

ORIGINALDecision No. 72718

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 Oroville district.

Application No. 48902
(Filed October 28, 1966)

McCutchen, Doyle, Brown & Enersen, by A. Crawford
Greene, Jr., for applicant.
David H. Minasian, for Thermalito Irrigation District;
George Chaffin, for himself; and Christian H. Duborg,
for Berkeley Olive Association; protestants.
Sidney Morris Blumner, for himself, interested party.
William L. Bricca, Counsel, William V. Caveney and
A. L. Gielegem, 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 Oroville District.

Public hearing was held before Examiner Catey in Oroville on March 1, 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 1, 1967.

Testimony on behalf of applicant was presented by its vice president and his assistant, and by its general manager. The Commission staff presentation was made by two engineers and an accountant. Two residential customers, one business customer and two irrigation customers testified, principally regarding the higher rates charged by applicant than by some publicly owned water systems, and regarding the impact of a rate increase upon business and irrigation customers.

Service Area and Water System

Applicant owns and operates water systems in twenty-one districts in California. Its Oroville District includes generally the City of Oroville and unincorporated areas of Butte County which are adjacent to the city. In addition, several irrigation customers take raw-water service from applicant's Powers Canal at points considerably removed from the city. The domestic service area is in hilly terrain. Four pressure zones are required to serve elevations from 157 feet to more than 350 feet above sea level. Total population served is estimated at 10,200.

The present supply for this district is from two sources. The principal supply is the surface water purchased from Pacific Gas and Electric Company at the tailrace of one of its powerhouses. This supply is supplemented by the production from three wells owned by applicant and from one leased well. About mid-1968, a third supply will be available from the Thermalito power canal of the Feather River Project.

The present purchased surface water is transported by applicant's Powers Canal to its Cherokee Reservoir. The canal consists of inverted syphons as well as open ditch and flume sections.

The water is given preliminary treatment at the Cherokee Reservoir and transported by open flumes and ditches to applicant's Oroville Reservoir for final treatment. The future Feather River Project water supply will be introduced into the system between the Cherokee and Oroville Reservoirs. A 10-acre site adjacent to Oroville Reservoir has been acquired by applicant for eventual construction of additional water treatment facilities which will be necessitated by the addition of Feather River Water.

The treated surface water is delivered through a transmission main to applicant's distribution system. The well pumps deliver water directly into the distribution mains. There are about

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46 miles of transmission and distribution mains, ranging in size up to 26-inch, and approximately 1,600 metered and 2,000 flat rate services, including 15 private and about 300 public fire protection services and hydrants. Ten booster pumps equipped with electric motors lift water from the lower zones to higher zones and storage facilities. Construction of an additional high-level storage reservoir is scheduled to start in 1967. By-pass connections on the booster plants permit the emergency use of portable pumps with gasoline engines, two of which portable units are normally stationed in the area.

A field investigation of the company's operations, service and facilities in its Oroville District was made by the Commission staff. The facilities and equipment appeared 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, limited flat rate service, irrigation service, private fire protection service, public fire hydrant service, and service to company employees. The general and irrigation metered service and the residential and limited flat rate service rates were authorized in 1962. The other rates were established in 1955.

Applicant proposes to increase its rates for general and irrigation metered service and for residential and limited flat rate service. The only other proposed change in the schedules is the elimination of reference to two former limited flat rate service customers who no longer receive 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 *	\$ 2.90	\$ 3.55	\$ 3.55
Quantity Rate, per 100 cu. ft.14	.18	.175
<u>Residential Flat Rate Service</u>			
Single-Family Residential Unit With Premises Of:			
6,000 sq. ft. or less	6.00	7.55	7.40
6,001 to 10,000 sq. ft.	6.70	8.45	8.25
10,001 to 16,000 sq. ft.	8.00	10.10	9.90
16,001 to 25,000 sq. ft.	10.00	12.80	12.30
Ea. Add'l. Single-Family Res. Unit	3.50	4.50	4.30
Limited Flat-Rate Raw-Water Service	2.65	3.35	3.30
Irrigation Service, Per Miner's Inch Day27	.34	.33

* For 5/8 x 3/4-inch meter. A graduated scale of increased 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 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	\$ 344,600	\$ 340,500	\$ 342,600
<u>Deductions</u>			
Oper. & Maint. Exp.	156,800	158,000	156,800
Admin. & Gen'l. Exp., Direct	10,800	11,500	10,800
Admin. & Gen'l. Exp., Allocated	16,400	18,400	16,800
Ad Valorem, Taxes	43,000	46,700	43,000
Bus. Lic. & Allocated Taxes	1,300	1,300	1,300
Payroll Taxes	3,000	3,500	3,200
Depreciation	39,400	39,600	39,600
Subtotal	<u>270,700</u>	<u>279,000</u>	<u>271,500</u>
Income Taxes	16,100	9,500	14,900
Total	<u>286,800</u>	<u>288,500</u>	<u>286,400</u>
Net Revenue	57,800	52,000	56,200
Rate Base	1,357,600	1,418,500	1,362,000
Rate of Return	4.26%	3.67%	4.1%
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	\$ 433,400	\$ 428,400	\$ 430,900
<u>Deductions</u>			
Excluding Income Taxes	270,700	279,000	271,500
Income Taxes	61,200	54,300	59,800
Total	<u>331,900</u>	<u>333,300</u>	<u>331,300</u>
Net Revenue	101,500	95,100	99,600
Rate Base	1,357,600	1,418,500	1,362,000
Rate of Return	7.48%	6.70%	7.3%
<u>At Rates Authorized Herein</u>			
Operating Revenues	-	-	\$ 422,000
<u>Deductions</u>			
Excluding Income Taxes	-	-	271,500
Income Taxes	-	-	55,300
Total	-	-	<u>326,800</u>
Net Revenue	-	-	95,200
Rate Base	-	-	1,362,000
Rate of Return	-	-	7.0%

From Table II it can be seen that the rates requested in applicant's Exhibit No. 1 would result in an increase of 26 percent in operating revenues, whereas the rates authorized herein will produce a 23 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 revenue estimates of applicant and the staff differ by only one percent. There is nothing in the direct testimony or cross-examination of the witnesses to indicate any basic error in the revenue estimates of either applicant or the staff. Both estimates are given equal weight in the amounts adopted in Table II.

The principal difference between the 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.

Administrative and general expenses are incurred in each of applicant's districts and 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. Also, the staff estimate does not include taxes on land held for future use. Consistent with the exclusion of that land from rate base, as discussed hereinafter, the staff's estimate of ad valorem taxes is adopted in Table II.

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 about 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 depreciable 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 depreciable 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. Although at the time of the hearing this credit had been suspended temporarily, it has since been reinstated.

The staff's estimate of average plant and construction work in progress result in a lower rate base estimate than do the

corresponding items in applicant's estimates, primarily because of the exclusion by the staff of about \$52,000 of plant held for future use. This plant consists of land ultimately to be used for a well site, a booster pump site and a filter plant site. Use of these properties is not imminent and it is not appropriate to include the plant in rate base of this time.

Except for the plant held for future use, applicant's estimate of weighted average plant for the test year 1967 exceeds the staff's estimate by less than \$5,000. The staff's exclusion of a ten-percent allowance in applicant's 1967 budget for unforeseen items does not appear appropriate for this district, where an even greater magnitude of such expenditures have been experienced in the past. The rate base adopted in Table II reflects applicant's estimates of depreciable plant.

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 the staff's estimates of all components except depreciable plant.

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 6-1/2 percent over the next 3-1/2 to 4-1/2 years is reasonable for applicant's operations. There is no reason to deviate from this approach for applicant's Oroville District.

^{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.

Applicant's estimates for the test years 1966 and 1967 indicate an annual decline of 0.27 percent in rate of return at the level of water rates requested upon reinstatement of the Investment Tax Credit for Federal Income Taxes. 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, the average decline in rate of return would have been approximately 0.4 percent per year were it not for a water rate increase and income tax changes during that period. There is no reason to believe that the trend will level off in the next few years to less than the 0.27 percent per year estimated by applicant.

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 approximately 6-1/2 percent through the year 1970. The rates set forth in Appendix A are designed to achieve this objective.

Plant Held for Future Use

Applicant has purchased parcels of land for use at a future date which is not presently determinable as sites for a well, a booster station and a filter plant. Although it is not appropriate to include the cost of those sites in rate base until beneficial use of the property is imminent, applicant should not be penalized for its foresightedness.

In order to provide equitable treatment to the utility and its customers under the particular circumstances existing in connection with this acquisition of land, it would be appropriate for applicant to establish and maintain memorandum records in which it would list the costs incurred or associated with the holding of the property acquired for future use. Then, at such time as the property

becomes part of the operative plant, applicant will be in a position to request appropriate recognition of these costs in future rate proceedings. With this treatment, if unforeseen future developments dictate that the well, booster or filter site will not be needed, the customers will not have borne any of the cost. If on the other hand the sites ultimately are utilized as planned, the prudence of the earlier acquisition can be evaluated and recognition given in setting rates to be paid by customers benefiting from the facilities.

Irrigation Service

The two protestants who receive irrigation service suggest that the irrigation users provide an excessive proportion of applicant's overall revenue requirement. The detailed cost-of-service study set forth in applicant's Exhibit No. 1 indicates, however, that the allocated costs of service actually exceed the irrigation revenue which would be derived from applicant's proposed rates. Applicant does not consider a small deficiency in irrigation revenue unreasonable, because of the somewhat interruptible nature of the service.

The rates authorized herein retain approximately the present relationship between irrigation and other rates.

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 6-1/2 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.

ORDER

IT IS ORDERED that after the effective date of this order, applicant California Water Service Company is authorized to file for its Oroville District the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be August 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 fifteen days after the date hereof.

Dated at San Francisco, California, this 11th day of JULY, 1967.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners

APPENDIX A
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Schedule No. OR-1

Oroville Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Oroville and vicinity, Butte County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 3.55	(I)
For 3/4-inch meter	3.90	
For 1-inch meter	5.30	
For 1-1/2-inch meter	7.45	
For 2-inch meter	9.50	
For 3-inch meter	18.00	
For 4-inch meter	24.00	
For 6-inch meter	40.00	
For 8-inch meter	60.00	
For 10-inch meter	74.00	(I)
Quantity Rate:		
For all water delivered, per 100 cu.ft.	0.175	(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 Rate.

Schedule No. OR-2R

Oroville Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Oroville and vicinity, Butte County.

RATES

Per Service Connection
Per Month

- 1. For a single-family residential unit, including premises having the following area:

6,000 sq.ft. or less	\$ 7.40	(I)
From 6,001 to 10,000 sq.ft.	8.25	
From 10,001 to 16,000 sq.ft.	9.90	
From 16,001 to 25,000 sq.ft.	12.30	

- a. For each additional single-family residential unit on the same premises and served from the same service connection. 4.30 (I)

SPECIAL CONDITIONS

- 1. The above flat rates apply to service connections not larger than one inch in diameter.
- 2. Meters shall be installed if either the utility or customer so chooses for above classification, in which event service thereafter shall be furnished on the basis of Schedule No. OR-1, General Metered Service.

Schedule No. OR-2UL

Oroville Tariff Area

LIMITED FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished to customers taking untreated water directly from Powers Canal.

TERRITORY

Oroville and vicinity, Butte County.

RATE

Mrs. Iola Heberle	<u>Per Month</u>	
	\$3.30	(I)

SPECIAL CONDITION

Service under this schedule is limited to the above service	(T)
which was being furnished as of January 1, 1955.	(T)

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Schedule No. OR-3M

Oroville Tariff Area

IRRIGATION SERVICE

APPLICABILITY

Applicable to service of untreated water from Powers Canal to irrigation districts and to irrigation or mining ditches, for uses including but not limited to the irrigation of vineyards, orchards and pasture lands.

TERRITORY

Lands located along the Powers Canal, between Coal Canyon Power House and Cherokee Reservoir, north of the City of Oroville, Butte County.

RATE

Per Miner's Inch Day

For all water delivered \$0.33 (I)

SPECIAL CONDITION

(T)

A miner's inch day is defined as the quantity of water equal to 1/40 of a cubic foot per second flowing continuously for a period of 24 hours.