

**ORIGINAL**Decision No. 74578

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 San Carlos )  
 district. )

Application No. 50042  
 (Filed February 23, 1968;  
 Amended July 24, 1968)

McCutchen, Doyle, Brown & Enersen, by A. Crawford  
 Greene, Jr., for applicant.  
David J. Palmer, for City of San Carlos, interested  
 party.  
Janice E. Kerr, Counsel, and Wallace F. Epolt, 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 San Carlos district.

Public hearing was held before Examiner Catey in San Carlos on June 24, 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 June 24, 1968, with the understanding that the effect of a recent income tax surcharge would be considered concurrently if an appropriate pleading were timely filed.

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

---

<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. 50042.

accountants and two engineers. The City of San Carlos presented testimony by an engineer.

Service Area and Water System

Applicant owns and operates water systems in twenty-one districts in California. Its San Carlos district includes the City of San Carlos and a section of unincorporated area of San Mateo County adjacent to the city. The service area slopes from 25 feet to approximately 850 feet above sea level. Total population served in the district is estimated at 28,700.

The entire supply for this district is purchased from the San Francisco Water Department (SFWD), through two separate connections to SFWD's pipelines. The transmission and distribution system includes about 96 miles of distribution mains, ranging in size up to 21-inch. There are about 8,300 metered services, 46 private fire protection services and 580 public fire hydrants. Sixteen reservoirs and storage tanks and 22 booster pumps maintain system pressure and provide storage in 13 separate pressure zones. Each booster pump has an electric motor and each principal booster has provision for emergency connection to one of two portable, gasoline-powered pumps normally stationed in nearby districts.

A field investigation of applicant's operations, service and facilities in its San Carlos district was made by the Commission staff. In general, the plant was found to be well constructed and in good operating condition and adequate service was being furnished. Only three informal complaints have been registered with the Commission during the past three years. A staff review of customer complaints in applicant's files showed that, on the average, about ten complaints per month had been received by applicant. Most of

these related to disputed bills or pressure complaints, all of which applicant attended to promptly.

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 1958.

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 12-C of Exhibit No. 4 shows that, for a typical commercial customer with average monthly consumption of 1,433 cubic feet through a 5/8 x 3/4-inch meter, the average monthly charge will increase 14 percent, from \$6.59 under present rates to \$7.52 under the rates proposed in the original application. The temporary 2.19 percent surcharge will add \$0.16 to this average monthly charge.

TABLE I

COMPARISON OF MONTHLY RATES

<u>General Metered Service</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Service Charge*	\$2.00	\$2.30#
Quantity Rate, per 100 cu.ft.	0.32	0.364#

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

# Until the 10 percent surcharge to Federal income tax is removed, bills computed under these rates will be increased by 2.19 percent.

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 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, before considering the additional expenses and offsetting revenue requirement resulting from the 10 percent surcharge to Federal income tax.

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	\$ 778,600	\$ 778,600
Deductions	652,200	653,100
Net Revenue	126,400	125,500
Rate Base	2,479,800	2,473,600
Rate of Return	5.10%	5.07%
<u>At Rates Proposed by Applicant</u>		
Operating Revenues	\$ 893,900	\$ 893,900
Deductions	712,800	713,500
Net Revenue	181,100	180,400
Rate Base	2,479,800	2,473,600
Rate of Return	7.30%	7.29%

From Table II it can be determined that the rates requested by applicant, exclusive of the temporary 2.19 percent increase due to the income tax surcharge, will result in an increase of 15 percent in operating revenues.

The minor differences between the estimates presented by applicant and those presented by the Commission staff are in operating expenses and rate base. The difference in the estimated rate of return at applicant's proposed rate is only 0.01 percent, so there is no need to discuss or resolve the expense and rate base differences.

Surcharge to Federal Income Tax

Subsequent to the filing of the application, a ten percent surcharge to Federal income taxes was imposed by the Revenue and Expenditure Control Act of 1968. The surcharge is retroactive for the full year 1968 and, unless extended, expires June 30, 1969. The amended application shows that a 2.19 percent surcharge on bills computed under the general metered service rates requested in the original application will be required to offset the effect of the income tax surcharge and produce the same net revenues indicated hereinbefore in Table II. Applicant's proposed surcharge on its bills will offset only the future effect of the tax surcharge and is not designed to recoup any of the increased taxes on net revenue produced prior to the effective date of the increased water rates authorized in this proceeding.

Rate of Return

In the three recent rate proceedings involving applicant's Bear Gulch, East Los Angeles and Broadmoor districts, the Commission found that an average rate of return of 6.7 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. 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 0.42 percent in rate of return at proposed rates. The staff's estimates show an annual decline of 0.37 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 such factors as changes in (1) wholesale rates it pays to SFWD, (2) income tax rates and allowances, and (3) variations in customer usage.

Exhibit No. 5 shows that, eliminating the effects of changes in SFWD water rates and changes in income tax rates and allowances, the average annual decline in rate of return during the period from 1961 through 1966 would have been 0.27 percent at applicant's present water rates and even greater at its proposed rates. Further, increases in consumption per customer during the period offset 0.25 percent annual decline in rate of return, whereas only 0.15 percent annual decline would be offset by the future trend in customer use projected by both applicant and the staff.

The engineer for the City of San Carlos prepared Exhibit No. 13, in which he developed moving averages of applicant's recorded rates of return for the years 1960 through 1966. Based

upon his fitting of a linear equation to these data, he concluded that the data indicated an average annual decline of 0.0013 percent in rate of return. In reaching this conclusion, no correction was made, however, for the probable future trend in customer usage nor for several presumably nonrecurring changes, such as reductions in rates for SFWD water and for income taxes, which took place during the six-year period.

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 0.4 percent decline per year indicated by applicant's and the staff'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. That same approach is adopted for this proceeding.

The rate increase authorized herein will not be in effect for about the first two-thirds of the year 1968. With the indicated future trend in rate of return, the 7.29 to 7.30 percent return which would have resulted under applicant's proposed rates if in effect for the full test year 1968 should produce an average rate of return of 6.7 percent for the next two and one-half to three years, approximately 5.7 percent for the year 1968 (with only about one-third of the year at the new rates), 6.9 percent for 1969 and 6.5 percent for 1970.

#### 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 0.4 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 two and one-half to 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 San Carlos 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



A. 50042 ds

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 28<sup>th</sup> day of AUGUST, 1968.

William Lyman J.  
President  
John F. Mitchell  
Stellman B. Board  
Augustas  
Commissioners

Commissioner Fred P. Morrissey, being necessarily absent, did not participate in the disposition of this proceeding.

~~\_\_\_\_\_~~  
~~\_\_\_\_\_~~

APPENDIX A

Schedule No. SC-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

San Carlos and vicinity, San Mateo County.

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 2.30	(I)
For 3/4-inch meter .....	2.55	
For 1-inch meter .....	3.45	
For 1 1/2-inch meter .....	4.85	
For 2-inch meter .....	6.20	
For 3-inch meter .....	11.50	
For 4-inch meter .....	16.00	
For 6-inch meter .....	26.00	
For 8-inch meter .....	39.00	
For 10-inch meter .....	48.00	
Quantity Rate:		
For all water delivered, per 100 cu.ft. ....	0.364	(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.

SPECIAL CONDITION

Until the 10 percent surcharge to Federal income taxes is removed, (C)  
bills computed under the above tariff will be increased by 2.19 percent. (C)