

ORIGINALDecision No. 75548

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CALIFORNIA CONSOLIDATED)
 WATER COMPANY, INC., a California cor-)
 poration, under Section 454 of the)
 Public Utilities Code, for authority)
 to increase public utility water rates)
 in its Santa Maria District.)

Application No. 50289
 (Filed June 6, 1968;
 Amended Nov. 19, 1968)

Knapp, Gill, Hibbert & Stevens, by
Karl K. Roos, for applicant.
Mrs. Winston D. Miller, for herself,
 protestant.
 Sergius M. Boikan, Counsel, John D.
Reader and Raymond E. Heytens,
 for the Commission staff.

O P I N I O N

Applicant California Consolidated Water Company, Inc. seeks authority to increase rates for water service in its Santa Maria District.

Public hearing was held before Examiner Catey in Santa Maria on December 11 and 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 December 12, 1968, subject to receipt of a late-filed exhibit. That exhibit has been received.

Testimony on behalf of applicant was presented by its vice president and general manager, its vice president and resident manager, and two consulting engineers. One customer testified on her own behalf. The Commission staff presentation was made through an accountant and an engineer.

Service Area and Water System

Applicant owns and operates water systems in three districts in California. Its Santa Maria District includes the SM (Tanglewood) Division, located in Santa Barbara County about five miles southwest of Santa Maria, the interconnected Miraflores, Orcutt, and Evergreen Divisions, located about six miles south of Santa Maria, the Sisquoc System of the Orcutt Division, located about 10 miles southeast of Santa Maria, and the Vista Division, located in San Luis Obispo County, about six miles northwest of Santa Maria.

The water supply for this district is obtained from applicant's 14 wells. The four separate distribution systems include about 66 miles of distribution mains, ranging in size up to 16-inch. There are about 4,600 metered services and 270 fire hydrants. Nine reservoirs and tanks and 17 booster pumps maintain system pressure and provide storage in nine separate pressure zones in the Miraflores-Orcutt-Evergreen area and in an additional zone in each of the three separated areas of SM, Sisquoc and Vista.

Service

A field investigation of applicant's operations, facilities and service in its Santa Maria District was made by the Commission staff. The plant was found to be in good condition. A staff engineer testified that applicant provides good service.

The various portions of applicant's Santa Maria District water systems were acquired from several predecessors. Applicant has done a commendable job of integrating the operation and maintenance of these systems and of interconnecting them where feasible. This has resulted in better service and a more dependable supply of water to the public.

Rates

Applicant's present tariffs include schedules applicable to the Miraflores Tariff Area for residential metered service, business and public authorities metered service, and construction flat rate service; schedules applicable to the Orcutt Tariff Area for general metered service, public fire hydrant service, and construction flat rate service; schedules applicable to the SM Tariff Area for general metered service and public fire hydrant service; and schedules applicable to the Vista Tariff Area for general metered service and public fire hydrant service. The present rates were adopted by applicant from its various predecessors.

Applicant proposes to consolidate the present Miraflores and Orcutt metered service rates, to increase the present Orcutt metered service rates for smaller quantities of water and decrease them for larger, to consolidate and increase the present SM and Vista metered service rates, to increase the present Vista public fire hydrant rates, and to increase the present Evergreen public fire hydrant rates and metered service rates for smaller quantities of water and decrease the metered service rates for larger quantities. There are no proposed changes in the other schedules. The following Table I presents a comparison of applicant's present general metered service and public fire hydrant service rates with those requested by applicant.

Present rates for the various divisions and systems within applicant's Santa Maria District were established for the various predecessors, based upon the previous separate methods of operations, quality of service and all of the many other factors which are given consideration in setting rates. Under applicant's ownership and operation, plant improvements have been made, interconnecting mains

installed, and the operation and maintenance of the entire Santa Maria District consolidated. This results in a more uniform cost of service and quality of service throughout the district. Although the Sisquoc, SM and Vista systems are separated by several miles from the main portion of the district, there is nothing in the record to show that this significantly increases the cost of service or decreases the quality of service to customers in those outlying areas. Applicant's consulting engineer testified that, in his opinion, there now is very little difference between the actual cost of service throughout the Santa Maria District.

Applicant proposes three separate zone rates within the Santa Maria District, in lieu of the present five rate zones. The rates proposed for the Evergreen portion of the integrated Miraflores-Orcutt-Evergreen system are somewhat lower, and those proposed for the separate SM and Vista systems are somewhat higher, than those proposed for the Miraflores-Orcutt portion and the separate Sisquoc system. Inasmuch as there no longer appears to be any justification for zone rates in the Santa Maria District, a single district-wide rate schedule for metered service is authorized herein.

TABLE I

COMPARISON OF MONTHLY RATES

Item	Miraflora & Orcutt		Evergreen		SH & Vista		Entire District		
	Present	Proposed	Present	Proposed	Present	Proposed	Authorized*		
	Mira.	Orcutt			SH	Vista			
<u>General Metered Service</u>									
Minimum Charge*	\$4.00	\$3.40	\$4.00	\$3.35	\$4.00	\$3.50	\$4.00	\$4.00	\$4.00
Quantity Rates:									
First 600 cu.ft.	#	#	#	#	#	#	#	#	#
Next 100 cu.ft., per 100 cu.ft.	#	#	#	#	#	.30	#	#	#
Next 100 cu.ft., per 100 cu.ft.	#	#	#	#	#	.30	.30	#	#
Next 200 cu.ft., per 100 cu.ft.	#	.30	.35	#	#	.30	.30	.40	.40
Next 700 cu.ft., per 100 cu.ft.	.30	.30	.35	.20	.35	.30	.30	.40	.40
Next 300 cu.ft., per 100 cu.ft.	.30	.30	.35	.20	.35	.30	.20	.40	.40
Next 1,000 cu.ft., per 100 cu.ft.	.20	.30	.25	.18	.25	.25	.20	.30	.30
Next 1,000 cu.ft., per 100 cu.ft.	.20	.25	.25	.18	.25	.25	.15	.30	.30
Next 4,000 cu.ft., per 100 cu.ft.	.10	.25	.15	.18	.15	.20	.15	.20	.20
Next 2,000 cu.ft., per 100 cu.ft.	.10	.17	.15	.18	.15	.20	.15	.20	.20
Over 10,000 cu.ft., per 100 cu.ft.	.10	.17	.13	.18	.13	.16	.15	.15	.15
Public Fire Hydrant Service	4.00	4.00	4.00	1.00	4.00	4.00	3.50	4.00	4.00

* Minimum Charge for 5/8 x 3/4-inch meter. A graduated scale of increased charges is provided for larger meters.

Included in Minimum Charge.

+ Until the 10% surcharge to federal income tax is removed, bills computed under these rates will be increased by 1.9%.

-5-

Because of the diverse rate structures inherited by applicant from predecessors, the consolidating and revising of the rates as authorized herein will have different effects on customers' bills, depending upon location. Table II shows the effect at average monthly use, at half the average use, and at double the average use. These comparisons exclude the temporary 1.9 percent surcharge to offset the temporary income tax surcharge.

TABLE II
Comparison of Monthly Charges

<u>Item</u>	<u>Miraflores</u>	<u>Orcutt</u>	<u>Evergreen</u>	<u>SM</u>	<u>Vista</u>
<u>At Average</u>					
<u>Monthly Use of 2,500 cf</u>					
Present Rates	\$ 8.00	\$ 8.50	\$ 6.25	\$ 8.95	\$ 8.60
Future Rates	9.43	9.43	9.43	9.43	9.43
Increase	17.9%	10.9%	50.9%	5.4%	9.7%
<u>At Half Average</u>					
<u>Monthly Use of 1,250 cf</u>					
Present Rates	\$ 4.75	\$ 4.75	\$ 3.85	\$ 5.45	\$ 5.65
Future Rates	5.53	5.53	5.53	5.53	5.53
Increase	16.4%	16.4%	43.6%	1.5%	(2.1)%
<u>At Twice Average</u>					
<u>Monthly Use of 5,000 cf</u>					
Present Rates	\$12.00	\$15.00	\$10.75	\$14.70	\$12.60
Future Rates	15.28	15.28	15.28	15.28	15.28
Increase	27.3%	1.9%	42.1%	3.9%	21.3%

(Decrease)

A customer objected to a rate increase because the rates already are higher than those charged by the Cities of Oxnard and Santa Maria. There is no indication, however, that the operations of those municipal water departments are in any way comparable with applicant's operations.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table III, from applicant's Exhibit No. 1 and the staff's Exhibit

No. 8 (as modified orally at the hearing) 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 III

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	\$ 433,981	\$ 434,000	\$ 434,000
Deductions			
Expenses Excl. Taxes & Depr.	205,380*	182,700	185,900
Taxes other than on Income	57,129	62,620	62,600
Depreciation	67,196	65,500	67,200
Subtotal	329,705*	310,820	315,700
Income Taxes	582*	13,200	11,600
Total	330,287*	324,020	327,300
Net Revenue	103,694*	109,980	106,700
Rate Base	1,854,741	1,829,500	1,829,500
Rate of Return	5.59%*	6.01%	5.83%
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	\$ 514,855	\$ 514,400	\$ 514,400
Deductions			
Excluding Income Taxes ...	329,705	310,820	315,700
Income Taxes	42,345	54,770	53,100
Total	372,050	365,590	368,800
Net Revenue	142,805	148,810	145,600
Rate Base	1,854,741	1,829,500	1,829,500
Rate of Return	7.70%	8.13%	7.96%
<u>At Rates Authorized Herein</u>			
Operating Revenues	\$ -	\$ -	\$ 493,000
Deductions			
Excluding Income Taxes ...	-	-	315,700
Income Taxes	-	-	42,000
Total	-	-	357,700
Net Revenue	-	-	135,300
Rate Base	-	-	1,829,500
Rate of Return	-	-	7.4%

* Adjusted for regulatory expenses, to eliminate inconsistency with applicant's showing under its proposed rates.

From Table III it can be determined that, exclusive of the temporary increase due to the income tax surcharge, the increase in operating revenues would be 19 percent under applicant's proposed rates and 14 percent under the rates authorized herein.

Operating Revenues and Expenses

The difference between the revenue estimates of applicant and staff at applicant's proposed rates is due to a minor error in applicant's calculations relating to revenues from the Orcutt Area. The staff's estimates are adopted in Table III.

The differences between the expense estimates of applicant and staff result primarily from the fact that the staff had available more recent data on actual expenses in 1968 than were available when applicant's estimates were being prepared. Applicant contends that during 1968, an abnormally large amount of Santa Maria expenditures were chargeable against other than operating expenses. There appears no reason, however, that the efficient use of applicant's personnel for both capital installations and operations cannot continue in the future.

Applicant included in its expense estimates \$1,740 for amortization of half of the plant acquisition adjustment applicable to the Santa Maria District. The staff estimates do not include this item. Applicant contends that it is reasonable to charge that amount to expense because the acquisition and consolidation of the systems by applicant benefited the customers. Rather than to charge part of the excess of purchase price over book cost to operating expense, it is more appropriate to allow a somewhat higher rate of return on rate base than would otherwise be granted, in recognition of the significant service improvements instituted by applicant upon its acquisition of the systems.

The staff did not include in its expense estimates the five percent average wage increase over the 1968 pay levels which applicant estimated would affect its 1969 payroll. Late-filed Exhibit No. 9

shows that the anticipated increase was made effective December 26, 1968 and will continue throughout 1969. The staff expenses are adopted in Table III with an appropriate adjustment for the wage increase.

The staff had available more recent data than did applicant as to actual rates for ad valorem and payroll taxes. Also, the staff considered the full-year effect of certain nonrecurring capital additions. The staff's estimates of taxes other than on income are adopted in Table III.

The record does not disclose any reason for the difference between applicant's and the staff's depreciation expense estimates. The summary on page 18 of staff Exhibit No. 8 shows that there is no significant difference between the plant estimates of applicant and staff, and the discussion on page 16 of that exhibit states that applicant's depreciation rates have been reviewed by the staff and approved by Commission resolution. Under these circumstances, barring arithmetical errors, one would expect the depreciation estimates of applicant and staff to be almost identical. Applicant presented detailed supporting data showing the derivation of its depreciation expense estimate, whereas the staff did not. A careful check of applicant's derivation discloses no arithmetical errors. Applicant's estimate is adopted in Table III.

The various differences between applicant's, the staff's and the adopted estimates of revenues and expenses affect the corresponding estimates of income taxes. Also, the staff modified certain other deductions and credits in the detailed calculation, consistent with the revised allocation of company-wide expenses to reflect recent acquisitions of two other water systems, and consistent with estimated average annual capital additions. The income taxes adopted in Table III reflect the staff's basis for computing those taxes, with appropriate modification for the 1969 payroll increase.

The principal difference between the rate base estimates of applicant and the staff is the staff adjustment for average main

extension refunds accrued but not yet payable nor paid. This difference is offset in part by the fact that applicant failed to include a working cash allowance in its estimates. The staff rate base estimate is adopted in Table III.

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. A 1.9 percent surcharge on bills computed under the basic general metered service rates authorized herein will be required to offset the effect of the income tax surcharge and produce the same net revenues indicated hereinbefore in Table III. This surcharge on customers' 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

Applicant seeks a rate of return of 7.7 percent on rate base for the test year 1969. In staff Exhibit No. 7, "Cost of Money and Rate of Return", statistical and financial data on applicant and other water utilities inside and outside of California are presented. Based upon those data, and considering a number of stated intangible factors, the staff witness recommends that the rate of return to be allowed in this proceeding fall within the range of 6.95 to 7.25 percent. We concur with the staff's recommendation as to a normal rate of return for a utility of applicant's size and capital structure but, largely because of applicant's progress in consolidating the scattered systems and improving service to the public, find that a 7.4 percent return is reasonable.

Trend in Rate of Return

Applicant's estimates for the test years 1968 and 1969 indicate an annual decline of 0.68 percent in rate of return at proposed rates. The staff's estimates, wherein the effect of abnormal plant additions and the effect of wage increases have been eliminated, show an annual increase of 0.15 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.

Because of the changes in operation upon applicant's acquisition of the various systems within the Santa Maria District, the historical trend in rate of return does not provide a valid indication of the probable future trend. Relatively small changes in operating expenses or capital improvements can have a significant effect on the trend. For example, the projected annual improvement in earnings indicated by the staff's study is entirely wiped out by the five percent wage increase applicable to 1969. For lack of any definitive indicator as to the probable future trend, we will assume for the purpose of this proceeding neither an upward nor a downward future trend in rate of return.

Accounting

A staff accountant testified that there was a marked improvement in applicant's accounting from 1967 to 1968. He points out, however, in Exhibits Nos. 6 and 8, a number of additional

changes that should be considered by applicant. The specific suggestions in those exhibits should assist applicant in making further improvements in its books and records.

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 reasonably indicate the probable results of applicant's operations for the near future.
3. A rate of return of 7.4 percent on applicant's rate base 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.
5. Zone rates are no longer justified for applicant's Santa Maria District.

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 Consolidated Water Company, Inc., is authorized to file for its Santa Maria District the revised rate schedules attached to this order as Appendix A and concurrently to withdraw and cancel present Schedules Nos. 1-R, 1-B, 5, EV-1, EV-5, OT-1, OT-9FC, 9FC, SM-1, VW-1, and VW-5. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules

shall be four days after the date of filing. The revised schedules 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 8th day of APRIL, 1969.

William Lyons, Jr.
President

Augustin
J. B. ...
Commissioners

I dissent with regard to rate of return and will file a separate statement.

Shed P. Monessing.

APPENDIX A
Page 1 of 3

Schedule No. SM-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Orcutt and Orcutt Wye area near Santa Maria, Tanglewood Tract, (T)
Sisquoc, and vicinity, Santa Barbara County; and Vista and vicinity, two {
miles southwest of Nipomo, San Luis Obispo County. (T)

RATES

Per Meter
Per Month

Quantity Rates:

First	800 cu.ft. or less	\$ 4.00	(I)
Next	1,200 cu.ft., per 100 cu.ft.34	⋮
Next	2,000 cu.ft., per 100 cu.ft.27	⋮
Over	4,000 cu.ft., per 100 cu.ft.18	⋮

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 4.00	⋮
For	3/4-inch meter	7.00	⋮
For	1-inch meter	9.00	⋮
For	1 1/2-inch meter	11.00	⋮
For	2-inch meter	15.00	⋮
For	3-inch meter	23.00	⋮
For	4-inch meter	38.00	⋮
For	6-inch meter	68.00	(I)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

SPECIAL CONDITION

Until the 10 percent surcharge to federal income tax is removed, (N)
bills computed under this tariff will be increased by 1.9 percent. (N)

Schedule No. SM-5

(C)

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, organized fire districts and other political subdivisions of the State.

(T)

TERRITORY

Orcutt and Orcutt Wye area near Santa Maria, Tanglewood Tract, Sisquoc, and vicinity, Santa Barbara County; and Vista and vicinity, two miles southwest of Nipomo, San Luis Obispo County.

(T)

RATE

Per Month

For each hydrant \$4.00

(I)

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. SM-1, General Metered Service.

(T)

2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.

3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size.

4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

(T)

Schedule No. SM-9FC

(C)

CONSTRUCTION FLAT RATE SERVICE

APPLICABILITY

Applicable to flat rate water service furnished for general construction, building construction, subdivision development and deliveries to tank trucks.

TERRITORY

Orcutt and Orcutt Wye area near Santa Maria, Tanglewood Tract, Sisquoc, and vicinity, Santa Barbara County; and Vista and vicinity, two miles southwest of Nipomo, San Luis Obispo.

(T)
|
(T)

RATES

Site Development of Residence Construction by Individuals:

For each 3/4- or 1-inch service connection	\$ 4.00
For each 1 1/2-inch service connection	7.00
For each 2-inch service connection	11.00
For each 3-inch service connection	15.00

Subdivision Road and Site Development:

For site compaction and grading, for each 10,000 sq.ft. of site or residential lot	\$ 4.00
For street compaction for each 80 lineal feet of street or road frontage	2.00

Subdivision Construction:

For each residence or permanent building, during construction period, not exceeding 6 months ...	12.00
Tank truck deliveries, per 1,000 gallons of tank capacity20

SPECIAL CONDITIONS

1. A customer desiring to obtain water deliveries under this schedule must first obtain a written permit from the utility.
2. The above charges are payable in advance of water usage.