

ORIGINAL

Decision No. 68605

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 Los Altos-Suburban)
District.)

Application No. 46728
(Filed June 16, 1964)

McCutchen, Doyle, Brown, Trautman & Enersen,
by A. Crawford Greene, Jr., for applicant.
Captain Wilson P. Cogswell, USN (Ret.), for
self and neighbors; Philip D-B. Perham,
for self; Walter E. Custerman, Jr., for
Kaiser Cement & Gypsum Company; Colonel
Owen H. Carter, USA (Ret.), for self;
Mrs. Herman L. Solomon, for residents on
Deodara Drive; and John L. Reilly, for
self, protestants.
John S. Ashley, for self and Fremont Manor
Improvement Assn.; and C. M. Merlinjones,
for self, interested parties.
W. Roche, R. Beardslee, and T. Deal, for the
Commission staff.

O P I N I O N

California Water Service Company seeks authority to increase its general metered service rates in its Los Altos-Suburban District by an annual amount of \$304,200 based on its estimates for the test year 1965. This would be an over-all increase of 21.8 per cent.

Public hearings were held before Examiner Warner on December 3 and 4, 1964, at Los Altos. About 40 customers attended

the hearings and six entered formal appearances in protest to the granting of the application. The principal objection was to the increase itself, since, by Decision No. 67333, dated June 3, 1964, an approximate 20 per cent increase over the then existing rates for water service was granted to offset water extraction charges levied by Santa Clara County Flood Control and Water District of \$10 per acre-foot and Santa Clara Valley Water Conservation District of \$2.85 per acre-foot.

The record on Applications Nos. 46301, 46302 and 46729 of applicant to increase its rates for water service in its East Los Angeles, Hermosa-Redondo, and Stockton Districts, respectively, was incorporated herein by reference to the extent that reference is made therein to company-wide operations and to finances and rate of return.

Applicant furnishes water service in 21 districts from the Hamilton City-Chico area in northern California to the East Los Angeles and Hermosa-Redondo districts in southern California as shown on Chart 2A of Exhibit No. 3. As of December 31, 1963, investment in utility plant amounted to \$87,233,741, and there were 232,176 customers and 415 employees. Applicant's principal office is in San Jose.

In 1963, applicant was furnishing water service to an average of 12,490 metered active service connections in its Los Altos-Suburban District in the City of Los Altos, in fringe sections of the cities of Cupertino, Los Altos Hills, Mountain View and Sunnyvale, and in adjacent areas of Santa Clara County; in addition, 12 private fire protection and 883 public fire protection

services were connected; applicant estimated that in the year 1965 there would be an average of 13,035 metered connections; for the year 1965 applicant estimated there would be an average of 15 private fire protection services and 999 public fire protection services.

The maintenance of a high rate of capital investment in plant in the Los Altos-Suburban District is alleged to be a principal factor which prompted the filing of the instant application. Between 1960 and 1963, utility plant increased by 23 per cent, or by more than \$1,350,000. The increase on a per customer basis was from \$498 in 1960 to \$572 in 1963. Seven new wells were drilled and equipped at a cost of \$164,000; storage capacity was increased at a cost of \$118,000; and \$743,000 was expended on mains, meters and services. Property taxes increased almost 50 per cent. Commission staff engineers estimated that the aforementioned water extraction charge for the year 1965 would be \$157,800.

As noted heretofore, applicant's present rates were authorized by Decision No. 67333, which became effective July 1, 1964. Applicant proposes to eliminate its Loyola zone rates of its predecessor, Suburban Water Company. No change is sought in any of applicant's tariffs other than those for general metered service.

The following tabulation compares the present Los Altos-Suburban District (except Loyola zone) general metered service rates with those proposed in the application and those authorized herein-after:

COMPARISON OF PRESENT, PROPOSED AND AUTHORIZED GENERAL METERED SERVICE RATES

Quantity Rates:	<u>Per Meter Per Month</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
First 3,000 cu.ft., per 100 cu.ft.	\$ 0.285		
Next 27,000 cu.ft., per 100 cu.ft.	0.265		
Over 30,000 cu.ft., per 100 cu.ft.	0.235		
For all water delivered, per 100 cu.ft.	-	\$ 0.33	\$ 0.30
 Service Charge:			
For 5/8 x 3/4-inch meter	\$ 2.00	\$ 2.65	\$ 2.35
For 3/4-inch meter	2.20	2.90	2.50
For 1-inch meter	2.40	4.00	3.50
For 1 1/2-inch meter	4.00	5.60	4.90
For 2-inch meter	5.80	7.20	6.30
For 3-inch meter	10.60	13.00	11.50
For 4-inch meter	13.80	18.00	16.00
For 6-inch meter	21.00	30.00	26.00
For 8-inch meter	28.40	45.00	40.00
For 10-inch meter	40.00	55.00	48.00

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 Rates.

The record shows that the average monthly water usage in the Los Altos-Suburban District is estimated by Commission staff engineers to be approximately 2,300 cubic feet. At the present rates the charge for such usage through a 5/8 by 3/4-inch meter would be \$8.55 and at the proposed rates it would be \$10.24, an increase of \$1.69, or 20 percent, and at the rates authorized, such charge will be \$9.25, an increase of 8 percent. In the Loyola zone, the present charge for such usage is \$9.70.

Exhibit No. 17 is applicant's report on results of operations of its Los Altos-Suburban District. Exhibit No. 18 is a report on applicant's results of operations in the Los Altos-Suburban District submitted by a Commission staff accountant and Commission staff engineers. The following tabulation compares the earnings data in said exhibits.

COMPARATIVE SUMMARY OF EARNINGS
(Per Exhibit No. 18)

Item	Year 1965 Estimated			
	Present Rates		Proposed Rates	
	Company	Staff	Company	Staff
	(Thousands of Dollars)			
Operating Revenues	\$1,397.7	\$1,491.5	\$1,701.9	\$1,816.7
Operating Expenses	708.0	727.2	708.0	727.2
Depreciation	162.2	159.5	162.2	159.5
Taxes	264.5	298.4	421.1	465.7
Subtotal	1,134.7	1,185.1	1,291.3	1,352.4
Net Operating Revenues	263.0	306.4	410.6	464.3
Rate Base	5,915.4	5,823.5	5,915.4	5,823.5
Rate of Return	4.45%	5.26%	6.94%	7.97%

The principal difference between company and staff operating revenue estimates of \$93,800 at present rates and \$114,800 at proposed rates for the year 1965 is in the expected average sale of water to commercial customers. Staff's estimate of 272 Ccf per customer-year for 1965 was derived by graphical Method 3 (Modified Bean) which eliminated variations due to rainfall and temperature and which resulted in a slight upward trend in annual consumption per customer. Applicant's estimate of 248 Ccf per customer-year

for the years 1964 and 1965 was derived by averaging consumption over the nine-year period 1955 through 1963, and its estimate was exceeded by the actual consumption in each of the years 1960 through 1962. For the four years 1960 through 1963, the actual consumption averaged 259 Ccf.

Other minor differences in revenue estimates result from variations in the number of average service connections, in the basis used to calculate the average service charge, and in consumption levels of industrial, public authority and other customers.

The only major difference between the 1965 operating and maintenance expense estimates submitted by applicant and staff, except for differences attributable to water produced and delivered based on the differences in estimates of sales heretofore discussed under operating revenues, is in transmission and distribution maintenance expenses where staff's estimate is \$10,300 less than applicant's. This difference is primarily attributable to the fact that staff based its estimate on the overhauling of 340 additional meters, which is the current level of work performed, whereas applicant estimated the overhauling of 880 additional meters which did not give weight to actual recorded expenses in 1963.

The record shows that the current water extraction charge levied by Santa Clara County Flood Control and Water District of \$10 per acre-foot may be increased to \$16.50 per acre-foot on July 1, 1965, but such increase was not included in operating expense estimates for the year 1965 submitted by applicant or staff.

Staff's estimate of miscellaneous general expenses was \$2,100 less than applicant's because it reflects the exclusion of

radio lease and maintenance expense. Applicant purchased its own radio equipment in January of 1964 and now charges its maintenance expense to Account No. 805-2, Maintenance of General Plant.

Staff's estimate of ad valorem taxes is \$20,500 less than applicant's. Staff determined an effective tax rate of 2.199 per cent for the 1965 total estimated taxable plant of \$7,608,300. Applicant's estimate was based on a trend.

There is no significant difference between the rate bases estimated by applicant and staff.

Exhibit No. 15 is a report on rate of return submitted by a staff accountant. It shows applicant's composite cost of capital at October 31, 1964, to be 6.10 per cent based upon an allowance on common stock equity of 9.25 per cent. Said allowance is based upon the staff's consideration that applicant will need additional funds to finance new construction; that the first need for future external financing will be accomplished by a long-term debt issue at a rate exceeding the present cost of long-term debt; that applicant was able to float a bond issue early in 1964 at a reasonable cost; and that applicant's capital structure indicates a higher common equity ratio (43.98 per cent) than the average for the prior five years. Staff concluded that capitalization and rate base are reasonably comparable. Staff further concluded that there will be a decline in rate of return of .15 per cent from 1964 to 1965 in the Los Altos-Suburban District and recommended that a rate of return of 6.25 per cent be applied to the staff rate base of \$5,823,500 for the test year 1965.

The Commission finds that:

1. California Water Service Company is a public utility water corporation under the jurisdiction of this Commission, operates some 21 separate districts in California, and furnishes water service to about 13,000 customers in its Los Altos-Suburban District.

2. Due primarily to increases in operation and maintenance expenses and taxes, other than income taxes, applicant's rate of return of the year 1965 at present rates would be deficient, and applicant is in need of and entitled to financial relief.

3. The 1965 rate of return which would be produced by the rates proposed in the application would be excessive.

4. The staff's estimated results of operations for the test year 1965 reasonably reflect applicant's operations for that year. Said results of operations are adopted as reasonable for the purposes of this decision.

5. Applicant's rate of return for this district will continue to be subject to substantial decline in the immediate future. A rate of return of 6.5 per cent on the adopted 1965 rate base of \$5,823,500 would yield a rate of return of approximately 6.25 per cent for the future. Said rate of return is reasonable.

It is concluded that the application should be granted in part and denied in part and the order which follows will authorize applicant to file new schedules of rates applicable to its Los Altos-Suburban District, which will produce total estimated annual operating revenues during the test year 1965 in said District of \$1,640,000, which will be an increase of \$148,500, or 10 percent,

over the revenues which would be produced by the present rates, but \$176,700 less than the increase sought.

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

O R D E R

IT IS ORDERED that California Water Service Company is authorized to file the schedule of rates applicable to its Los Altos-Suburban District attached hereto 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 March 16, 1965. Concurrently with the filing authorized herein, applicant is authorized to cancel by appropriate advice letter its presently effective Loyola Zone Schedule No. LS-1, General Metered Service, and to provide for serving customers in that zone under the Los Altos-Suburban Tariff Area Rates.

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

Dated at San Francisco, California, this 16th day of FEBRUARY, 1965.

Frederick B. Holloft
President

George T. Hoover

Commissioners

APPENDIX A

Schedule No. LS-1

Los Altos-Suburban Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Los Altos and vicinity, Santa Clara County.

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	R \$ 2.35	(I)
For 3/4-inch meter	2.50	
For 1-inch meter	3.50	
For 1 1/2-inch meter	4.90	
For 2-inch meter	6.30	
For 3-inch meter	11.50	
For 4-inch meter	16.00	
For 6-inch meter	26.00	
For 8-inch meter	40.00	
For 10-inch meter	48.00	(I)

Quantity Rate:

For all water delivered, per 100 cu.ft. \$ 0.30

(I)

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

(T)

(T)

SPECIAL CONDITION

Customers who receive water deliveries for agricultural purposes under this schedule, and who present evidence to the utility that such deliveries qualify for the lower pump tax rates levied by Santa Clara County Flood Control and Water District and by Santa Clara Valley Water Conservation District for agricultural water, shall receive a credit of 3 cents per 100 cubic feet on each water bill for the quantities of water used during the period covered by that bill.