

ORIGINAL

Decision No. 76320

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-)	Application No. 51079
ing it to increase rates charged for)	(Filed May 16, 1969)
water service in the Dixon district.)	

McCutchen, Doyle, Brown & Enersen, by
A. Crawford Greene, Jr., for appli-
 cant.
Roy Elf, for City of Dixon, interested
 party.
S. M. Boikan, Counsel, and J. B. Balcomb,
 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 Dixon district.

Public hearing was held before Examiner Catey in Dixon on September 15, 1969. 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 Commission's rules of procedure. The matter was submitted on September 15, 1969.

Testimony on behalf of applicant ^{1/} was presented by its president, by its vice-president and his assistant and by its general manager. A statement on behalf of the City of Dixon was presented by the mayor of that city. The Commission staff presentation was made through two accountants and three engineers.

^{1/} Testimony relating to overall company operations had been presented by witnesses for applicant and the staff in Application No. 50351, the Stockton district rate proceeding. This testimony was incorporated by references in Application No. 51079.

Service Area and Water System

Applicant owns and operates water systems in twenty-one districts in California. Its Dixon district includes the City of Dixon and unincorporated areas of Solano County adjacent to the city. The relatively flat area is approximately 60 feet above sea level. Total population served in the district is estimated at 4,400.

The entire water supply for this district is obtained from applicant's five wells. The distribution system includes about 17 miles of distribution mains, ranging in size up to 8-inch. There are about 1,300 metered services, four private fire protection services and 87 public fire hydrants. An elevated tank maintains system pressure and provides storage for the system. Each well pump has an electric motor, and one well pump has provision for emergency operation with an auxiliary gasoline engine.

Service

A field investigation of applicant's operations, service and facilities in its Dixon 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 no informal complaints have been registered with the Commission during the past 3-1/2 years. No customers appeared at the hearing to testify regarding service.

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 1955.

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 and proposed general metered service rates.

Table I

Comparison of Monthly Rates

<u>Item</u>	<u>Present</u>	<u>Proposed#</u>
<u>General Metered Service</u>		
Service Charge*	\$2.00	\$2.75
Quantity Rate: All water delivered, per 100 cu.ft.	.16	.187

* 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 to be increased by 2.73 percent.

Table 12-C of Exhibit No. 7 shows that, for a typical commercial metered service customer with average monthly consumption of 2,290 cubic feet through a 5/8 x 3/4-inch meter, the average monthly charge will increase 24 percent from \$5.67 under present rates to \$7.04 under the rates proposed by applicant. The temporary 2.73 percent surcharge authorized herein will add \$0.19 to this average monthly charge.

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.

Table II

Estimated Results of Operation
Test Year 1969

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>
<u>At Present Rates</u>		
Operating Revenues	\$100,100	\$ 99,400
<u>Deductions</u>		
District Payroll	26,400	26,000
Other Exp. excl. Depr. & Inc. Taxes	38,900	39,000
Depreciation	<u>13,000</u>	<u>12,600</u>
Subtotal	78,300	77,600
Income Taxes	<u>3,100</u>	<u>3,400</u>
Total	81,400	81,000
Net Revenue	18,700	18,400
Rate Base	402,400	393,100
Rate of Return	4.65%	4.68%
<u>At Rates Proposed by Applicant</u>		
Operating Revenues	\$126,200	\$125,400
<u>Deductions</u>		
Excl. Income Taxes	78,300	77,600
Income Taxes	<u>16,600</u>	<u>16,900</u>
Total	94,900	94,500
Net Revenue	31,300	30,900
Rate Base	402,400	393,100
Rate of Return	7.78%	7.86%

From Table II it can be determined that, exclusive of the temporary increase due to the income tax surcharge, the increase in operating revenues will be 26 percent under applicant's proposed rates.

The estimates of applicant and the staff result in a difference of only 0.08 percent in rate of return under applicant's proposed rates. Further, as discussed hereinafter, applicant's rate of return for the next few years will not be excessive even if the staff's higher estimate of the rate of return for the 1969 test year is used as a starting point. Under these circumstances there is no need to discuss nor resolve the various differences in the two estimates. The staff estimate for the test year 1969 is adopted for the purpose of this proceeding.

Surcharge to Federal Income Tax

A 10 percent surcharge to Federal income taxes was imposed by the Revenue and Expenditure Control Act of 1968. The surcharge was retroactive for the full year 1968, expired June 30, 1969 but has been reinstated until December 31, 1969. A 2.73 percent surcharge on bills computed under the requested basic general metered service rates will be required to offset the effect of the income tax surcharge and produce the same net revenues indicated hereinbefore in Table II. This surcharge on applicant's 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 Dixon district which will produce a 7 percent rate of return over the next five years.

The 6.9 percent return allowed in the Stockton proceeding was based in part upon a staff recommendation in an exhibit dated November 15, 1968. In that exhibit, the staff recommended a rate of return within the range of 6.7 to 6.9 percent. In the Dixon proceeding, the staff recommends a rate of return within the range of 6.8 to 7.1 percent, as set forth in Exhibit No. 5, dated August 15, 1969. A staff witness testified that the higher rate of return now recommended is due primarily to increased cost of borrowed capital during the nine-month period since the previous recommendation was prepared. Applicant's relatively low imbedded cost of debt capital increases as additional borrowing must be made at higher prevailing interest rates.

It now appears that a 7 percent return on applicant's rate base is reasonable for the next few years. With applicant's projected year-end capital structure for 1969, a 7 percent return on rate base in all of applicant's districts would provide a 10.5 percent return on equity.

Trend in Rate of Return

Applicant's estimates for the test years 1968 and 1969 indicate an annual decline of 0.41 percent in rate of return at proposed rates. The staff's estimates show an annual decline of 0.33 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 these years caused by such factors as changes in income tax rates and allowances.

Exhibit No. 8 shows that, eliminating the effects of 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 0.41 percent at applicant's present water rates and somewhat greater at its proposed rates. This adjusted decline for the five-year period is higher than the 0.38 percent per year at present water rates projected by applicant and the 0.29 percent projected by the staff.

The staff presentation on trend in rate of return engenders serious doubts that careful consideration was given by the staff in its 1968 and 1969 estimates to the probable future trend of the various items which determine rate of return. For example, in one account the expense estimate was five times as great for 1969 as for 1968. If such a glaring distortion could occur where the account is separately stated in the estimates, little credence can be given to indicated trend in other items of expense and rate base in the staff estimates. 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 0.4 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 additions, 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. For the Dixon district, a three-year to four-year projection appears reasonable.

The rate increase authorized herein will not be in effect for about the first ten months of the year 1969. With the indicated future trend in rate of return, the 7.86 percent return under the rates authorized herein for the test year 1969 should produce an average rate of return of 7.0 percent for the next 3-1/2 years, approximately 5.2 percent for the year 1969 (with about two months of the year at the new rates), 7.5 percent for the year 1970, 7.1 percent for the year 1971, and 6.7 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 0.4 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 7.0 percent on applicant's rate base for the next three to 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.

5. The surcharges requested by applicant and authorized herein are designed to provide only sufficient additional revenue to offset the future effect of the income tax surcharge which is not reflected in the basic rate schedules.

The Commission concludes that the application should be granted as provided by the following order.

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 Dixon 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

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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 Los Angeles, California, this 21st day of OCTOBER, 1969.

William Amos, Jr.
President

August

[Signature]

[Signature]

James L. Strickland
Commissioners

APPENDIX A

Schedule No. DX-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Dixon, and vicinity, Solano County.

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 2.75	(I)
For 3/4-inch meter	3.05	
For 1-inch meter	4.15	
For 1-1/2-inch meter	5.80	
For 2-inch meter	7.45	
For 3-inch meter	13.75	
For 4-inch meter	19.00	
For 6-inch meter	31.00	
For 8-inch meter	46.00	
For 10-inch meter	57.00	
Quantity Rate:		
For all water delivered, per 100 cu.ft.	0.187	(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% surcharge to Federal income taxes is removed, bills computed under the above tariff will be increased by 2.73%. (N)
(N)