

ORIGINALDecision No. 68606

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 author-
izing it to increase rates charged
for water service in the Stockton
District.

Application No. 46729
(Filed June 16, 1964)

McCutchen, Doyle, Brown, Trautman & Enersen by
A. Crawford Greene, Jr., for applicant.
Bruce McKnight, for Stockton & San Joaquin;
Gerald A. Sherwin, for the City of Stockton;
Walter J. McInnis, for the County of San
Joaquin; Max Rosenthal, Willie J. Billingsly,
Frank M. Nishikawa, and Harry C. Mallory, in
propria personae, protestants.
Mrs. Fredi Meyers, in propria persona, interested
party.
W. R. 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 Stockton District by an annual amount of \$327,500, based on its estimates for the test year 1965. This would be an over-all increase of 15.1 per cent.

Public hearings were held before Examiner Warner on December 1 and 2, 1964, at Stockton. About 45 customers attended the hearings, and five entered formal appearances in protest to the granting of the application. One protestant complained about the cost to applicant of mailing notices of the hearing to each of its customers. He felt that the mailing was unnecessary and a burden to the utility. Such mailing was made at the direction of the Commission and a local newspaper editorially commented in favor of the Commission's requirement. Other customers complained of service deficiencies and

each complaint was investigated by applicant. The results of the investigations were submitted as late-filed Exhibits Nos. 12, 14 and 18, together with a report of an investigation of a letter to the Commission, noted for the record, which complained of a low water pressure condition.

City of Stockton and County of San Joaquin were represented by counsel and an accounting consultant. The latter submitted a written protest as Exhibit No. 20. His position for the City and the County was that applicant might be entitled to some relief, but they objected to the magnitude sought. He argued, among other things, that applicant's justifiable rate of return would be lower if its common equity ratio were lower and its debt ratio higher, thus lowering capital costs and providing income tax savings which would be passed on to consumers.

A protest of the Board of Supervisors of San Joaquin County, Resolution No. 64, dated November 24, 1964, was read into the record by the County counsel.

The record on Applications Nos. 46301 and 46302 of applicant to increase its rates for water service in its East Los Angeles and Hermosa-Redondo 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. 2. 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 34,858 metered active service connections in its Stockton District in the City of Stockton and adjoining unincorporated territory of San Joaquin County; in addition, 175 private fire protection and 1,778 public fire protection flat rate services were connected; applicant estimated that in the year 1965 there would be an average of 35,348 metered connections; for the year 1965 applicant estimated there would be an average of 212 private fire protection services and 1,859 public fire protection services.

Applicant's continuing high rate of capital investment in plant in the Stockton District is alleged to be a principal factor which prompted the filing of the instant application. Between 1959 and 1963 utility plant increased by more than 23 per cent or by \$2,127,000. The increase on a per customer basis was from \$266 in 1959 to \$320 in 1963.

Seven new wells were drilled and equipped at a cost of \$103,000, and \$1,762,000 was expended on mains, meters and services including \$500,000 on a 27-inch supply main about four miles in length. Property taxes increased 27 per cent.

Effective July 1, 1964, a water extraction charge of \$2.75 per acre foot has been levied by Stockton-East San Joaquin Water Conservation District. Approximately 70 per cent of applicant's wells are located within the boundaries of the District, and Commission staff engineers estimated that the water extraction charge for the year 1965 would be \$47,100.

Applicant's present rates were authorized by Decision No. 60443 and became effective September 1, 1960. Applicant proposes to eliminate the zone system of rates applied to the area formerly served by Mayfair Water Company, which latter company was acquired by applicant pursuant to authorization granted by Decision No. 58880, dated August 18, 1959, in Application No. 41342. No change

is sought in any of applicant's tariffs other than those for general metered service.

The following tabulation compares the present Stockton District (except Mayfair System Zone) general metered service rates with those proposed in the application and those authorized hereinafter:

COMPARISON OF PRESENT, PROPOSED AND
AUTHORIZED GENERAL METERED SERVICE RATES

Quantity Rates:	Per Meter Per Month		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
First 30,000 c.f., per 100 c.f.	\$ 0.12	\$ 0.135	\$ 0.13
Over 30,000 c.f., per 100 c.f.	.09	0.105	.10
Service Charge:			
For 5/8 x 3/4-inch meter	2.20	2.50	2.35
For 3/4-inch meter	2.40	2.75	2.50
For 1-inch meter	2.65	3.75	3.40
For 1½-inch meter	4.40	5.25	4.80
For 2-inch meter	6.50	6.75	6.60
For 3-inch meter	12.00	12.50	12.25
For 4-inch meter	16.00	17.00	16.50
For 6-inch meter	24.00	28.00	26.00
For 8-inch meter	32.00	42.00	40.00
For 10-inch meter	44.00	52.00	48.00

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 Rates.

The record shows that the average monthly water usage per customer in Stockton is estimated by Commission staff engineers to be approximately 1,900 cubic feet. At the present rates the charge for such usage through a 5/8 x 3/4-inch meter would be \$4.48. At the proposed rates it would be \$5.07, an increase of \$0.59, or 13.2 per cent, and at the rates hereinafter authorized such charge will be \$4.82, an increase of 7.6 per cent.

As of December 31, 1958, Mayfair Water Company was furnishing water service to 1,176 customers. The present charge in the Mayfair Zone is \$3.68 for average usage.

Exhibit No. 1 is applicant's report on results of operations of its Stockton District. Exhibit No. 17 is a report on applicant's results of operations in the Stockton 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. 17)

Item	Year 1965 Estimated			
	Present Rates		Proposed Rates	
	Company	Staff	Company	Staff
	(thousands of dollars)			
Operating Revenues	\$2,164.7	\$2,203.5	\$2,492.2	\$2,533.4
Operating Expenses	921.3	890.2	921.3	890.2
Depreciation	254.0	256.0	254.0	256.0
Taxes	543.5	571.8	711.0	740.5
Subtotal	1,718.8	1,718.0	1,886.3	1,886.7
Net Operating Revenues	445.9	485.5	605.9	646.7
Rate Base	8,904.9	8,980.4	8,904.9	8,980.4
Rate of Return	5.01%	5.41%	6.80%	7.20%

The principal differences between company and staff operating revenue estimates of \$38,800 at present rates and \$41,200 at proposed rates for the year 1965 are in the expected average sales of water to commercial customers and the estimated consumption level of industrial customers. Staff's estimate of 234 Ccf per commercial-customer year for 1965 was derived by Graphical Method B (modified Beam) based on the years 1956 to 1963, which eliminated the variations due to rainfall and temperature and which indicated a slight upward trend in annual consumption per customer. Applicant's estimate of 223 Ccf per commercial-customer year for 1964 and 1965 was derived by averaging consumption over the 9-year period of 1955 through 1963, and its estimate was exceeded by the actual consumption in each of

the years from 1960 through 1962. For the four years 1960 through 1963, the actual consumption averaged 230.75 Ccf. In its estimate of industrial sales, staff gave greater weight to reduced usage by a large customer than applicant did and this, together with other minor differences including differences in estimates of sales to public authorities, resulted in applicant's estimates exceeding staff's by \$6,900 at present rates and \$10,900 at proposed rates.

The only significant differences in operation and maintenance expense estimates for the year 1965 submitted by applicant and staff are in the estimates of customer accounting, and transmission and distribution maintenance expenses. Staff's estimate of customer accounting expenses was \$9,100 less than applicant's; this was due to differences in judgment relating to allocations and to reliance by staff on later recorded data than were available to applicant. The difference in estimate of transmission and distribution maintenance expenses is principally attributable to staff's allowance for meter testing expenses which is \$15,500 less than applicant's for the year 1965. Staff's estimate was based on the overhauling of 760 additional meters, whereas applicant estimated the overhauling of 2,420 additional meters. Staff's estimate was predicated on the current level of work performed, while applicant's estimate does not give weight to actual recorded expenses in 1963. Staff's estimate of miscellaneous general expenses, which is \$3,000 below applicant's estimate, reflects the exclusion of radio lease and maintenance expenses since applicant purchased its own radio equipment in January of 1964 and now charges radio maintenance expense to Account 805-2, Maintenance of General Plant.

There is no significant difference between the rate base estimates of applicant and staff.

Exhibit No. 19 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%) than the average for the prior five years. Staff concluded that capitalization and rate base are reasonably comparable. Staff further concluded that there would be a decline in rate of return of .22 per cent from 1964 to 1965, at present rates, in the Stockton District, and recommended that a rate of return of 6.32 per cent be applied to the staff rate base of \$8,980,400 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 35,000 customers in its Stockton District.

2. Due primarily to increases in capital investment, operation and maintenance expenses, and property taxes, applicant's rate of return for 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 \$8,980,400 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 Stockton District which will produce total estimated annual operating revenues during the test year 1965 in said District of \$2,404,500. This will be an increase of \$201,000, or 9.1 per cent, over the revenues which would be produced by the present rates, but \$128,900 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 Stockton 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 Mayfair Zone Schedules No. STM-1, General Metered Service, No. STM-4, Private Fire Protection Service and No. STM-5, Public Fire Protection Service, and to provide for serving customers in that zone under the Stockton 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. Holbrook
President
George L. Brewer
Commissioners

APPENDIX A

Schedule No. ST-1

Stockton Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Stockton and vicinity, San Joaquin County.

(T)

RATES

Service Charge:

	<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 2.35	(I)
For 3/4-inch meter	2.50	
For 1-inch meter	3.40	
For 1 1/2-inch meter	4.80	
For 2-inch meter	6.60	
For 3-inch meter	12.25	
For 4-inch meter	16.50	
For 6-inch meter	26.00	
For 8-inch meter	40.00	
For 10-inch meter	48.00	

Quantity Rates:

For the first 30,000 cu.ft., per 100 cu.ft. ..	\$ 0.13	(I)
For all over 30,000 cu.ft., per 100 cu.ft.10	

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.