

Decision No. 67263**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)
 it to increase rates charged for)
 water service in the Livermore)
 district. }

Application No. 45453
 (Filed May 21, 1963)

McCutchen, Doyle, Brown, Trautman & Enersen,
 by A. Crawford Greene, Jr., for applicant.
 City of Livermore, by Daniel J. Lee,
 interested party.
Cyril M. Saroyan, for the Commission staff.

O P I N I O N

Public hearing in this matter was held before Examiner Emerson on December 20, 1963, at Livermore.^{1/} No person appeared at the hearing to protest applicant's rate proposal or otherwise comment upon applicant's operations or service.

In the last rate proceeding in this district^{2/} the Commission found that the increase in rates therein authorized would yield applicant a rate of return of 6½ percent on the basis of the Commission's adopted results for the estimated year 1960. According to applicant, it failed to realize a return even approaching the authorized level. In 1961 its Livermore district rate of return was 5.34 percent and in 1962 the return was only 4.96 percent when

^{1/} The record in Application No. 45452, pertaining to applicant's Visalia district, is part of this record by reference.

^{2/} Application No. 41387, in which Decisions Nos. 61234 and 61337 were issued in December 1960 and in January 1961.

adjusted for the investment tax credit. Applicant therefore seeks to increase rates in this proceeding to a level which will produce the $6\frac{1}{2}$ percent return to which the Commission has heretofore found it to be entitled.

The various factors which in the past have adversely affected applicant's earnings in Livermore continue to do so. Applicant points out that ad valorem taxes for the fiscal year 1962-1963 were \$66,000, or double the taxes for the fiscal year 1959-1960, and that during the three-year period utility plant increased by over 58 percent to reach a total of \$2,534,000 in 1962. Over 600 new customers were added during the same period at average per customer costs which were 12 percent greater than those experienced in January 1960. Adding to present as well as future expenses are the increased costs of purchasing Zone 7 water of the Alameda County Flood Control and Conservation District, such purchased water being necessitated by the fact that withdrawal of underground waters from the Livermore basin has reached its limit so that applicant cannot increase its supply of water by increased pumping from the basin.

Applicant proposes to increase its general metered water rates so as to produce a gross revenue increase of \$34,000, or about 17 percent, annually. For the usual $5/8 \times 3/4$ -inch residential meter the present rate is \$2.10 per month plus a charge of $18\frac{1}{2}$ cents per 100 cubic feet of water delivered. The proposed rate is \$2.40 per month plus 22 cents per 100 cubic feet of water delivered.

The evidence respecting applicant's estimated 1964 earnings in the Livermore district, as presented by applicant and by the Commission staff, is summarized in the following tabulation.

SUMMARY OF EARNINGS
Estimated Year 1964

At Present Water Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 486,200	\$ 490,800
Operating Expenses:		
Before taxes and depreciation	242,800	225,200
Taxes, other than income	84,300	81,000
Income taxes	14,000	27,200
Depreciation	60,000	60,500
Total Operating Expenses	401,100	393,900
Net Revenue	85,100	96,900
Rate Base (depreciated)	1,883,700	1,870,700
Rate of Return	4.52%	5.18%

At Applicant's Proposed Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 570,200	\$ 575,100
Operating Expenses:		
Before taxes and depreciation	242,800	225,200
Taxes, other than income	85,100	81,800
Income taxes	59,500	72,800
Depreciation	60,000	60,500
Total Operating Expenses	447,400	440,300
Net Revenue	122,800	134,800
Rate Base (depreciated)	1,883,700	1,870,700
Rate of Return	6.52%	7.21%

With respect to revenues, the history of customer growth and the fact that the Commission staff had more recent customer data available to it than applicant had supports the staff estimate. The Commission finds that the revenue estimate of the staff is fair and reasonable.

With respect to expenses (other than taxes and depreciation) the staff disagrees with applicant's estimates in numerous instances. The major items of disagreement, however, stem from the new source of water which applicant is bound by contract to use, differing estimates of operation and maintenance labor, and from differing allocations of general expenses.

As above mentioned, applicant must utilize purchased water and must limit its use of pumped water. The respective amounts from these two sources may fluctuate but it is generally agreed that essentially all water for new or increased usages must come from the purchased source. Differences in estimates of the respective costs have arisen from analyses of both historic and current data made in good faith by the respective engineers of applicant and the Commission staff. The staff engineer believes that the water table will rise as the conservation district recharges the underground basin. Applicant's engineer believes little if any improvement will be realized in the areas where applicant has wells and points out that the recharging waters are affecting the water table 6 to 8 miles west of the wells, on the opposite side of an underground barrier. This testimony and the past history of water development (3 exploratory wells and 1 boron producing well have proved to be useless in the last 3 years), coupled with testimony respecting growth and increased usage of water are convincing that applicant's estimates in such regard are fair and reasonable for the rate-making purposes of this proceeding.

The staff estimate of the labor component of Livermore district operation and maintenance work is lower than applicant's estimate. In addition to the influence of pumping on such costs (applicant operates and maintains a filtration plant, booster pumps

and 13 wells together with a large storage reservoir and numerous tanks), this expense is affected by the amount of street and highway work ordered by governmental bodies. In the Livermore district, such street work is increasing both in frequency and extent. In view of the testimony on these elements of operating expenses, the Commission finds applicant's estimates in such regard to be fair and reasonable.

With respect to the expenses of preparing and prosecuting this rate case, the staff allowed \$2,800, which it then prorated over a four-year period. Applicant claims costs of \$5,100, which it has prorated over a three-year period. The allocated expenses of applicant's general office, as estimated by the staff, are \$1,500 less than the amount claimed by applicant. The Commission finds that, in view of the evidence thereon and in consonance with the treatment accorded pension or retirement costs in applicant's other operating districts, applicant's estimates of these items of expense are fair and reasonable for rate-making purposes.

With respect to utility plant and rate base calculations, the staff had the benefit of later construction information and revised 1964 budget items of plant additions than had applicant when its estimates were prepared. Although some of the differences contributing to the difference in rate base are attributable to the respective methods used in weighting the additions, the differences in such respect appear to be of little overall significance. In view of the evidence the Commission finds that a 1964 test year rate base of \$1,270,700, as developed by the staff, is fair and reasonable.

To summarize, the Commission finds that the below tabulated amounts, including taxes computed on the basis of the

foregoing findings, fairly represent prospective earnings in applicant's Livermore district for the test year 1964, under existing and proposed water rates.

We also 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 for the year 1965.

ADOPTED EARNINGS RESULTS - PRESENT AND PROPOSED RATES
Estimated Year 1964

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 490,800	\$ 575,100
Operating Expenses:		
Before taxes and depreciation	242,800	242,800
Taxes, other than income	81,000	81,000
Income taxes	15,700	52,600 ✓
Depreciation	60,500	80,500
Total Operating Expenses	<u>400,000</u>	<u>442,900</u> ✓
Net Revenue	90,800	132,200 ✓
Rate Base (depreciated)	1,870,700	1,870,700
Rate of Return	4.85%	7.07% ✓

The evidence demonstrates, as the above tabulation illustrates, that applicant is in need of and is entitled to increased revenues. The evidence also demonstrates that earnings in the Livermore district have declined by about 0.4 percent per year since the last rate proceeding. When such average decline is taken into consideration, together with the fact that increased water rates will not be made effective for the full year 1964, it is apparent that applicant will earn a rate of return of no more than 6.6% under the water rates which it has proposed, and the Commission finds such rate of return to be reasonable.

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.

In view of the evidence and the findings thereon which are hereinabove set forth, the Commission concludes that applicant's rate request should be granted.

O R D E R

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 schedule 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 schedule effective for service rendered in its Livermore 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 Livermore district, 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.

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.

Hallgren & Bennett
President

George L. Driver

Fredrick B. Hallock
Commissioners

APPENDIX A

Schedule No. LV-1

Livermore Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Livermore and vicinity, Alameda County. (T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		
For all water delivered per 100 cu.ft.	\$ 0.22	(I)
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 2.40	(I)
For 3/4-inch meter	2.65	
For 1-inch meter	3.60	
For 1 1/2-inch meter	5.00	(I)
For 2-inch meter	6.50	
For 3-inch meter	12.00	(I)
For 4-inch meter	16.00	
For 6-inch meter	27.00	
For 8-inch meter	40.00	
For 10-inch meter	50.00	(I)

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

(T)