

ORIGINAL

Decision No. 57622

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 authorizing it to increase rates charged for water service in the Oroville district.)))))	Application No. 40042
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McCutchen, Doyle, Brown & Enersen, by Robert Minge Brown and A. C. Greene, Jr., for applicant.
C. Myron Buck, for Stokely-Van Camp Co., protestant.
Carl O. Ohmer, for City of Oroville, interested party.
Cyril M. Saroyan and Jean B. Balcomb, for the
 Commission staff.

O P I N I O N

Nature of Proceeding

By this application, filed April 28, 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 by it in its Oroville district.

Public Hearing

Public hearing in the matter was held before Examiner F. Everett Emerson on September 24, 1958, at Oroville. The matter was submitted on such date.

Applicant's Position

The present water rates for the Oroville district, as authorized by this Commission, have been in effect since January 1, 1955. Since the establishment of such rates, applicant has been put to additional operating expenses of about \$4,770 on an annual basis and has invested about \$13,700 in additional facilities to meet the requirements of the Commission's order to fluoridate the water served from the district's town system. In order to recover the special expenses of fluoridation and to obtain an appropriate

return on the additional investment involved, applicant seeks authority to make a special surcharge of 20 cents per month applicable to each service connection.

In addition to the increased costs incident to fluoridation, a number of other cost increases have affected applicant's earnings in this district; among these are increased property taxes, increased materials prices, increased wage levels and increased overall costs of plant newly installed as compared with older plant facilities. Replacement of older plant is necessary and retirements have been averaging about \$7,000 annually. Replacement of such facilities has cost approximately 400 percent more than the capital retired, a situation occasioned by inflation and its continuing effects. Depreciation accruals are inadequate to finance replacements and applicant must therefore obtain additional funds from outside sources.

The continuing need of the Oroville district for the investment of additional capital emphasizes the necessity of arresting the decline of earnings in the district and of returning earnings to a reasonable level so as to enable applicant to attract new capital on a competitive basis. Applicant therefore seeks to make new rate schedules effective so as to yield a rate of return of 6.5 percent over a three-year period on a reasonable depreciated rate base for the Oroville district. Its proposed rates would increase its revenues by approximately 18.4 percent.

Rates, Present and Proposed

Applicant seeks to increase charges for general metered service and for residential flat rate service. Rates for other types of service would remain unchanged. A comparison of charges under present and proposed rates for typical water usages is as follows:

<u>Water Usage</u>	<u>Present Charge</u>	<u>Proposed Charge</u>
<u>Flat Rates</u>		
Residence; 5 rooms with toilet, shower and 566 sq. yds. of irrigated area	\$5.00	\$6.17
Residence; as above but with 6 rooms	5.20	6.41
<u>Meter Rates (5/8" x 3/4" meter)</u>		
0 usage	2.00	2.70
500 cubic feet	2.00	3.30
1,000 cubic feet	3.00	3.90
1,500 cubic feet	4.00	4.50
2,000 cubic feet	5.00	5.10
3,000 cubic feet	7.00	6.30
5,000 cubic feet	9.40	8.70

Nature of Evidence

Applicant and the Commission staff presented evidence respecting all phases of applicant's Oroville district operations. Also, evidence respecting applicant's overall 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 estimated year 1958.

OROVILLE DISTRICT
SUMMARY OF EARNINGS - ESTIMATED YEAR 1958

At Existing Water Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$253,120	\$255,200
Operating Expenses	214,310	214,070
Net Revenue	38,810	41,130
Rate Base (depreciated)	923,500	921,700
Rate of Return	4.20%	4.46%

At Applicant's Proposed Water Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$298,780	\$301,000
Operating Expenses	238,960	238,770
Net Revenue	59,820	62,230
Rate Base (depreciated)	923,500	921,700
Rate of Return	6.48%	6.75%

Public Participation

Few persons attended the hearing in this matter. However, the City of Oroville was represented by able counsel who stated the city's general opposition to utility rate increases and who participated in the cross-examination of witnesses. Further, a representative of one of the large industrial users of water stated the opposition of his company to the increases proposed by applicant. Also, an owner or operator of a number of rental units in Oroville testified respecting his water usage, his bills, and his inability to have his tenants properly keep up his properties when water bills are high.

Findings and Conclusions

The foregoing summary of earnings tabulation illustrates, as the evidence clearly indicates, that applicant has conclusively demonstrated that it is in need of and entitled to increased revenues in its Oroville district.

Significant differences between the estimates of applicant and the independently-determined estimates made by the Commission staff lie in four categories. The first lies in estimating the revenue derivable from six industrial users of water. In this

connection, the evidence is convincing that the characteristics of such usage, being primarily of camery operations, have changed somewhat in recent years and that greater reliance should be placed upon the period 1955-1957 as a basis for estimating than on the long-term period relied upon by the staff. We find, therefore, that applicant's estimate of revenues is reasonable and it will be adopted herein.

The second item of significant difference concerns estimating direct expenses associated with maintenance of general distribution facilities, including mains, service connections and meters. The utility and the staff had the same basic data from which to make their projections of these expenses into the year 1958. Both considered that the recorded expenses for the year 1957 were abnormal for these accounts and reduced them accordingly. The staff estimated an increase of \$300 for 1958, as compared to the adjusted year 1957, while applicant estimated an increase of \$1,730. In view of the evidence respecting the accounts which in total produce the respective estimates, the Commission finds that the estimates of applicant are reasonable and they will be adopted herein.

The third difference of significance lies in the estimates of ad valorem taxes. In this respect, the evidence is convincing that ad valorem taxes will be no less than that amount which would be produced by properly applying tax rates to the increased utility plant which applicant has included in its estimates for the year 1958. Applicant's estimates of taxes are reasonable and they will be adopted herein.

The fourth difference of significance lies in the estimates of depreciated rate bases. In this proceeding, as in others pertaining to applicant's other districts, applicant and the Commission staff differ in their treatment of customers' advances for construction. Consistent with the conclusions respecting this subject as applied to the results of operations in applicant's other current rate

proceedings, the Commission finds that the depreciated rate base for Oroville as computed by the staff is a fair and reasonable rate base and it is adopted herein.

To summarize, the adopted results of operations, as estimated for the year 1958, are as follows:

ADOPTED RESULTS OF OPERATIONS
OROVILLE DISTRICT - ESTIMATED YEAR 1958
At Water Rates Proposed by Applicant

Operating Revenues	\$298,780
Operating Expenses	238,960
Net Revenue	59,820
Rate Base (depreciated)	921,700
Rate of Return	6.49%

The evidence is convincing, as these adopted results illustrate, that applicant's proposed water rates will produce a rate of return which is within a zone of reasonableness. Applicant's specific rate proposals, however, include a surcharge which, on a per-customer basis, amounts to 20 cents per month to cover the special costs of fluoridation. It is the Commission's opinion that surcharges are undesirable and generally should be reserved to meet conditions of an emergency nature. The evidence is quite clear that the total costs of water treatment in this district very closely approximate 49.9 cents per customer per month. Of this total, fluoridation accounts for 18.8 cents. The evidence is not convincing that this latter portion should be separately stated any more than should the costs of chlorination or flocculation or any other element of water treatment. In any event, fluoridation has now become a regular part of the water treatment ordinarily provided in Oroville and the costs thereof are in no sense of an emergency nature. In authorizing rates for this district, therefore, the Commission will specify rates which will not separately state such costs.

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.

The findings and conclusions herein are predicated upon applicant's use of straight-line depreciation for income tax 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 overall matter, the Commission may reopen this proceeding and adjust water rates accordingly.

Overall Conclusion

The findings hereinabove set forth produce an overall result which we find to be fair and reasonable and in the public interest. Further, we hereby find as a fact that the increases in 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.

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 Oroville 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, rate schedules as 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 January 1, 1959.

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.

E. L. Fox
 President

W. H. ...

William ...

Richard ...

Commissioners

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

APPENDIX A
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Schedule No. OR-1

Oroville Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Oroville and vicinity, Butte County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Service Charge:	
For 5/8 x 3/4-inch meter	\$ 2.70
For 3/4-inch meter	2.95
For 1-inch meter	3.20
For 1 1/2-inch meter	5.20
For 2-inch meter	7.45
For 3-inch meter	14.20
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. ... \$ 0.12

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.

Schedule No. OR-2R

Oroville Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The City of Oroville and vicinity, Butte County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
For each residence of five rooms or less occupied by a single family, exclusive of bath or toilet facilities and irrigated areas	\$2.06
a. For each additional room in excess of five24
b. In addition, for each flush toilet, bath tub, or shower60
c. In addition, for all irrigation or sprinkling of lawns or gardens, payable throughout the year at the following rates:	
First 100 sq. yds. or less	1.70
Next 1,900 sq. yds., per sq. yd.0026
Over 2,000 sq. yds., per sq. yd.0013

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 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.