

**ORIGINAL**Decision No. 73456

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 Salinas district.

Application No. 49443  
(Filed June 9, 1967)

McCutchen, Doyle, Brown & Enersen, by A. Crawford  
Greene, Jr., for applicant.  
Thomas G. Dunne, for City of Salinas, interested  
party.  
William C. Bricca and Janice 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 Salinas District.

Public hearing was held before Examiner Catey in Salinas on October 30 and 31, 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 October 31, 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 three accountants and two engineers. The City of Salinas did not present any evidence but appeared as an interested party.

Service Area and Water System

Applicant owns and operates water systems in twenty-one districts in California. Its Salinas District includes the City of Salinas and unincorporated area of Monterey County adjacent to the

city limits. The service area is relatively flat, the elevation being approximately 50 feet above sea level for most of the area, rising to about 85 feet at the north end. Total population served in the district is estimated at 39,600.

The supply for this district is obtained from 20 wells located throughout the district, all having pumps equipped with electric motors. In addition, for emergency use, eight of the well pumps and two booster pumps are also each equipped with an auxiliary natural gas, gasoline or diesel engine.

The well pumps deliver water directly into the distribution system, consisting of about 140 miles of distribution mains, ranging in size up to 16-inch. There are about 11,900 metered services, 50 private fire protection services and 920 public fire hydrants. An elevated steel tank and a ground-level tank maintain system pressure and provide storage.

A field investigation of the company's operations, service and facilities in its Salinas District was made by the Commission staff. The plant was found to be well-maintained<sup>N</sup> and operated and good service was being furnished.

#### Rates

Applicant's present tariffs include schedules for: general metered service in (1) the Alisal Heights Rate Area, (2) the former Bruce E. Baird Water Company service area, and (3) the rest of the Salinas District; residential flat rate service to the Bruce Baird area; private fire protection service; public fire hydrant service in (1) the Bruce Baird area, and (2) the rest of the Salinas District; and service to company employees. The basic general metered service and residential flat rate service rates were adopted from applicant's predecessors: Pacific Gas and Electric Company,

Alisal Heights Water Company, and Bruce E. Baird Water Company, as authorized by the Commission. The Alisal Heights rates were established in 1940, the Bruce Baird rates in 1965 and most of the other Salinas District rates in 1959.

Applicant proposes to increase its rates for general metered service, to change from a minimum charge to a service charge form of rate and to discontinue residential flat rate service and separate zone rates for the Alisal Heights and Bruce Baird areas. The only proposed change in the other schedules is the simplification of charges for public fire hydrant service. The following Table I presents a comparison of applicant's present rates and those requested by applicant.

TABLE I

Comparison of Monthly Rates

<u>Item</u>	<u>Present</u>			<u>Proposed</u>
	<u>Alisal Hts.</u>	<u>Baird</u>	<u>Other</u>	
<u>General Metered Service</u>				
Minimum or Service Charge	\$1.50*	\$2.35*	\$2.50*	\$3.00*
First 500 c.f., per 100 c.f.	.00*	.00*	.00*	.18
Next 100 c.f., per 100 c.f.	.00*	.00*	.28	.18
Next 150 c.f., per 100 c.f.	.00*	.25	.28	.18
Next 250 c.f., per 100 c.f.	.20	.25	.28	.18
Next 2,000 c.f., per 100 c.f.	.15	.25	.28	.18
Next 27,000 c.f., per 100 c.f.	.10	.15	.13	.18
Over 30,000 c.f., per 100 c.f.	.10	.15	.13	.145
<u>Residential Flat Rate Service</u>				
First single-family unit	-	2.50	-	-
Each additional unit	-	2.00	-	-
Per 100 s.f. premises over 2,500 s.f.	-	.04	-	-
<u>Public Fire Hydrant Service</u>				
Utility-owned hydrants	2.50-8.00#	2.00	2.50-8.00#	6.00
Publicly owned hydrants	1.25-3.50#	2.00	1.25-3.50#	2.00

\* 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 size and type of hydrant and size of main.

The City of Salinas questioned the reasonableness of the proposed change from a minimum charge to a service charge form of general metered service rate, inasmuch as that change will result in varying percentage increases to customers, depending upon level of use. The cost-of-service study introduced by applicant in Exhibit No. 4, however, shows that the present form of rate does not produce revenues which are consistent with the cost of service at various levels of use, whereas the proposed form of rate does. It is not possible, in correcting the existing inequities, to provide for uniform percentage increases in charges at all levels of use. We find that the proposed change in form of general metered service rate is reasonable.

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>			
Operating Revenues	\$ 945,900	\$ 945,900	\$ 945,900
<u>Deductions</u>			
Allocated EDP Conversion Amort.	1,200	2,400	1,200
Allocated Other CBO Exp.	6,200	6,700	6,200
Direct Ad Valorem Taxes	152,900	164,400	166,000
All Other Deductions Excl. Bus. Lic. and Income Taxes	452,600	453,400	453,000
Subtotal	612,900	626,900	626,400
Business License	9,200	9,200	9,200
Income Taxes	82,800	73,200	75,700
Total	704,900	709,300	711,300
Net Revenue	241,000	236,600	234,600
Rate Base	4,573,300	4,560,200	4,573,300
Rate of Return	5.27%	5.19%	5.13%
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	\$1,103,500	\$1,103,500	\$1,103,500
<u>Deductions</u>			
Excl. Bus. Lic. & Income Taxes	612,900	626,900	626,400
Business License	10,800	10,800	10,800
Income Taxes	163,300	152,700	156,300
Total	787,000	790,400	793,500
Net Revenue	316,500	313,100	310,000
Rate Base	4,573,300	4,560,200	4,573,300
Rate of Return	6.92%	6.87%	6.78%

From Table II it can be determined that the rates requested by applicant will result in an increase of 17 percent in operating revenues. The percentage change for individual bills will vary somewhat, depending upon type, size and location of service and 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 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 economics 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, results 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 nonrecurring 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, affects applicant's indicated rate of return for its Salinas 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. In the absence of actual tax data for that fiscal year, applicant based its estimates of ad valorem taxes upon a projection of the prior trend of "effective tax rate" related to utility plant. The staff assumed no change from the 1966-67 effective tax rate.

It is apparent that recognition of a reasonably well-defined trend in the effective rate for ad valorem taxes is more likely to produce reasonable estimates than to ignore the trend. In fact, the recent tax bills received by applicant show that applicant's projection falls short of the actual taxes. Adding the recent tax data to Chart 7-A of Exhibit No. 4 permits the development of a reasonable average trend line of effective tax rates. This trend line roughly parallels that estimated by applicant but is at a somewhat higher level. The ad valorem taxes adopted in Table II reflect a revised apparent average trend of 2.62, 2.72 and 2.82 percent of plant, for the effective tax rates applicable to 1966-67, 1967-68 and 1968-69, respectively.

#### 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.

Rate of Return

In several recent rate proceedings involving other <sup>1/</sup> 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 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 0.17 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 0.12 percent at proposed rates; revised staff estimates reflecting the actual 1967-68 taxes indicate an annual corresponding decline of 0.20 percent. There is no reason to believe that the trend will level off in the next few years to less than the 0.17 percent per year estimated by applicant. With the average downward trend in rate of

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1/ Chico, Bakersfield, Marysville and Oroville Districts.

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 6.78 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 fall almost exactly within the range recommended by the staff.

#### Findings and Conclusion

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 0.17 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 Salinas District the revised rate schedules attached to this order as Appendix A and concurrently to cancel its present rate schedules SA-1, SA-1L, SA-1LB, SA-2R, SA-4, SA-5 and SA-5L. 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 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 12<sup>th</sup> day of DECEMBER, 1967

[Signature]  
President  
[Signature]  
[Signature]  
[Signature]  
[Signature]  
Commissioners

Schedule No. SA-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Salinas and vicinity, Monterey County.

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
<u>Quantity Rates:</u>		
First 30,000 cu. ft., per 100 cu. ft. ....	\$ 0.18	(C)
Over 30,000 cu. ft., per 100 cu. ft. ....	0.145	
<u>Service Charge:</u>		
For 5/8 x 3/4-inch meter .....	\$ 3.00	
For 3/4-inch meter .....	3.30	
For 1-inch meter .....	4.50	
For 1-1/2-inch meter .....	6.30	
For 2-inch meter .....	8.10	
For 3-inch meter .....	15.00	
For 4-inch meter .....	20.00	
For 6-inch meter .....	34.00	
For 8-inch meter .....	50.00	
For 10-inch meter .....	62.00	

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

(C)

APPENDIX A  
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Schedule No. SA-4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems. (T)

TERRITORY

Salinas and vicinity, Monterey County.

RATES

	Per Month	
	Facilities Installed at Cost of Utility	Customer
For each 2-inch connection .....	\$ 4.00	\$ 3.00
For each 4-inch connection .....	8.00	5.50
For each 6-inch connection .....	12.00	7.00
For each 8-inch connection .....	16.00	10.50
For each 10-inch connection .....	30.00	25.00

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund. (T)

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 shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund. (T)

(Continued)

APPENDIX A  
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Schedule No. SA-4

PRIVATE FIRE PROTECTION SERVICE  
(Continued)

SPECIAL CONDITIONS (Continued)

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 and the cost paid by the applicant. Such payment shall not be subject to refund.

(T)  
(T)

(N)  
(N)

4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

(T)  
(T)

Schedule No. SA-5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, (T)  
organized fire districts and other political subdivisions of the State. (T)

TERRITORY

Salinas and vicinity, Monterey County.

RATES

	<u>Per Hydrant Per Month</u>		
	<u>Facilities Installed at Cost of</u>		
	<u>Utility</u>	<u>Public Authority</u>	
For each hydrant .....	\$ 5.00	\$ 2.00	(C)

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. SA-1, General Metered Service. (T)
2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.
3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size.
4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system. (T)