

ORIGINAL

Decision No. 66634

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA WATER & TELEPHONE COMPANY }
for authority to increase its rates }
and charges for water service in its }
Coronado District. }

Application No. 44818
(Filed September 28, 1962)

Bacigalupi, Elkus & Salinger, by Claude N. Rosenberg,
and Higgs, Fletcher & Mack, by DeWitt Higgs, for
applicant.
Alan M. Firestone, City Attorney, by Graham K. Fleming,
for City of San Diego; Race N. Wilt, City Manager,
for City of Coronado; Fredric G. Dunn, Deputy
County Counsel, for County of San Diego; and
Clyde F. Carroll, for United States Department of
Navy, interested parties.
William C. Bricca, Robert Beardslee, and L. L. Thormod,
for the Commission staff.

O P I N I O NProceeding

This application was heard before Examiner Coffey at Coronado on February 27 and 28, and on March 1 and 4, 1963, and was submitted on April 15, 1963, upon the receipt of late-filed exhibits and the filing of the hearing transcripts. Copies of the application and notice of hearing were served in accordance with the Commission's procedural rules.

Applicant presented seven exhibits and testimony by two witnesses in support of its request for authority to increase its rates and charges for water service in its Coronado District in San Diego County. Three witnesses from the Commission staff presented five exhibits and testimony regarding the results of their independent studies and investigations of applicant's request and operations. The United States Department of the Navy presented ✓

testimony by one witness in support of its request for additional rate schedule blocks. There were no protests or public witness testimony.

System and Service Area

The California Water & Telephone Company is a public utility furnishing telephone service in parts of Los Angeles, San Bernardino, and Riverside Counties and water service in three areas, namely Monterey Peninsula, San Gabriel Valley in Los Angeles County, and near San Diego. The last area is divided into two districts, the Sweetwater District serving National City, Chula Vista, and surrounding territory, and the Coronado District serving the City of Coronado, the City of Imperial Beach, a portion of the City of San Diego lying south of San Diego Bay, and unincorporated areas contiguous thereto. Water for the Coronado District is obtained by purchase from the City of San Diego (74% in 1961) and from applicant's wells. During 1958 applicant's wells in the Otay Valley produced 52% of the total water supply required; in 1961 this well production was reduced to 25%, primarily because of the increase in chlorides and iron in the water. In 1961 water production and treatment facilities in the Tia Juana Valley were abandoned due to the uncertainty of the supply and the availability of water from the City of San Diego.

As of July 31, 1962, the Coronado District served the following metered customers:

<u>Class of Customer</u>	<u>Number</u>
Commercial (incl. domestic)	9,671
Industrial	22
Public Authority	131
Irrigation	7
Temporary Services	4
Total	<u>9,835</u>

These customers are served by means of approximately 590,000 feet of transmission and distribution mains and storage with a total capacity of 5,700,000 gallons.

Applicant's Request and Rate Proposal

Applicant's present tariffs provide for service to all classes of customers under a General Metered Service rate schedule, except public fire hydrant and private fire protection services. Water service to applicant's permanent employees for their own domestic use and for off-peak and interruptible service to the Coronado golf course is billed at the General Metered Service rate less 25%.

The following table summarizes applicant's present and proposed rates, no changes being requested in said discount rates or for public and fire protection services:

PRESENT AND PROPOSED RATES

<u>Item</u>	<u>Rates</u>	
	<u>Present</u>	<u>Proposed</u>
Meter Rates:	<u>Per Meter</u>	<u>Per Month</u>
First 500 cu.ft. or less.....	\$ 2.25	\$ 2.85
Next 2,500 cu.ft., per 100 cu.ft.35	.43
Over 3,000 cu.ft., per 100 cu.ft.33	.41
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 2.25	\$ 2.85
For 3/4-inch meter	3.25	4.00
For 1-inch meter	4.25	5.50
For 1½-inch meter	7.00	8.75
For 2-inch meter	11.00	14.00
For 3-inch meter	20.00	25.00
For 4-inch meter	35.00	45.00
For 6-inch meter	70.00	90.00
For 8-inch meter	110.00	140.00

Under applicant's proposed rates the bills for all classes of consumers would increase in amounts ranging from approximately 24 to 27%, depending upon individual usage. The

median bimonthly sale of 2200 cubic feet of water to commercial and residential consumers presently costs \$8.70 and would cost under proposed rates \$10.86, an increase of 25%.

Issues

The following are the principal issues in the proceeding:

1. Reasonableness of the estimates of operating revenues, expenses, including taxes and depreciation, and rate base.
2. Level of the rate of return to be considered reasonable.
3. Reasonableness of the pricing structure of the proposed tariffs.

Results of Operation

The following tabulation compares the estimates made by the staff and by applicant of the results of operation in the test year 1962 under both present and proposed rates:

<u>Item</u>	<u>SUMMARY OF EARNINGS</u> <u>YEAR 1962 ESTIMATED</u>			
	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Appli- cant's Showing</u>	<u>CPUC Staff Exhibit No. 7</u>	<u>Appli- cant's Showing</u>	<u>CPUC Staff Exhibit No. 7</u>
Operating Revenues	\$901,400	\$918,200	\$1,117,500	\$1,137,400
<u>Operating Expenses</u>				
Oper. & Maint. Exp.	454,500	457,200	454,500	457,900
Admin. & Gen. & Misc. Exp.	81,300	71,800	81,300	71,800
Taxes Other Than Income	84,600	78,200	84,600	78,200
Taxes Based on Income	79,700	96,600	197,700	216,000
Depreciation Expense	95,100	83,500	95,100	83,500
Amortization Expense	10,500	10,500	10,500	10,500
Investment Tax Credit	(2,800)	(5,800)	(2,800)	(5,800)
Total Operating Exp.	\$802,900	\$792,000	\$920,900	\$912,100
Net Revenue	\$ 98,500	\$126,200	\$196,600	\$225,300
Rate Base	\$2,945,000	\$2,950,000	\$2,945,000	\$2,950,000
Rate of Return	3.34%	4.28%	6.68%	7.64%

(Red Figure)

From the foregoing we find that applicant is earning less than a reasonable rate of return and that increased rates should be authorized.

The staff's estimate of revenue at proposed rates is \$19,900 higher than applicant's. Applicant estimated metered water sales on the assumption that past long-term average weather conditions will prevail in the future. In so doing it utilized the records of the monthly precipitation, evaporation and net evaporation at Chula Vista for the last 13 years (Exhibit 5). The staff, on the other hand, trended 4 years of recorded revenues, adjusted to reflect large permanent reductions in consumption at two government installations. The purpose of an estimate of commercial revenues here is to test the reasonableness of a request for increased rates which may be expected to be effective for a future period which will probably be short in relation to the thirteen-year period utilized by applicant. The record shows a condition of increasing dryness and also shows a correlation between revenues and climatic conditions.

Applicant's use of a 13-year average fails to give proper weight to the cyclic character of weather phenomena. "Long-term average" weather is not representative of weather in a shorter period. The staff's approach, since it deals with revenues as a whole, necessarily takes into consideration all factors bearing on revenues and does not unduly emphasize the influence of climate at the expense of such other elements as customer growth and usage. We find that applicant's revenue experience in the immediately preceding four years, trended and adjusted in the manner recommended by the staff, reasonably represents the revenues to be anticipated for the purposes of this proceeding; the staff's estimate of revenues will be used.

The staff's estimate of operation and maintenance expense exceeds that of applicant by \$3,400 at proposed rates.

The staff's estimate of purchased water, pumping cost and transmission and distribution expenses, other than meter maintenance, exceeded that of applicant. Applicant's estimates of meter maintenance and customer accounting exceeded those of the staff. We find reasonable \$462,900 as the estimate of operation and maintenance expenses.

Applicant's estimate of administrative and general and miscellaneous expenses exceeds that of the staff by \$9,500. The difference is largely accounted for by lower estimates by the staff of regulatory commission expense and other outside services employed. The staff witness's explanation in detail of the basis of his estimate is to be contrasted with the bare statement by applicant's witness of past recorded amounts and of the end result of his estimates. We find reasonable the staff estimates of administrative and general and miscellaneous expenses since they were based on careful analysis of past expenditures adjusted to reflect those which reasonably can be expected to be made in the near future.

The staff estimated taxes other than on income to be \$6,400 lower than the estimate of applicant, primarily due to the staff's lower assessable plant and lower tax rate. We find reasonable the staff's estimates of taxes other than on income inasmuch as it reflects the latest known assessment ratio and tax rate.

Applicant's estimate of depreciation expense exceeds that of the staff by \$11,600, resulting primarily from higher depreciable plant and depreciation rates. We find reasonable the staff estimate of depreciation expense and the depreciation rates developed by the staff since the staff estimates reflect major changes in plant composition.

Both applicant and the staff included in their estimates \$10,500 as the annual amortization over 20 years of the unrecovered costs of nonoperative Tia Juana Valley plant facilities, mainly consisting of defending water rights. The Commission, by letter dated April 4, 1961, approved for accounting purposes the amortization of such unrecovered costs, less income tax savings, subject to review in any rate proceeding should the matter be an issue. This record does not contain data on the present value of the Tia Juana Valley lands and facilities owned by applicant, but no longer included in utility plant accounts. If applicant's future customers are to be required to compensate applicant for unrecovered costs of prematurely abandoned plant, the customers reasonably can expect to have such unexpected losses offset by the profits, estimated if not known, from the sale of such property. It must be presumed in the absence of evidence to the contrary that any subsequent sale of the lands would result in a partial recovery of some of the costs associated with the defending of the right to produce water therefrom. On this basis, for this proceeding, and in the absence of a showing by applicant as to the amount of the loss assignable to each of the various classes of property involved, we cannot make findings on this record that said amortization is reasonable for rate-making purposes or that said amortization is properly includible in expenses for the purposes of this proceeding.

In estimating federal income taxes the staff reduced the amount of taxes by the full investment tax credit provided in the Revenue Act of 1962 while applicant reduced taxes by 48% of the tax credit taken and would defer the balance, or 52%, over the life of the investment, to be treated as a reduction of the

rate base. We find that the staff's treatment of the investment tax credit is the proper one for this company. The staff also reduced federal income taxes for liberalized federal income tax depreciation taken in past years in accordance with the procedure set forth in Commission Resolution No. 349, dated November 14, 1961. Applicant did not reflect this authorized procedure in its estimates. We find the staff method of calculating income taxes to be reasonable.

The staff's estimate of rate base exceeded that of applicant by \$5,000. The staff excluded from its rate base overstated organization expenses incurred in connection with the issuance of capital stock between November 30, 1935, when applicant was organized, and December 31, 1954. Applicant did not reclassify said capital stock expense from plant account No. C1, Organization, to general ledger account No. 151, Capital Stock Expense, as prescribed, when the revised Uniform System of Accounts for Water Utilities became effective January 1, 1955, although capital stock expenses have been charged to Account No. 151 subsequent to January 1, 1955. On July 31, 1962, overstatement of the organization expense account amounted to \$217,147, of which \$11,543 relates to the Coronado District. We find this adjustment and the staff's estimate of rate base to be reasonable.

Position of Interested Parties

A representative of the United States Department of the Navy requested that the proposed rate structure be revised to provide additional blocks at lower prices for large water users. This request was opposed by the representative of the City of San Diego. We find that this record does not contain sufficient factual information to decide this issue. We will order applicant to make an appropriate cost of service study and supply it to all

appearances. Upon review of said study any party may request appropriate revisions of applicant's rate structure.

The representative of the City of San Diego argued that the cost of purchased water should be excluded from operation and maintenance expenses when used as a factor in allocating costs between the organization components of applicant and associated companies. To do so would place undue emphasis upon this *item. Since* ~~item since~~ other factors must be considered in allocating costs, we find reasonable the general method used by applicant and the staff in allocating costs. ✓

Adopted Results

Applicant requested rates which it estimated would have resulted in a rate of return of 6.68% in the year 1962. Applicant argued that such a rate of return under the conditions prevailing at the present time and based upon the rate of return that the Commission has been allowing to comparable water operations in the State of California in current years is reasonable and necessary. A staff witness testified that the rate of return on rate base for the Coronado operations should range from 6.4 to 6.5%.

The Commission finds that a 6.5% return based on the following adopted rate base for the year 1962 will for the future be just and reasonable. We further find that the estimates as set forth below of operating revenues under the rates and charges herein authorized, expenses, including taxes and depreciation, and the rate base for the year 1962, reasonably represent the results of applicant's operations for the purposes of this proceeding.

ADOPTED SUMMARY OF EARNINGS

Operating Revenues	\$1,045,300
<u>Operating Expenses</u>	
Operation and Maintenance Expense	462,900 ✓
Admin. & Gen. & Misc. Expenses	71,800
Taxes Other Than Income	78,200
Taxes Based on Income	162,900
Depreciation Expense	83,500
Investment Tax Credit	(5,800) ✓
Total Operating Expenses	\$ 853,500
Net Revenue	\$ 191,800
Rate Base	\$2,950,000
Rate of Return	6.5%

(Red Figure)

Upon consideration of the evidence the Commission finds 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. Based on the foregoing findings of fact, the Commission concludes that applicant has met the requirements of Sections 454 and 491 of the Public Utilities Code and should be authorized to file the schedule of rates attached to this order.

The rates and charges herein authorized would have increased applicant's gross revenues 14% in the test year. The typical residential customer's bimonthly bill for 2,200 cubic feet of water will increase from \$8.70 to \$9.90, an increase of 14%.

O R D E R

IT IS ORDERED that:

1. Applicant is authorized to file with this Commission, after the effective date of this order and in conformity with General Order No. 96-A, the schedule of rates attached to this order as Appendix A and, upon not less than five days' notice to the Commission and to the public, to make such rates effective for service rendered on and after February 10, 1964.

2. Within sixty days after the effective date of this order, applicant shall file with the Commission four copies of a comprehensive map, drawn to an indicated scale of not more than 1,000 feet to the inch, delineating by appropriate markings the various tracts of land and territory served; the principal water production, storage and distribution facilities; and the location of the various water system properties of applicant.

3. Beginning with the year 1964 applicant shall, in determining its depreciation expense, use for Account 315, Wells, the annual depreciation rate of 11.90%; for Account 316, Supply Mains, the annual depreciation rate of 6.32%; and for Account 342, Reservoirs and Tanks, the annual depreciation rate of 1.39%. Other annual depreciation rates shall be in accordance with those shown on Table 9-C of Exhibit 2 in this proceeding. These remaining-life depreciation rates shall be used until a review indicates that they should be revised. Applicant shall review the depreciation rates when major changes in plant composition occur and for each plant account at intervals of not more than four years. Results of these reviews shall be submitted to the Commission.

4. On or before December 31, 1964, applicant shall file with this Commission and send to each appearance in this proceeding

a report setting forth for its Coronado District the development and results of a study of the costs to serve customers of various levels of consumption, including customer, commodity and demand unit costs.

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

Dated at San Francisco, California, this 14th day of January, 1964. *UB*

Challenger Bennett
President

John E. Mitchell

Everett W. Page

George T. Trover

Frederick B. Halaloff
Commissioners

APPENDIX A
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Schedule No. CO-1

Coronado Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Coronado, Imperial Beach, and portion of San Diego, and vicinity, (T)
San Diego County. (T)

RATES

Per Meter
Per Month

Quantity Rates:

First 500 cu.ft. or less	\$ 2.55	(I)
Next 2,500 cu.ft., per 100 cu.ft.40	
Over 3,000 cu.ft., per 100 cu.ft.38	

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 2.55	
For 3/4-inch meter	3.70	
For 1-inch meter	4.80	
For 1 1/2-inch meter	8.00	
For 2-inch meter	12.50	
For 3-inch meter	23.00	
For 4-inch meter	40.00	
For 6-inch meter	80.00	
For 8-inch meter	125.00	(I)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

(Continued)

APPENDIX A
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Schedule No. CO-1

Coronado Tariff Area

GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITION

When meters are read bimonthly, the charge will be computed by doubling the monthly minimum charge and the number of cubic feet to which each block rate is applicable on a monthly basis.

(N)
|
(N)