

ORIGINAL

Decision No. 73454

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 the Visalia district.)

Application No. 49444
(Filed June 9, 1967)

McCutchen, Doyle, Brown & Enersen, by A. Crawford
Greene, Jr., for applicant.
Nat O. Bradley and Kenneth I. Mullen, for City of
Visalia, protestant.
Janice E. Kerr, Counsel, and R. D. Gardner, 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 Visalia District.

Public hearing was held before Examiner Catey in Visalia on November 2, 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 November 2, 1967.

Testimony on behalf of applicant was presented^{1/} by its president, its vice president and his assistant, and its general manager. The Commission staff presentation^{1/} was made by two accountants and three engineers. The presentation of the City of Visalia was made by a consulting engineer.

^{1/} Testimony relating to overall company operations had been presented by witnesses for applicant and the staff in Application No. 49443, the Salinas District rate proceeding. This testimony was incorporated by reference in Application No. 49444.

Service Area and Water System

Applicant owns and operates water systems in twenty-one districts in California. Its Visalia District includes the City of Visalia and unincorporated area of Tulare County adjacent to the city limits. The service area is relatively flat, the mean elevation being approximately 330 feet above sea level. Total population served in the district is estimated at 30,600.

The supply for this district is obtained from 32 wells located throughout the district, all having pumps equipped with electric motors. In addition, for emergency use, four of the well pumps are also each equipped with an auxiliary gasoline engine.

One well pump delivers water to a settling tank. The rest of the well pumps and a booster pump at the settling tank deliver water directly into the distribution system, consisting of about 120 miles of distribution mains, ranging in size up to 12-inch. There are about 1,610 metered services, 7,500 flat rate residential services, 33 private fire protection services and 530 public fire hydrants. Two elevated steel tanks maintain system pressure and provide storage.

A field investigation of the company's operations, service and facilities in its Visalia District was made by the Commission staff. The plant was found to be in satisfactory condition and good service was being furnished. Exhibit No. 8 states that only two informal complaints have been registered with the Commission since 1964. 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 schedules for: general metered service in (1) the Glenara Rancho area, and (2) the rest of the Visalia District; residential flat rates in (1) the Glenara Rancho area, and (2) the rest of the Visalia District; private fire protection service; public fire hydrant service (1) to City of Visalia, (2) in the Glenara Rancho area, and (3) to other public agencies; limited municipal flat rate service, and service to company employees. The Glenara Rancho rates were adopted from applicant's predecessor, Glenara Rancho Water Company, as authorized by the Commission. The Glenara Rancho rates were established in 1963 and most of the other Visalia District rates in 1964.

Applicant proposes to increase its rates for general metered service and residential flat rate service and to discontinue separate zone rates in the Glenara Rancho area. There are no proposed changes in the other schedules. The following Table I presents a comparison of applicant's present rates and those requested by applicant.

TABLE I
COMPARISON OF MONTHLY RATES

Item	Present		Proposed
	Glenara	Other	
<u>General Metered Service</u>			
Minimum or Service Charge	\$ 3.25*	\$ 1.80*	\$ 2.15*
First 1,000 cu.ft., per 100 cu.ft.	.00*	.10	.117
Next 2,000 cu.ft., per 100 cu.ft.	.20	.10	.117
Next 2,000 cu.ft., per 100 cu.ft.	.18	.10	.117
Next 5,000 cu.ft., per 100 cu.ft.	.15	.10	.117
Over 10,000 cu.ft., per 100 cu.ft.	.12	.10	.117

Residential Flat-Rate Service

Single-family unit incl. premises at:			
6,000 sq.ft. or less	4.00	3.10	3.65
6,001 to 10,000 sq.ft.	4.00	4.10	4.85
10,001 to 16,000 sq.ft.	4.00-5.80	5.05	6.00
16,001 to 25,000 sq.ft.	5.80-8.50	6.35	7.55
Each additional single-family unit	-	2.50	3.00

Public Fire Hydrant Service

Other than to City of Visalia, per hydrant	2.00	0.75-3.50 [#]	0.75-3.50 [#]
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* Minimum or service charge for a 5/8 x 3/4-inch meter. A graduated scale of increased charges is provided for larger meters.

[#] Rate varies, depending upon ownership, size and type of hydrant and size of main.

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. 6 and 8 and applicant's Exhibit No. 4 are the estimated results of operation for the test year 1968, under present rates and under those proposed by applicant. For comparison this table also shows the corresponding results of operation, modified as discussed hereinafter.

TABLE II

ESTIMATED RESULTS OF OPERATION, TEST YEAR 1968

<u>Item</u>	<u>Staff</u>	<u>Applicant</u>	<u>Modified</u>
<u>At Present Rates</u>			
<u>Operating Revenues</u>	\$ 546,100	\$ 546,100	\$ 546,100
<u>Deductions</u>			
Allocated EDP Conversion			
Amort.	700	1,400	700
Allocated Other CBO Exp.	3,400	3,700	3,400
Direct Ad Valorem Taxes	94,700	95,100	96,600
All Other Deductions Excl.			
Income Taxes	299,400	299,700	299,500
Subtotal	<u>398,200</u>	<u>399,900</u>	<u>400,200</u>
Income Taxes	25,900	24,500	24,800
Total	<u>424,100</u>	<u>424,400</u>	<u>425,000</u>
Net Revenue	122,000	121,700	121,100
Rate Base	2,476,700	2,466,100	2,476,700
Rate of Return	4.93%	4.93%	4.89%
<u>At Rates Proposed By Applicant</u>			
<u>Operating Revenues</u>	\$ 644,300	\$ 644,300	\$ 644,300
<u>Deductions</u>			
Excl. Income Taxes	398,200	399,900	400,200
Income Taxes	76,500	74,400	75,500
Total	<u>474,700</u>	<u>474,300</u>	<u>475,700</u>
Net Revenue	169,600	170,000	168,600
Rate Base	2,476,700	2,466,100	2,476,700
Rate of Return	6.85%	6.89%	6.81%

From Table II it can be determined that the rates requested by applicant will result in an increase of 18 percent in operating revenues. The percentage change for individual bills will vary somewhat, depending upon type, size and location of service and size of premises or level of use.

The principal differences between the estimated results of operation for the test year 1968 presented by applicant and those presented by the Commission staff are in the estimates of (1) the appropriate amortization period for cost of conversion of applicant's billing procedures to electronic data processing, (2) the level of

other prorated central billing office expenses, (3) the level of local ad valorem taxes, (4) State Corporation Franchise Tax, and (5) the appropriate allowance in rate base for working cash. The staff checked, verified and adopted applicant's estimates of revenues, certain operating expenses, depreciation, and most rate base components. In the estimates of operating expenses other than those hereinafter discussed, there is a very minor difference between the estimates of applicant and the staff, well within the range of accuracy possible in such estimates, so a level about midway between them is adopted in Table II. The income taxes adopted in Table II reflect the revenues and expenses adopted in the table, and the increase in State Corporation Franchise Tax rate recognized by the staff but which was not established at the time applicant's estimates were being prepared.

Electronic Data Processing

Applicant's present mechanical billing machines are reaching the ends of their economic lives. Applicant's president testified that neither repair parts nor complete duplicate machines are any longer being manufactured, that similar mechanical billing machines are available, but would be working at close to their saturation point with applicant's present billing load, and that applicant therefore concluded that this would be an appropriate time to convert to electronic data processing (EDP) of customer billing.

Applicant estimates that the rather high cost of leasing EDP equipment will be approximately offset by the economies resulting from its use for billing purposes during the next few years. The conversion to EDP and the moving of applicant's central billing office from Stockton to San Jose, where the EDP equipment ultimately

will be available for payroll accounting and other uses by applicant's San Jose general office, result in nonrecurring abnormal expenditures in 1967 and 1968. Applicant requests that, for rate-making purposes, the nonrecurring costs be amortized over a five-year period. The staff concurs that the abnormal costs should not be considered as an operating expense for rate-making purposes entirely in the years such expenses are incurred, but recommends a ten-year amortization period.

A more equitable rate-making treatment of these non-recurring expenses might be to defer any amortization for, say, five years and to write off the expense, plus accrued interest, over a second five-year period when, presumably, the EDP equipment will reduce the cost of payroll accounting and other functions. We note, however, that the simple ten-year amortization recommended by the staff, when allocated among the numerous customer bills prepared annually by applicant, lowers applicant's indicated rate of return for its Visalia District by only 0.01 percent. Under these circumstances, refinement of the amortization procedure is not warranted and the staff's recommendation is adopted in Table II.

Allocated Other Central Billing Office Expenses

The testimony of applicant's vice president indicates that the trend of prior billing expenses shown on Chart 6-A of Exhibit No. 1 is distorted somewhat by the inclusion in 1966 of certain expenditures which normally would have been applicable to the year 1965. The staff's Exhibit No. 6 shows that, in addition, some extraordinary repairs and travel expense are included in the recorded expenses for 1966. These factors made the apparent trend of expenses, projected by applicant, too steep. The staff's estimate of Central Billing Office operating expenses exclusive of

amortization of conversion costs falls closer than applicant's to the probable trend line on the aforementioned Chart 6-A and is reflected in the expenses adopted in Table II.

Ad Valorem Taxes

Ad valorem tax bills for the fiscal year 1967-68 have only recently been received by applicant and thus were not available to either applicant or the staff in preparing their estimates. The "effective tax rate" related to utility plant in the Visalia District has been somewhat erratic over the past eight years, with no reasonably well-defined long-term trend. The staff assumed no change from the 1966-67 effective tax rate and applicant assumed only a nominal increase. The recent tax bills received by applicant show that both the staff's and applicant's estimates fall short of the actual taxes. In view of the unpredictable behavior of the effective tax rates in this district, which makes the assumption of an upward or downward trend quite speculative, the local ad valorem taxes adopted in Table II are based upon an effective tax rate of 2.84 percent of plant which results from the averaging of 1966-67 and 1967-68 tax rates.

Working Cash

Staff Exhibit No. 8 states that one of the primary differences between the staff's and applicant's working cash estimates is applicant's deduction of bond interest from the total gross working cash requirement. The estimate presented by the staff treats bond interest as investor funds. The staff estimate is reflected in the rate base adopted in Table II. We do not necessarily concur with the staff's inclusion in working cash of amounts provided by subdividers, in the form of temporarily unexpended advances for construction, but the item appears to be insignificant in this district.

Issues Raised by Protestant

The City of Visalia raised four issues relating to applicant's operations in this district. These are:

1. Applicant's pumping costs will be reduced if the city ordinance effective in July 1968, prohibiting the disposal into city sewers of waste water from room air coolers, causes the owners of such coolers to change to other air coolers which use little or no water.
2. Applicant's pumping costs will be reduced if the underground water table rises.
3. Applicant's proposed rates are higher than those in effect in several nearby communities.
4. Applicant's construction costs for extensions to serve subdivisions are higher than experienced by several nearby communities.

In regard to the aforementioned city ordinance, the city's consulting engineer testified that, of the 1,120 present customers with air coolers whom he assumed in his study would use less water and thus reduce applicant's pumping costs, only 200 to 300 now discharge the cooling water into the sewer. He assumed that Tulare County mosquito abatement authorities would restrain all customers from draining their air coolers into their yards. The connection between the city ordinance and applicant's pumping costs appears too tenuous for consideration in this proceeding.

In regard to the underground water table, applicant's general manager testified that, although the water levels rose somewhat during the last year due to abnormal rainfall, the trend since 1940 has been down and there is no reason to assume a reversal in this long-term trend.

In regard to the comparative water rates in nearby communities, the city's consulting engineer did not present any evidence that the operations of the other water systems are

comparable with applicant's. In fact, he testified that all but one of the other water systems are municipal systems. Inasmuch as municipal systems are not subject to taxation, and we note that taxes represent about 38 percent of applicant's total Visalia District expenses, the systems are not comparable.

In regard to the comparative installation costs of main extensions, the city's consulting engineer testified that the three extensions he analyzed in Visalia consisted of both 6-inch and 8-inch mains, whereas the extensions used for his comparisons in other communities had no 8-inch mains. Also, applicant pointed out that the present main extension rule provides a safeguard against excessive costs of extensions by permitting the subdivider to install the facilities himself or arrange for their installation pursuant to competitive bidding procedures initiated by him.

We have considered carefully the issues raised by the City of Visalia but find no basis for further modifying the expenses adopted in Table II nor the rate of return to be allowed on applicant's rate base.

Rate of Return

In several recent rate proceedings involving other^{2/} 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. In Exhibit No. 7, the staff indicates that additional bond financing will undoubtedly be at a higher interest rate than the imbedded cost of long-term debt. Giving consideration to this and other factors, the staff recommends

^{2/} Chico, Bakersfield, Marysville and Oroville Districts.

as reasonable a range of rates of return, the midpoint of which is about 6.6 percent. Applicant asks that consideration be given to the rate of return likely to be realized over a five-year future period.

Applicant's estimates for the test years 1967 and 1968 indicate an annual decline of 0.21 percent in rate of return at proposed rates. The staff's estimates made prior to availability of 1967-68 ad valorem tax data show an annual decline of 0.20 percent at proposed rates; revised staff estimates reflecting the actual 1967-68 taxes indicate an annual corresponding decline of 0.23 percent at proposed rates. There is no reason to believe that the trend will level off in the next few years to less than the 0.21 percent per year estimated by applicant. With the average downward trend in rate of return anticipated in this district's operations, it is necessary that the rate of return immediately after a rate increase be greater than the average return found 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, the 6.81 percent return under applicant's proposed rates for the test year 1968 will produce an average future rate of return of 6.6 percent through the year 1970, and the rates of return during that period will approximate the range recommended by the staff.

Findings and Conclusions

The Commission finds that:

1. Applicant is in need of additional revenues.
2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the test

year 1968, and an annual decline of 0.21 percent in rate of return, reasonably indicate the results of applicant's operations for the near future.

3. An average future rate of return of 6.6 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.

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 Visalia District the revised rate schedules attached to this order as Appendix A and concurrently to cancel its present rate schedules VS-1, VS-1L, VS-2R, VS-2RL and VS-5LG. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of

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filing. 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 12th day of DECEMBER, 1967.

John E. Mitchell President
William L. Brennan
Augustus
William Francis J.
And P. Monahan Commissioners

APPENDIX A
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Schedule No. VS-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Visalia and vicinity, Tulare County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		
For all water delivered per 100 cu. ft. . . .	\$ 0.117	(I)
Service Charge:		
For 5/8 x 3/4-inch meter	2.15	 (I)
For 3/4-inch meter	2.35	
For 1-inch meter	3.25	
For 1 1/2-inch meter	4.50	
For 2-inch meter	5.80	
For 3-inch meter	11.00	
For 4-inch meter	15.00	
For 6-inch meter	24.00	
For 8-inch meter	36.00	
For 10-inch meter	45.00	

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

APPENDIX A
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Schedule No. VS-2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Visalia and vicinity, Tulare County.

RATES

Per Service Connection
Per Month

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

6,000 sq.ft., or less	\$ 3.65	(I)
6,001 to 10,000 sq.ft.	4.85	
10,001 to 16,000 sq.ft.	6.00	
16,001 to 25,000 sq.ft.	7.55	

For each additional single-family residential unit on the same premises and served from the same service connection	3.00	(I)
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SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classifications shall be furnished only on a metered basis.
3. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. VS-1, General Metered Service.