

**ORIGINAL**Decision No. 73984

## 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 Broadmoor district.

Application No. 49839  
 (Filed December 4, 1967)

McCutchen, Doyle, Brown & Enersen, by  
A. Crawford Greene, Jr., for applicant.  
William C. Bricca, Counsel, 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 Broadmoor district.

Public hearing was held before Examiner Catey in San Francisco on March 12, 1968. 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 12, 1968, subject to receipt of a late-filed document. That document has been received.

Testimony on behalf of applicant was presented<sup>1/</sup> by its president, its vice-president and his assistant, and its general manager. The Commission staff presentation<sup>1/</sup> was made through two accountants and two engineers.

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<sup>1/</sup> Testimony relating to overall company operations had been presented by witnesses for applicant and the staff in Applications Nos. 49443 and 49837, the Salinas and Bear Gulch Districts rate proceedings. This testimony was incorporated by reference in Application No. 49839.

Service Area and Water System

Applicant owns and operates water systems in twenty-one districts in California. Its Broadmoor district includes a section of unincorporated area of San Mateo County between the cities of Colma and Daly City. The service area slopes from 160 feet to approximately 400 feet above sea level. Total population served in the district is estimated at 6,100.

The entire supply for this district is purchased from the San Francisco Water Department (SFWD), through two separate connections to SFWD's pipelines. The distribution system includes about 15 miles of distribution mains, ranging in size up to 8-inch. There are about 1,600 metered services, four private fire protection services and 100 public fire hydrants. A storage tank and a booster pump with associated hydropneumatic tank maintain system pressure and provide storage in two separate pressure zones. The booster pump has an electric motor and provision for emergency connection to one of three portable, gasoline-powered pumps normally stationed in nearby districts.

A field investigation of applicant's operations, service and facilities in its Broadmoor district was made by the Commission staff. In general, the plant was found to be well constructed and in good operating condition. No informal complaints have been registered with the Commission for the past three years. A staff review of customer complaints in applicant's files showed that, on the average, about one complaint per month had been received by applicant. Most of these related to temporary conditions of dirty or rusty water, some of which resulted from the customers' own piping.

Rates

Applicant's present tariffs include schedules for general metered service, private fire protection service, public fire hydrant service and service to company employees. The present rates became effective in 1961.

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

TABLE I  
COMPARISON OF MONTHLY RATES

<u>General Metered Service</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Service Charge*	\$2.05	\$2.35
Quantity Rate, per 100 cu.ft.	0.35	0.396

\* Service charge for a 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. 8 (modified to reflect the testimony of a staff engineer as to the effect of a recently negotiated wage adjustment) 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.

TABLE II

ESTIMATED RESULTS OF OPERATION, TEST YEAR 1968

<u>Item</u>	<u>Staff</u>	<u>Applicant</u>
<u>At Present Rates</u>		
Operating Revenues	\$140,300	\$140,300
Deductions	119,700	120,000
Net Revenue	20,600	20,300
Rate Base	405,900	408,800
Rate of Return	5.07%	4.97%
<u>At Rates Proposed by Applicant</u>		
Operating Revenues	\$158,900	\$158,900
Deductions	129,300	129,600
Net Revenue	29,600	29,300
Rate Base	405,900	408,800
Rate of Return	7.29%	7.17%

From Table II it can be determined that the rates requested by applicant will result in an increase of 13 percent in operating revenues.

The differences between the estimates presented by applicant and those presented by the Commission staff are in operating expenses and rate base. As hereinafter discussed, the rate of return is not excessive under either applicant's or the staff's estimates, when the apparent future trend in rate of return is considered, so there is no need to discuss or resolve the differences.

Rate of Return

In the three recent rate proceedings involving applicant's Salinas, Visalia and Hermosa-Redondo districts, the Commission found that an average rate of return of 6.6 percent over the next three years is reasonable for applicant's operations. In Exhibit No. 7, the staff recommends as reasonable a range of rates of return, the midpoint of which is 6.65 percent, reflecting the higher interest

rate on applicant's debt financing since the previous proceedings. 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 0.54 percent in rate of return at proposed rates. The staff's estimates, including the effect of a 1968 wage increase, show an annual decline of 0.62 percent at proposed rates.

The comparative rates of return for two successive test years, or for a series of recorded years, are indicative of the future trend in rate of return only if the rates of change of major individual components of revenues, expenses and rate base in the test years, or recorded years, are reasonably indicative of the future trend of those items. Distortions caused by abnormal, nonrecurring or sporadically recurring changes in revenues, expenses, or rate base items must be avoided to provide a valid basis for projection of the anticipated future trend in rate of return.

As an indication of the reasonableness of the trend in rate of return derived from the test years 1967 and 1968, applicant prepared Exhibit No. 5, a comprehensive analysis of the many changes in recorded items of revenues, expenses and rate base during the years 1961 through 1966. Applicant analyzed and evaluated distortions during those years caused by changes in (1) its own water rates, (2) wholesale rates it pays to SFWD, and (3) income tax rates and allowances.

Exhibit No. 5 shows that, eliminating the effects of water and income tax rate changes, the average annual decline in rate of return during the period from 1961 through 1966 would have

been 0.55 percent at applicant's present water rates and even greater at its proposed rates.

There is no reason to believe that the trend in rate of return will level off in the next few years to less than the 0.54 percent per year indicated by applicant's estimates for the test years 1967 and 1968.

In most of the recent decisions in rate proceedings involving other districts of applicant, the apparent future trend in rate of return has been offset by the authorization of a level of rates to remain in effect for several years and designed to produce, on the average over that period, the rate of return found reasonable. In one decision, a somewhat different method of offsetting the trend was the authorization of rate increases in several annual steps designed to produce in each year rather than on the average, the rate of return found reasonable. Either approach should achieve the desired result.

In the current proceeding, the staff recommends that, should the Commission authorize step-type increases, the number of steps be limited to two and the second step be authorized by supplemental order or resolution after further showing by applicant. Applicant contends that the delay inherent in the accumulation, presentation and review of additional data could result in a lower actual rate of return than is found reasonable. The single-step increase utilized for most of applicant's other districts is adopted for this proceeding.

The rate increase authorized herein will not be in effect for about the first one-third of the year 1968. With the indicated future trend in rate of return, the 7.17 to 7.29 percent return

under applicant's proposed rates for the test year 1968 should produce an average rate of return of 6.7 percent for the next three years.

Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues.
2. The estimates presented by applicant and by the Commission staff, of operating revenues, operating expenses and rate base for the test year 1968, and an annual decline of 0.54 percent in rate of return, reasonably indicate the probable range of results of applicant's operations for the near future.
3. An average rate of return of 6.7 percent on applicant's rate base for the next three years 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 Broadmoor district the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall

A. 49839 ds

be four days after the date of filing. The revised schedule 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  
16<sup>th</sup> day of APRIL, 1968.

President

Stella M. Le Bon

Augusta

William Seymour Jr.

Paul P. M. M. M.

Commissioners



APPENDIX A

Schedule No. BD-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Broadmoor and vicinity, adjacent to Daly City, San Mateo County.

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RATES

		Per Meter Per Month	
Service Charge:			
For 5/8 x 3/4-inch meter .....		\$ 2.35	(I)
For 3/4-inch meter .....		2.60	
For 1-inch meter .....		3.50	
For 1-1/2-inch meter .....		4.95	
For 2-inch meter .....		6.35	
For 3-inch meter .....		11.75	
For 4-inch meter .....		16.00	
For 6-inch meter .....		27.00	
For 8-inch meter .....		39.00	
For 10-inch meter .....		49.00	

Quantity Rate:

For all water delivered, per 100 cu.ft. ....	\$ 0.396	(I)
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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.