

Decision No. 61284**ORIGINAL**

## 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 ) Application No. 41387  
 it to increase rates charged for water )  
 service in the Livermore district. )

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

Mrs. Frank W. Dodd, James M. Mellinger and  
Mrs. Walter Zitney, Jr., protestants.

Alameda County Flood Control & Water Conservation  
 District by Stanley R. Saylor, interested party.

Cyril M. Saroyan and John R. Gillanders, 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 Livermore district by approximately \$75,000 per year, or about 24 percent, based upon the estimated level of business for 1960.

Public hearing on this matter was held before Examiner James F. Haley at Livermore on September 28 and 29, 1960. The matter was submitted on the latter date.

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 Livermore district service area includes the City of Livermore as well as unincorporated portions of Alameda County adjacent thereto. The present source of water supply for the district consists of 12 wells, 11 of which are owned by applicant and one of which is leased. Storage amounting to 2,451,000 gallons is contained in 18 surface tanks and one covered reservoir. At the end of 1959, the district had 4,916 active services, and plant investment totaled \$1,853,550. Total operating revenues for the year 1959 amounted to \$294,142. The predominant source of revenue is the residential consumer, who provides over 80 percent of the revenues of the district.

#### Applicant's Position

Applicant represents that, since the present rates for Livermore district became effective in 1956, heavy growth together with substantially increased investment per customer, higher ad valorem tax rates, higher wages and other effects of inflation have adversely affected the earnings of its Livermore district, necessitating rate relief. Applicant represents that its rate of return in Livermore district will continue to decline.

Applicant states that at the time it filed this application it anticipated that its proposed rates would yield a rate of return of approximately 6.5 percent over a three-year period. It is now applicant's contention that its proposed rates would yield substantially less than a 6.5 percent return over such a period.

#### Nature of Evidence

Applicant and the Commission staff each introduced a results of operation study. Applicant's study, as supplemented, encompasses a three-year period, including the years 1958 and 1959 on recorded and adjusted bases and the test year 1960 on an estimated basis. Applicant's principal witness testified that, in his judgment, the

rate of return for Livermore district will decline at an annual rate of between 0.3 and 0.4 percent.

The staff's study includes only the year 1960 on an estimated basis. It is the staff's position that any difference in the rate of return between adjusted year 1959 and estimated year 1960 is not representative of the true earnings trend in view of the unusual growth in Livermore during the latter part of 1959, the full impact of which was not realized until 1960. The rapid housing development in Livermore district is continuing, and the staff contends that the estimates for 1960 provide the only reliable basis in this record for setting rates for the future.

#### Earnings Comparison

The tabulation below shows a comparison of applicant's results of operations at present rates for the test year 1960, as estimated by the applicant and the Commission staff as well as the results adopted by the Commission as reasonable for purposes of fixing rates herein.

#### RESULTS OF OPERATIONS AT PRESENT RATES ESTIMATED YEAR 1960

	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
Operating Revenues	\$ 317,210	\$ 315,980	\$ 316,000
Operating Expenses			
Operation of Maintenance Expenses	84,850	84,910	85,000
Admin. & General Exp and Rents	7,210	7,730	8,000
Depreciation & Amortization Exp.	46,920	46,830	47,000
Allocated Expenses	15,120	14,990	15,000
Taxes Other than Income	47,640	41,340	42,000
Income Taxes	40,740	42,135	40,000
Total Operating Expenses	243,480	237,935	237,000
Net Revenues	73,730	78,045	79,000
Depreciated Rate Base	1,473,200	1,375,160	1,375,000
Rate of Return	5.00%	5.68%	5.75%

Adopted Results

The independent estimates of the staff and applicant for operating revenues are not significantly different. We adopt \$316,000 as reasonable for operating revenues at present rates for the test period.

With respect to operating expenses other than taxes and prorated expenses, we adopt as reasonable the following amounts: \$85,000 for operation and maintenance expenses; \$8,000 for administration and general expenses and rents; and \$47,000 for depreciation and amortization expenses. These amounts are compatible with the respective estimates of both applicant and staff.

We adopt the amount of \$42,000 as reasonable for taxes other than income. This figure is based upon the latest ad valorem tax rates available, rather than the trended tax rates used by applicant in its estimate.

For income taxes at present rates, we adopt the amount of \$40,000 as reasonable. This amount was computed upon the adopted test year revenues and expenses. The income taxes so computed have been reduced by \$1,875 to compensate for the federal income tax effect of applicant's having elected to avoid tax on capital gains resulting from the sale of condemned utility property. By having made such an election, applicant has reduced the depreciation expense deduction which it is allowed to take for federal income tax purposes, causing it to have a higher income tax liability during the test period.

We find the amount of \$1,375,000 to be reasonable to use as the depreciated rate base for applicant's Livermore district. This amount corresponds to the staff's estimate. We find the staff's approach in deducting the entire amount of advances for construction from the rate base more reasonable than the applicant's approach in deducting only the invested portion of such advances.

Consistent with Decision No. 60443, dated July 26, 1960, in Application No. 41389, relating to applicant's Stockton district and Decision No. 60646, dated August 30, 1960, in Application No. 41388, relating to applicant's Los Altos Suburban district the adopted rate base includes a deduction of \$26,000 representing the estimated income tax differential allocable to the Livermore district as of December 31, 1959. 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 it actually did pay as a result of electing liberalized depreciation for the years 1954 through 1959. The adjustment to rate base gives recognition to the funds generated by applicant 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 allocated expenses and the rate base amounts adopted herein reflect the allocation of common general and administrative expenses, certain common plant and related depreciation expense and reserve by the four-factor allocation method in harmony with the Commission's determinations in Decisions Nos. 60443 and 60646, supra.

#### Rate of Return

On the basis of adopted test-year results for 1960, present water rates would produce 5.75 percent, or less than a fair rate of return on applicant's Livermore district operations. The evidence clearly shows that, while applicant should be granted some rate relief, the proposed amount of increase would yield an excessive rate of return. We find that applicant is entitled to increase its rates and charges for water service in its Livermore district so as

to realize an annual revenue increase of approximately \$23,000. On the basis of the adopted test-year results, such an increase would yield 6½ percent, which rate of return we find to be reasonable for applicant's Livermore district operations.

The level of rates to be authorized herein does not make allowance for future decline in rate of return. The Commission finds that the rapid growth pattern in Livermore prevents the determination of a reliable future earnings trend and that the adopted results for the test-year 1960 provide the only reasonable basis herein for setting rates for the future.

#### Authorized Rates

The rates to be authorized herein will result in the average monthly water bill of a typical residential user in Livermore being increased by \$0.33 from \$4.64 at present rates to \$4.97 at authorized rates, or approximately 7 percent. The tabulation below shows a comparison of present and authorized rates for general metered service:

#### Service Charge:

	<u>Present</u>	<u>Per Meter Per Month</u>	
		<u>Authorized</u>	<u>Increase</u>
For 5/8 x 3/4-inch meter	\$ 2.00	\$ 2.10	\$ .10
For 3/4-inch meter	2.20	2.30	.10
For 1-inch meter	2.40	2.80	.40
For 1½-inch meter	4.00	4.50	.50
For 2-inch meter	5.80	6.50	.70
For 3-inch meter	10.60	11.00	.40
For 4-inch meter	13.80	14.00	.20
For 6-inch meter	21.00	21.00	-
For 8-inch meter	29.00	29.00	-
For 10-inch meter	40.00	40.00	-

#### Quantity Rate:

For all water delivered, per 100 cu.ft.	.17	.185	.015
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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, 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 Livermore 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 Livermore district on and after January 31, 1961.

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

Dated at San Francisco, California, this 28th  
day of December, 1960

W. E. Page  
President  
Theodore Jenner

Commissioners

APPENDIX A

Schedule No. LV-1

Livermore Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Livermore, and vicinity, Alameda County.

RATES

Per Meter  
Per Month

Service Charge:

For 5/8 x 3/4-inch meter .....	\$ 2.10
For 3/4-inch meter .....	2.80
For 1-inch meter .....	2.70
For 1 1/2-inch meter .....	4.50
For 2-inch meter .....	6.50
For 3-inch meter .....	11.00
For 4-inch meter .....	14.00
For 6-inch meter .....	21.00
For 8-inch meter .....	29.00
For 10-inch meter .....	40.00

Quantity Rate:

For all water delivered, per 100 cu. ft. ....	\$ 0.185
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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.