

HJH

Decision No. 72198

**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 its  
 Chico district.

Application No. 48589  
 (Filed June 30, 1966)  
 (Amended October 28, 1966)

McCutchen, Doyle, Brown, Trautman &  
 Emersen, by A. Crawford Greene, Jr.,  
 for applicant.  
 City of Chico, by Grayson Price, protestant.  
William C. Bricca and William V. Caveney,  
 for the Commission staff.

O P I N I O N

By this application, California Water Service Company seeks authority to increase rates for water service in and about the City of Chico.

After due notice, public hearing in the matter was held before Examiner Emerson on November 9 and 10, 1966, at Chico. The matter is submitted.

No customer of applicant, other than the City of Chico, attended the hearing or has communicated with the Commission to protest or otherwise comment upon applicant's proposal to increase water rates.

The rate schedules now in effect in applicant's Chico district became effective on April 1, 1961. Applicant claims that because of increased plant investment, increased taxes and increased payrolls it is not now earning, nor will it in the future earn, a fair and reasonable return under existing water rates. It proposes new rate schedules which would increase its revenues by about

16 percent. It avers that such an increase would enable it to attain an average rate of return of approximately 6.25 percent over the five-year period 1967-1971.

A comparison of existing rates with those which applicant proposes, is as follows:

Residential Flat Rates

	<u>Present Rate</u>	<u>Proposed Rate</u>
Single Family unit, having lot area of:		
Up to 6,000 sq. ft.	\$ 3.90	\$ 4.62
From 6,001 to 10,000 sq. ft.	4.50	5.37
From 10,001 to 16,000 sq. ft.	5.30	6.27
From 16,001 to 25,000 sq. ft.	6.70	7.87
Each additional unit, same premises	2.80	3.25

General Metered Service

	<u>Present Rate</u>	<u>Proposed Rate</u>
Service charge for:		
5/8 x 3/4-inch meter	\$ 2.30	\$ 2.62
3/4-inch meter	2.50	2.87
1-inch meter	2.80	3.87
1 1/2-inch meter	4.80	5.37
2-inch meter	6.90	6.87
3-inch meter	12.00	12.62
4-inch meter	17.00	17.12
6-inch meter	25.00	28.12
8-inch meter	34.00	42.12
10-inch meter	48.00	52.12

Quantity Rate:

For all water delivered, per 100 cubic ft.	.085	.09
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During 1965, applicant served an average of 8,276 flat-rate customers and 1,947 metered-service customers and delivered approximately 4.2 billions of gallons of water to the system. During 1967, applicant estimates that it will serve 8,602 flat-rate and 2,056 metered-service customers and will have to increase its water deliveries to the system by some 200 millions of gallons.

Applicant and the Commission staff presented evidence respecting applicant's over-all operations and all phases of applicant's Chico district operations and the results of such operations as they pertain to the company's financial position. The following tabulation will serve to summarize the evidence respecting the results of operation of the Chico district for the estimated year 1967.

Summary of Operations-Estimated Year 1967

At Existing Water Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 634,500	\$ 637,500
Operating Expenses		
Before Taxes	351,100	342,700
Taxes	<u>142,600</u>	<u>146,500</u>
Total Oper. Expenses	493,700	489,200
Net Revenue	140,800	148,300
Rate Base (depreciated)	2,816,200	2,774,400
Rate of Return	5.00%	5.35%

At Applicant's Proposed Water Rates

Operating Revenues	734,500	740,000
Operating Expenses		
Before Taxes	351,100	342,700
Taxes	<u>193,400</u>	<u>198,700</u>
Total Oper. Expenses	544,500	541,400
Net Revenue	190,000	198,600
Rate Base (depreciated)	2,816,200	2,774,400
Rate of Return	6.75%	7.16%

The evidence presented by the staff corroborates applicant's evidence in practically all categories of revenues and expenses. Differences of significance lie only in administrative expenses, taxes and rate base.

Applicant apparently trended all past administrative and general expenses and in so doing included in its estimates of the future a retainer fee for outside legal services, which in fact has been halved. The staff adjusted its data to reflect the actual charges. In accordance with Commission policy, the staff also eliminated any allowances for dues and donations. In addition, however, the staff has eliminated from applicant's expenses for a general-office provident reserve, an annual expense of \$20,000 which the Commission has heretofore found to be reasonable. This particular issue has long been settled. The evidence is clear that the liability still exists and that applicant is now and for future years will be making payments on the contracts for which the reserve was created. The staff is in error in making its deduction for this reserve. It will be restored herein.

With respect to rate base, the staff estimated that applicant's additions to plant during the test year would reflect the same percentage of growth as had recently been experienced, rather than applicant's budgeted amounts for estimated future construction. By so doing, the staff estimated that gross additions to plant during 1967 would be approximately \$41,000 less than those estimated by applicant. Similar treatment of items of plant to be retired from service produced a staff-derived figure approximately \$2,800 less than that of applicant. In these respects, the evidence is convincing that the staff's estimate is the more reasonable of the two and it will be adopted for the purposes of this proceeding.

With respect to working cash as an element of rate base, applicant computed its requirement by use of simplified methods of computation which it, as well as the staff, had used in all prior rate proceedings. These methods produce a working cash allowance of

\$12,100. The staff, however, determined the Chico district working cash requirement by a detailed lead-lag-day method, including an allocation of total-company gross requirements, and derived an amount of \$33,200 as an allowance for working cash. The lead-lag method is a more complicated and time consuming method of computation but it is the more reasonable method and, whenever used, is recognized by this Commission as being the preferred method. The staff computation will, therefore, be used in this proceeding.

The computation of taxes depends directly upon revenues, operating expenses and plant and for the purposes of this proceeding will reflect the hereinabove discussed items.

In view of the evidence, the Commission adopts the following summarized items as fair and reasonable estimates of the prospective results of operations for the test year 1967.

Adopted Results of Operations  
Test Year 1967

<u>Item</u>	<u>At Present Rates</u>	<u>At Requested Rates</u>
Operating Revenues	\$ 635,000	\$ 735,000
Operating Expenses	490,000	542,000
Net Revenue	145,000	193,000
Rate Base (depreciated)	2,774,000	2,774,000
Rate of Return	5.23%	6.96%

Applicant has clearly demonstrated its need for and entitlement to increased revenues. With respect to earnings, as measured by rate of return, the Chico district has experienced a decline of about .21 percent each year for the past 3 years. When such trend is applied to the foregoing adopted results of operations, it becomes apparent that the water rates proposed by applicant will produce an average rate of return of approximately 6 1/2 percent over the period 1967 through 1971. Such rate of return is reasonable. Applicant's proposed rates will be authorized.

In this proceeding the City of Chico urges the elimination of charges for fire hydrant service, claiming that the present monthly charge of \$1 per hydrant is unfair and unjustified. The City urges that all fire hydrant service be provided without charge and that any costs associated therewith be assessed against the general ratepayers rather than the City or other fire-protection agencies.

Within the City limits are 526 fire hydrants belonging to the City of Chico. These equate to one fire hydrant for every ten active water service customers within the City. The City owns, installs and maintains all but 3 fire hydrants (including the connections to the water utility's mains) within the City limits. When annexations occur, the fire system for the newly annexed area is very soon up-graded to that of the rest of the City.<sup>1/</sup> Fire hydrant locations are specified by the Fire Chief, the utility having no control over site selection.

With respect to fire hydrant charges, Commission records show that the City of Chico, which used both cisterns and hydrants, as early as 1921 by agreement with the utility paid a flat sum of \$275 per month for the withdrawal of water from 115 "fire plugs" and 19 "fire cisterns" and \$1 per month for each additional fire hydrant which it installed on the utility's system.<sup>2/</sup> In 1960, the City discontinued the use of fire cisterns and the utility revised its tariff to show only a charge of \$1 per hydrant per month.<sup>3/</sup> By so doing, the total charge to the City was at that time reduced by about \$160 per month. The City's total bill for fire hydrant service

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1/ More than 30 annexations have occurred in the last 15 years.

2/ The tariff covering this arrangement was authorized by Decision No. 8839 in Application No. 5524 issued April 9, 1921.

3/ The revised tariff was made effective on August 1, 1960 by this Commission's Resolution No. W-721, issued August 23, 1960. Such tariff is still in effect.

is now \$526 per month, or \$6,312 on an annual basis. Partially offsetting this billing, is the City's business license tax of \$1 per customer by which the City presently collects more than \$5,300 per year from the utility.

Since it acquired the water system in 1927, applicant has never sought to increase charges for hydrant service, even though its costs of doing business have increased several-fold and even though it has sought and has been accorded substantial rate relief from time to time. It does not now seek to increase the fire hydrant charge. It points out that the charge is nominal and one of its witnesses averred that a cost study would show that the full costs of providing the service would be many times the present charge.

The testimony presented by the City was directed towards a showing that applicant's water system is of no different design or construction outside than inside of the City, even though the fire hydrant density is far lower outside.<sup>4/</sup> Its witness concluded therefrom that any charge for City hydrant service<sup>5/</sup> was unjust since the utility does not in fact provide any greater facilities inside than it provides outside the City. Such position can result only from specious reasoning. All that should be concluded from the density comparison is that the city provides greater fire protection to its citizens than does any outside fire-fighting agency. And cross-examination of the City's witness unequivocally placed in this record the facts that water production, storage and distribution facilities must be greater for the purposes of fire fighting than would otherwise be needed for the normal water usage of the City,

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<sup>4/</sup> Inside: 1 hydrant for each 10 customers. Outside: 1 hydrant for each 382 customers.

<sup>5/</sup> It should be noted that the fire hydrant charge outside is identical to that inside the City; namely \$1 per hydrant per month.

and, further, that such greater facilities necessarily mean a greater investment on the part of the utility.<sup>6/</sup> It would appear that the City may be getting a bargain rate for its hydrant service, but the evidence will not permit of a finding that the existing rate is unjust to it.

In view of the evidence, the Commission finds (1) that applicant is in need of and entitled to increased revenues in the total amount sought and (2) that the water rates hereinafter authorized are fair and reasonable and that to the extent that existing rates differ therefrom, said existing rates are for the future unjust and unreasonable.

The Commission concludes that the application should be granted.

O R D E R

IT IS ORDERED that 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 tariff sheets comprising "Supplemental Table 12-B" (sheets 1 through 6) attached to the amendment to the application herein and, on not less than five days' notice to the public and to this Commission, to make said tariff sheets effective for water service rendered on and after April 15, 1967.

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<sup>6/</sup> Reporter's transcript; line 24, page 49 through line 17, page 50.

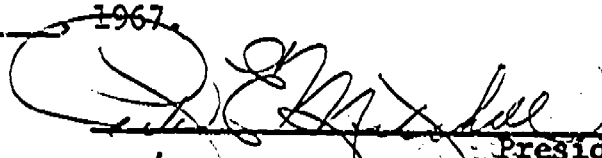

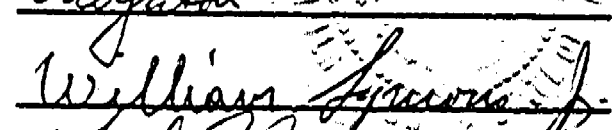
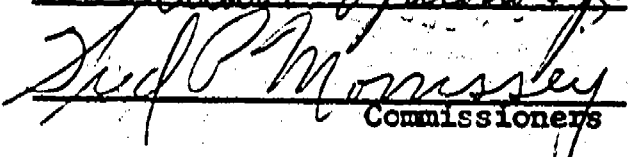


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At such time as the Federal investment tax credit is reinstated, the above tariff sheets comprising "Supplemental Table 12-B" shall be withdrawn by appropriate Advice Letter to the Commission. In substitution thereof, applicant shall file those tariff sheets comprising Table 12-B in Exhibit No. 1 in this proceeding.

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

Dated at San Francisco, California, this 28<sup>th</sup>  
day of MARCH 1967.

  
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President  
  
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Attorney  
  
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William Lyons  
  
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Commissioners