

Decision No. 70668**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of THE CAMPBELL WATER COMPANY,
a corporation, for authority to
increase its rates and charges
for its water system serving the
City of Campbell, City of San
Jose and adjacent territory in
Santa Clara County.

Application No. 47515
(Filed April 21, 1965;
Amended August 2, 1965)

Orrick, Dahlquist, Herrington & Sutcliffe,
by James F. Crafts, Jr., for applicant.

William L. Knecht, for California Farm
Bureau Federation, interested party.

J. E. Johnson, for the Commission staff.

O P I N I O N

This application was heard before Examiner Gillanders at Campbell on September 22, 1965. It was submitted on October 13, 1965, upon receipt of late-filed Exhibit 3. Copies of the application and the notice of hearing were served in accordance with the Commission's procedural rules. There are no protests.

Applicant presented two exhibits and testimony by two witnesses in support of its request to increase its rates and charges for water service in the Cities of Campbell and San Jose and adjacent territory in Santa Clara County. In addition, applicant, at the direction of the presiding examiner, produced a late-filed exhibit. Two witnesses from the Commission staff presented one exhibit and testimony on the results of their independent studies of applicant's operations. The staff also, at the direction of the presiding examiner, presented two late-filed exhibits.

Campbell's filed tariff schedules provide for general metered, measured irrigation, private fire protection, public fire hydrant, and miscellaneous water services. Increases are proposed only for the general metered schedule. Applicant proposes to abandon its present minimum charge rate schedule and offer a service charge rate schedule which it claims will produce monthly charges which conform more closely to the actual cost of service and will reduce the substantial difference between its maximum and minimum charges to its customers. Based on an average monthly use of approximately 2,000 cubic feet by a typical residential customer, applicant's proposed rates would result in an average monthly increase of 40 cents or 5.7 percent.

Applicant's last general rate increase became effective in March 1963 and an increase to offset ground water charges became effective on July 1, 1964. A second ground water charge offset increase was authorized to become effective July 1, 1965.

In 1959, the company elected to take advantage of Section 167 of the Internal Revenue Code and the corresponding provision in the California Revenue and Taxation Code regarding liberalized depreciation. The company utilized the double declining balance method of depreciation for income tax purposes for the years 1959, 1960, 1961 and 1962. During the proceedings which resulted in the general rate increase effective in 1963, the company stated it was its intention to revert to normal straight-line tax depreciation for the year 1962 and subsequent years. Consistent with this intention, the Commission, in Decision No. 64981, dated February 19, 1963, in Application No. 43963, authorized rates based upon the straight-line method of computing tax depreciation. Ordering paragraph 7 of Decision No. 64981 reads as follows:

- "7. Within sixty days after filing its annual federal income tax return for 1962 and each future year, applicant shall inform this Commission, in writing, of any use of liberalized depreciation for tax purposes after 1961, to enable the Commission to consider the effect of this tax treatment on applicant's rates."

On April 26, 1963, the company informed the Commission that it had elected to continue the use of liberalized depreciation for income tax purposes for the calendar year 1962 and also that it would revert to straight-line tax depreciation for years subsequent to 1962.

The staff recommends a rate of return of 6.8 percent on its 1966 estimated rate base of \$1,046,800. This would require an increase of \$41,500 in estimated gross revenues for 1966, an increase of approximately 12 percent. In determining the above increase, the staff calculated income taxes on the basis of straight-line tax depreciation.

Applicant's evidence shows, using the straight-line tax depreciation basis, that a gross revenue increase of \$41,710 would be required to produce a 6.8 percent rate of return on its 1966 estimated rate base of \$1,062,090.

It is applicant's position that the rate increase requested is simply due to rising costs.

The record reveals that applicant does not use a work order system to record changes in utility plant as required by the Uniform System of Accounts for Class A, B and C water utilities. In the absence of a work order system, the total cost of a given plant installation is not readily ascertainable from accounting records. No reasonable explanation was given either by applicant or staff to justify applicant's failure to abide by the requirements of this Commission. The applicant should

immediately install an adequate work order system in accordance with the Uniform System of Accounts.

Both the applicant and the staff included the premium on "key-man insurance" as an operating expense in developing results of operations for the test year 1966. The record reveals that any proceeds from such insurance will redound only to the stockholders of applicant. We find that the expense of key-man insurance is not a proper charge to operating expense for rate-making purposes.

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

We find that the estimates of operating revenues, taxes, depreciation and the rate base, as submitted by applicant for the test year 1966, are reasonable for the purposes of this proceeding and that applicant's estimate of operating expenses is reasonable when reduced by the items of premiums on key-man insurance and a proper allocation of payroll taxes to capitalized payroll.

We conclude that applicant's request for authority to increase its rates should be granted to the extent of \$41,000 annual gross revenue increase. Such gross revenue increase will provide applicant with a 6.8 percent rate of return on its adjusted 1966 rate base.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, The Campbell Water Company is authorized to file the revised rate schedule attached to this order as Appendix A. The effective date of the revised schedule shall be June 1, 1966, or four days after the date of filing, whichever is later. Concurrently with the filing authorized herein, applicant is authorized to cancel by appropriate advice letter its presently effective General Metered Service Schedule No. 1, and to provide for serving those customers under the service charge type rate schedule attached hereto as Appendix A.

2. Within ninety days after the effective date of this order applicant shall file with the Commission two copies of a revised system map prepared as required by paragraph I.10.a. of General Order No. 103.

3. For the year 1966, applicant shall apply the depreciation rates set forth in Table 3-A of Exhibit 4. Until review indicates otherwise, applicant shall continue to use these rates. Applicant shall review its depreciation rates at intervals of three years and whenever a major change in depreciable plant occurs. Any revised depreciation rates shall be determined by: (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the result by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of the plant. The results of each review shall be submitted promptly to the Commission.

4. Applicant shall immediately install an adequate work order system in accordance with the Uniform System of Accounts for Class A, B and C water utilities.

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

Dated at San Francisco, California, this 10th day of MAY, 1966.

Frederick B. Holmquist
President

George J. Grover

Augustin

J. Lawrence Bennett
Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Campbell and vicinity, Santa Clara County.

RATES

	<u>Per Meter Per Month</u>
Service Charge:	
For 5/8 x 3/4-inch meter	\$ 1.70
For 3/4-inch meter	1.90
For 1-inch meter	2.50
For 1 1/2-inch meter	3.50
For 2-inch meter	4.60
For 3-inch meter	8.50
For 4-inch meter	12.00
For 6-inch meter	20.00
For 8-inch meter	30.00

Quantity Rates:

For the first 30,000 cu.ft., per 100 cu.ft.	\$ 0.285
For all over 30,000 cu.ft., per 100 cu.ft.	0.23

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