

ORIGINAL

Decision No. 72596

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 Marysville district.

Application No. 48901
(Filed October 28, 1966)

McCutchen, Doyle, Brown & Enersen, by A. Crawford
Greene, Jr., for applicant.
D. J. Gavin, for City of Marysville, interested
party.
William C. Bricca, Counsel, and William V. Caveney,
for the Commission staff.

O P I N I O N

Applicant California Water Service Company seeks authority to increase rates for water service in its Marysville District.

Public hearing was held before Examiner Catey in Marysville on February 28, 1967. Copies of the application had been served and notice of hearing had been published and posted, in accordance with this Commission's rules of procedure. The matter was submitted on February 28, 1967.

Testimony on behalf of applicant was presented by its president, its vice president and his assistant, and its general manager. The Commission staff presentation was made by an accountant and two engineers. One customer testified, principally regarding the trend in past rates of return for applicant's Marysville District and regarding the treatment of ad valorem taxes, for rate-making purposes. The City of Marysville did not present any evidence but appeared as an interested party.

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Service Area and Water System

Applicant owns and operates water systems in twenty-one districts in California. Its Marysville District includes the portion of the City of Marysville, in Yuba County, that is within the confines of the City Levee. The service area is flat, the mean elevation being approximately 63 feet above sea level. Total population served in the district is estimated at 9,900.

The supply for this district is obtained from wells located throughout the district, all having pumps equipped with electric motors. In addition, for emergency use, two pumps are also each equipped with a direct-connected, gasoline engine.

The well pumps deliver water directly into the distribution system, consisting of about 46 miles of distribution mains, ranging in size up to 12-inch. There are about 1,000 metered services, 2,380 flat rate residential services, 10 private fire protection services and 230 public fire hydrants. An elevated steel tank maintains system pressure and provides storage.

A field investigation of the company's operations, service and facilities in its Marysville District was made by the Commission staff. The facilities and equipment were found to be in good condition and good service was being furnished. Also, a staff review of applicant's records indicates that relatively few service complaints have been made directly to applicant.

Rates

Applicant's present tariffs include rates for general metered service, residential flat rate service, private fire protection service, public fire hydrant service, limited temporary municipal flat rate service, public street-sprinkling service and service to company employees. The general metered service and

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residential flat rate service rates were authorized by Commission resolution in 1963, based upon applicant's voluntary request for about a five percent reduction in its Marysville District rates. Most of the other rates were established in 1958.

Applicant proposes to increase its rates for general metered service and residential flat rate service and to discontinue the unused municipal flat rate and street-sprinkling schedules. The only proposed change in the other schedules is the elimination of reference to public fire cisterns and a corresponding increase in the number of fire hydrants covered by the basic monthly charge for public fire protection service. The following Table I presents a comparison of applicant's present rates, those requested by applicant, as shown in Exhibit No. 1, and those authorized herein. In Exhibit No. 2, applicant sets forth proposed rates providing for temporary additional charges to offset the suspension of the Investment Tax Credit discussed later herein.

TABLE I
COMPARISON OF MONTHLY RATES

<u>Item</u>	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
<u>General Metered Service</u>			
Service Charge*	\$ 2.40	\$ 2.75	\$ 2.75
Quantity Rate, per 100 cu. ft.08	.09	.09
<u>Residential Flat Rate Service</u>			
Single-family Residential Unit,			
Basic Rate	1.90	2.28	4.50
Each room, in excess of five rooms19	.23	#
Each toilet, bathtub or shower31	.36	#
All lawns or gardens, per 100 sq. ft.038	.046	#
Additional, if premises 6,001 to 10,000 sq. ft.	#	#	.75
Additional, if premises 10,001 to 16,000 sq. ft.	#	#	1.75
Additional, if premises 16,001 to 25,000 sq. ft.	#	#	3.50
Each additional single-family residential unit on same premises	#	#	3.00

* For 5/8 x 3/4-inch meter. A graduated scale of increased service charges is provided for larger meters.

Not applicable.

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The staff recommended that the residential flat rate service schedule be simplified to base the charges primarily upon the size of premises, rather than the number of plumbing fixtures and other categories now provided. Applicant made no objection to this recommendation. It appears reasonable and is adopted in the rates authorized herein. Applicant's Exhibit No. 4 provides the necessary data on lot sizes to effect this simplification.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table II, from the staff's Exhibit No. 9 and applicant's Exhibit No. 1 are the estimated results of operation for the test year 1967, under present rates and under those proposed by applicant. For comparison this table also shows the corresponding results of operation, modified as discussed hereinafter, at present rates, at those proposed by applicant in Exhibit No. 1, and at those authorized herein.

TABLE II

ESTIMATED RESULTS OF OPERATION, TEST YEAR 1967

<u>Item</u>	<u>Staff</u>	<u>Applicant</u>	<u>Modified</u>
<u>At Present Rates</u>			
Operating Revenues	\$ 201,000	\$ 199,600	\$ 201,000
<u>Deductions</u>			
Oper. & Maint. Exp.	73,800	74,600	73,800
Admin. & Gen'l. Exp. - Direct	7,100	8,600	7,100
Admin. & Gen'l. Exp. - Allocated	11,500	12,800	11,800
Ad Valorem, Bus. Lic. & Allocated Taxes	29,500	28,600	29,500
Payroll Taxes	2,100	2,500	2,300
Depreciation	25,300	25,400	25,400
Subtotal	149,300	152,500	149,900
Income Taxes	13,500	11,900	12,900
Total	162,800	164,400	162,800
Net Revenue	38,200	35,200	38,200
Rate Base	754,700	767,900	764,000
Rate of Return	5.06%	4.58%	5.0%
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	\$ 235,700	\$ 233,300	\$ 235,600
<u>Deductions</u>			
Excluding Income Taxes	149,300	152,500	149,900
Income Taxes	31,200	29,100	30,500
Total	180,500	181,600	180,400
Net Revenue	55,200	51,700	55,200
Rate Base	754,700	767,900	764,000
Rate of Return	7.31%	6.73%	7.2%
<u>At Rates Authorized Herein</u>			
Operating Revenues	-	-	232,000
<u>Deductions</u>			
Excluding Income Taxes	-	-	149,900
Income Taxes	-	-	28,600
Total	-	-	178,500
Net Revenue	-	-	53,500
Rate Base	-	-	764,000
Rate of Return	-	-	7.0%

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From Table II it can be seen that the rates requested in applicant's Exhibit No. 1 would result in an increase of 17 percent in operating revenues, whereas the rates authorized herein will produce a 15 percent increase, excluding the effect of the suspension of the Investment Tax Credit. The percentage increase for individual bills will vary somewhat, depending upon type of service and size of premises or level of use.

The principal differences between the revenue and operation and maintenance expense estimates presented by applicant and those presented by the Commission staff result from the staff's having more recent data than were available or utilized by applicant when its estimates were being prepared. The staff's estimates for these items are adopted in Table II, modified only to reflect the minor amendment in proposed public fire hydrant rates made at the hearing.

Administrative and general expenses are incurred in each of applicant's districts and additional such expenses are allocated to the districts from applicant's main offices. The staff's estimate of local expenses excludes certain expenses estimated by applicant which are no longer incurred and others not allowable for rate-making purposes. The staff estimate of direct expenses is adopted. The allocated expenses were discussed in detail in Decision No. 72198, dated March 28, 1967, in Application No. 48589, relating to applicant's Chico District. The amount of allocated expense adopted in Table II is consistent with that decision.

At the time applicant was preparing its ad valorem tax estimates, the 1966-67 tax bills were not available. The bills were available for the staff's estimates. The staff's estimates of taxes other than on payroll and income are adopted in Table II.

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A customer testified that, in his opinion, the full amount of ad valorem taxes paid by applicant should not be allowed as an operating expense for rate-making purposes. He reasoned that the same inflationary factors which account for part of the increase in assessed value of applicant's property from year to year would result in a higher value of the property if it were ever condemned by, and transferred to, a public agency. There is no indication, however, that sale of applicant's property to a public body will ever take place. Even if it were imminent, the ad valorem taxes paid in the interim would be an allowable part of applicant's expenses.

The staff's estimate of payroll taxes is too low because it does not consider the effect of personnel turnover. Applicant's estimate is too high because it utilizes an incorrect base for unemployment insurance and incorrectly assumes payroll taxes to increase at the same rate as gross payroll. A figure midway between the estimates of staff and applicant is adopted in Table II.

Applicant's depreciation expense estimate is slightly higher than the staff's estimate, due to applicant's higher estimate of the amount of depreciable plant. Consistent with our adoption of applicant's plant estimates, applicant's depreciation expense estimate is adopted in Table II.

The income taxes adopted in Table II reflect the revenues and expenses adopted in the table, interest deductions estimated by the staff to be consistent with applicant's latest financing plans and, consistent with the adoption of applicant's plant estimates for rate base, applicant's estimates of depreciation deductions and Investment Tax Credit.

The income tax estimates shown in Table II reflect the Investment Tax Credit. At the present time it is not known when the

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reinstatement of the credit will take place. Rather than to delay this decision for Congressional and Presidential action on this point, it is assumed in the calculation of the income taxes adopted in Table II that the Investment Tax Credit will be reinstated in essentially its original form. Since the suspension of that credit is still in effect, however, the revised rate schedules authorized herein will provide for the temporary collection of a percentage surcharge to cover the increase in taxes that will be applicable during the suspension period. This is more equitable than the fixed surcharge per customer requested by applicant, as shown in Exhibit No. 2.

The staff's estimates of average plant and depreciation reserve result in a lower rate base estimate than do the corresponding items in applicant's estimates, primarily because none of the main replacements due to street improvements which applicant estimated for 1966 actually took place during that year. At the hearing, however, evidence was presented which indicated that the 1966 replacements were only delayed, not avoided. The staff's estimates of advances and contributions used in determining rate base reflect more current actual experience and trends than do applicant's. Applicant's working cash estimate includes a duplication of working cash allocated from central offices. The rate base adopted in Table II incorporates applicant's estimates of plant and depreciation reserve and the staff's estimates of all other components, with correction for a small error in the level of contributions at the end of 1966.

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Rate of Return

In two recent rate proceedings^{1/} involving other of applicant's districts, the Commission found that an average rate of return of 6½ percent over the next 3½ to 4½ years is reasonable for applicant's operations. There is no reason to deviate from this approach for applicant's Marysville District.

Applicant's estimates for the test years 1966 and 1967 indicate an annual decline of 0.32 percent in rate of return at the level of water rates requested when the Investment Tax Credit for Federal Income Taxes is reinstated. A detailed analysis of the past trend in rate of return for this district is set forth in applicant's Exhibit No. 3. Over the past five years, 1961 through 1966 recorded, the average decline in rate of return has been 0.35 percent per year, excluding the effects of rate reductions made in 1963. There is no reason to believe that the trend will level off in the next few years to less than the 0.32 percent per year estimated by applicant.

A customer recommended that applicant be granted slightly less than a normal rate of return for the future because in prior years, immediately following the last rate increase in Marysville and prior to the full effect of a subsequent voluntary reduction by applicant, a rate of return was realized which exceeded that previously found reasonable by the Commission. With the average downward trend in rate of return experienced in this district's operations, however, it is necessary that the rate of return immediately after a rate increase be greater than the average return found

^{1/} Decision No. 72198, dated March 28, 1967, in Application No. 48589, Chico District; Decision No. 72235, dated April 4, 1967, in Application No. 48590, Bakersfield District.

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reasonable for a period several years into the future. Otherwise, a rate proceeding would be required each year for applicant to realize the allowable rate of return.

With the indicated future trend in rate of return, a 7 percent return is required for the test year 1967 to produce an average future rate of return of 6½ percent through the year 1970. The rates set forth in Appendix A are designed to achieve this objective.

Findings and Conclusions

The Commission finds that:

1. Applicant is in need of additional revenues, but the proposed rates set forth in the application are excessive.
2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the test year 1967, and the indicated annual decline in rate of return, reasonably indicate the results of applicant's operations for the near future.
3. An average future rate of return of 6½ percent on applicant's rate base through the year 1970 is reasonable.
4. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

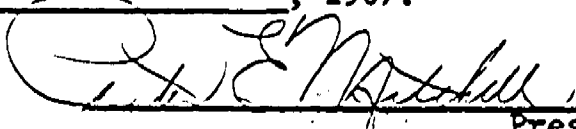
The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that, after the effective date of this order, applicant California Water Service Company is authorized to file for its Marysville District the revised rate schedules attached to this order as Appendix A and concurrently to cancel all of its present rate schedules. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be July 1, 1967, or four days after the date of filing, whichever is later. The revised schedules shall apply only to service rendered on and after the effective date thereof.

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

Dated at San Francisco, California, this 9th day of JUNE, 1967.



President





Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.

Schedule No. MR-1

Marysville Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Marysville and vicinity, Yuba County.

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 2.75	(I)
For 3/4-inch meter	3.00	
For 1-inch meter	4.10	
For 1 1/2-inch meter	5.80	
For 2-inch meter	7.45	
For 3-inch meter	14.00	
For 4-inch meter	19.00	
For 6-inch meter	31.00	
For 8-inch meter	46.00	
For 10-inch meter	57.00	
Quantity Rate:		
For all water delivered, per 100 cu.ft.	\$ 0.09	(I)

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.

SPECIAL CONDITION

Until the Investment Tax Credit is reinstated, bills computed under this schedule will be increased by 1.2%.

(N)
(N)

Schedule No. MR-2R

Marysville Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

Marysville and vicinity, Yuba County.

(T)

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
1. For a single-family residential unit, including premises having the following area:		
6,000 sq.ft. or less	\$ 4.50	(I)
From 6,001 to 10,000 sq.ft.	5.25	
From 10,001 to 16,000 sq.ft.	6.25	
From 16,001 to 25,000 sq.ft.	8.00	(I)
a. For each additional single-family residential unit on the same premises and served from the same service connection	3.00	(N)

SPECIAL CONDITIONS

1. Meters may be installed at option of utility or customer for above classification in which event service thereafter will be furnished only on the basis of Schedule No. MR-1, General Metered Service.

2. Until the Investment Tax Credit is reinstated, bills computed under this schedule will be increased by 1.2%. (N)

Schedule No. MR-4

Marysville Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for private fire protection.

TERRITORY

Marysville and vicinity, Yuba County.

(T)

RATES

	<u>Per Month</u>
For each 1½-inch connection	\$ 2.25
For each 2-inch connection	3.00
For each 3-inch connection	4.50
For each 4-inch connection	6.00
For each 6-inch connection	9.00
For each 8-inch connection	12.00
For each 10-inch connection	15.00

SPECIAL CONDITIONS

1. The fire protection service connection will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.

2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.

3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water.

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APPENDIX A
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Schedule No. MR-4

Marysville Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - Contd.

4. For water delivered for other than fire protection purposes, charges will be made therefor under Schedule No. MR-1, General Metered Service.

5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

Schedule No. MR-5L

Marysville Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to the City of Marysville.

TERRITORY

The City of Marysville, Yuba County.

RATES

	<u>Per Month</u>
For the first 90 fire hydrants	\$300.00
For each additional fire hydrant	1.00

SPECIAL CONDITIONS

1. The above rates include use of water for fire protection and for no other purpose. For water delivered through fire hydrants for any other purpose, charges will be made therefor at the quantity rate under Schedule No. MR-1, General Metered Service.
2. Hydrants owned by the City will be installed, maintained, painted, inspected and relocated at the expense of the City. The utility will install and own the tee in the main.
3. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

Schedule No. MR-5

Marysville Tariff AreaPUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

Applicable to all fire hydrant service furnished to duly organized or incorporated fire districts or other political subdivisions of the State, except the City of Marysville.

TERRITORY

Marysville and vicinity, Yuba County.

(T)

RATES

Hydrant Owned by	Size of Hydrant	Type	If Attached to 2" or 2½" Main	If Attached to 3" Main	If Attached to 4" Main	If Attached to 6" Main or Larger
Authority	2"	Wharf	\$ 0.75	\$ 1.00	\$ 1.25	\$ 1.50
Utility	2"	Wharf	1.00	1.25	1.50	1.75
Authority	2½"	Wharf	1.00	1.25	1.50	1.75
Utility	2½"	Wharf	1.25	1.50	1.75	2.00
Authority	3"	Wharf	-	1.50	1.75	2.00
Utility	3"	Wharf	-	1.75	2.00	2.25
Authority	4"	Standard	-	-	2.00	2.50
Utility	4"	Standard	-	-	2.50	3.00
Authority	6"	Standard	-	-	-	3.00
Utility	6"	Standard	-	-	-	3.50

SPECIAL CONDITIONS

1. The above rates include use of water for fire protection and for no other purpose. For water delivered through fire hydrants for any other purpose, charges will be made therefor at the monthly quantity rates under Schedule No. MR-1, General Metered Service.

2. Hydrants owned by the public authority will be installed, maintained, painted, inspected and relocated at the expense of the public authority. The utility will install and own the tee in the main, the hydrant branch and the control valve.

Schedule No. MR-5

Marysville Tariff Area

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS - Contd.

3. Hydrants owned by the utility will be maintained by it. The utility will install and own the tee in the main, the hydrant branch, the valve, and the bury and hydrant. The public authority will pay for the relocation of any hydrants owned by the utility.
4. Number of outlets in standard hydrants will be limited to two 2½" outlets.
5. Fire hydrants will be attached to the utility's distribution mains only as authorized by the proper public authority. Such authorization must designate the ownership, size, and type of hydrants and specifically state the location at which each is to be installed.
6. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

Schedule No. MR-10

Marysville Tariff Area

SERVICE TO COMPANY EMPLOYEES

APPLICABILITY

Applicable to water service furnished for domestic use at the place of residence of employee.

TERRITORY

Marysville and vicinity, Yuba County.

(T)

RATE

The filed rate or rates applicable to the type of service in the territory where service is supplied less 25% discount.