

ORIGINALDecision No. 72627

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)

SAN JOSE WATER WORKS,
a corporation,for an order authorizing it to
increase rates charged for water
service in San Jose, Campbell,
Cupertino, Los Gatos, Monte
Serenio, Saratoga and vicinity.Application No. 48795
(Filed September 16, 1966)
(Amended December 21, 1966)McCutchen, Doyle, Brown & Enersen, by Robert Minge Brown,
for applicant.
William C. Bricca, Counsel, and Robert C. Moeck, for the
Commission staff.O P I N I O N

Applicant San Jose Water Works seeks authority to increase rates for water service.

Public hearing was held before Examiner Catey in San Jose on March 6 and 7, 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 March 7, 1967.

Testimony on behalf of applicant was presented by its vice president and treasurer, its vice president, its vice president and general manager, and its controller and assistant treasurer. The Commission staff presentation was made by two accountants and two engineers. No customers appeared or testified.

Service Area and Water System

Applicant's service area consists of some 118 square miles of territory in Santa Clara County, in and about San Jose, Los Gatos,

Monte Sereno, Saratoga, Campbell, Cupertino and Santa Clara. The service area is relatively flat in the central portion but extends into the foothills to the northeast and the mountains to the southwest. The wide range of elevations of the area, from almost sea level to over 1,000 feet above sea level, required the establishment of 29 pressure zones.

About one-eighth of applicant's water supply normally is obtained by the diversion and storage of runoff from the Santa Cruz Mountains watershed. The balance of the supply is now obtained from 155 wells drilled in various parts of the Santa Clara Valley. An additional source of water becomes available this year from the Rinconada filter plant of Santa Clara County Flood Control and Water District, which obtains water from the South Bay Aqueduct of the California Water Plan. Applicant's mountain reservoirs have a combined storage capacity of over 2-1/4 billion gallons. In addition, distribution storage reservoirs and tanks provide a combined capacity of over 200 million gallons.

Applicant's transmission and distribution system includes approximately 1,500 miles of mains, ranging in size up to 48 inches in diameter. Metered service is provided to about 126,000 customers, flat rates being limited almost exclusively to less than 400 private and about 8,000 public fire protection services.

The Commission staff's Exhibit No. 9 contains the statement that applicant's facilities are well maintained, that adequate service is being furnished, and that customer complaints to the Commission have averaged less than 15 per year since applicant's 1964 rate proceeding.

Rates

Applicant's present tariffs include schedules for general metered service, metered service from applicant's Almaden Pipeline

and from a pipeline installed by a water conservation district, limited temporary flat rate service, limited irrigation service, private fire protection service, public fire hydrant service, and service to applicant's employees.

The general metered service rates were authorized in 1966 and reflect the most recent increase granted to offset pump tax increases since applicant's last complete rate proceeding in 1964. No changes have been made in the other schedules since 1964.

Applicant proposes to increase its rates for metered service and limited temporary flat rate service. The only other significant proposed change in the schedules is the elimination of reference to one of the former limited temporary flat rate service customers who no longer receives flat rate service. The following Table I presents a comparison of applicant's present rates and those requested by applicant in its original application filed September 16, 1966. The amendment filed December 21, 1966 requested 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>
Service Charge*	\$ 1.55	\$ 2.00
Quantity Rates:		
First 30,000 cu.ft., per 100 cu. ft.	0.2555	0.291
Over 30,000 cu. ft., per 100 cu. ft.	0.2255	0.255
Limited Temporary Flat Rate	2.25	2.70

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

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 Exhibits Nos. 9 and 10 and applicant's

Exhibit No. 7 are the estimated results of operation for the test year 1967, under present rates and under those proposed by applicant in its original application.

TABLE II

ESTIMATED RESULTS OF OPERATION, TEST YEAR 1967

<u>Item</u>	<u>Staff</u>	<u>Applicant</u>
<u>At Present Rates</u>		
Operating Revenues	\$ 12,115,000	\$ 11,785,000
<u>Deductions</u>		
Other Than Pump Taxes & Inc. Taxes	6,866,800	6,935,000
Pump Taxes	1,994,900	1,920,500
Income Taxes	623,800	460,100
<u>Total</u>	<u>9,485,500</u>	<u>9,315,600</u>
Net Revenue	2,629,500	2,469,400
Rate Base	49,159,300	48,961,900
Rate of Return	5.35%	5.04%
<u>At Applicant's Proposed Rates</u>		
Operating Revenues	\$ 14,125,600	\$ 13,738,000
<u>Deductions</u>		
Other Than Pump Taxes & Inc. Taxes	6,871,400	6,950,100
Pump Taxes	1,994,900	1,920,500
Income Taxes	1,644,000	1,445,900
<u>Total</u>	<u>10,510,300</u>	<u>10,316,500</u>
Net Revenue	3,615,300	3,421,500
Rate Base	49,159,300	49,229,900
Rate of Return	7.35%	6.95%

From Table II it can be seen that applicant's requested rates will result in an increase of seventeen percent in operating revenues. The percentage increase for individual bills will vary somewhat, depending upon level of use.

The principal differences between the estimates presented by applicant and those presented by the Commission staff result from differences in estimated normal water usage by customers. The staff's higher estimate of usage results in higher revenue estimates, offset in part by higher related pump taxes and income taxes.

The staff developed its estimates of normal use by correlating temperature and rainfall variations with variations from the apparent trend in usage that would have prevailed under uniform average climatological conditions. Applicant's estimate is based upon a projection of the trend of usage assumed by applicant in developing the revenue estimates adopted by the Commission in the 1964 rate proceeding, based upon an examination of data for the years 1958 through 1963. Since there is sometimes a lack of correlation between recorded rainfall, temperature and usage on a monthly basis, the staff's method of correlating data on annual basis appears to provide more reasonable results than applicant's over longer periods, as indicated graphically on Chart 6-A of Exhibit No. 9.

The income tax estimates shown in Table II reflect the Investment Tax Credit. Although at the time of the hearing this credit had been suspended temporarily, it has since been reinstated.

Rate of Return

Decision No. 67296, dated June 3, 1964, in Application No. 45787, applicant's most recent general rate proceeding, includes a discussion on trend in rate of return. It was pointed out that the

staff's exhibit indicated an upward trend of about 0.1 percent per year whereas applicant's estimates showed an annual decline of about 0.3 percent. The Commission concluded that there was neither an upward nor a downward trend of any significance. This conclusion was predicated upon the assumption of a fixed level of wage rates and ad valorem tax rates.

The record now shows that there has been a significant downward trend in applicant's rate of return, due largely to continuing upward trends in wage rates and ad valorem tax rates. In the current proceeding, the staff's exhibits indicate a future downward trend under present water rates of 0.36 percent per year in rate of return when the actual upward trend in wage and tax rates is not cancelled out, as in the previous proceeding, by assuming the same wage and tax rates for two adjacent test years. Applicant's exhibits indicate a future annual decline of 0.41 percent at present water rates and 0.44 percent at the proposed water rates. The staff exhibits do not show what the trend might be under proposed rates. For the purpose of this proceeding, an annual decline of 0.4 percent in future rate of return will be assumed at applicant's proposed water rates.

In the current proceeding, the staff recommended a rate of return of from 6.65 to 6.90 percent as reasonable for applicant's operations. Applicant's proposed rates, if effective for the last half of this year through the calendar year 1970, should produce an average rate of return of about 6-3/4 percent for that period. This is based upon the 7.35 percent return for 1967 developed by the staff under full-year applicability of the proposed rates, and a 0.4 percent annual decline in rate of return. The 6-3/4 percent return is about the midpoint of the range recommended by the staff.

Findings and Conclusions

The Commission finds that:

1.a. Applicant is in need of the additional revenues which will be produced by the proposed rates set forth in the application.

b. The staff estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the test year 1967, and the 0.4 percent indicated annual decline in rate of return, reasonably indicate the results of applicant's operations for the near future.

c. An average future rate of return of 6-3/4 percent on applicant's rate base through the year 1970 is reasonable.

d. 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.

O R D E R

IT IS ORDERED that, after the effective date of this order, applicant San Jose Water Works is authorized to file the revised rate schedules attached to this order as Appendix A and concurrently to cancel all of its corresponding 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

A. 48795 lm

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 fourteen days after the date hereof.

Dated at San Francisco, California, this 30th day of JUNE, 1967.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Campbell, Cupertino, Los Gatos, Monte Sereno, San Jose, Santa Clara and Saratoga, and vicinity, Santa Clara County.

RATES

Service Charge:	<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 2.00	(I)
For 3/4-inch meter	2.20	
For 1-inch meter	3.00	
For 1 1/2-inch meter	4.20	
For 2-inch meter	5.40	
For 3-inch meter	10.00	
For 4-inch meter	13.50	
For 6-inch meter	22.00	
For 8-inch meter	33.00	
For 10-inch meter	41.00	

Quantity Rates:

First 30,000 cu. ft., per 100 cu. ft.	\$ 0.291	(I)
Over 30,000 cu. ft., per 100 cu. ft.	0.255	

The Service Charge is a readiness-to-serve charge to which is to be added the monthly charge computed at the Quantity Rates.

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 4.2 cents per 100 cubic feet on each water bill for the quantities of water used during the period covered by that bill.

Schedule No. II-1

METERED SERVICE TO CUSTOMERS ON "ALMADEN PIPELINE"

APPLICABILITY

Applicable to all service from the "Almaden Pipeline".

TERRITORY

Adjacent to the "Almaden Pipeline", which extends in a southerly direction approximately four (4) miles from the junction of the San Jose-Almaden Road and Camden Avenue to the vicinity of Almaden Pumping Station No. 3, Santa Clara County.

RATES

The rates and special condition or conditions set forth in Schedule No. 1, General Metered Service.

(T)

SPECIAL CONDITION

The conditions of service shall be governed by a written agreement, the general form of which is included in the tariff schedules.

Schedule No. II-2

METERED SERVICE TO CUSTOMERS ON 6-INCH LINE INSTALLED BY
SANTA CLARA VALLEY WATER CONSERVATION DISTRICT

APPLICABILITY

Applicable to service from the 6-inch pipeline installed by Santa Clara Valley Water Conservation District.

TERRITORY

Lexington Dam area, Alma, Santa Clara County.

RATES

The rates and special condition or conditions set forth in Schedule No. 1, General Metered Service. (T)

SPECIAL CONDITIONS

1. Service shall be limited to the lands of the nine (9) customers described in C.P.U.C. Decision No. 45159, Case No. 5490, or their successors in occupancy, with only one service connection to each property.
2. Service under this schedule shall be rendered to, and meters installed at, the point of connection of the service lines of such customers to said 6-inch pipeline.
3. All billing under this schedule shall be subject to a surcharge based on the power cost of operating the pump, on said 6-inch pipeline, required to render service to the above-described customers, prorated on the basis of monthly charges to each such customer at the basic rates for general metered service.

Schedule No. 21X

LIMITED TEMPORARY FLAT RATE SERVICE

APPLICABILITY

Applicable to water service furnished on a limited temporary flat rate basis.

TERRITORY

Almaden area, Santa Clara County.

RATE

Per Month

For each service connection, including irrigation of not more than 2,500 square foot of garden area	\$ 2.70	(I)
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SPECIAL CONDITIONS

1. Service under this schedule shall be limited to the following four existing services for which the installation of meters was not expedient: (C)

- | | |
|---------------|-----|
| 26-505-5320-1 | (T) |
| 26-505-5335-1 | (T) |
| 26-505-5350-2 | (T) |
| 26-505-5370-2 | (D) |

2. This schedule will remain in effect only until such time as physical limitations will permit the installation of meters, and thereafter will be withdrawn.