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Decision No. 73987

ORIGINAL

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 Bear Gulch)
district.)

Application No. 49837
(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 Bear Gulch district.

Public hearing was held before Examiner Catey in Atherton on March 11, 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 11, 1968.

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 through two accountants and two engineers.

Service Area and Water System

Applicant owns and operates water systems in twenty-one districts in California. Its Bear Gulch district includes the cities

^{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 the record in Application No. 49837.

of Atherton and Menlo Park, the towns of Portola Valley and Woodside, and unincorporated areas of San Mateo County adjacent to those communities. The service area slopes from sea level to approximately 800 feet above sea level. Total population served in the district is estimated at 54,700.

The principal water supply for this district is purchased from the San Francisco Water Department (SFWD), through eight separate connections to SFWD's San Francisco, Palo Alto and Bay Division #3 pipelines. A second source is Bear Gulch Creek, from which applicant obtains water by means of three diversion dams.

The distribution system includes about 250 miles of mains, ranging in size up to 24-inch. There are about 14,700 metered services, 30 private fire protection services and 1,300 public fire hydrants. Two reservoirs, 28 storage tanks and 31 booster pumps maintain system pressure and provide storage in 24 separate pressure zones. All of the booster pumps have electric motors, one of the stations has an emergency pump with a gasoline engine and all principal boosters have provision for emergency connection to a portable, gasoline-powered pump.

Service

A field investigation of applicant's operations, service and facilities in its Bear Gulch district was made by the Commission staff. The plant was found to be in good condition. Only ten informal complaints have been registered with the Commission during the seven years since the last rate proceeding. A staff review of customer complaints in applicant's files indicates that the number of such complaints is not excessive.

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*	\$2.40	\$2.80
Quantity Rate, per 100 cu.ft.	0.295	0.329

*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>At Present Rates</u>	
	<u>Staff</u>	<u>Applicant</u>
Operating Revenues	\$1,868,500	\$1,868,500
Deductions	1,594,500	1,598,100
Net Revenue	274,000	270,400
Rate Base	5,602,500	5,613,800
Rate of Return	4.89%	4.82%
	<u>At Rates Proposed by Applicant</u>	
	<u>Staff</u>	<u>Applicant</u>
Operating Revenues	\$2,134,200	\$2,134,200
Deductions	1,732,000	1,735,800
Net Revenue	402,200	398,400
Rate Base	5,602,500	5,613,800
Rate of Return	7.18%	7.10%

From Table II it can be determined that the rates requested by applicant will result in an increase of 14 percent in operating revenues.

The principal differences between the estimates presented by applicant and those presented by the Commission staff are in operating expenses and the working cash component of 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 0.45 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 0.54 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. The study shows additional erratic fluctuations in the annual cost of purchased water due to the fact that the quantity of water available from applicant's local sources varies with climatic conditions.

Exhibit No. 5 shows that, eliminating the effects of water and income tax rate changes, and of fluctuations in the annual

production from local supplies, the average annual decline in rate of return during the period from 1961 through 1966 would have been 0.30 percent. At the higher current and planned future rate of installing plant, particularly replacement of existing mains that are reaching the ends of their useful service lives, the average annual decline from 1961 through 1966 would have been 0.49 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 0.45 percent per year indicated by applicant's estimates for the test years 1967 and 1968, provided it continues to replace old mains at the current pace. Applicant contends that it must continue its replacement program to maintain the high service standards it has achieved in the past. Applicant's past service record leads us to conclude that it will, in fact, proceed with its planned main replacement program.

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 7.10 to 7.18 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 0.45 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 Bear Gulch 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 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 16th
day of APRIL, 1968.

President

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William Symonds, Jr.
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Fred P. Morrissey

Commissioners

APPENDIX A

Schedule No. BG-1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The communities of Atherton, Menlo Park, Portola Valley, Woodside, and vicinity, San Mateo County.

RATES

		Per Meter Per Month	
Service Charge:			
For 5/8 x 3/4-inch meter		\$ 2.80	(I)
For 3/4-inch meter		3.10	
For 1-inch meter		4.20	
For 1½-inch meter		5.90	
For 2-inch meter		7.50	
For 3-inch meter		14.00	
For 4-inch meter		19.00	
For 6-inch meter		32.00	
For 8-inch meter		47.00	
Quantity Rate:			
For all water delivered, per 100 cu.ft.		\$ 0.329	(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.