

ORIGINALDecision No. 60645

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 Los Altos-)
 Suburban district.)

Application No. 41388

McCutchen, Doyle, Brown & Enersen by Robert Minge
Brown and A. Crawford Greene, Jr., for applicant.
Robeley E. Morgan, for City of Santa Clara, pro-
 testant.

John M. R. Hope and Anthony A. Lagorio, for City
 of Los Altos, interested party.

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

O P I N I O N

This application was filed by California Water Service Company on August 10, 1959. Authority is sought to increase rates for water service in applicant's Los Altos-Suburban District by approximately \$243,000 per year. Public hearing in this matter was held before Examiner James F. Haley at Los Altos on January 7, 1960 and the matter was submitted on receipt of transcript which has subsequently been 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. Such further hearing

was held before Commissioner C. Lyn Fox and Examiner Halcy at San Francisco on June 29, 1960, and the application was resubmitted.

Applicant's Operations

Applicant is a California corporation providing public utility water service in 18 separately operated and noninterconnected districts under the supervision of applicant's main office in San Jose.

Applicant's Los Altos-Suburban District includes the major portion of the City of Los Altos, fringe sections of the cities of Cupertino, Los Altos Hills, Mountain View, Santa Clara and Sunnyvale, as well as unincorporated areas of Santa Clara County adjacent to these communities. The principal source of water supply for the district is from wells, both owned and leased, supplemented by purchases from the San Jose Water Works. The district has a population of over 42,000, and at the end of 1958 water was provided to 11,454 active services. Total plant investment in the district exceeds \$5,000,000.

Since 1956, applicant has operated its former Los Altos and Suburban districts as one integrated district. The two properties have common sources of supply and storage capacity. They are operated by the same personnel and are served by interconnected distribution facilities. The existing rates in that part of the district formerly known as Los Altos District became effective August 1, 1955. The present metered rates in that part of the district formerly known as the Suburban District have been in effect since 1937.

Applicant's Position

Applicant states that heavy growth together with substantially increased investment per customer, increased ad valorem tax

rates, higher wages and other effects of the inflationary spiral have adversely affected earnings in the Los Altos-Suburban District, necessitating rate relief. Applicant contends that its rate of return in this district will continue to decline and that the increased rates sought herein would yield approximately 6.5 per cent over a three-year period upon the depreciated rate base of its Los Altos-Suburban District.

Earnings Comparison for 1959

The tabulation below shows a comparison 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 per cent of the estimated average accrued income tax differential allocable to the Los Altos-Suburban District. Without this adjustment, the staff's figure for straight-line income taxes would be \$4,190 higher.

Item	Applicant	Staff	
	Straight-line Tax Depreciation	Straight-line Tax Depreciation	Liberalized Tax Depreciation
Operating Revenues	\$ 894,940	\$ 901,440	\$ 901,440
Operating Expenses			
Operating and Maintenance Expenses	323,220	321,170	321,170
Administration and General Expenses	41,320	41,240	41,240
Depreciation and Amortization Expenses	111,240	110,950	110,950
Taxes other than Income	94,840	94,310	94,310
Income Taxes	132,030	127,600	109,440
Total Oper. Expenses	<u>702,650</u>	<u>695,270</u>	<u>677,110</u>
Net Revenue	192,290	206,170	224,330
Depreciated Rate Base	4,375,300	4,309,500	4,309,500
Rate of Return	4.39%	4.78%	5.21%

Adopted Results

The estimates of the applicant and staff for operating revenues were independently made and are less than one per cent apart. It is reasonable to assume that the proper level of revenues for the test year would lie between the two estimates. Accordingly, we adopt the amount of \$898,000 as reasonable for operating revenues at present rates for the test period.

With respect to operating expenses other than income taxes, we adopt as reasonable the following amounts: \$322,000 for operating and maintenance expenses; \$41,000 for administration and general expenses; \$111,000 for depreciation and amortization expenses, and \$94,000 for taxes other than income at present rates. These amounts are compatible with the respective estimates of both applicant and staff. In the allocation of common general and administrative expenses, certain common plant and related depreciation expense and reserve, as between the applicant's various districts, a four-factor allocation method is used in this decision in harmony with the Commission's determination for applicant's Stockton district by Decision No. 60443, Application No. 41389, July 26, 1960.

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 \$107,000, 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 related to condemnation of portions of applicant's water plant, the evidence shows these effects have negligible bearing on rate of return in this proceeding. Accordingly, no adjustment

for such effects has been made herein. However, information presented by the staff indicates that the cumulative effects may become material and the Commission may give consideration to them in future rate proceedings involving applicant.

We find that \$4,260,000 is reasonable to use as the depreciated rate base for applicant's Los Altos-Suburban District for the test year 1959. This amount is based upon the staff's estimate, which, while not substantially different from that of applicant, is more realistic since it more nearly reflects actual in-service and retirement dates of plant during the year 1959. The adopted rate base includes a deduction of \$50,000, representing the estimated accrued income tax differential allocable to the Los Altos-Suburban 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>Item</u>	<u>Present Rates</u>	<u>Authorized Rates</u>
Operating Revenues	\$ 898,000	\$1,041,000
Operating Expenses		
Operating and Maintenance Expenses	322,000	322,000
Administration and General Expenses	41,000	41,000
Depreciation and Amortization Expenses	111,000	111,000
Taxes other than Income	94,000	95,000
Income Taxes	107,000	184,000
Total Operating Expenses	<u>675,000</u>	<u>753,000</u>
Net Revenue	223,000	288,000
Depreciated Rate Base	4,260,000	4,260,000
Rate of Return	5.23%	6.76%

Rate of Return

The adopted test year results for 1959 show that present water rates would yield 5.23 per cent, or less than a fair rate of return on applicant's Los Altos-Suburban District operation. In addition, the evidence shows that applicant is experiencing a declining rate of return due to the effects of continued rising costs. Applicant estimates a decline in return of .62 per cent at proposed rates during 1959, and the staff estimates a decline of .45 per cent. The evidence clearly shows that applicant is entitled to rate relief.

Applicant will not be authorized the full amount of the requested \$243,000 annual increase in water rates and charges. We find that an annual gross increase of \$143,000 would yield approximately 6-3/4 per cent on the test year basis and that, giving effect to the evidence regarding decline in return, such an increase would for the future, yield approximately 6½ per cent, which rate of return we find reasonable for applicant's Los Altos-Suburban District operations based upon the evidence in this proceeding.

Authorized Rates

Applicant proposed one uniform service type form of rate to replace the three different rate levels now in effect in (1) the

Valley Zone, (2) the Hill Zone of the Suburban District, and (3) the Los Altos District. Rates in the Valley and Hill Zones are of the initial or minimum charge form that include 650 cubic feet in the initial charge. In changing to the service charge form of rate, rates in the lower quantity brackets would be increased proportionately greater than rates in the higher quantity brackets and, under applicant's proposal, some of the larger users in the Hill Zone would enjoy an over-all rate decrease. In a general system-wide rate increase it does not appear reasonable to increase rates for one class of users and decrease rates for another class. Consequently, in the rates authorized herein the Valley Zone and the Los Altos District will be consolidated on one schedule as conditions therein appear reasonably similar, but the Hill Zone will be kept separate with a differential of approximately 10 per cent. The present and authorized rates follow:

Per Meter Per Month					
Present			Authorized		
Valley Zone (Minimum Charge)*	Hill Zone (Minimum Charge)*	Los Altos	Valley Zone & Los Altos (Service Charge)#	Hill Zone (Service Charge)#	
Monthly Charge:					
For 5/8 by 3/4-inch meter	\$ 2.00	\$ 2.50	\$ 2.00	\$ 2.00	\$ 2.00
For 3/4-inch meter	3.00	2.60	2.20	2.20	2.20
For 1-inch meter	4.00	4.80	2.40	2.40	2.40
For 1 1/2-inch meter	5.00	6.00	4.00	4.00	4.00
For 2-inch meter	8.00	9.60	5.80	5.80	5.80
For 3-inch meter	14.00	16.80	10.60	10.60	10.60
For 4-inch meter	20.00	24.00	13.80	13.80	13.80
For 6-inch meter	-	-	21.00	21.00	21.00
For 8-inch meter	-	-	28.40	28.40	28.40
For 10-inch meter	-	-	40.00	40.00	40.00

Quantity Rates (For Minimum Charge Form):

First 650 cu.ft. or less	\$ 2.00	\$ 2.50
Next 950 cu.ft., per 100 cu.ft.	.28	.38
Next 13,400 cu.ft., per 100 cu.ft.	.25	.35
Next 10,000 cu.ft., per 100 cu.ft.	.15	.25
Over 25,000 cu.ft., per 100 cu.ft.	.125	.225

Quantity Rates (For Service Charge Form):

First 3,000 cu.ft., per 100 cu.ft.	\$ 0.22	\$ 0.24	\$ 0.29
Next 27,000 cu.ft., per 100 cu.ft.	.22	.22	.25
Over 30,000 cu.ft., per 100 cu.ft.	.17	.19	.22

* Minimum Charge entitles customer to quantity of water which that minimum charge will purchase at Quantity Rates.

Service Charge is a readiness-to-serve charge to which is added the charge computed at Quantity Rates.

The rates which will be authorized herein will result in the average monthly water bills of typical residential customers in each of the three present rate areas being increased as follows:

<u>Rate Area</u>	<u>Average Monthly Bill</u>		<u>Increase</u>	
	<u>Present Rate</u>	<u>Authorized Rate</u>	<u>Amount</u>	<u>Per Cent</u>
Valley Zone	\$5.32	\$6.56	\$1.24	23%
Hill Zone	7.77	8.09	.32	4
Los Altos	6.84	7.28	.44	6

Findings and Conclusions

The Commission has carefully weighed all the evidence of record. The action we are taking herein will produce an over-all result which will be fair and reasonable. We find, therefore, that the changes in rates and charges authorized herein are justified, that the rates and charges authorized herein are reasonable, and that the present rates and charges, in so far 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 Los Altos-Suburban 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, 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, on not less than five days' notice to the public and to this Commission, to make said rates and charges effective for all water service rendered in its Los Altos-Suburban District on and after October 1, 1960.

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

Dated at San Francisco, California, this 30th day of August, 1960.

Ernest All Page
President
Walter E. H. H. H.
Walter E. H. H. H.
Walter E. H. H. H.
Commissioners

Commissioner Theodore H. Jenner being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. LS-1

Los Altos-Suburban Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Los Altos and vicinity, Santa Clara County.

RATES

Per Meter
Per Month

Service Charge:

For 5/8 x 3/4-inch meter	\$ 2.00
For 3/4-inch meter	2.20
For 1-inch meter	2.40
For 1 1/2-inch meter	4.00
For 2-inch meter	5.80
For 3-inch meter	10.60
For 4-inch meter	13.80
For 6-inch meter	21.00
For 8-inch meter	28.40
For 10-inch meter	40.00

Quantity Rates:

First 3,000 cu.ft., per 100 cu.ft.	\$ 0.24
Next 27,000 cu.ft., per 100 cu.ft. ....	.22
Over 30,000 cu.ft., per 100 cu.ft. ....	.19

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. LS-1

Los Altos-Suburban Tariff Area
Loyola Zone

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The portion of the City of Los Altos and vicinity known as Loyola District, Santa Clara County.

RATES

		Per Meter Per Month
Service Charge:		
For 5/8 x 3/4-inch meter	.....	\$ 2.00
For 3/4-inch meter	.....	2.20
For 1-inch meter	.....	2.40
For 1 1/2-inch meter	.....	4.00
For 2-inch meter	.....	5.80
For 3-inch meter	.....	10.60
For 4-inch meter	.....	13.80
For 6-inch meter	.....	21.00
For 8-inch meter	.....	28.40
For 10-inch meter	.....	40.00

Quantity Rates:

First 3,000 cu.ft., per 100 cu.ft.	.....	\$ 0.29
Next 27,000 cu.ft., per 100 cu.ft.	.....	.25
Over 30,000 cu.ft., per 100 cu.ft.	.....	.22

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. LS-4

Los Altos-Suburban Tariff AreaPRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

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

TERRITORY

The City of Los Altos and vicinity, Santa Clara County.

RATESPer Month

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.

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Schedule No. LS-4

Los Altos-Suburban Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

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.

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

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Schedule No. LS-5L

Los Altos-Suburban Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to the City of Santa Clara.

TERRITORY

Camino Alta and Grand View Acre Tracts located within the City of Santa Clara, Santa Clara County.

RATE

Per Month

For each fire hydrant owned by the utility \$3.50

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. LS-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.
3. The City will pay for the relocation of any hydrants owned by the utility.
4. 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. LS-5

Los Altos-Suburban Tariff AreaPUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

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

TERRITORY

The City of Los Altos and vicinity, Santa Clara County.

RATESPer Hydrant Per Month

		: Size :	:If Attached:		:If Attached:	
: Hydrant :	of :		: to 2" or :	:If Attached:	:If Attached:	:to 6" Main :
:Owned By :	Hydrant:	Type :	: 2 1/2" Main :	:to 3" Main :	:to 4" 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

(Continued)

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Schedule No. IS-5

Los Altos-Suburban Tariff Area

PUBLIC FIRE HYDRANT SERVICE
(Continued)

SPECIAL CONDITIONS

1. 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.
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.
3. Number of outlets in standard outlets will be limited to two $2\frac{1}{2}$ " outlets.
4. 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. IS-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. 1S-10

Los Altos-Suburban Tariff Area

SERVICE TO COMPANY EMPLOYEES

APPLICABILITY

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

TERRITORY

The City of Los Altos and vicinity, Santa Clara County.

RATE

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