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ORIGINAL

Decision No. 76607

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 Selma district.)

Application No. 51077
(Filed May 16, 1969)

McCutchen, Doyle, Brown & Enersen, by
A. Crawford Greene, Jr., for applicant.
Miles J. Hansen and John B. Howard, for
City of Selma, protestant and interested
party.
Mrs. Ernest Nielsen and Helen Thomson, for
themselves, protestants.
Mrs. Maudine Grice, for herself, interested
party.
Robert W. Beardslee, 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 Selma district.

Public hearing was held before Examiner Catey in Selma on November 4, 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 November 4, 1969.

Testimony on behalf of applicant ^{1/} was presented by its vice president and his assistant and by its general manager. Statements on behalf of the City of Selma were presented by the

^{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 reference in Application No. 51077.

city attorney and by the mayor of that city. Two customers testified in opposition to the rate increase. 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 Selma district includes the City of Selma and unincorporated areas of Fresno County adjacent to the city. The relatively flat area is approximately 300 feet above sea level. Total population served in the district is estimated at 8,900.

The entire water supply for this district normally is obtained from applicant's 12 wells. There is an emergency standby connection with a local cannery. The distribution system includes about 36 miles of distribution mains, ranging in size up to 12-inch. There are about 800 metered services, 1,700 flat rate services, eight private fire protection services and 120 public fire hydrants. Time switches and pressure controls maintain system pressure. Each well pump has an electric motor, and four of the well pumps have provision for automatic emergency operation with auxiliary gasoline engines.

Service

A field investigation of applicant's operations, service and facilities in its Selma 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 four years.

No customers testified concerning service, but the cross-examination of applicant's general manager by one customer indicates that the customer felt that the water pressure was inadequate at her residence. The customer had not previously complained to applicant concerning lack of water pressure. Applicant advised the customer that an investigation would be made by the Selma district personnel. Such investigation should disclose the reason for lack of pressure, such as obstructions in applicant's or the customer's own piping.

Rates

Applicant's present tariffs include schedules for general metered service, residential flat rate 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 and residential flat rate service. There are no proposed changes in the other schedules. The following Table I presents a comparison of applicant's present and proposed basic rates and those authorized herein.

Table I

Comparison of Monthly Rates

<u>Item</u>	<u>Present</u>	<u>Proposed (Authorized After 1971)#</u>	<u>Authorized #</u>	
			<u>For 1971</u>	<u>Before 1971</u>
<u>General Metered Service</u>				
Service Charge*	\$1.90	\$ 2.85	\$ 2.78	\$ 2.72
Quantity rate, per 100 cu.ft.	.13	.15	.147	.143
<u>Residential Flat Rate Service</u>				
Single-family unit, including premises having area of:				
6,000 sq.ft. or less	4.55	6.15	6.01	5.88
6,001 to 10,000 sq.ft.	5.50	7.45	7.28	7.12
10,001 to 16,000 sq.ft.	7.00	9.45	9.23	9.03
16,001 to 25,000 sq.ft.	8.80	11.90	11.63	11.37
Each add'l unit on premises	3.00	4.05	3.96	3.87

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

Until the 5 percent surcharge to Federal income tax is removed, bills computed under these rates to be increased by 1.6 percent.

Table 12-C of Exhibit No. 7 shows that, for a typical commercial metered service customer with average monthly consumption of 2,570 cubic feet through a 5/8 x 3/4-inch meter, the average monthly charge will increase 28 percent from \$5.24 under present rates to \$6.71 under the rates proposed by applicant and which will become effective in 1972. The temporary 1.6 percent surcharge authorized herein will add \$0.11 to this average monthly charge. Under the rates authorized herein to be effective during 1971, the corresponding charge for 2,570 cubic feet of water will be \$6.56, an increase of 25 percent over the charge under present rates, plus a temporary surcharge of about \$0.11. Under the rates authorized to be effective until 1971, the corresponding charge for 2,570 cubic feet of water will be \$6.40, an increase of 22 percent over the charge under present rates, plus a temporary surcharge of \$0.10.

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 5 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	\$185,900	\$184,800	\$184,800
<u>Deductions</u>			
Operation & Maintenance Payroll	49,600	44,600	44,600
Payroll Taxes	3,000	2,200	2,600
Other Deductions, Excl. Income Taxes	93,000	94,100	94,100
Subtotal	<u>145,600</u>	<u>140,900</u>	<u>141,300</u>
Income Taxes	8,400	10,600	10,400
Total	<u>154,000</u>	<u>151,500</u>	<u>151,700</u>
Net Revenue	31,900	33,300	33,100
Rate Base	771,900	769,800	771,900
Rate of Return	4.13%	4.33%	4.29%
<u>At Rates Proposed by Applicant and Authorized Herein After 1971</u>			
Operating Revenues	\$244,800	\$243,300	\$243,300
<u>Deductions</u>			
Excl. Income Taxes	145,600	140,900	141,300
Income Taxes	38,800	40,800	40,600
Total	<u>184,400</u>	<u>181,700</u>	<u>181,900</u>
Net Revenue	60,400	61,600	61,400
Rate Base	771,900	769,800	771,900
Rate of Return	7.82%	8.00%	7.95%
<u>At Rates Authorized Herein For 1971</u>			
Operating Revenues	-	-	\$237,800
<u>Deductions</u>			
Excl. Income Taxes	-	-	141,300
Income Taxes	-	-	37,800
Total	-	-	<u>179,100</u>
Net Revenue	-	-	58,700
Rate Base	-	-	771,900
Rate of Return	-	-	7.60%

Table II (Cont.):

At Rates Authorized Herein Until 1971

Operating Revenues	-	-	\$232,700
<u>Deductions</u>			
Excl. Income Taxes	-	-	141,300
Income Taxes	-	-	35,100
Total	-	-	<u>176,400</u>
Net Revenue	-	-	56,300
Rate Base	-	-	771,900
Rate of Return	-	-	7.30%

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 32 percent under applicant's proposed rates, 29 percent under the rates authorized herein for 1971, and 26 percent under the rates authorized herein until 1971.

Revenues and Expenses

The principal difference between the revenue estimates of applicant and the staff is in revenues from metered sales to public authorities. Applicant projected the recorded historical trend of such sales whereas the staff made a more detailed analysis of the trends in number of customers and in sales per customer adjusted for normal annual rainfall. The staff estimate is adopted in Table II.

The record is not clear as to why applicant's estimate of operations payroll exceeds that of the staff. The estimate prepared by the staff reflects the average of such payroll per customer for this district over the past three years, adjusted for cost-of-living wage increases applicable to the various periods. Applicant did not present any evidence indicating that the staff's method is invalid. In the corresponding estimate of maintenance payroll, the staff was able to utilize more recent recorded data than that available at the time applicant's estimates were being prepared. The staff estimates of operations and maintenance payroll are adopted in Table II.

Both applicant and the staff allege that their respective payroll tax estimates reflect the tax rates and taxable wages per employee applicable to 1969. Neither applicant nor the staff presented detailed calculations of their estimates. In the absence of such substantiating evidence, we will assume that the two estimates represent the probable range of payroll taxes which might apply to 1969. The midpoint of that range is 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.

Rate Base

The 1969 plant additions estimated by applicant include some specific items, some more general or nonspecific capital additions, and a ten percent allowance for contingencies and unforeseen expenditures. The staff excluded the latter ten percent allowance because applicant could not prove to the staff's satisfaction the need for such allowance. Applicant showed, in support of the 10 percent allowance, that the average of the percentage budget over-runs and under-runs for the years 1963 through 1967 was 10.7 percent in the Selma district. That evidence is not necessarily valid because in a district as small as Selma, a relatively small number of dollars of over-run or under-run could represent a fairly high percentage of plant additions, causing quite erratic deviations. For example, if the four-year period ended with 1967 is considered instead of the five-year period cited by applicant, a 10 percent average under-run would be indicated, rather than a 10 percent over-run. Nevertheless, it does not appear unreasonable to include

a nominal 10 percent provision for contingencies, provided such contingency allowance had not already been provided in the estimated cost of the specific and nonspecific capital additions. There is no indication of duplication of contingency allowances in applicant's estimates. Applicant's estimated rate base is adopted in Table II.

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 and may be extended as a 5 percent tax through June 30, 1970. A 1.6 percent surcharge on bills computed under the requested basic rates for general metered and flat rate service will be required to offset the effect of the 5 percent 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 proceedings involving applicant's Dixon and King City districts, the Commission found that an average rate of return of 7 percent over the next two to four years is reasonable for applicant's operations in those districts. Applicant asks that rates be authorized for its Selma 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 the Dixon, King City and Selma proceedings. It thus appears that, for the Selma 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 0.38 percent in rate of return at proposed rates. The staff's estimates show an annual decline of 0.34 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 0.24 percent at applicant's present water rates and also at its proposed rates. This adjusted decline for the five-year period is lower than the 0.38 percent per year at present water rates projected by applicant and the 0.35 percent projected by the staff, largely because the average annual increase in water use per customer during the five-year study period was greater than is anticipated by applicant and the staff under the assumption of normal future climatic conditions. Except for the 0.08 percent decline due to applicant's estimated increased labor costs not related to cost-of-living increases, there is no reason to believe that the trend in rate of return at applicant's proposed water rates in the next few years would be less than the 0.38 percent per year indicated by applicant's 1968 and 1969 estimates. Consistent with the adoption of the staff's estimates of 1969 operations and maintenance payroll which exclude increased labor costs not related to general wage increases, we will adopt an indicated downward trend of 0.3 percent per year.

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 all of the various items which determine rate of return. For example, although the full-year effect of a new well was reflected in the staff's depreciation and rate base estimates for 1968, only a half-year effect of related ad valorem taxes is reflected in the 1968

expense estimates. The distorting effect of this major capital addition thus is partly reflected in the staff's estimate of trend in rate of return between 1968 and 1969.

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. 49455, 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. That same approach was used in the King City district decision.

Although the indicated downward trend in rate of return is not as great for the Selma district as it was for the Hermosa-Redondo and King City districts, there appear to be sufficient advantages to the stepped progression of rates to make that procedure preferable to a single increase for the Selma district. It reduces the impact of transition from existing rates and should also reduce the amount of rate change required in any future rate proceeding. It also provides a constant rather than a varying rate of return from operations in the district. In a small district such as Selma, relatively small changes in net revenue and rate base can affect the future trend in rate of return. Under these circumstances, we will project earnings only through the year 1972.

The rate increase authorized herein will not be in effect for any of the year 1969. With the indicated future trend in rate of return, the 7.95, 7.60 and 7.30 percent return for the test year 1969 under the three levels of rates authorized herein should produce a rate of return of 7.0 percent during each of the years 1970, 1971 and 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. A rate of return of 7.0 percent on applicant's rate base for 1970, 1971 and 1972 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.

ORDER

IT IS ORDERED that, after the effective date of this order, applicant California Water Service Company is authorized to file for its Selma 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 January 1, 1970 or four days after the date of filing, whichever is later. The revised schedule shall apply only to service rendered on and after the effective date thereof.

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

Dated at San Francisco, California, this 23rd day of DECEMBER, 1969.

William J. Quinn
President

Arthur

Robert

Thomas

James L. Stinger
Commissioners

APPENDIX A
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Schedule No. SL-1
SELMA TARIFF AREA

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Selma and vicinity, Fresno County.

RATES

	<u>Per Meter Per Month</u>			
	<u>Before 1971</u>	<u>During 1971</u>	<u>After 1971</u>	
Service Charge:				
For 5/8 x 3/4-inch meter	\$ 2.72	\$ 2.78	\$ 2.85	(I)
For 3/4-inch meter	3.01	3.08	3.15	
For 1-inch meter	4.11	4.20	4.30	
For 1 1/2-inch meter	5.73	5.86	6.00	
For 2-inch meter	7.36	7.52	7.70	
For 3-inch meter	13.62	13.92	14.25	
For 4-inch meter	18.16	18.56	19.00	
For 6-inch meter	30.60	31.30	32.00	
For 8-inch meter	45.90	46.90	48.00	
For 10-inch meter	56.40	57.60	59.00	(I)
Quantity Rate:				
For all water delivered, per 100 cu. ft.	0.143	0.147	0.150	(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.

(Continued)

Schedule No. SL-1
SELMA TARIFF AREA

GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITION

Until the 5% surcharge to Federal income taxes is removed, bills computed under the above tariff will be increased by 1.6%. At such time as the tax surcharge is effectively terminated or reduced, the above percentage shall be eliminated or reduced to the extent of the reduction in the tax surcharge.

(N)

(N)

APPENDIX A
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Schedule No. SL-2R
SELMA TARIFF AREA

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Selma and vicinity, Fresno County.

RATES

	<u>Per Service Connection Per Month</u>			
	<u>Before</u>	<u>During</u>	<u>After</u>	
	<u>1971</u>	<u>1971</u>	<u>1971</u>	
For a single-family residential unit, including premises, having the following area:				
6,000 sq.ft. or less	\$ 5.88	\$ 6.01	\$ 6.15	(I)
6,001 to 10,000 sq.ft.	7.12	7.28	7.45	
10,001 to 16,000 sq.ft.	9.03	9.23	9.45	
16,001 to 25,000 sq.ft.	11.37	11.63	11.90	(I)
For each additional single-family residential unit on the same premises and served from the same service connection.				
	3.87	3.96	4.05	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classifications shall be furnished only on a metered basis.
3. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. SL-1, General Metered Service.

(Continued)

Schedule No. SL-2R
SELMA TARIFF AREA

RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS (Continued)

4. Until the 5% surcharge on Federal income taxes is removed, bills (N)
computed under this tariff will be increased by 1.6%. At such time as
the tax surcharge is effectively terminated or reduced, the above
percentage shall be eliminated or reduced to the extent of the reduction
in the tax surcharge. (N)