

**ORIGINAL**Decision No. 73513

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
 THE CAMPBELL WATER COMPANY, a corpo-  
 ration, for authority to increase  
 its rates and charges for its water  
 system serving the City of Campbell,  
 City of San Jose and adjacent  
 territory in Santa Clara County.

Application No. 49354  
 (Filed May 8, 1967; Amended  
 October 9, 1967)

Orrick, Herrington, Rowley & Sutcliffe, by James  
 F. Crafts, Jr., for applicant.

John D. Reader, for the Commission staff.

O P I N I O N

Applicant The Campbell Water Company seeks authority to increase rates for water service.

Public hearing was held before Examiner Catey in Campbell on November 20, 1967. Copies of the application had been served and notice of hearing had been posted and published, in accordance with this Commission's rules of procedure. The matter was submitted on November 20, 1967, subject to the filing of a late-filed exhibit, which exhibit has been received.

Testimony on behalf of applicant was presented by applicant's secretary-general manager and by its engineer. The Commission staff presentation was made by an engineer and an accountant. No customers appeared or testified.

Service Area and Water System

Applicant's service area consists of some 1,600 acres of relatively flat territory in Santa Clara County, including the City of Campbell, a small portion of the City of San Jose, and

adjacent unincorporated areas. The area served is about 70 percent residential and 30 percent agricultural. It is completely surrounded by the service area of San Jose Water Works.

The principal supply for this system is obtained from 13 wells located throughout the service area. Applicant plans to add another well to insure against contingencies such as the collapse of older wells due to ground subsidence in the Santa Clara Valley. Applicant has contracted for delivery of a supplemental supply of treated, imported water from Santa Clara County Flood Control and Water District (District).

The well pumps deliver water directly into the distribution system or into the four ground-level storage tanks. Water from those tanks is boosted into the system. Water purchased from District is at sufficient pressure to be delivered directly into applicant's system. The booster stations and an elevated steel tank maintain system pressure and provide additional storage. The distribution system consists of about 56 miles of distribution mains, ranging in size from 2-inch to 16-inch. There are 4,209 customers, of whom 4,169 are domestic and commercial, 33 are industrial, and 7 are irrigation customers.

#### Service

Staff Exhibit No. 5 states that there appear to be no problems regarding the service provided by applicant, and that no formal complaint and only one informal complaint has ever been filed against applicant. Staff field investigations indicate that applicant's service complies with the requirements of General Order No. 103.

Rates and Rules

Applicant's present tariffs include rates for general metered service, limited measured irrigation service, private fire protection service, public fire hydrant service, miscellaneous (tank truck) service, and service to company employees. The metered and measured service rates became effective August 1, 1966, the miscellaneous service rates became effective July 1, 1965, and the rest of the rates and rules have remained unchanged since 1963.

Applicant proposes to increase its present general metered service rates, which produce over 95 percent of applicant's revenues. No changes are proposed in the other schedules.

The following Table I presents a comparison of applicant's present general metered service rates, those proposed by applicant, and those authorized herein:

TABLE I  
Comparison of Monthly Rates

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>	
			<u>1968</u>	<u>1969#</u>
Service Charge*	\$1.70	\$2.35	\$2.25	\$2.35
Quantity Rates:				
First 30,000 c.f., per 100 c.f.	.288	.32	.31	.32
Over 30,000 c.f., per 100 c.f.	.232	.27	.25	.26

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

# Essentially the same as applicant's proposed rates, except that the charges to large users will have a smaller portion resulting from quantity rates and a larger portion resulting from service charges for large meters, consistent with the distribution of cost of service determined in the recently authorized rates for the adjacent San Jose Water Works.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table II, from Exhibits Nos. 3 and 5-A, 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, at present rates, at those proposed by applicant, and at those authorized herein.

TABLE II  
Estimated Results of Operation, Test Year 1968

<u>At Present Rates</u>	<u>Staff</u>	<u>Applicant</u>	<u>Modified</u>
Operating Revenues	\$ 410,350	\$ 410,270	\$ 410,400
<u>Deductions</u>			
Operating Expenses	234,150	237,080	237,100
Depreciation	54,000	53,920	54,000
Taxes Other Than on Revenue and Income	62,050	62,170	62,000
Subtotal	350,200	353,170	353,100
County Franchise Tax	150	160	200
Income Taxes	3,900	5,640	3,300
Total	354,250	358,970	356,600
Net Revenue	56,100	51,300	53,800
Rate Base	1,123,900	1,109,410	1,124,000
Rate of Return	5.0%	4.6%	4.8%
<u>At Rates Proposed by Applicant and Authorized for Year 1969</u>			
Operating Revenues	\$ 477,000	\$ 476,580	\$ 477,000
<u>Deductions</u>			
Excluding Franchise and Income Taxes	350,200	353,170	353,100
County Franchise Tax	200	160	200
Income Taxes	38,300	39,880	37,200
Total	388,700	393,210	390,500
Net Revenue	88,300	83,370	86,500
Rate Base	1,123,900	1,109,410	1,124,000
Rate of Return	7.9%	7.5%	7.7%
<u>At Rates Authorized for Year 1968</u>			
Operating Revenues	-	-	\$ 461,000
<u>Deductions</u>			
Excluding Franchise and Income Taxes	-	-	353,100
County Franchise Tax	-	-	200
Income Taxes	-	-	28,900
Total	-	-	382,200
Net Revenue	-	-	78,800
Rate Base	-	-	1,124,000
Rate of Return	-	-	7.0%

From Table II it can be determined that the rates requested by applicant would result in an increase of 16 percent in operating revenues, whereas the rates authorized will produce an increase of 13 percent for the year 1968 and an additional 3 percent increase for 1969. The percentage change for individual bills will vary somewhat, depending upon size of service and level of use.

There are numerous differences between the revenue, expense and rate base items estimated by applicant's engineer and the comparable items estimated independently by the staff engineer. Many of the differences offset one another, but three differences are of significance. These are (1) estimates of wage levels, (2) estimates of interest deductions for income taxes, and (3) estimates of working cash.

Applicant included in its 1968 estimates a general increase in wage levels comparable to the 1968 wage increases which San Jose Water Works will experience under an existing two-year contract with its employees. The staff's estimates include no such increase. If the staff had included a comparable increase, its total estimate of operating expenses, excluding taxes and depreciation, would have been essentially the same as applicant's total estimate of those expenses. Applicant's general manager testified that the general wage increases of San Jose Water Works set the wage pattern for equivalent functions performed by applicant's employees. The expenses adopted in Table II are the staff expense estimates for items other than payroll. The adopted payroll items are the staff estimates, adjusted for anticipated wage increases.

Applicant did not give recognition, in its income tax estimates, to the greater interest deduction that will result from

additional debt financing which has already been negotiated. The staff basis for calculating income taxes, adjusted to eliminate duplication of loan establishment expense and for the adopted expenses discussed in the foregoing paragraph, is utilized in deriving the income taxes adopted in Table II.

Applicant's working cash estimate is based upon application of a formula which was designed to give a rough approximation of required working cash. The staff made a more detailed study of required minimum bank balances and the relative lead and lag in payment of expenses and receipt of revenue. The staff rate base is adopted in Table II.

Rate of Return

In Decision No. 71032, dated July 26, 1966, in Application No. 48513, the Commission found that a 6.8 percent return on applicant's rate base was reasonable. In Exhibit No. 5, the staff recommends a rate of return of 7.0 percent on applicant's 1968 rate base, in consideration of the higher interest rate on new debt financing and other factors.

Applicant's estimates for the test years 1967 and 1968 indicate an annual decline of 1.1 percent in rate of return at present rates. Applicant's Exhibit No. 4 indicates that at applicant's proposed rates, the decline from 1967 to 1968 would be 0.9 percent and the average annual decline since 1962 would have been 1.22 percent. Comparing the modified 1968 staff estimates adopted herein with the corresponding 1967 staff estimates in Exhibit No. 5-A, an annual decline of 0.7 percent is indicated. This latter figure appears to be a more reasonable indication of the future trend. We note that the trend of some of the items in applicant's

1967 and 1968 estimates, such as a reduction in interest deduction for income taxes, are improbable and exaggerate the resulting downward trend in rate of return.

If the indicated downward trend is not too great, a single level of rates can be authorized which can remain in effect for several years without excessive deviation in any one year from the average rate of return found reasonable for the period. When the indicated downward trend is quite steep, as in applicant's operations, it is more appropriate to increase the rates in steps which should maintain, in each of the future years, the rate of return found reasonable.

Applicant expects its service area to have reached virtual saturation within five years and estimates that capital additions will then not greatly exceed depreciation accruals. This should cause the indicated trend in rate of return to level off or even reverse. Under these circumstances, projecting more than two years into the future at this time would be quite speculative. The two rate increases authorized herein should produce a future rate of return of 7.0 percent through the year 1969.

#### Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues, but the proposed rates set forth in the application are excessive for the year 1968.
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 0.7 percent in rate of return, reasonably indicate the results of applicant's operations for the near future.

3. A future rate of return of 7.0 percent on applicant's rate base through the year 1969 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:

1. After the effective date of this order, applicant The Campbell Water Company is authorized to file the revised rate schedule attached to this order as Appendix A.

2. After one year following the effective date of this order, applicant is authorized to file the revised rate schedule attached to this order as Appendix B.

3. The rate filings hereinabove authorized shall comply with General Order No. 96-A. The effective date of the revised schedules shall be five 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 seven days after the date hereof.

Dated at San Francisco, California, this 17<sup>th</sup> day of DECEMBER, 1967.

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



APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Campbell and vicinity, Santa Clara County.

RATES

Quantity Rates:	Per Meter Per Month	
First 30,000 cu.ft., per 100 cu.ft. ....	\$ 0.31	(I)
Over 30,000 cu.ft., per 100 cu.ft. ....	0.25	
 Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 2.25	
For 3/4-inch meter .....	2.50	
For 1-inch meter .....	3.40	
For 1 1/2-inch meter .....	4.75	
For 2-inch meter .....	6.10	
For 3-inch meter .....	11.25	
For 4-inch meter .....	15.00	
For 6-inch meter .....	24.50	
For 8-inch meter .....	37.00	(I)

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 Conservation 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.

APPENDIX B

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Campbell and vicinity, Santa Clara County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 30,000 cu.ft., per 100 cu.ft. ....	\$ 0.32	(I)
Over 30,000 cu.ft., per 100 cu.ft. ....	0.26	
Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 2.35	
For 3/4-inch meter .....	2.60	
For 1-inch meter .....	3.50	
For 1 1/2-inch meter .....	4.90	
For 2-inch meter .....	6.30	
For 3-inch meter .....	11.75	
For 4-inch meter .....	16.00	
For 6-inch meter .....	26.00	
For 8-inch meter .....	39.00	(I)

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 Conservation 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.