

Decision No. 75499

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 Los Altos-Suburban district.)

Application No. 50350
(Filed June 26, 1968;
Amended July 24, 1968)

McCutchen, Doyle, Brown & Enersen, by A. Crawford
Greene, Jr., for applicant.
Wilson P. Cogswell, for himself and his neighbors,
protestants.
Elinore C. Morgan, Counsel, for the Commission staff.

O P I N I O N

Applicant California Water Service Company seeks author-
ity to increase rates for water service in its Los Altos-Suburban
district.

Public hearing was held before Examiner Catey in Los
Altos on December 9, 1968. Copies of the application had been
served, notice of filing of the application published, and notice
of hearing published and posted, in accordance with this Commis-
sion's rules of procedure. The matter was submitted on December
9, 1968.

Testimony on behalf of applicant^{1/} was presented by its
vice-president and his assistant and by its general manager.
Testimony on behalf of protestants Cogswell and neighbors was
presented by Mr. Cogswell. Five additional customers testified

^{1/} Testimony relating to overall company operations had been pre-
sented by witnesses for applicant and the staff in Application
No. 50351, the Stockton district rate proceeding. This testi-
mony was incorporated by reference in Application No. 50350.

on their own behalf. The Commission staff presentation was made through an accountant and two engineers.

Service Area and Water System

Applicant owns and operates water systems in twenty-one districts in California. Its Los Altos-Suburban district includes most of the City of Los Altos, fringes of the Cities of Cupertino, Los Altos Hills, Mountain View and Sunnyvale, and unincorporated areas of Santa Clara County adjacent to those cities. The service area slopes from 115 feet to approximately 700 feet above sea level. Total population served in the district is estimated at 49,500.

The principal water supply for this district is obtained from applicant's 35 owned wells and two leased wells. A supplemental supply is purchased from San Jose Water Works and Santa Clara County Flood Control and Water District.

The distribution system includes about 240 miles of distribution mains, ranging in size up to 24-inch. There are about 13,400 metered services, 30 private fire protection services and 1,100 public fire hydrants. Forty-eight storage tanks and 60 booster pumps maintain system pressure and provide storage in 14 pressure zones. Each principal collecting tank has provision for emergency connection to a portable, gasoline-powered pump stationed in the district or to any of three others stationed in nearby districts.

Service

A field investigation of applicant's operations, service and facilities in its Los Altos-Suburban district was made by the Commission staff. The system was found to be well-maintained and appeared to be providing good service. A staff engineer testified that only six informal complaints have been registered with the

Commission during the past four years and that all of these complaints were resolved.

At the hearing, one customer objected to the hardness of the water supplied by applicant. Applicant's general manager admits that the water from the local wells has a hardness of about 250 parts per million (ppm) but testified that it is not economically feasible to construct a central softening plant, due to the numerous and separated well sources. He pointed out, however, that the amount of imported water purchased by applicant increases each year and that the 50 to 100 ppm hardness of water from that source tends to improve the overall quality of the water served when blended with the local supplies.

Two other customers objected to the low pressure of the water supplied by applicant. One of these customers formerly received only about 15 pounds per square inch (psi) at her home but after replacing 600 feet of her own piping, the pressure increased to 25 or 30 psi. This is within the requirements of General Order No. 103, but applicant agreed to investigate both complaints and advise the customers and this Commission as to what more can be done to improve the pressure.

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 1965.

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, those requested by applicant, and those authorized herein.

Table I
Comparison of Monthly Rates

<u>General Metered Service</u>	<u>Present</u>	<u>Proposed[#]</u>	<u>Authorized[#]</u>
Service Charge*	\$2.35	\$3.00	\$ 2.95
Quantity Rate:			
All water delivered, per 100 cu. ft.	.315	.374	.369

* 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 proposed rates to be increased by 2.71 percent and 2.64 percent under authorized rates.

Table 12-C of Exhibit No. 7 shows that, for a typical commercial customer with average monthly consumption of 2,258 cubic feet through a 5/8 x 3/4-inch meter, the average monthly charge would increase 21 percent from \$9.47 under present rates to \$11.45 under the rates proposed in the original application. The temporary 2.71 percent surcharge requested in the amendment would add \$0.31 to this average monthly charge at proposed rates. Under the rates authorized herein, the average monthly charge for the typical commercial customer will increase 19 percent to \$11.26 under the basic rates, with an additional \$0.30 while the authorized temporary 2.64 percent surcharge remains in effect.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table II, from applicant's Exhibit No. 7 and the staff's Exhibit No. 9, are the estimated results of operation for the test year 1969, 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 1969

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Modified</u>
<u>At Present Rates</u>			
Operating Revenues	\$1,784,200	\$1,789,700	\$1,790,000
<u>Deductions</u>			
District Oper. & Maint. Exp., Excl. Purch. Wtr., Pwr., Chem- icals, Wtr. Extraction Chg.	267,800	262,700	265,000
Other Expenses, Excl. Taxes & Depr.	651,800	651,300	651,000
Taxes, Excl. Franch. & Inc. Taxes	251,000	247,700	248,000
Depreciation	187,300	187,600	188,000
Subtotal	1,357,900	1,349,300	1,352,000
Local Franchise Taxes	21,000	21,000	21,000
Income Taxes	92,200	99,300	98,000
Total	1,471,100	1,469,600	1,471,000
Net Revenue	313,100	320,100	319,000
Rate Base	6,411,500	6,408,300	6,408,000
Rate of Return	4.88%	5.00%	4.98%
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	\$2,154,900	\$2,154,900	\$2,155,000
<u>Deductions</u>			
Excl. Franch. & Income Taxes	1,357,900	1,349,300	1,352,000
Local Franchise Taxes	25,400	25,400	25,000
Income Taxes	281,400	285,600	285,000
Total	1,664,700	1,660,300	1,662,000
Net Revenue	490,200	494,600	493,000
Rate Base	6,411,500	6,408,300	6,408,000
Rate of Return	7.65%	7.72%	7.69%
<u>At Rates Authorized Herein</u>			
Operating Revenues	-	-	\$2,121,000
<u>Deductions</u>			
Excl. Franch. & Income Taxes	-	-	1,352,000
Local Franchise Taxes	-	-	25,000
Income Taxes	-	-	267,000
Total	-	-	1,644,000
Net Revenue	-	-	477,000
Rate Base	-	-	6,408,000
Rate of Return	-	-	7.45%

From Table II it can be determined that, exclusive of the temporary increase due to the income tax surcharge, the increase in operating revenues would be 20 percent under applicant's proposed rates and will be 18 percent under the rates authorized herein.

Revenues, Expenses and Rate Base

The operating revenue estimates of applicant and the staff differ only because applicant used a less accurate method of estimating 1969 revenues at present rates than did the staff. The staff estimate is adopted in Table II.

In developing the historical trend of operation and maintenance expenses, applicant applied a "labor factor" to certain nonlabor items, whereas the staff projected separate estimates for those items. Applicant also added an amount in recognition of the change of one employee from part-time to full-time work. Although any previous similar personnel changes are already reflected in the projection of the historical trend, such changes in a small district with only 17 present employees would presumably be infrequent enough to warrant some special consideration in estimating future expenses. The amount adopted in Table II for operation and maintenance expenses (excluding purchased water, power and chemicals and water extraction charge) is about midway between the estimates of applicant and staff.

Except for ad valorem taxes, there are only minor differences between the estimates of applicant and staff for taxes other than on income.

The overall effective ad valorem tax rate for this district shows a fairly consistent pattern over the past decade, as is portrayed by Chart 7-A of Exhibit No. 7. Applicant projected

a trend which appeared reasonable based upon data ending with the 1966-67 fiscal year. By the time of the December 9 hearing, actual tax bills for 1968-69 were available. The actual composite effective rate for that period indicates that the staff's estimated trend line is more reasonable than applicant's. The taxes estimated by the staff are adopted in Table II.

The various differences between applicant's, the staff's and the adopted estimates of revenues and expenses affect the corresponding estimates of income taxes. The income taxes adopted in Table II reflect the revenues and expenses adopted in that table.

The principal difference between the rate base estimate of applicant and staff is in the working cash allowance. The revenues and expenses used in the staff's lead-lag study are close to those adopted herein. The staff rate base estimate is adopted in Table II.

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 2.71 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 recent rate proceeding involving applicant's Stockton district, the Commission found that an average rate of return of 6.9 percent over the next three years is reasonable for applicant's operations in that district. Applicant asks that rates be authorized for its Los Altos-Suburban district which will produce a 7 percent rate of return over the next five years. Protestants and several public witnesses contend that a 7 percent return would be unreasonably high, but did not present any evidence in support of that contention. The staff recommends, as a reasonable average allowable rate of return for applicant's near future operations, 6.7 to 6.9 percent. There do not appear to be any factors in the Los Altos-Suburban district warranting a different allowable rate of return from the 6.9 percent found reasonable for applicant's Stockton district.

Trend in Rate of Return

Applicant's estimates for the test years 1968 and 1969 indicate an annual decline of 0.29 percent in rate of return at proposed rates. The staff's estimates show an annual decline of 0.27 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 1968 and 1969, applicant prepared Exhibit No. 8, a comprehensive analysis of the many changes in recorded items of revenues, expenses and rate base during the years 1962 through 1967. Applicant analyzed and evaluated distortions during those years caused by such factors as changes in (1) its own water rates, (2) changes in rates for purchased and extracted water, and (3) income tax rates and allowances.

Exhibit No. 8 shows that, eliminating the effects of changes in applicant's water rates, changes in rates for purchased and extracted water and changes in income tax rates and allowances, the average annual decline in rate of return during the period from 1962 through 1967 would have been 0.31 percent at applicant's present water rates and somewhat less at its proposed rates. This adjusted decline for the five-year period of 0.31 percent per year at present water rates equals that projected by applicant and is close to the 0.28 percent projected by the staff because the continually increasing amount of purchased water is offset by the slower growth in utility plant per customer. There is no reason to believe that the trend in rate of return at applicant's proposed water rates in the next few years will be less than the 0.3 percent per year which applicant requests be considered for rate-making purposes.

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. In the Stockton proceeding, with so much of the additional revenue requirement having been due to capital addition, the cost of which could not be exactly determined at that time, it was not deemed appropriate to project more than three years into the future. Although the estimates for the Los Altos-Suburban district are not as subject to variation as for the Stockton district, Exhibit No. 8 shows that significant changes can take place in a five-year period. For this district, a four-year projection appears reasonable.

The rate increase authorized herein will not be in effect for about the first one-third of the year 1969. With the indicated future trend in rate of return, the 7.45 percent return under the rates authorized herein for the test year 1969 should produce an average rate of return of 6.9 percent for the next four years, approximately 6.6 percent for the year 1969 (with about two-thirds of the year at the new rates), 7.2 percent for the year 1970, 6.9 percent for the year 1971, and 6.6 percent for 1972.

Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues.
2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the test year 1969, and an annual decline of 0.3 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 6.9 percent on applicant's rate base for the next four 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 in part.

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 Los Altos-Suburban 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 1st day of APRIL, 1969.

William J. Lyons, Jr.
 President

Augustine

Arch P. Monissey

U. H. ...

J. ...
 Commissioners

Schedule No. IS-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Los Altos and vicinity, Santa Clara County.

RATES

Service Charge:	<u>Per Meter Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 2.95	(I)
For 3/4-inch meter	3.25	
For 1-inch meter	4.45	
For 1 1/2-inch meter	6.20	
For 2-inch meter	8.00	
For 3-inch meter	15.00	
For 4-inch meter	20.00	
For 6-inch meter	31.00	
For 8-inch meter	50.00	
For 10-inch meter	60.00	

Quantity Rate:

For all water delivered, per 100 cu.ft.	\$ 0.369	(I)
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The service charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month. (T)

SPECIAL CONDITIONS

1. 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 District for agricultural water, shall receive a credit of four cents per 100 cubic foot on each water bill for the quantities of water used during the period covered by that bill. (T)

(Continued)

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APPENDIX A
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Schedule No. IS-1

GENERAL METERED SERVICE

SPECIAL CONDITIONS - Contd.

2. Until the 10 percent surcharge to federal income taxes is removed, bills computed under the above tariff will be increased by 2.64 percent.

(N)

(N)