

ORIGINAL

Decision No. 76463

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 King City district.)

Application No. 51078
(Filed May 16, 1969)

McCutchen, Doyle, Brown & Enersen, by
A. Crawford Greene, Jr., for applicant.
Sergius M. Boikan, Counsel, and Jean
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 King City district.

Public hearing was held before Examiner Catey in King City on September 29, 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 29, 1969.

Testimony on behalf of applicant^{1/} was presented by its vice-president and his assistant and by its general manager.

Testimony on behalf of the City of King City was presented by a councilman of that city. The Commission staff presentation was made through two accountants and two engineers.

^{1/} Testimony relating to overall company operations had been presented by witnesses for applicant and the staff in Applications Nos. 50351 and 51079, the Stockton and Dixon district rate proceedings. This testimony was incorporated by references in Application No. 51078.

Service Area and Water System

Applicant owns and operates water systems in twenty-one districts in California. Its King City district includes the City of King City and unincorporated areas of Monterey County adjacent to the city. The relatively flat area ranges from approximately 300 to 340 feet above sea level. Total population served in the district is estimated at 3,200.

The entire water supply for this district now is obtained from applicant's four wells. A fifth well is soon to be added. The distribution system includes about 16 miles of distribution mains, ranging in size up to 12-inch. There are about 1,020 metered services, four private fire protection services and 89 public fire hydrants. Two booster stations and an elevated tank maintain system pressure in two separate zones and the tank provides storage for the entire system. Each well pump has an electric motor, and three of the well pumps have provision for emergency operation with auxiliary gas or gasoline engines.

Service

A field investigation of applicant's operations, service and facilities in its King City district was made by the Commission staff. The system was found to be well-constructed and well-maintained and appeared to be providing good service. A staff engineer testified that only one informal complaint has been registered with the Commission during the past 4-1/2 years.

The one customer who testified at the hearing on behalf of the City of King City objected to applicant's practice of requiring advances in aid of construction from developers requesting main extensions into newly annexed portions of the city. This practice is

permitted, in fact required, by the water main extension rule prescribed by this Commission. The subdividers' advances for construction benefit applicant's customers inasmuch as those advances reduce the rate base upon which applicant is entitled to earn a reasonable return. The witness stated that the City Council of King City feels that the rigid requirements of the main extension rule retard the growth of the community. We must point out, however, that the investment of utility funds in speculative or uneconomic extensions of mains would be detrimental to existing customers.

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 general metered service 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 and proposed general metered service rates and the rates authorized herein:

Table I
Comparison of Monthly Rates

<u>Item</u>	<u>Present</u>	<u>Proposed#</u>	<u>Authorized#</u>	
			<u>Until 1-1-71</u>	<u>After 12-31-70</u>
<u>General Metered Service</u>				
Service Charge*	\$1.85	\$3.20	\$3.10	\$3.20
Quantity Rate:				
All water delivered, per 100 cu.ft.	.19	.24	.23	.24

* 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 3.55 percent.

Table 12-C of Exhibit No. 7 shows that, for a typical commercial metered service customer with average monthly consumption of 2,400 cubic feet through a 5/8 x 3/4-inch meter, the average monthly charge will increase 40 percent from \$6.41 under present rates to \$8.96 under the rates proposed by applicant and which will become effective in 1971. The temporary 3.55 percent surcharge authorized herein will add \$0.32 to this average monthly charge. Under the rates authorized herein to be effective until 1971, the corresponding charge for 2,400 cubic feet of water will be \$8.62, an increase of 35 percent over the charge under present rates, plus a temporary surcharge of \$0.31.

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, Table II 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>Adopted</u>
<u>At Present Rates</u>			
Operating Revenues	\$ 96,000	\$ 96,200	\$ 96,200
<u>Deductions</u>			
Excl. Income Taxes	75,900	75,300	75,300
Income Taxes	3,800	3,800	3,800
Total	<u>79,700</u>	<u>79,100</u>	<u>79,100</u>
Net Revenue	16,300	17,100	17,100
Rate Base	433,000	438,300	438,300
Rate of Return	3.76%	3.90%	3.90%
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	133,100	133,100	133,100
<u>Deductions</u>			
Excl. Income Taxes	75,900	75,300	75,300
Income Taxes	22,900	22,900	22,900
Total	<u>98,800</u>	<u>98,200</u>	<u>98,200</u>
Net Revenue	34,300	34,900	34,900
Rate Base	433,000	438,300	438,300
Rate of Return	7.92%	7.96%	7.96%
<u>At Rates Authorized Herein Until 1971</u>			
Operating Revenues	-	-	128,500
<u>Deductions</u>			
Excl. Income Taxes	-	-	75,300
Income Taxes	-	-	20,500
Total	-	-	<u>95,800</u>
Net Revenue	-	-	32,700
Rate Base	-	-	438,300
Rate of Return	-	-	7.46%

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 38 percent under applicant's proposed rates and 34 percent under the rates authorized herein until 1971.

The estimates of applicant and the staff result in a difference of only 0.04 percent in rate of return under applicant's proposed rates. Further, as discussed hereinafter, applicant's rate of return for 1971 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. Lower interim rates are authorized herein until 1971. Under these circumstances there is no need to discuss nor resolve the various differences in the two estimates. The staff estimates for the test year 1969 are 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 3.55 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 Dixon district, the Commission found that an average rate of return of 7 percent over the next three to four years is reasonable for

applicant's operations in that district. Applicant asks that rates be authorized for its King City district which will produce a 7 percent rate of return over the next five years.

The basis for the 7 percent return allowed in the Dixon proceeding was discussed in some detail in the decision thereon. The same evidence on cost of money and rate of return was presented in both the Dixon and King City proceedings. It thus appears that, for the King City district, a 7 percent return on applicant's rate base is reasonable for the near future. 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 0.56 percent in rate of return at proposed rates. The staff's estimates show an annual decline of 0.59 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 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 its water rates and changes in income tax rates and allowances.

Exhibit No. 8 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 1962 through 1967 would have been 0.37 percent at applicant's present water rates and somewhat less at its proposed rates. This adjusted decline for the five-year period is lower than the 0.62 percent per year at present water rates projected by applicant and the 0.57 percent projected by the staff, primarily because the average annual increase in water use per customer during the five-year study period is greater than anticipated by applicant and the staff under the assumption of normal future climatic conditions. 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 0.5 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 where the indicated downward trend is not too great, 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. In Decision No. 73686, dated February 6, 1968, in Application No. 49445, involving applicant's Hermosa-Redondo district, we stated that, when the indicated downward trend is quite steep, it is more appropriate to increase the rates in steps which should maintain, in each of the future years, the rate of return found reasonable. With the

uncertainty of the final cost of applicant's new well, we will project earnings only through the year 1971, a little over two years into the future.

The rate increase authorized herein will not be in effect for about the first eleven months of the year 1969. With the indicated future trend in rate of return, the 7.46 and 7.96 percent return for the test year 1969, under the two levels of rates authorized herein should produce a rate of return of 7.0 percent for 1970 and 1971.

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 0.5 percent in rate of return, reasonably indicate the probable range of results of applicant's operations for the near future.
3. A rate of return of 7.0 percent on applicant's rate base for 1970 and 1971 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:

1. After the effective date of this order, applicant California Water Service Company is authorized to file for its King City 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.

2. Within fifteen days after the end of each month, until the new well in the King City district is completed and placed in operation, applicant shall file in this proceeding a progress report showing the cumulative net amounts expended for the new facilities. The final such report shall show the date that the new well was placed in operation.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 25th day of NOVEMBER, 1969.

William J. Quinn
President

Augustin

J. B. ...

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Commissioners

APPENDIX A

Schedule No. KC-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

King City and vicinity, Monterey County.

RATES

Per Meter Per Month
Until 1-1-71 After 12-31-70

Service Charge:

For 5/8 x 3/4-inch meter	\$3.10	\$3.20	(I)
For 3/4-inch meter	3.40	3.50	
For 1-inch meter	4.65	4.80	
For 1-1/2-inch meter	6.50	6.70	
For 2-inch meter	8.40	8.65	
For 3-inch meter	15.50	16.00	
For 4-inch meter	21.00	22.00	
For 6-inch meter	35.00	36.00	
For 8-inch meter	52.00	54.00	
For 10-inch meter	65.00	67.00	

Quantity Rate:

For all water delivered, per 100 cu.ft.23	.24	(I)
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The Service Charge is a readiness-to-serve charge applicable to all metered water 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 3.55%. (N)