

ORIGINALDecision No. 74645

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 authoriz-)
 ing it to increase rates charged)
 for water service in the South San)
 Francisco District.)

Application No. 50043
 Filed February 23, 1968;
 amended July 24, 1968.

McCutchen, Doyle, Brown & Enersen, by
A. Crawford Greene, Jr., for appli-
 cant.
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 South San Francisco District.

Public hearing was held before Examiner Catey in San Francisco on June 26, 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 26, 1968, subject to receipt of a late-filed exhibit. That exhibit has been received. Further, the matter was submitted 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 presented¹ by its vice president and his assistant, and its general manager. The Commission staff presentation¹ was made through an accountant and two engineers.

Service Area and Water System

Applicant owns and operates water systems in 21 districts in California. Its South San Francisco District includes the inhabited portions of the City of South San Francisco, in San Mateo County. The service area slopes from 35 feet to approximately 300 feet above sea level. Total population served in the district is estimated at 41,000.

About three-fourths of the supply for this district is purchased from the San Francisco Water Department (SFWD), through nine separate connections to SFWD's pipelines. The other one-fourth is obtained from applicant's eight wells. The distribution system includes about 110 miles of distribution mains, ranging in size up to 18 inches. There are about 11,000 metered services, 180 private fire protection services and 830 public fire hydrants. Eleven reservoirs and storage tanks and 13 booster pumps maintain system pressure and provide storage in seven separate pressure zones. Each booster pump has an electric motor and each principal booster has provision for emergency connection to one of several portable, gasoline-powered pumps normally stationed in South San Francisco and nearby districts.

A field investigation of applicant's operations and facilities in its South San Francisco District was made by the

¹ Testimony relating to overall company operations had been presented by witnesses for applicant and the staff in Applications Nos. 49443, 49837 and 50042, the Salinas, Bear Gulch and San Carlos Districts rate proceedings. This testimony was incorporated by reference in Application No. 50043.

Commission staff. The plant was found to be in good condition. Only seven informal complaints have been registered with the Commission during the past seven years.

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 12-C of Exhibit No. 4 shows that, for a typical commercial customer with average monthly consumption of 1,550 cubic feet through a 5/8 by 3/4-inch meter, the average monthly charge will increase 10 percent, from \$5.20 under present rates to \$5.74 under the rates proposed in the original application. The temporary 1.82 percent surcharge will add \$0.10 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*	\$2.10	\$2.30 [#]
<u>Quantity Rates</u>		
First 50,000 cu.ft., per 100 cu.ft.	0.20	0.222 [#]
Over 50,000 cu.ft., per 100 cu.ft.	.18	.202 [#]

* 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% surcharge to federal income tax is removed, bills computed under these rates will be increased by 1.82%.

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. 8 and 8-A 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. For comparison, this table also shows the corresponding results of operation, modified as discussed hereinafter.

TABLE II

Estimated Results of Operation
(Test Year 1968)

Item	Applicant	Staff	Modified
<u>At Present Rates:</u>			
<u>Operating Revenues</u>			
Excluding Industrial ...	\$ 794,200	\$ 794,200	\$ 794,200
Industrial	240,700	254,100	254,100
Total	1,034,900	1,048,300	1,048,300
<u>Deductions</u>			
Purchased Water	467,400	469,600	476,700
Purchased Power	30,000	31,400	31,800
Other Direct Oper. Expense	114,600	110,500	112,900
Direct Maintenance Exp.	34,500	34,700	34,600
Allocated Office and Miscellaneous Expense	15,500	13,700	13,700
Administrative, General and Misc. Expense	58,600	56,900	56,900
Direct Ad Valorem Taxes	70,300	69,600	69,600
Other Taxes, Excluding Income Taxes	9,600	9,500	9,500
Depreciation	78,600	78,600	78,600
Subtotal, Excluding Income Taxes	879,100	874,500	884,300
Income Taxes	41,500	50,400	45,400
Total	920,600	924,900	929,700
Net Revenue	114,300	123,400	118,600
Rate Base	2,364,700	2,358,200	2,358,200
Rate of Return	4.83%	5.23%	5.03%
<u>At Rates Proposed by Applicant</u>			
<u>Operating Revenues</u>			
Excluding Industrial ...	\$ 875,600	\$ 875,600	\$ 875,600
Industrial	273,200	288,700	288,700
Total	1,148,800	1,164,300	1,164,300
<u>Deductions</u>			
Excluding Income Taxes	879,100	874,500	884,300
Income Taxes	100,300	110,400	105,300
Total	979,400	984,900	989,600
Net Revenue	169,400	179,400	174,700
Rate Base	2,364,700	2,358,200	2,358,200
Rate of Return	7.16%	7.61%	7.41%

From Table II it can be determined that the rates requested by applicant, exclusive of the temporary 1.82 percent increase due to the income tax surcharge, will result in an increase of 11 percent in operating revenues.

Surcharge to Federal Income Tax

Subsequent to the filing of the application, a 10 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 1.82 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. Based on the modified results of operation adopted herein, the tariff surcharge would be 1.89 percent. Applicant's requested surcharge of 1.82 percent will be authorized.

Operating Revenues

Applicant's 1968 estimates of industrial revenues are based upon an analysis in 1967 of 12 individual large industrial accounts and projections of the remaining industrial accounts as a group. The staff's 1968 estimates are based upon more recent data and reflect individual estimates for six of the large industrial customers based upon projected estimates of 1968 consumption obtained in interviews with representatives of those customers. The staff's estimates are five to six percent higher than applicant's.

Exhibit No. 4-B shows historical recorded consumption and revenues for the four large industrial users which provide almost half of applicant's industrial revenue in this district. Comparing the 1967 and 1968 consumption for the first five months of the year shows that the 1968 consumption exceeds the 1967. Assuming the same relationship between the full-year consumption in 1967 and 1968 as during the first five months, the 1968 consumption for these four customers would be about 720 KCcf (hundreds of thousands of cubic feet) whereas applicant estimated only 662 KCcf. This indicates that applicant's estimates of industrial revenues are too low. The staff estimates of industrial revenues are adopted in Table II.

Operating Expenses

The staff's estimates of purchased water and power are higher than those of applicant because of the staff's higher estimate of water sold to industrial customers, offset in part by the staff's lower estimate of the percentage of unaccounted-for water and slightly lower estimated unit cost of the purchased water.

Applicant used an average historical unaccounted-for water of 2.2 percent whereas the staff used 1.0 percent based upon an apparent downward trend through the year 1966. Later information for the year 1967 seems to invalidate the trend. The staff witness stated that his estimate would have been higher if he had known the 1967 percentage. Applicant's estimate of percentage of unaccounted-for water is used in modifying the staff estimates of expenses for purchased water and power adopted in Table II.

Applicant used an average historical unit cost for purchased water whereas the staff developed a correlation between annual quantities purchased and resulting unit costs. The end results of applicant's and staff's estimated unit cost of purchased

water differ by only 0.2 percent. The staff's estimate of unit cost of purchased water is reflected in the purchased water expense adopted in Table II.

The record does not disclose the reason for the difference between the estimates of applicant and the staff for other direct operation expenses, nor is there any basis for giving one estimate more weight than the other. The modified estimate adopted in Table II was determined by transferring \$700 of applicant's estimated administrative and general expense to "other direct operating expense" to place the cost of telephone answering service in the same grouping of expenses used in the staff's estimates, and then averaging the resulting expenses with the expenses estimated by the staff.

The reasons for adoption of the staff's estimates of allocated operation and maintenance expenses have been discussed in earlier decisions in the current group of applicant's rate proceedings and need not be repeated here.

The difference between applicant's and the staff's estimates of administrative, general and miscellaneous expenses is due to applicant's inclusion of the cost of telephone answering service in this group of accounts and to an accumulation of minor differences in other items. From testimony as to recorded 1967 expenses in this group, the staff's estimate appears more reasonable and is adopted in Table II.

Applicant's estimate of direct ad valorem taxes exceeds the staff's because, in estimating 1968-69 taxes, applicant projected the historical long-term upward trend in effective tax rates for this district, whereas the staff did not. Chart 7-A of Exhibit No. 4 shows that the trend of effective tax rates has leveled off in recent years. The staff's estimate is adopted in Table II.

The rate base estimates of applicant and the staff differ only in the estimates of working cash. The reasons for adoption of the staff's estimates of working cash have been discussed in earlier decisions in the current group of applicant's rate proceedings and need not be repeated here.

The differences between the income tax estimates of applicant, of the staff and of those adopted in Table II are due entirely to the differences in revenue and expense estimates hereinbefore discussed.

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 5-year future period.

Applicant's estimates for the test years 1967 and 1968 indicate an annual decline of 0.40 percent in rate of return at proposed rates. The staff's estimates show an annual decline of 0.38 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, non-recurring 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 changes in 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 0.16 percent at applicant's present water rates and somewhat greater at its proposed rates. Applicant's projected future decline is greater than 0.16 percent per year due primarily to (1) a lower projected rate of increase in average consumption per customer, and (2) a greater projected rate of increase in average plant per customer.

Because of the possibly large fluctuations in use by industrial customers, it is difficult to judge whether applicant's lower projected rate of increase in average consumption per customer or the historical trend is more likely for the future. There is little doubt, however, that applicant's plant additions in this district have been increasing at an accelerated rate and will probably continue at the higher rate. If this rate of additions had prevailed throughout the period 1961-66, the 0.16 percent decline previously referred to would have been increased to 0.31 percent.

The future annual decline in rate of return will probably not exceed the 0.4 percent indicated by the estimates of applicant and the staff and could be about 0.3 percent if the historical trend in consumption per customer continues. For the purpose of this proceeding we will assume about 0.35 percent annual decline.

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 three-fourths of the year 1968. With the indicated future trend in rate of return, the 7.41 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 to three and one-half years, approximately 5.6 percent for the year 1968 (with only about one-fourth of the year at the new rates), 7.1 percent for the year 1969, 6.7 percent for 1970, and 6.4 percent for 1971.

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 0.35 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 to three and one-half 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 South San Francisco 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 4th day of SEPTEMBER, 1968.

William J. Lyons, Jr.
President

[Signature]
[Signature]
Commissioners

APPENDIX A

Schedule No. SS-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

South San Francisco 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 the first 50,000 cu.ft., per 100 cu.ft.	0.222	(I)
For all over 50,000 cu.ft., per 100 cu.ft.	0.202	

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

1. Until the 10 percent surcharge to federal income tax is removed, bills computed under the above tariff will be increased by 1.82 percent.