

ORIGINAL

Decision No. 57635

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 the Marysville
 district.

Application No. 39890

McCutchen, Doyle, Brown & Enersen, by Robert Minge
 Brown and A. Crawford Greene, Jr., for applicant;
Isidor Cheim, in propria persona, interested party;
Cyril M. Saroyan and Jean B. Balcomb, for the Com-
 mission staff.

O P I N I O NNature of Proceeding

By the above-entitled application, filed March 10, 1958, California Water Service Company seeks an order of this Commission authorizing it to increase rates for water service rendered in its Marysville district.

Public Hearing

Public hearing in the matter was held before Examiner F. Everett Emerson on September 30, 1958 at Marysville. Included in the record there made is the testimony, with supporting exhibits, pertaining to applicant's over-all operations as adduced in the public hearings re Application No. 39888 of this applicant. Only one customer and no public officials attended the hearing in Marysville.

Applicant's Position

The present rates for water service in Marysville have been in effect since 1928. Since that time, and particularly during the

period since World War II, applicant has experienced substantial increases in its costs of operation in this district. Wage rates have more than tripled and the costs of materials and supplies and of all construction work has correspondingly increased. Recent and present additions and replacements have required and now require much larger capital expenditures than were needed thirty years ago when the present water rates were placed in effect. An additional significant factor contributing to increased costs in Marysville has been increasing taxes. The federal income tax, alone, has more than tripled in the past thirty years.

Applicant has been able to some extent to offset these unfavorable factors by increasing its efficiencies in operating the system and by the substitution of rented quarters for the building previously owned and operated. In addition, growth in Marysville has been gradual, rather than explosive as elsewhere, which has somewhat lessened the impact of inflation on the district. However, the cumulative effect of increased costs has produced a lessening of earnings in the district to a point where applicant has determined that rate relief has become imperative.

Applicant has a continuing need for additional capital in Marysville and its capital requirements become greater as time passes and the rate of replacement of existing physical plant facilities accelerates. Replacement must be accomplished at a cost level several times greater than that of the original installation. Depreciation accruals are inadequate to finance replacements. Applicant must therefore attract additional capital to meet the needs of the district and its earnings in the district must be at a reasonable level in order to attract such capital. Applicant has therefore proposed rate schedules which it estimates will yield a rate of return of approximately 6.5 per cent on a depreciated rate base over a three-year

period. It seeks authority to place such rates into effect and alleges that its proposed water rates will enable it to earn a reasonable rate of return from its Marysville operations.

Rates, Present and Proposed

Applicant presently obtains somewhat more than 60 per cent of its revenues from flat rate services. In the opinion of a witness for the Commission staff, applicant's flat rates are capable of considerable simplification and the staff urges that flat rates be based upon lot size rather than upon individual premises surveys.

A comparison of charges for typical usages, under present and proposed rates, follows:

	<u>Present Charge</u>	<u>Proposed Charge</u>
<u>Water Usage</u>		
<u>Flat Rates</u>		
Residence; 5 rooms with toilet, shower and 3271 square feet of irrigated area	\$2.98	\$3.97
Residence; as above but with 6 rooms	3.13	4.17
<u>Meter Rates (5/8"x3/4" meter)</u>		
0 usage	1.00	2.50
400 cubic feet	1.00	2.84
800 cubic feet	2.00	3.18
1000 cubic feet	2.50	3.35
1500 cubic feet	3.40	3.78
2000 cubic feet	4.30	4.20
2500 cubic feet	5.20	4.62

Nature of Evidence

Applicant and the Commission staff presented evidence respecting all phases of applicant's Marysville 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 following tabulation will serve to summarize the evidence respecting applicant's operations for the estimate year 1958.

MARYSVILLE DISTRICT
SUMMARY OF EARNINGS - ESTIMATED YEAR 1958

At Existing Water Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$143,680	\$145,750
Operating Expenses	115,220	116,310
Net Revenue	28,460	29,440
Rate Base (depreciated)	642,600	641,400
Rate of Return	4.43%	4.59%

At Applicant's Proposed Water Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$180,030	\$181,910
Operating Expenses	134,850	135,810
Net Revenue	45,180	46,100
Rate Base (depreciated)	642,600	641,400
Rate of Return	7.03%	7.19%

Customer Participation

One customer, a resident of Marysville for many years and one familiar with the area, the water system and applicant's district employees, testified respecting economic conditions in Marysville and expressed a number of opinions respecting the need for and the advisability of granting applicant's request for increased water rates. He recited that the economy of Marysville is critically responsive to activity at the nearby Camp Beale; that curtailment of activities at that base had brought the building of homes in Marysville to a virtual standstill and had left many homes uncompleted and many rental units vacant; that the school population had declined and that business had had a general recession from which it has not yet recovered; that Camp Beale is again being activated, but that it will be at least another year before its resulting beneficial influence will be apparent in the community. He also testified that while county taxes are increasing, city taxes will decline sharply because the city now has a sales

tax which will provide revenues sufficient to permit lowering the city's ad valorem tax rate. He urged that any utility rate increase be deferred until the year 1960 when Camp Beale may approach full operation and that applicant's financial position be appraised at such time, rather than now.

With respect to this latter situation, it is appropriate to observe that the analyses of both the company and the Commission's own staff experts presented in this proceeding are "average" or "normalized" year analyses and as such are predicated on the principle that neither subnormal nor abnormal conditions, either in the community's or the utility's life, are proper criteria, except in emergency situations, by which the utility's financial position is to be appraised for the purpose of prospective rate making. In our opinion, such approach is in the public interest.

Findings and Conclusions

In the summary tabulation of operating results hereinabove set forth, operating expenses include income taxes based upon calculations of depreciation expense on a straight-line basis. Under Section 167 of the 1954 Internal Revenue Code, applicant elected to use accelerated depreciation accruals for the year 1957. Applicant has not yet determined to make such an election for the year 1958. While the effect of one method as compared to the other is relatively minor in this district (\$1500), the principle is of some importance. Applicant is placed on notice, therefore, that the matter of the treatment to be accorded depreciation for tax expense purposes has not been finally determined by this Commission and that upon final determination of the matter the Commission may reopen this proceeding for the purpose of adjusting water rates to reflect such final determination.

The only significant differences between the revenue estimates of applicant and the Commission staff lie in the revenues to be

derived from public fire protection service and from sales to public authorities. In this connection, the evidence is convincing that applicant's estimates are reasonable and they will be adopted herein.

With respect to operating expenses, the only difference of significance arises from calculations of income taxes, the respective calculations reflecting the respective estimates of revenues. The total operating expenses estimated by applicant appear to be reasonable and they will be adopted herein.

In the determination of a fair and reasonable depreciated rate base upon which applicant may earn a reasonable return, applicant and the Commission staff essentially differ only in the calculation of the allowance for working cash to be included in such rate base. In view of the fact that greater than 60 per cent of applicant's revenues are received through flat rate charges made in advance of rendering service, it is our opinion that no greater allowance than that calculated by the staff is reasonable for this district. Accordingly, we hereby adopt as a fair and reasonable depreciated rate base for the estimated year 1958, the amount of \$641,400.

Summarizing, the adopted amounts produce the following indication of applicant's financial position in the Marysville district under existing and proposed water rates for the estimated year 1958:

ADOPTED RESULTS OF OPERATIONS - YEAR 1958

<u>Item</u>	<u>Existing Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$143,680	\$180,030
Operating Expenses	115,220	134,850
Net Revenue	28,460	45,180
Rate Base (depreciated)	641,400	641,400
Rate of Return	4.44%	7.04%

The evidence is convincing, as the above tabulation illustrates, that applicant is in need of and entitled to increased revenues and we find the fact so to be.

Any increase in water rates to be authorized in this proceeding will be effective only in future periods. It is not possible for new rates to be in effect during the whole of 1958, the year on which applicant's operations have been analyzed. Because of such

situation, both applicant and the Commission staff analyzed the trend in rate of return for this district. Applicant's calculations indicate an average annual decline of 0.15 per cent under the water rates which it has proposed, while the staff calculation indicates an increase of 0.20 per cent, each being predicated on a comparison of 1958 with 1957 figures.

Applicant basically seeks a rate of return of 6.5 per cent over a three-year period. Such a rate of return is fair and reasonable for operations in this district. In viewing the evidence it seems clear that applicant will continue to experience a declining rate of return in Marysville as plant replacements occur at the higher costs occasioned by the continuing effects of inflation. Additionally, the evidence indicates that applicant's labor force in Marysville will of necessity soon be increased. It is undisputed in this record that the addition of but one full-time employee will reduce the indicated rate of return by about 0.4 per cent. In view of all of the evidence, the Commission concludes that the water rates which applicant has proposed will produce earnings and a rate of return for the immediate future which are fair and reasonable and which over a three-year period will not exceed 6.5 per cent. It follows, therefore, that applicant should be authorized to increase water rates as requested. Accordingly, we further find as a fact that the increases in water rates and charges, authorized herein are justified and that present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

While the staff has recommended that applicant's flat rate schedule be simplified, there is no evidence in this record which will permit of such simplification. Nor does the evidence indicate that there is any particular problem associated with the determination of present flat rate charges. However, rate simplification generally is of benefit to utility and water user alike and applicant should

look to the accomplishment of the same.

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 Marysville 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 rate schedules set forth 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 December, 1958.

[Signature] President
[Signature]
[Signature]
[Signature]
Commissioners

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

APPENDIX A

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Schedule No. MR-1

Marysville Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Marysville, and vicinity, Yuba County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Service Charge:	
For 5/8 x 3/4-inch meter	\$ 2.50
For 3/4-inch meter	2.75
For 1-inch meter	3.00
For 1 1/2-inch meter	5.00
For 2-inch meter	7.25
For 3-inch meter	14.00
For 4-inch meter	18.00
For 6-inch meter	26.00
For 8-inch meter	36.00
For 10-inch meter	50.00
Quantity Rate:	
For all water delivered, per 100 cu. ft.	0.085

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.

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Schedule No. MR-2R

Marysville Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The City of Marysville, and vicinity, Yuba County.

RATES

Per Service Connection
Per Month

For each residence of five rooms or less occupied by a single family, exclusive of bath or toilet facilities and irrigated areas	\$ 2.00
a. For each additional room in excess of five20
b. In addition, for each flush toilet, bathtub, or shower33
c. In addition, for all irrigation or sprinkling of lawns or gardens, payable throughout the year, per 100 sq. ft.04

SPECIAL CONDITION

Meters may be installed at option of utility or customer for above classification in which event service thereafter will be furnished only on the basis of Schedule No. MR-1, General Metered Service.

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Schedule No. MR-2LX

Marysville Tariff Area

LIMITED TEMPORARY FLAT RATE SERVICE

APPLICABILITY

Applicable to water service furnished on a limited temporary flat rate basis.

TERRITORY

The City of Marysville, and vicinity, Yuba County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
1. For restaurants and cafes - per unit of seating capacity	\$.16
minimum charge	4.00
2. For offices; rooms in upper stories of buildings so occupied, for each room with water tap except doctors' and dentists' offices	1.35
3. For doctors' and dentists' offices, not exceeding two rooms with water tap	3.30
For each additional room with water tap65
4. For drug stores	\$3.00 to 6.50
5. For photograph galleries, or where water is used for commercial developing and printing in addition to the rate for store or premises ..	4.00
6. For barber shops, one chair	2.75
For each additional chair	1.00
7. For soda fountains, soft drink places, and ice cream or lunch parlors either alone or in connection with other business	\$2.75 to 6.50
8. For bakeries, butcher shops, and retail markets ..	3.00

(Continued)

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Schedule No. MR-2LX

Marysville Tariff AreaLIMITED TEMPORARY FLAT RATE SERVICERATES (Continued)Per Service Connection
Per Month

9. For ordinary stores and shops not otherwise listed, according to use of water	\$1.35 to 5.30
10. For use of hose in front of stores and shops for washing windows and sprinkling sidewalks, streets, etc., according to Frontage	\$0.35 to 1.65
11. For living rooms in connection with stores or shops, additional to store rate	1.00
12. For public drinking fountains in any place, each.	1.35
13. For automatic or ordinary flush urinals, according to the use of water, each	\$0.65 to 4.00
14. Additional for each toilet or bathtub in item 3 to 13, inclusive45
<u>Building Works</u>	<u>Charge</u>
15. For mortar and to dampen brick, per 1000 brick ..	.35
16. For cement work and plastering, each barrel of cement or lime used35

SPECIAL CONDITIONS

1. Service under this schedule will be continued to any customer served hereunder as of the effective date of this tariff sheet, and until such time as a meter is installed.

2. Meters may be installed at option of utility or customer for above classifications in which event service thereafter will be furnished only on the basis of Schedule No. MR-1, General Metered Service.

3. Existing non-residential customers are to be metered as soon as the arrangement of piping will permit.

APPENDIX A

Schedule No . MR-4

Marysville Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for private fire protection.

TERRITORY

The City of Marysville, and vicinity, Yuba County.

RATES

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

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Schedule No. MR-4

Marysville Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS (Continued)

4. For water delivered for other than fire protection purposes, charges will be made therefor under Schedule No. MR-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. MR-5L
Marysville Tariff Area
PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The City of Marysville, Yuba County.

RATES

	<u>Per Month</u>
For the first 80 fire hydrants and not more than 10 fire cisterns	\$ 300.00
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. For water delivered through fire hydrants for any other purpose, charges will be made therefor at the quantity rate under Schedule No. MR-1, General Metered Service.
2. Hydrants owned by the City will be installed, maintained, painted, inspected and relocated at the expense of the City. The utility will install and own the tee in the main.
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.

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Schedule No. MR-5

Marysville Tariff AreaPUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

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 Marysville.

TERRITORY

The City of Marysville, and vicinity, Yuba County.

RATESPer Hydrant Per Month

Hydrant Owned by:	Size of Hydrant:	Type	If Attached to 2" or 2½-inch 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	2½"	Wharf	1.00	1.25	1.50	1.75
Utility	2½"	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

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Schedule No. MR-5

Marysville Tariff Area

PUBLIC FIRE HYDRANT SERVICE

(Continued)

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. MR-1, General Metered Service.

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" 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.

APPENDIX A

Schedule No. MR-7FLX

Marysville Tariff Area

LIMITED TEMPORARY MUNICIPAL FLAT RATE SERVICE

Applicability

Applicable to limited temporary water service, other than for public fire protection furnished to the City of Marysville on a flat rate basis.

TERRITORY

The City of Marysville, Yuba County.

RATES

	<u>Per Month</u>
1. For a display fountain in Ellis Lake served by no larger than one 3/4-inch pipe	\$ 2.00
2. For water used in cleaning operations at the city flush sump located at 2nd and "F" Streets	5.90
3. For the city library and lawn, located at the northwest corner of 4th and "C" Streets	8.10

SPECIAL CONDITIONS

1. Service under this schedule will be continued to the above existing service connections until such time as a meter is installed.
2. Existing services will be metered as soon as the arrangement of piping will permit, and thereafter charges for service will be furnished only on the basis of Schedule No. MR-1, General Metered Service.

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Schedule No. MR-10

Marysville Tariff Area

SERVICE TO COMPANY EMPLOYEES

APPLICABILITY

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

TERRITORY

The City of Marysville, and vicinity, Yuba County.

RATE

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