

65879

ORIGINAL

Decision No. _____

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)
 Sweetwater District.)

Application No. 44611
 (Filed July 3, 1962)

Bacigalupi, Elkus & Salinger, by Claude N. Rosenberg
 and DeWitt A. Higgs of Higgs, Fletcher & Mack, for
 applicant.

Brobeck, Phleger & Harrison, by Gordon E. Davis and
S. W. Shepard, for Rohr Corporation; Lara P. Good,
 for Sweetwater Valley Association, protestants.

William W. Carstens and William L. Todd, for the
City of National City; James S. Duberg, for the
City of Chula Vista; Fredric G. Dunn, for the
County of San Diego and Paul D. Engstrand, for
South Bay Irrigation District, interested parties.

William C. Bricca, Robert W. Beardslee and L. L.
Thornod, for the Commission staff.

O P I N I O NProceeding

This application was heard before Commissioner Holoboff and Examiner Coffey at Chula Vista on December 5, 6, and 7, 1962, and before Examiner Coffey on February 13, 14, 15, 18, 19, 20 and 21, and on April 9 and 10, 1963. It was submitted on June 25, 1963, upon the receipt of closing briefs. Copies of the application and notice of hearing, including written notice to each customer, were served in accordance with the Commission's procedural rules.

Applicant presented 28 exhibits and testimony by five witnesses in support of its request for authority to increase its rates and charges for water service in its Sweetwater District in San Diego County. Four witnesses from the Commission's staff

presented four exhibits and testimony regarding the results of their independent studies and investigations of applicant's request and operations. National City (National) and South Bay Irrigation District (District) jointly presented testimony by one witness and nine exhibits in support of their request that the rate increase be denied. Rohr Corporation (Rohr) introduced one exhibit, presented the testimony of one witness and actively participated in the proceeding to develop its protest of the amount of the proposed increase and to request that any increase in rates for service to Rohr be denied. Safeway Stores, Incorporated, (Safeway) presented one witness and one exhibit in support of its position that the rate for private fire protection service should be reduced from its present level. Twenty-three witnesses from the public and two petitions, with approximately 192 signatures, protested the request of applicant.

System and Service Area

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 Sweetwater District is obtained by

purchase of Colorado River water from the San Diego County Water Authority (12,971 acre-feet in 1962), by pumping from wells (970 acre-feet in 1962) and surface runoff into Loveland and Sweetwater reservoirs (1,568 acre-feet in the 1961-1962 season).

Metered customers were delivered 13,423 acre-feet of water during 1962. As of December 31, 1962, the Sweetwater District rendered service of metered customers as follows:

<u>Class of Customer</u>	<u>Number</u>
Commercial (incl. domestic)	22,694
Industrial	97
Public Authorities	129
Irrigation	196
Temporary Services	34
Total	<u>23,150</u>

These customers are served by means of approximately 1,500,000 feet of transmission and distribution mains, 8 wells and 18 units of storage with a total capacity of over 53,000 acre-feet.

Applicant's Request and Rate Proposal

Applicant's present tariffs provide for metered service under General Metered Service and Measured Irrigation Service rate schedules to all classes of customers except public fire hydrant and private fire protection services. Water service to applicant's permanent employees for their own domestic use is billed at the General Metered Service rate less 25 percent.

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

PRESENT AND PROPOSED RATES

<u>Item</u>	<u>Rate</u>	
	<u>Present</u>	<u>Proposed</u>
	<u>Per Meter</u>	<u>Per Month</u>
General Meter Rates:		
First 500 cu.ft. or less	\$ 2.90	\$ 3.70
Next 1,500 cu.ft., per 100 cu.ft. ....	.46	.58
Next 23,000 cu.ft., per 100 cu.ft. ....	.32	.41
Next 475,000 cu.ft., per 100 cu.ft. ....	.26	.33
Over 500,000 cu.ft., per 100 cu.ft. ....	.22	.28
Irrigation Meter Rates:		
First 500 cu.ft. or less	2.90	3.70
Next 1,500 cu.ft., per 100 cu.ft. ....	.46	.58
Next 13,000 cu.ft., per 100 cu.ft. ....	.25	.33
Over 15,000 cu.ft., per 100 cu.ft. ....	.13	.16
Minimum Charge for General and Irrigation Service:		
For 5/8 x 3/4-inch meter	2.90	3.70
For 3/4-inch meter	3.75	4.75
For 1-inch meter	4.50	5.50
For 1 1/2-inch meter	6.50	8.00
For 2-inch meter	9.00	11.00
For 3-inch meter	15.00	19.00
For 4-inch meter	25.00	31.00
For 6-inch meter	45.00	56.00
For 8-inch meter	55.00	69.00
For 10-inch meter	70.00	90.00
For 12-inch meter	100.00	130.00

Under applicant's proposed rates the bills under general meter rates would be increased approximately 27 percent and the bills under irrigation rates would be increased in amounts ranging from approximately 23 to 30 percent, depending upon the usage. The median bimonthly bill, for 1,900 cubic feet of water, to commercial and residential consumers presently is \$9.94 and under proposed rates would be \$12.62, an increase of 27.0 percent.

Issues

The following are the issues in this proceeding:

1. Reasonableness of the estimates of operating revenues, expenses, including taxes, 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 applicant, staff and District of the results of operation in the test year 1962 under both present and proposed rates:

SUMMARY OF EARNINGS
YEAR 1962 ESTIMATED

<u>Present Rates</u>			
Item	:Applicant's : : Showing : :(Exhibit 26):	CPUC Staff (Exhibit 26)	: District : :(Exhibit 29):
Operating Revenues	\$2,286,800	\$2,319,400	\$2,346,200
<u>Operating Expenses</u>			
Oper. & Maint. Exp.	834,400	752,700	748,100
Admin. & Gen. & Misc. Exp.	193,400	185,100	185,100
Taxes Other Than On Income	347,900	348,000	302,500
Taxes Based On Income	251,100	300,300	353,100
Depreciation Expense	<u>210,500</u>	<u>203,900</u>	<u>184,500</u>
Total Operating Expenses	1,837,300	1,790,000	1,773,300
Net Revenue	449,500	529,400	572,900
Rate Base	10,973,000	10,736,000	8,253,000
Rate of Return	4.10%	4.93%	6.94%
<u>Proposed Rates</u>			
Operating Revenues	\$2,878,300	\$2,920,600	\$2,958,800
<u>Operating Expenses</u>			
Oper. & Maint. Exp.	834,400	755,000	750,400
Admin. & Gen. & Misc. Exp.	193,400	185,100	185,100
Taxes Other Than On Income	347,900	348,000	302,500
Taxes Based On Income	574,400	627,500	686,500
Depreciation Expense	<u>210,500</u>	<u>203,900</u>	<u>184,500</u>
Total Operating Expenses	2,160,600	2,119,500	2,109,000
Net Revenue	717,700	801,100	849,800
Rate Base	10,973,000	10,736,000	8,253,000
Rate of Return	6.54%	7.46%	10.30%

The major difference between the revenue estimates of the parties is in the revenues of commercial metered service. This difference can be mainly attributed to variations in the estimates of the average use per customer, although the applicant assumed 70 less average active services than the staff or District. District, staff, and applicant respectively estimated 17,500, 17,080, and 17,010 cubic feet as normalized annual consumption of commercial water per customer in the year 1962. The actual use in the year 1962 was approximately 17,400 cubic feet.

All parties estimated commercial revenue by separately estimating the number of bills to be rendered each month, the average water use per bill in cubic feet under average or normal weather conditions, and the average revenue per bill for the average or normal water sales estimate. The number of bills was forecast by projection of the growth curve with substantial agreement of the estimates.

Applicant, in general, arrived at average water sales per customer for each month of the year by making judgment estimates after reviewing and correlating average water sales per bill for the 12-year period 1950 through 1961 by months and the daily climatological factors of precipitation, gross evaporation, and net evaporation (gross evaporation less precipitation). This latter factor gives effect to wind and temperature as well as rainfall.

The staff's witness, in general, normalized water sales per customer to reflect average climatic conditions by first examining rainfall and the effect of evaporation for the 10-year period 1952 through 1961. The arithmetical average of rainfall and net evaporation for the years 1954, 1955, 1958, and 1960 was adopted as the normal condition. Normalized sales for each year were determined by adjusting recorded sales to commercial customers, by winter and summer

usage, to reflect the assumed normal condition for rainfall and net evaporation. Finally, based on a plot of normalized annual sales, a study of usage for the first six recorded months of 1962, and several minor adjustments, the staff determined its estimate of sales per commercial customer for the year 1962.

District, in general, estimated normal water use based on a study of climatic conditions and the trend of unit water use derived from the 12-month moving average water use per commercial service for the period 1950-1962.

We note that all parties based their estimates of normal water use by commercial customers on a study of evaporation and precipitation records for approximately the same period. However, applicant's estimates were criticized for not taking into consideration the trend in increased use per customer. The staff's estimates were criticized on the one hand for not making enough allowance for the trend in increased use per customer and on the other hand for having used a high estimate of revenue per bill. District's estimates were criticized for being based on erroneous assumptions, including an upward trend in use per customer.

The problem of estimating commercial revenues in 1962 is essentially one of how to convert past recorded data so that the estimate will reasonably reflect for regulatory purposes the past increased numbers of customers, growth in use per customer and variations in climatic conditions which cause fluctuations in use, and also to reflect conditions which may reasonably be expected to prevail in the future. The purpose of an estimate of commercial revenues in this proceeding is to test the reasonableness of a request for increased rates which may be expected to be effective

for a future period which probably will be short in comparison with the period for which recorded climatic data is available.

A review of climatic data in this record clearly shows that the Sweetwater District has generally been experiencing progressively drier conditions during the periods used in the climatic studies of all parties. The use of averages over long periods as representative of climatic conditions of increasing dryness results in the projections of less revenues than can reasonably be expected in the near future when the rates under review will be in effect.

We have reviewed recorded commercial revenues for the period 1957 through 1962 and find that a reasonable trend of this data indicated that for the year 1962 a reasonable estimate for regulatory purposes of commercial revenues would not be less than \$1,950,000. This amount is less than the \$1,959,000 of commercial revenues realized in 1961, is greater than the \$1,883,000 actually realized in 1962, and is greater than the estimate of any party. Our estimate makes allowance for the factors of customer growth, increased usage, climatic variations and probable future conditions and reflects the lessening rate of customer growth and possibility that the current dry period may be becoming less severe.

We find that the staff's estimate of revenues under present rates is reasonable except that in our adopted results we will for the foregoing reasons add \$81,700 of additional commercial revenues.

The difference between the estimates of operating and maintenance expenses results mainly from the varying assumed amounts of purchased water. Applicant's estimate provided for the purchase of 8,900 acre-feet of water based on the assumption that 75 percent of its total requirements over and above water available from wells would be purchased. This resulted in an assumed surface production

of 3,000 acre-feet. The staff estimated that 5,280 acre-feet of water would be purchased on the assumption that 5,800 acre-feet of water would be produced from the collection of surface runoff, the estimated average long term yield available from the Sweetwater River by reason of applicant's dams. District estimated that 4,000 acre-feet would be purchased on the assumption that the long term average annual production from the Sweetwater River would be 8,000 acre-feet.

Other differences in the estimates resulted from the staff's assumption of continuous operation of wells, as compared to the present interruptible production, the completion of the cement lining program in 1963, and the availability to the staff of more recent data.

We find reasonable the staff's estimate of expenses, with the exception that the estimate for purchased water will be decreased on the assumption that the long term average production from the Sweetwater River will be 8,000 acre-feet.

The estimate of the staff of administration and general and miscellaneous expenses is lower than applicant's due mainly to lower staff estimates of office supplies (\$3,900 difference), regulatory commission expense (\$4,400 difference), outside services employed (\$7,500 difference) and administrative expenses transferred (\$3,800 difference).

Other than regulatory commission expense, the staff's estimates reflect more recent or a longer period of experience than reflected in applicant's estimates. The staff's estimate of regulatory commission expense did not comprehend the length or complexity of this proceeding. We find reasonable the staff's estimate of administrative and general and miscellaneous expenses other than the allowance for regulatory commission expense. We will increase the staff's regulatory commission expense estimate for the year 1962 from \$7,300 to \$12,000.

The staff estimated that income taxes in the test period would be reduced by the total investment tax credit of \$11,000. The applicant reduced estimated income taxes by 48 percent of the total investment tax credit (\$4,800), on the theory that under present tax rates 52 percent of the investment tax credit should be a deferred tax and 48 percent of the investment tax credit should be a reduction of Federal income taxes. The Commission has given careful consideration to the aforesaid methods of applying the investment tax credit. We find that the staff's method of applying the investment tax credit is the proper one for this utility and accordingly find that the staff's estimate of income taxes is reasonable. Differences in the estimates of the staff and applicant of taxes other than income and depreciation are offsetting. For the purposes of this decision we find reasonable the staff's estimates for these items after eliminating ad valorem taxes associated with Sweetwater lands hereinafter discussed.

Applicant took no substantial issue with the rate base developed by the staff. The staff's estimate of rate base included (1) the effect of recording unrecorded retirements and plant not used and useful in utility service, (2) deducting certain modifications not included by applicant and (3) allowances for materials and supplies and working cash smaller than those of applicant. District, National and Rohr argued that Loveland Dam, its reservoir and certain Sweetwater lands (Loveland Unit) have become useless and should be excluded from the rate base.

Loveland Reservoir was constructed early in 1945 upstream from the existing Sweetwater Reservoir for the purpose of providing additional storage of Sweetwater River waters to meet the needs of consumers in years of low rainfall or runoff. At an approximate investment of \$2,700,000, 25,400 acre-feet of storage capacity was provided

to supplement the 27,700 acre-foot of Sweetwater Reservoir capacity. A continuing decline in runoff over the years has resulted in the purchase of Colorado River water beginning in 1948 in order to meet the rising water needs of the utility, estimated by applicant to be 13,400 acre-feet in 1962.

Since Loveland Dam was constructed, it has never been filled, nor has Sweetwater Reservoir overflowed. Only once, during the period April through June 1952, has the total quantity stored in both reservoirs exceeded the capacity of Sweetwater Reservoir alone, the maximum excess then being about 1,200 acre-feet. On December 1, 1951, prior to the 1952 floods, the combined contents of both reservoirs totaled 5,800 acre-feet, most of which was Colorado River water. From January through March 1952, applicant purchased 1,550 acre-feet of water. Witness for District testified that the construction of Loveland Dam has so far resulted in negligible gain in water supply, less than 1,000 acre-feet of water in the entire 18-year period.

The long term average annual yield of the Sweetwater River attributable to Loveland Dam was estimated by applicant to be 3,000 acre-feet, by the staff to be 2,000 acre-feet, and by District to be 1,800 acre-feet.

The current cost of 2,000 acre-feet of additional Colorado River water would be approximately \$36,000 as compared with the staff's estimate of \$289,000 total annual cost of water from Loveland Dam per year. Even assuming that the yield is 3,000 acre-feet, as estimated by applicant, the equivalent cost of Colorado River water would be \$54,000 per year as compared to the total annual cost of water from the Loveland Dam.

This Commission included Loveland Dam and reservoir in the rate base, after the issue of usefulness was raised, in Decision No. 43721, dated January 17, 1950 and Decision No. 51460, dated May 10, 1955.

None of the parties in this proceeding have questioned the prudence of the decision to construct Loveland Dam. However, this record demonstrates and we find that these facilities have not been useful in rendering public utility water service.

The protestants maintain that Loveland Dam and reservoir is now useless and should be excluded from the rate base, but that applicant should be compensated for the reasonable value of the water it might produce. Witnesses for applicant and staff based their opinions that Loveland Dam and reservoir are useful on the probabilities that the current drought will end and that substantial quantities of water will be produced by these facilities on a long term basis.

The record shows that for the 76-year period from 1887 through 1962, runoff on the Sweetwater watershed exceeded the capacity of Sweetwater Reservoir in eight years and of both Sweetwater and Loveland reservoirs in six years. Considering the present availability of a relatively less costly water supply, the speculative nature of future water production economies which might accrue from Loveland Dam and reservoir, and unreliability of production amounts, we are of the opinion that the time has come for applicant to bear with its customers a share of the burden of Loveland Dam and reservoir.

Witness for applicant testified that Sweetwater lands in general were required to protect the reservoir from contamination. After a review of operative lands, applicant's witness recommended that the rate base be reduced \$19,124 to reflect Sweetwater lands not needed for utility service.

For the purposes of this proceeding, we find reasonable the rate base as estimated by the staff reduced by \$19,124 for Sweetwater lands. However, in our adopted results we will include earnings on Loveland Dam and reservoir at a rate of return less than the rate allowed on the remaining part of the rate base. The reduced return on the total rate base will be a measure of the shifting from the customers of the applicant, to applicant, of the risks of what have proved over their lives to be unproductive facilities. It is unreasonable that only applicant's customers continue to bear this burden. Applicant will hereby share with its customers the risks of an unsuccessful investment. Applicant may request reconsideration of this matter in future rate proceedings if it can show substantial customer benefits.

Adopted Results

Witnesses for both the staff and applicant recommended 6.5 percent as a proper rate of return to be allowed applicant in this proceeding. Rohr argued that if Loveland Dam were excluded from the rate base, the allowed rate of return could be approximately as much as 6.4 percent.

The Commission finds that a 4.45 percent return on Loveland Dam and reservoir and a 6.5 percent return on the remaining part of the adopted rate base for the year 1962 will for the future be fair and reasonable. We find that a 6.0 percent return on the total adopted rate base will be fair and reasonable. We further find that the estimates set forth below of operating revenues under present rates and 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 future.

ADOPTED SUMMARY OF EARNINGS

	<u>Present Rates</u>	<u>Authorized Rates</u>
Operating Revenues	\$2,401,100	\$2,551,400
<u>Operating Expenses</u>		
Operation and Maintenance Expense	718,900	720,000
Administration & General & Miscellaneous Expense	189,800	189,800
Taxes Other Than On Income	346,700	346,700
Taxes Based On Income	361,700	443,300
Depreciation Expense	<u>203,900</u>	<u>203,900</u>
Total Operating Expenses	1,821,000	1,903,900
Net Revenue	580,100	647,700
Rate Base	10,716,900	10,716,900
Rate of Return	5.4%	6.0%

Findings

Upon consideration of the evidence the Commission finds that:

1. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

2. Inasmuch as applicant is not requesting an increase in rates for fire protection services, this proceeding is not an appropriate vehicle by which to effect a decrease in private fire protection service rates.

3. The increases in rates and charges authorized herein should be applied to service to Rohr. It would be unjust and unreasonable to allocate to other customers the costs of filtering the large quantities of water utilized by Rohr and demand costs based on data admitted to be incomplete.

The Commission concludes that applicant 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 6.3 percent in the test year. The typical residential customer's average bimonthly bill for 1,900 cubic feet of water will increase from \$9.94 to \$10.50, an increase of 5.6 percent; the typical monthly cost will increase from \$4.97 to \$5.25.

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 schedules 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 April 1, 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. Within forty-five days after the effective date of this order, applicant shall file with the Commission, in conformity with General Order No. 96-A and in a manner acceptable to the Commission,

a revised and consolidated set of rules governing service to customers in all of its water divisions, and copies of printed forms that are normally used in connection with customers' service.

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

Dated at San Francisco, California, this 25th day of February, 1964.

 President
[Signature]

[Signature]

 Commissioners
George D. Hoover
Fredrick B. Halbach

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
Page 1 of 2

Schedule No. SW-1 (T)

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service. (T)

TERRITORY

Chula Vista, National City and vicinity, San Diego County. (T)

RATES

Per Meter
Per Month

Quantity Rates:

First	500 cu.ft. or less	\$ 3.00	(I)
Next	1,500 cu.ft., per 100 cu.ft. ....	.50	
Next	23,000 cu.ft., per 100 cu.ft. ....	.36	
Next	475,000 cu.ft., per 100 cu.ft. ....	.30	
Over	500,000 cu.ft., per 100 cu.ft. ....	.25	

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 3.00	
For	3/4-inch meter	4.40	
For	1-inch meter	5.50	
For	1 1/2-inch meter	8.00	
For	2-inch meter	11.00	
For	3-inch meter	19.00	
For	4-inch meter	31.00	
For	6-inch meter	56.00	
For	8-inch meter	69.00	
For	10-inch meter	90.00	
For	12-inch meter	130.00	(I)

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

APPENDIX A
Page 2 of 2

Schedule No. SW-3M (T)

MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service. (T)

TERRITORY

Chula Vista, National City and vicinity, San Diego County. (T)

RATES

Per Meter
Per Month

Quantity Rates:

First 500 cu.ft. or less	\$ 3.00	(I)
Next 1,500 cu.ft., per 100 cu.ft. ....	.50	
Next 13,000 cu.ft., per 100 cu.ft. ....	.28	
Over 15,000 cu.ft., per 100 cu.ft. ....	.16	

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 3.00	
For 3/4-inch meter	4.40	
For 1-inch meter	5.50	
For 1 1/2-inch meter	8.00	
For 2-inch meter	11.00	
For 3-inch meter	19.00	
For 4-inch meter	31.00	
For 6-inch meter	56.00	
For 8-inch meter	69.00	
For 10-inch meter	90.00	
For 12-inch meter	130.00	(I)

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