State.

TERRITORY

The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Ray Oaks, and a portion of Seaside, and vicinity, Monterey County.

RATES

	<u>Per Month</u>
For each fire hydrant .....	\$ 4.50

SPECIAL CONDITIONS

1. Hydrants will be installed and maintained by the utility at its expense.
2. The above rate includes use of water for fire fighting and for no other purpose. Quantities of water delivered through fire hydrants for any other purpose will be estimated or measured and charges therefor will be made at the monthly quantity rates under the Schedule No. MO-1, General Metered Service.
3. 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 its system.
4. The customer shall indemnify the utility and save it harmless against any and all claims arising out of the service under this schedule and shall further agree to make no claim against the utility for any loss or damage resulting from the services hereunder.



Schedule No. MO-7  
Monterey Peninsula Tariff Area  
STREET SPRINKLING SERVICE

APPLICABILITY

Applicable to water service furnished to municipalities on a metered basis for street sprinkling.

TERRITORY

The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Ray Oaks, and a portion of Seaside, and vicinity, Monterey County.

RATE

	<u>Per Month</u>
For all water used, per 100 cu.ft. ....	\$0.34

Schedule No. MO-10

Monterey Peninsula Tariff Area

SERVICE TO COMPANY EMPLOYEES

APPLICABILITY

Applicable to water service furnished for domestic use at the residences of permanent employees.

TERRITORY

The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks and a portion of Seaside, and vicinity, Monterey County.

RATE

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

Appendix B

LIST OF APPEARANCES

For Applicant: Claude N. Rosenberg and William C. Fleckles of Bacigalupi, Elkus and Salinger and Webster Street, of Hudson, Martin, Ferrante and Street.

Protestants: Thomas K. Perry and John W. Morse, for City of Carmel-by-the Sea; Russell Zaches, for City of Monterey; Donald H. Smith, for City of Del Rey Oaks; Reginald E. Foster, for City of Pacific Grove; David B. Hoisington, for Carmel Valley Property Owners Association; Francis Heisler, for Carmel Highlands Association.

Interested Parties:

Saul M. Weingarten, for City of Seaside; Major John C. Kinney and O. G. Cook, for Secretary of the Army on behalf of the Department of Defense and the Executive Agencies of the Federal Government; Newell A. Davies in propria persona.

Commission staff: Boris H. Lakusta, Cyril M. Sarovan and Carol Coffey. ✓

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by: Peter A. Nenzel, Roy A. Wehe, Wilford J. Hays, Clarence Goldsworthy.

Evidence was presented on behalf of the protestants and interested parties by: David B. Hoisington, Francis Heisler, Mrs. Harry Sovtais, Newell Davies, Thomas Eide, Mrs. Steven McCan, Victor Woodruff.

Evidence was presented on behalf of the Commission staff by: George C. Doran, Edward C. Crawford, Ross W. Werner, Martin Abramson.