

ORIGINALDecision No. 67262

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)
 it to increase rates charged for water)
 service in the Visalia district.)

Application No. 45452
 (Filed May 21, 1963)

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

City of Visalia, by N. O. Bradley, interested
 party.

Cyril M. Saroyan and Robert W. Beardslee, for
 the Commission staff.

O P I N I O N

Public hearing in this matter was held before Examiner Emerson on December 17 and 18, 1963, at Visalia. The matter is submitted and ready for decision.

Applicant seeks authority to increase its rates for water service in its Visalia district by amounts sufficient to yield a rate of return for that district of 6.5 percent based upon operations during the year 1964. The water rates now in effect are those established by this Commission in 1952. In the succeeding eleven years, wage rates have increased by more than 60 percent, new plant per customer has increased almost 40 percent, ad valorem taxes have increased both in dollar amount and in relation to plant, and substantial increases have occurred in the prices of materials. In the eleven-year period, applicant has added more than \$1,200,000 in new plant in Visalia, including nine new wells, a new booster plant and more than 33 miles of new water mains.

As evidenced by its annual reports to the Commission, applicant's recorded overall earnings for the year 1962, upon a depreciated rate base, were approximately 6.08 percent, reflecting use of liberalized tax depreciation and the investment tax credit. Applicant's Visalia district is one of 21 separate systems which, except for routine allocations of overhead, constitutes a single entity for rate-making purposes. It was alleged that the Visalia district earnings for the year 1963 would be no more than 5.15 percent, declining to about 4.8 percent in the year 1964. In this proceeding, applicant has proposed new water rates designed to bring its Visalia earnings to the level of 6.5 percent, based upon operations for the estimated year 1964.

Applicant's present general metered service schedule is a "minimum charge" type of rate which includes a quantity of water for the minimum billing. The proposed new rate schedule is a "readiness to serve" type of rate schedule, based upon a fixed service charge to which a constant amount per unit of consumption is additive. Visalia is one of applicant's few remaining districts in which the minimum charge type of rate is used, nearly all other districts having been changed to the service charge type of rate during recent years. A comparison of typical monthly billings, under existing and proposed rates, is as follows. Of the total of approximately 9,000 active service connections, approximately 1,000 receive metered service.

Monthly Billings - Metered Rates
(5/8 x 3/4-inch meter)

<u>Consumption (100 cu.ft.)</u>	<u>Present</u>	<u>Proposed</u>
4	\$1.50	\$2.20
6	1.66	2.40
9	2.14	2.70
15	3.10	3.30
24	4.54	4.20
37	6.34	5.50
54	8.33	7.20

Approximately 7,400 of applicant's customers in Visalia receive water at flat rates, the billings for which are based upon the number of rooms, baths, showers, and toilets in the house and the size of the area irrigated. A comparison of monthly billings for these items is as follows:

Monthly Billings - Flat Rates

<u>Description</u>	<u>Present</u>	<u>Proposed</u>
Residence, 5 rooms or fewer	\$1.60	\$1.95
Each additional room	.25	.30
Bath or shower	.18	.25
Toilet	.19	.25
Irrigated areas:		
First 100 sq.yds.	.37	.45
Next 200 sq.yds., per sq.yd.	.0035	.004
Next 1,000 sq.yds., per sq.yd.	.0025	.003
Over 1,300 sq.yds., per sq.yd.	.00125	.0015

The revenue effect of the proposed water rates, based upon estimated 1964 operations, would amount to an increase of \$73,000, or approximately 17 percent.

Evidence respecting applicant's earning position was presented by applicant and by the Commission staff. A summary comparison of the respective showings is set forth in the following tabulation:

Summary of Earnings - Visalia District
Estimated Year 1964

<u>At Present Water Rates</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 426,000	\$ 429,100
Operating Expenses		
Before taxes and depreciation	176,700	170,900
Taxes, other than on income	91,600	83,300
Income taxes	7,100	17,500
Depreciation	56,700	59,500
Total Operating Expenses	<u>332,100</u>	<u>331,200</u>
Net Revenue	93,900	97,900
Rate Base (depreciated)	1,960,600	2,009,400
Rate of Return	4.79%	4.87%

(Continued)

<u>At Rates Proposed by Applicant</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 499,000	\$ 503,700
Operating Expenses		
Before taxes and depreciation	176,700	170,900
Taxes, other than on income	91,600	83,300
Income taxes	46,900	58,300
Depreciation	56,700	59,500
Total Operating Expenses	<u>371,900</u>	<u>372,000</u>
Net Revenue	127,100	131,700
Rate Base (depreciated)	1,960,600	2,009,400
Rate of Return	6.48%	6.55%

In general, the Commission staff, having made its studies and prepared its showing at a later date, had available to it more recent data than applicant had, and several of the differences apparent in the foregoing tabulation are directly attributable to such situation. The items of revenues, rate bases and depreciation expenses are cases in point, and with respect to such items the evidence is convincing, and the Commission finds, that the estimates of the staff are fair and reasonable.

With respect to expenses, other than taxes and depreciation, the staff estimate is lower than applicant's in four major areas. First, the staff has eliminated \$20,000 from applicant's general-office charges to a reserve set up for the purpose of meeting applicant's liability under retirement contracts with its officers. This subject was extensively placed before the Commission in Application No. 43397, involving applicant's Oreville district, and in Decision No. 63530 in that proceeding the Commission specifically found "that \$20,000 is a reasonable amount for test year purposes". In the instant proceeding the evidence is clear that the liability still exists, that the contracts are still in force and that applicant is now, and for future years will be, making payments thereon. The evidence herein does not indicate that the prior finding should be

upset. Second, the staff allowance for the costs of preparing and prosecuting this rate case is lower than applicant's and was based upon the average costs of a prior series of rate proceedings rather than on an analysis of prospective costs of this particular proceeding. The evidence on this subject is convincing that applicant's estimate of regulatory expense is fair and reasonable. Third, in view of the evidence respecting growth and the pumping costs resulting from new wells and lowering water tables, the Commission finds that applicant's estimate of the costs of electric power more nearly reflects prospective actual costs in the test year 1964 than does the staff estimate and that applicant's estimate of such costs is fair and reasonable. Fourth, the staff estimate of the labor component of district maintenance work is lower than applicant's estimate. Among other factors, this expense is influenced by the amount of street and highway work ordered by governmental bodies. In the Visalia district such street work is increasing both in frequency and in extent. In view of such situation, applicant's estimate of maintenance costs appears to be the more accurate. The Commission finds applicant's estimate in such regard to be fair and reasonable for the test year 1964.

In summary, the Commission finds that the amounts tabulated below, including taxes computed on the basis of the foregoing findings, fairly represent prospective earnings in applicant's Visalia district for the test year 1964, under existing and proposed water rates. We take official notice of the reduction in federal income taxes signed into law on February 26, 1964. These reductions are reflected in the adopted results at the tax rate to be effective in 1965, consistent with the treatment relative to trend in rate of return hereinafter set forth. ✓

Adopted Earnings Results
Present and Proposed Rates
Estimated Year 1964.

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 429,100	\$ 503,700
Operating Expenses		
Before taxes and depreciation	176,700	176,700
Taxes, other than on income	83,300	83,300
Income taxes	12,800	50,500 ✓
Depreciation	59,500	59,500 ✓
Total Operating Expenses	<u>332,500</u>	<u>370,000</u> ✓
Net Revenue	96,200	133,700 ✓
Rate Base (depreciated)	2,009,400	2,009,400 ✓
Rate of Return	4.82%	6.65% ✓

The evidence demonstrates, as the above tabulation illustrates, that applicant is in need of and entitled to increased revenues. As to the amount of revenues needed by applicant, the testimony of a staff witness demonstrates applicant's need for a rate of return of not less than 6.2 percent if applicant is to meet its debt and realize a reasonable return on equity capital. The evidence also demonstrates that earnings in the Visalia district decline by about 0.2 percent a year because of growth and continued inflationary influences. In view of the fact that the rates to be authorized herein will not be effective for the full year 1964, such declining trend will be taken into account in setting the new rates. The evidence also shows that applicant's present residential flat rate tariff structure is cumbersome and that a reasonable tariff would result from basing flat rate charges on lot size. The influence of this approach is initially to increase the rate of return by approximately 0.1 percent.

In view of the evidence, the more important elements of which are discussed above, the Commission finds that water rates should be authorized which, on the basis of the test year 1964 estimates hereinabove found to be reasonable, will yield a rate of return of 6.5 percent on a depreciated rate base of \$2,009,400, which rate of return and rate base the Commission finds to be fair and reasonable.

The rate increases authorized herein will produce a gross revenue increase of approximately \$62,100 or about 16 percent.

The Commission finds that the increases in rates authorized herein are justified and that existing rates, insofar as they differ from those authorized herein, are for the future unjust and unreasonable.

ORDER

IT IS ORDERED that:

1. California Water Service Company is authorized to file with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96-A, the schedules of rates attached to this order as Appendix A and, on not less than five days' notice to the public and to this Commission, to make such rate schedules effective for service rendered in its Visalia district on and after June 16, 1964.

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

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

Dated at San Francisco, California, this 26th day of MAY, 1964.

Holloman C. Brundage
President

Edna E. Mitchell

Robert E. Long

George T. Hoover

Fredrick B. Hallock
Commissioners

APPENDIX A
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Schedule No. VS-1

Visalia Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Visalia and vicinity, Tulare County.

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		
For all water delivered per 100 cu.ft.	\$.10	(C)
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 1.80	(C)
For 3/4-inch meter	2.00	
For 1-inch meter	2.70	
For 1 1/2-inch meter	3.80	
For 2-inch meter	4.80	
For 3-inch meter	9.00	
For 4-inch meter	12.00	
For 6-inch meter	20.00	
For 8-inch meter	30.00	
For 10-inch meter	37.00	

The Service Charge is a readiness-to-serve charge to which is to be added the monthly charge computed at the Quantity Rate.

(C)

(C)

APPENDIX A
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Schedule No. VS-2R

Visalia Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service. (T)

TERRITORY

Visalia and vicinity, Tulare County. (T)

RATES

Per Service Connection
Per Month

For a single-family residential unit,
including premises, having the
following area:

0,000 sq.ft., or less	\$3.10	(C)
0,001 to 10,000 sq.ft.	4.10	
10,001 to 16,000 sq.ft.	5.05	
16,001 to 25,000 sq.ft.	6.35	

For each additional single-family residential unit on the same premises and served from the same service connection.....	2.50	(C)
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SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter. (N)
2. All service not covered by the above classifications shall be furnished only on a metered basis.
3. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. VS-1, General Metered Service. (N)