

ORIGINALDecision No. 57634

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-)
 izing it to increase rates charged)
 for water service in the Willows)
 district.)

Application No. 39886
 As Amended

McCutchen, Doyle, Brown & Enersen, by
Robert M. Brown and A. Crawford Greene, Jr.,
 for applicant;
 City of Willows, by Clyde H. Larimer, protestant;
Cyril M. Saroyan and Jean B. Balcomb, for the
 Commission staff.

O P I N I O NNature of Proceeding

By the above-entitled application, filed March 10, 1958, and as amended on August 21, 1958, California Water Service Company, a California corporation, seeks an order of this Commission authorizing it to increase rates and charges for water service rendered in its Willows district.

Public Hearing

After due notice to municipal and other public officials and to the general public in the Willows district, public hearing in the matter was held before Examiner F. Everett Emerson on October 2, 1958, at Willows. The matter was submitted on such date.

Applicant's Position

The rates for water service presently in effect in Willows were authorized by this Commission in 1952. In the six years since that time, a number of events have occurred which, according to applicant, have had an adverse effect on applicant's earnings in this district.

Applicant points to the facts that wages and prices of materials have risen several times since 1952 and that electric power rates have also increased. Further, applicant has continued to improve the water system by having drilled and equipped two additional wells and by having installed a second gas engine standby for fire protection. It has also replaced certain mains and has been forced to undertake extensive rearrangement and lowering of certain mains because of sewer and street improvements undertaken by public authority. Replacement costs are at levels several times greater than the costs of the original installation, so that depreciation accruals are inadequate to finance replacement. Under such circumstances the replacements result in a marked increase in applicant's investment in plant facilities without producing increased or offsetting revenues. As an example, applicant cites an increase of 52 per cent in the district's rate base since the last rate proceeding, while revenues increased only 21 per cent.

The cumulative effect of these various factors has caused a decline in earnings and in rate of return which applicant has determined must be arrested. Accordingly, applicant now seeks to increase its revenues and to establish its rate of return for this district at 6.5 per cent over a 3-year period. The proposed increases in rates for water service, on the basis of present water usage would produce an increase of approximately 31 per cent in revenues.

Nature of Evidence

Applicant and the Commission staff presented evidence respecting all phases of applicant's Willows district operations. Also, evidence respecting applicant's over-all operations, presented on September 10 and 11, 1958, during the hearing on Application No. 39888, is part of this record by reference. Thus, the Commission has before it in this proceeding evidence respecting all of

applicant's operations and the results thereof as it pertains to the company's financial position.

The City of Willows, while not introducing evidence in this proceeding, was ably represented throughout by counsel who cross-examined witnesses and presented the City's position in general opposition to applicant's request for rate increases.

The following tabulation will serve to summarize the evidence respecting operations in the Willows district for the estimated year 1958:

WILLOWS DISTRICT
SUMMARY OF EARNINGS - ESTIMATED YEAR 1958

At Existing Water Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 88,800	\$ 89,500
Operating Expenses	72,800	71,200
Net Revenue	16,000	18,300
Rate Base (Depreciated)	396,700	396,500
Rate of Return	4.03%	4.62%

At Applicant's Proposed Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$116,400	\$116,400
Operating Expenses	87,900	86,000
Net Revenue	28,500	30,400
Rate Base (Depreciated)	396,700	396,500
Rate of Return	7.18%	7.67%

Findings and Conclusions

In view of the evidence, the Commission finds that applicant has conclusively demonstrated its need for and entitlement to increased revenues.

With respect to differences between the 1958 estimates of applicant and staff, those of significance concern the expenses of purchased power for the pumping of water and the expenses associated with maintaining, repairing and relocating water mains. The first of these differences is occasioned by attempting to estimate "normal"

pumping expenses for the one new well and an overhauled second well. The second is primarily occasioned by attempting to "normalize" the costs of main lowering and relocating made necessary by a city and a county program of street improvements and the installing of new sewers and drainage conduits which has been under way for some time but for which a termination date is unknown. Each of these elements is, of course, presently unknown and, as is to be expected under such circumstances, produces an honest difference of opinion amongst experts as to its ultimate effect on the utility's operating expenses. The problem of estimating main relocations and replacements is aggravated somewhat by the apparent inability of either the city or the county to indicate the extent of its program or to plan or schedule its work sufficiently in advance of construction to enable applicant systematically to undertake its portion of the project or reasonably to budget its funds and the time of its work forces. Be that as it may, the expenses of the utility for such work have a decided influence on the level of water rates which must be charged.

In view of the evidence respecting these types of operating expenses the Commission concludes that for a "normalized" year 1958 purchased power costs will closely approximate \$7,500 and direct maintenance expenses of distribution facilities, including those attributable to street and sewer improvements, will closely approximate \$5,500. The Commission finds, therefore, that a fair and reasonable estimate of total operating expenses, under the water rates proposed by applicant, amounts to \$87,000 for the year 1958. Such total expenses, when related to estimated revenues of \$116,400 under the proposed water rates, and the staff-calculated depreciated rate base of \$396,500, indicates a rate of return of 7.41 per cent.

Both the applicant and the staff submitted evidence on trends of earnings, the staff indicating a very slight downward trend while the applicant shows about 0.3 per cent downward trend at proposed rates. It is reasonable to assume that the decline to be experienced will lie between these extremes for the immediate future. It is therefore apparent that applicant's proposed rates would, under presently foreseeable conditions, yield an excessive return in the Willows district. The full increases in water rates which applicant has proposed will not be authorized.

In our opinion, applicant should be accorded the opportunity to earn a rate of return of approximately 6.5 per cent over a reasonable future period of time. The evidence indicates that in order to accomplish such result, water rates should be set at such level as will yield an initial rate of return of approximately 6.8 per cent. The Commission hereby finds, therefore, that it is fair and reasonable to authorize increases in rates and charges for water service in the Willows district so as to produce such initial rate of return on a rate base of \$396,500, which rate of return and rate base we hereby find to be reasonable. Rates for water service will be authorized accordingly. Further, the Commission finds that the increases in rates and charges authorized herein are justified and that existing rates and charges, in so far as they differ from those herein authorized, are for the future unjust and unreasonable.

The findings and conclusions herein are predicated upon applicant's use of straight-line depreciation for income tax expense purposes. For the year 1957 applicant elected, under Section 167 of the 1954 Internal Revenue Code, to use accelerated depreciation.

Applicant is aware that this Commission has not finally determined the treatment to be accorded accelerated depreciation and is therefore placed on notice that upon notification that applicant has elected to use accelerated depreciation for tax purposes for the year 1958 or a subsequent year and that upon final determination of the Commission with respect to the over-all matter, the Commission may reopen this proceeding and adjust water rates accordingly.

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 Willows district, public hearing having been held, the matter having been submitted and now being ready for decision based upon the evidence and the findings and conclusions contained in the foregoing opinion;

IT IS HEREBY ORDERED that California Water Service Company is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96, the schedules of rates shown in Appendix A attached hereto, and, on not less than five days' notice to the public and to this Commission, to make said schedules effective for water service rendered on and after December 22, 1958.

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

Dated at San Francisco, California, this 25th day of November, 1958.

[Signature]
President
[Signature]
[Signature]
Commissioners

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

APPENDIX A
Page 1 of 6

Schedule No. W-1

Willows Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Willows and vicinity, Glenn County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Service Charge:	
For 5/8 x 3/4-inch meter	\$ 2.40
For 3/4-inch meter	2.70
For 1-inch meter	3.00
For 1 1/2-inch meter	5.00
For 2-inch meter	8.00
For 3-inch meter	14.50
For 4-inch meter	19.00
For 6-inch meter	29.00
For 8-inch meter	40.00
For 10-inch meter	55.00
Quantity Rate:	
For all water delivered, 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 Rate.

APPENDIX A
Page 2 of 6

Schedule No. WL-2R

Willows Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The City of Willows and vicinity, Glen County.

RATES

	<u>Per Service Connection Per Month</u>
For each residence of five rooms or less, exclusive of bath or toilet facilities and irrigated areas	\$3.00
a. In addition, for each room in excess of five25
b. In addition, for each flush toilet, bathtub, or shower40
c. In addition, for all irrigation or sprinkling of lawns, payable during the months May through October of each year:	
For first 3,000 sq.ft. of such area per 100 sq.ft.12
For all such area in excess of 3,000 sq.ft., per 100 sq.ft.05

SPECIAL CONDITION

Any new applicant for residential water service may select either flat or meter rates. Any residential customer heretofore served at meter rates may exercise his option to be served without a meter at flat rates and, likewise, any residential customer heretofore served at flat rates may exercise his option to be served at meter rates; provided, however, that

APPENDIX A
Page 3 of 6

Schedule No. WL-2R

Willows Tariff Area

RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITION—Contd.

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 service under the selected schedule for a period of at least 12 consecutive months.

APPENDIX A
Page 4 of 6

Schedule No. WL-5L

Willows Tariff Area ✓

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to the City of Willows.

TERRITORY

The City of Willows, Glenn County.

RATES

	<u>Per Month</u>
General Charge	\$90.00
Additional for each fire hydrant owned by the utility50

SPECIAL CONDITIONS

1. 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 quantity rate under Schedule No. WL-1, General Metered Service.
2. Hydrants owned by the utility will be maintained by it. The utility will install and own the tee in the main, hydrant branch, valve, bury and hydrant. The public authority will pay for the relocation of any hydrants owned by the utility.
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 the system.

APPENDIX A
Page 5 of 6

Schedule No. WL-5

Willows Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to duly organized or incorporated fire districts or other political subdivisions of the State, except the City of Willows.

TERRITORY

The City of Willows and vicinity, Glenn County.

RATES

Per Hydrant Per Month

Owned by	Hydrant Size	Type	If Attached to 2" or 2 1/2" Main	If Attached to 3" Main	If Attached to 4" Main	If Attached to 6" Main or Larger
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

SPECIAL CONDITIONS

1. 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. WL-1, General Metered Service.

APPENDIX A
Page 6 of 6

Schedule No. WL-5

Willows Tariff Area

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS—Contd.

2. 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.

3. 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.

4. Number of outlets in standard outlets will be limited to two 2½-inch outlets.

5. Fire hydrants will be attached to the utility's distribution mains only as authorized by the proper public authority. Such authorization must designate the ownership, size, and type of hydrants and specifically state the location at which each is to be installed.

6. 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.