

ORIGINALDecision No. 60443

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 Stockton
district.

Application No. 41389

McCutchen, Doyle, Brown & Enersen, by Robert
Minge Brown and A. Crawford Greene, Jr., for
applicant.

Monroe N. Langdon and Bruce McKnight, for City
of Stockton and County of San Joaquin,
protestants.

Cyril M. Saroyan, John R. Gillanders and L. L.
Thormod, for the Commission staff.

O P I N I O N

California Water Service Company filed this application August 10, 1959, seeking authority to increase rates for water service in its Stockton district by 20 percent, or approximately \$330,000 annually. Public hearings were held before Examiner James F. Haley at Stockton on January 4, 5 and 20, 1960, and the application was submitted on the latter date, subject to the receipt of transcript and a late-filed exhibit which were subsequently filed with the Commission. On April 27, 1960, following issuance of Decision No. 59926, dated April 12, 1960, in Case No. 6148, in the matter of the investigation on the Commission's own motion concerning the proper treatment for rate-making purposes to be accorded liberalized depreciation, submission was set aside and the application reopened for further hearing for the purpose of determining applicant's position as to whether or not it intends to take liberalized depreciation under Section 167 of the Internal Revenue Code for the year of 1959 and subsequent years thereafter. Such further hearing was held before Commissioner C. Lyn Fox and Examiner Haley at San Francisco on June 29, 1960, and the application was resubmitted.

Applicant's Operations

Applicant provides public utility water service in 18 operating districts, all in California. Each district is operated separately, there being no interconnection of water plant between districts. Each district is locally operated under the supervision of the company's main office in San Jose. Customer bills are prepared at a central billing office in Stockton. Water meters are repaired and tested in two central shops located in Stockton and East Los Angeles. Separate tariff schedules and accounting records are maintained for each district.

At the end of 1958, in all of its districts, applicant served 232,161 water customers and had 456 employees. Its total investment in water plant, including plant under construction, was \$76,511,847. Gross operating revenues for the year 1958 were \$15,583,947. Its total payroll for the same period was \$2,521,869.

In its Stockton district, at the beginning of 1959, applicant had over 32,000 active services and its total investment in water plant exceeded \$8,000,000. Total operating revenues for the Stockton district were \$1,714,503 for the year 1958.

Applicant's Position

This is the fourth request for increased rates in its Stockton district which applicant has filed since World War II. Applicant states that in 1955 it filed its third request for rate revision in the expectation that, in view of various factors adversely affecting earnings, the increased rates would yield a reasonable return over a period no longer than three years. Applicant declares that inflationary factors such as wage increases, higher material prices, increased property taxes, and larger capital investment per customer have now reduced the earnings of the Stockton district to below the reasonable level. Applicant estimates that its proposed rates will yield approximately 6.5 percent rate of return on its operations over a three-year period.

Nature of Evidence

Applicant and the Commission staff each introduced a results of operations study encompassing a two-year period: the year 1958 on an adjusted basis and the test year 1959 on an estimated basis. Applicant and staff, as well as the City of Stockton and County of San Joaquin, presented evidence as to the fair rate of return for applicant. In addition, the staff presented evidence relating to the income tax effects of water plant sales following condemnation.

Earnings Comparison for 1959

The tabulation below shows a comparison of the results of applicant's operations at present water rates for the test year, estimated 1959. Applicant presented results reflecting straight-line income tax depreciation only; the staff presented results reflecting such depreciation on both a straight-line and liberalized basis. In computing straight-line income taxes, the staff reduced such taxes by a credit in the amount of 6½ percent of the estimated average accrued income tax differential allocable to the Stockton district. Without this adjustment, the staff's figure for straight-line income taxes would be \$4,460 higher.

| | <u>Applicant</u> <u>Str.-Line</u> <u>Tax Depr.</u> | <u>Staff</u> | |
|---|--|--------------------------------------|--|
| | | <u>Str.-Line</u> <u>Tax Depr.</u> | <u>Liberalized</u> <u>Tax Depr.</u> |
| Operating Revenues | \$1,686,930 | \$1,697,340 | \$1,697,340 |
| <u>Operating Expenses</u> | | | |
| Operating Exp., Excluding Depreciation & Taxes | \$ 657,690 | \$ 656,850 | \$ 656,850 |
| Depreciation & Amortization Expenses | 188,780 | 188,030 | 188,030 |
| Taxes Other than Income | 274,290 | 270,460 | 270,460 |
| Income Taxes | <u>238,510</u> | <u>241,010</u> | <u>225,520</u> |
| Total Operating Expenses | \$1,359,270 | \$1,356,350 | \$1,340,860 |
| Net Operating Revenue | \$ 327,660 | \$ 340,990 | \$ 356,480 |
| Depreciated Rate Base | \$6,860,200 | \$6,817,350 | \$6,817,350 |
| Rate of Return | 4.78% | 5.00% | 5.23% |

Adopted Results

Applicant and staff made independent estimates of operating revenues. The operating revenue estimates of applicant and staff agree within one percent. We adopt the figure of \$1,692,000, which represents the average of the two estimates of operating revenues for the test year 1959.

When rounded to figures of actual significance, the total amounts reflected by applicant and staff for operating expenses other than taxes are nearly identical. We adopt \$657,000 as reasonable for operating expenses, exclusive of taxes and depreciation, and we adopt \$188,000 for depreciation expenses.

The allocation of common expenses, taxes and utility plant was fully reviewed in the record. Four factors for the allocation to districts of such items not directly assignable to the operating districts were used by the staff. These are (1) weighted average gross utility plant; (2) the average number of customers; (3) the number of employees as measured by direct operating payroll; and (4) the direct operating and maintenance expenses in each operating district. The main difference between the staff and applicant's method was the use by the staff of the factor of direct operating and maintenance expenses. The applicant did not include this factor and contended that the use of this factor would result in substantial fluctuation from year to year of amounts allocated to districts where such expenses consisted mainly of water purchases, or where such purchases vary between a wet and dry year. The evidence shows these expenses, as well as any others, should be reflected and that variations as between wet and dry years are not of such magnitude as to compel exclusion of the fourth factor. We have carefully weighed the evidence before us, and are of the opinion that a four-factor method provides an equitable allocation to all districts of general office expenses, taxes, and utility plant not directly assignable, and the adopted results are based upon such method.

With respect to taxes other than income at present rates, we adopt the amount of \$271,000 as reasonable, this figure being based on the latest actual ad valorem tax rates available, rather than the trended tax rates used by applicant.

Applicant stated that it is electing to use liberalized depreciation for both federal and state income tax purposes for the year 1959 and that its present intent is to continue to take such depreciation for subsequent years. Therefore, the amount of \$222,000 which we adopt as reasonable for income taxes at present rates has been computed using liberalized depreciation in accordance with Decision No. 59926, supra.

With respect to the federal income tax effects of involuntary conversions resulting from condemnation, the evidence shows that, while the cumulative effects will be material in the future, the effects on rate of return in this proceeding are negligible. Accordingly, no adjustment of income taxes for these effects has been made herein.

We find that \$6,760,000 is reasonable to use as the depreciated rate base for applicant's Stockton district for the test year 1959. This amount is based on the staff's estimate, which closely reflects actual installation and retirement dates for 1959 plant construction. The adopted rate base includes a deduction of \$59,000, representing the estimated accrued income tax differential allocable to the Stockton district as of December 31, 1958. This accrued differential is the cumulative difference between the greater income taxes applicant would have paid had it taken straight-line depreciation and the lesser income taxes applicant actually did pay as a result of electing liberalized depreciation for the years 1954 through 1958. This adjustment to rate base gives recognition to the funds generated by applicant during such years through charging consumers rates which were authorized by the Commission on the basis

of rate-case showings reflecting straight-line income tax depreciation rather than the liberalized depreciation actually taken by applicant during those years.

The following tabulation summarizes the results adopted as reasonable for the test year, estimated 1959:

| | <u>Present Rates</u> | <u>Authorized Rates</u> |
|---|--------------------------|-----------------------------|
| Operating Revenues | \$1,692,000 | \$1,882,000 |
| <u>Operating Expenses</u> | | |
| Operating Exp., Excluding Depreciation and Taxes | 657,000 | 657,000 |
| Depreciation & Amortization Expenses | 188,000 | 188,000 |
| Taxes Other than Income | 271,000 | 272,000 |
| Income Taxes | <u>222,000</u> | <u>326,000</u> |
| Total Operating Expenses | \$1,338,000 | \$1,443,000 |
| Net Operating Revenue | \$ 354,000 | \$ 439,000 |
| Depreciated Rate Base | \$6,760,000 | \$6,760,000 |
| Rate of Return | 5.24% | 6.5% |

Rate of Return

On the basis of the adopted test year results for 1959 present water rates would produce 5.24 percent or less than a fair rate of return on applicant's Stockton district operation. Further, the evidence presented by both applicant and staff indicates a declining rate of return. Applicant estimates a decline in return in 1959 of about .5 percent at proposed rates and the staff estimates approximately .2 percent. The evidence is clear that applicant is entitled to rate relief.

Based on adopted test year results, the rates proposed by applicant would yield an excessive rate of return. We find that an increase of \$190,000 in annual gross revenues would yield 6.5 percent on the test year basis. Giving consideration to the evidence regarding decline in rate of return resulting from higher unit plant costs and other effects of inflation, such an increase would, for the

future, yield approximately 6.25 percent, which rate of return we find to be reasonable for applicant's Stockton district operations based upon the evidence in this proceeding.

The rates which will be authorized herein will result in the average monthly water bill of a typical residential customer in Stockton being increased by 40 cents from \$3.64 at present rates to \$4.04 at authorized rates, or approximately 11 percent. The tabulation below shows a comparison of present and authorized rates for general metered service:

Service Charge:

| | Per Meter per Month | | |
|--------------------------------|---------------------|------------|----------|
| | Present | Authorized | Increase |
| For 5/8 x 3/4-inch meter | \$ 1.80 | \$ 2.20 | \$0.40 |
| For 3/4-inch meter | 2.00 | 2.40 | .40 |
| For 1-inch meter | 2.20 | 2.65 | .45 |
| For 1-1/2-inch meter | 3.60 | 4.40 | .80 |
| For 2-inch meter | 5.25 | 6.50 | 1.25 |
| For 3-inch meter | 9.50 | 12.00 | 2.50 |
| For 4-inch meter | 12.50 | 16.00 | 3.50 |
| For 6-inch meter | 19.00 | 24.00 | 5.00 |
| For 8-inch meter | 26.00 | 32.00 | 6.00 |
| For 10-inch meter | 36.00 | 44.00 | 8.00 |

Quantity Rates:

| | | | |
|--|------|------|------|
| For first 6,000 cu.ft., per 100 cu.ft. | 0.12 | 0.12 | - |
| For next 24,000 cu.ft., per 100 cu.ft. | 0.09 | 0.12 | 0.03 |
| For all over 30,000 cu.ft., per 100 cu.ft. | 0.09 | 0.09 | - |

Findings and Conclusions

The Commission has carefully weighed all the evidence of record and has considered the statements of the parties with equal care. The action we are taking herein will produce an over-all result which will be fair and reasonable. We find, therefore, that the increases in rates and charges authorized herein are justified, that the rates and charges authorized herein are reasonable, and that the 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 increased rates and charges in its Stockton district, public hearings having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with the provisions of General Order No. 96, the schedules of rates and charges set forth in Appendix A attached to this order and, upon not less than five days' notice to the public and to the Commission, to make said rates and charges effective for all water service rendered in its Stockton district on and after September 1, 1960.

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

Dated at San Francisco, California, this 26th day of July, 1960.

 President

 Commissioners

Commissioner Everett C. McKeage - being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. ST-1

Stockton Tariff Area
GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Stockton and vicinity, San Joaquin County.

RATES

| Service Charge: | <u>Per Meter</u> <u>Per Month</u> |
|--|--------------------------------------|
| For 5/8 x 3/4-inch meter | \$ 2.20 |
| For 3/4-inch meter | 2.40 |
| For 1-inch meter | 2.65 |
| For 1 1/2-inch meter | 4.40 |
| For 2-inch meter | 6.50 |
| For 3-inch meter | 12.00 |
| For 4-inch meter | 16.00 |
| For 6-inch meter | 24.00 |
| For 8-inch meter | 32.00 |
| For 10-inch meter | 44.00 |
| Quantity Rates: | |
| For the first 30,000 cu.ft., per 100 cu.ft. | \$ 0.12 |
| For all over 30,000 cu.ft., per 100 cu.ft. | .09 |

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

Schedule No. ST-4

Stockton Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

The City of Stockton and vicinity, San Joaquin 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.

(Continued)

Schedule No. ST-4 (Contd)

Stockton Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS (Contd)

4. For water delivered for other than fire protection purposes, charges will be made therefor under Schedule No. ST-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. ST-5L

Stockton Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all water service furnished for public fire protection to the City of Stockton.

TERRITORY

The City of Stockton, San Joaquin County.

RATE

Per Hydrant
Per Month

For fire hydrants owned by the City \$1.00

SPECIAL CONDITIONS

1. 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.
2. The above rate includes use of water for fire protection and for no other purpose. Quantities of water delivered through fire hydrants for any other purpose will be estimated or measured and charges will be made at the quantity rate under Schedule No. ST-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 the system.

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Schedule No. ST-5

Stockton Tariff AreaPUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

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

TERRITORY

The City of Stockton and vicinity, San Joaquin County.

RATESPer Hydrant Per Month

| Owned by | Hydrant Size of | Hydrant Type | If Attached to 2" or 2½" 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 |

SPECIAL CONDITIONS

1. Hydrants owned by the public authority will be installed, maintained, painted, inspected and relocated at the expense of the public

(Continued)

Schedule No. ST-5 (Contd)

Stockton Tariff Area

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS (Contd)

authority. The Utility will install and own the tee in the main, the hydrant branch and the control valve.

2. Hydrants owned by the Utility will be maintained by it. The Utility will install and own the tee in the main, the hydrant branch, the valve, and the bury and hydrant. The public authority will pay for the relocation of any hydrants owned by the Utility when such relocation has been requested by the public authority.

3. Number of outlets in standard outlets will be limited to two 2½" outlets.

4. The above rates include use of water for fire protection and for no other purpose. Quantities of water delivered through fire hydrants for any other purpose will be estimated or measured and charges will be made at the monthly quantity rates under Schedule No. ST-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.

6. 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.

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Schedule No. ST-10

Stockton 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 Stockton and vicinity, San Joaquin County.

RATE

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