

ORIGINAL

Decision No. 77084

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 Clear Lake District.)	Application No. 51230 (Filed July 7, 1969)
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Knapp, Gill, Hibbert & Stevens, by Karl K. Roos, for applicant.
Lester Learned, for some 85 to 90 customers,
 and Mrs. Arthur Osborne and Jewell Sachman,
 protestants.
S. M. Boikan, Counsel, and John D. Reader,
 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 Clear Lake District.

Public hearing was held before Examiner Catey at Clear Lake Highlands on December 22 and 23, 1969. Copies of the application had been served, a notice of filing of the application had been published, and notice of hearing had been published, posted, and mailed in accordance with this Commission's rules of procedure. The matter was submitted on December 23, 1969.

Testimony on behalf of applicant was presented by its vice president and general manager and by its consulting engineer. Ten customers testified on their 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 Clear Lake District includes the unincorporated resort community in and near Clear Lake Park on the southeast shore of Clear Lake, Lake County. The service area is about seven miles long but is quite narrow. The topography is relatively flat for a distance of from 200 to 500 feet from the shore, but then rises sharply to about 250 feet above the lake level.

The water supply for this system is obtained from two intakes extending into Clear Lake. The water is treated with alum and activated carbon and is filtered and chlorinated before being delivered to the distribution systems. A standby connection with an adjacent mutual water system can provide a supplemental emergency supply.

There are two separate distribution systems serving the territory near the shore of the lake. These two systems are interconnected by a valve which can be opened for emergencies or abnormally unbalanced load conditions. A third system serves the higher elevations farther from the lake. Water is supplied to that zone from one of the lower systems by means of a pump and hydropneumatic tank. The three separate distribution systems include about 25 miles of distribution mains, ranging in size up to 8-inch. There are about 1,200 metered services and 30 fire hydrants. Thirteen reservoirs and tanks maintain system pressure and provide storage in the three separate zones.

Service and Customer Complaints

A field investigation of applicant's operations, facilities and service in its Clear Lake District was made by the Commission staff. The plant was found to be in good condition. A staff

engineer testified that applicant provides adequate service, that no informal complaints regarding service have been registered with the Commission by customers in the Clear Lake District during the past three years, but that there has been a seasonal problem with objectionable taste and odor to the water.

The customers who testified in opposition to the requested rate increase voiced various complaints regarding applicant's operations, the requested increase and the procedure involving the formal application. The principal complaints relate to:

1. Water quality,
2. Water pressure,
3. Past and future plant additions,
4. Comparison of charges for different classes of users, and
5. Commission procedure.

The most common complaint expressed in the ten customers' testimony relates to water quality, particularly the objectionable taste and odor prevalent during summer months. Some customers stated that they must buy bottled water for drinking and culinary purposes, that the chlorine concentration in the water kills delicate plants, that the proportion of total dissolved solids (TDS) in the water from the lake is not reduced by applicant's present treatment plants before distribution to the public, and that there had been no improvement in the quality of water supplied to customers following previous rate increases authorized for applicant's predecessors.

The quality of the water drawn from Clear Lake deteriorates during the summer months. The taste and odor apparently has become progressively worse over the years, although the algae concentration in the lake may have diminished. Additions to the purification

plants have been made each year but significant improvement in water quality will require extensive additional investment. Applicant has scheduled construction of the required facilities to commence in February or March and to be completed before the summer months of 1970. The new additions, consisting primarily of filter, pumping and retention storage facilities, should result in a significant improvement in water quality. The proportion of TDS will not be changed, but Exhibits Nos. 3 and 4 show the present TDS content to be well within the drinking water standards prescribed by health authorities.

One customer complained of excessive pressure at one location and inadequate pressure at another. The high pressure of 120 psi cited by the customer is within the range of pressures permitted by General Order No. 103. The low pressure complaint, however, appears to be valid and applicant has definite plans to install a larger booster pump in the next few months to prepare for anticipated summer peak demands in the area involved.

Some customers questioned whether or not there had been any system improvements since the previous rate increase had been authorized in 1966. The record shows that, during the four-year period 1966-1969, there have been \$139,000 of plant additions to this system. Most of the expenditures were for installation of larger and supplementary mains to minimize fluctuations in pressure and to provide for greater maximum flows. Additions planned for the near future are primarily for improving the quality of the water.

Divergent viewpoints were expressed by various customers as to the relative burden of rates to different classes of customers. Small users felt that the minimum charges and lower quantity blocks should not be increased whereas large users objected primarily to

the increases in rates in the higher quantity blocks. Seasonal and weekend users objected to paying, in the minimum charge, for more water than they actually would use each month, whereas a permanent resident felt that the minimum charge should cover an even greater quantity of water.

The design of equitable rates for an area with both permanent and seasonal users always presents a problem. After determining the total revenue requirement to cover reasonable operating expenses and a reasonable return on the investment in facilities dedicated to public service, it is apparent that any group of customers not paying a proper share of that revenue requirement would transfer an unwarranted proportion to other groups of customers.

For this area, a service charge type of rate ultimately will provide the most equitable distribution of revenue requirement. Much of the plant investment and many of the operation and maintenance expenses go on year-round whether the weekend and summer cottages are occupied or not. Some expenses, such as pumping and purification costs, are related to quantities of water delivered. The 1966 rate adjustment for this area reduced the quantity covered by the minimum charge to 300 cubic feet per month, bringing the historical minimum charge rate structure closer to an ultimate service charge rate structure. The rates authorized herein further reduce the quantity allowed under the minimum charge to 200 cubic feet per month at a lower minimum charge than would be appropriate if the 300 cubic feet allowance were retained. The revised rates strike a reasonable balance in charges made to seasonal and permanent residents and to small and large consumers.

Customer complaints regarding Commission procedure related to the timing of the hearing and to the requirements of the Commission's rules of procedure. Customers complained that holding the

hearing during the week before Christmas precluded attendance by many seasonal customers and some permanent customers. A few customers objected to the procedure followed in cross-examination of witnesses.

In regard to the timing of the hearing, there is always an unavoidable lag between the filing date of an application and the completion of the staff's comprehensive independent study of the results of the applicant's operations. This application, although filed in July 1969, could not be heard until December. Once the staff study was completed, it would not have been proper to delay the hearing. Although the hearing dates were undoubtedly not desirable for many of the spectators and participants, the Commission's work load is such that some hearings necessarily were held during the Christmas and New Year's weeks.

In regard to the cross-examination of witnesses, a few of the customers indicated that they would prefer a less formal procedure, wherein unidentified spectators in the audience would be permitted to interrupt a witness with questions during the presentation of his direct testimony. The record shows, however, that no customers were precluded from entering an appearance under Rule No. 54 of the Commission's rules of procedure. The more orderly procedure of deferring cross-examination of witnesses until after completion of their direct testimony is proper and is the procedure normally used by the Commission in conducting its hearings.

Rates

Applicant's present tariffs include schedules applicable to the Clear Lake District for annual metered service, private fire protection service, and public fire hydrant service. The present rates were adopted by applicant from its predecessor.

Applicant proposes to increase the present metered service rates. 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 proposed by applicant, and those authorized herein.

TABLE I
Comparison of Monthly* Rates

General Metered Service:		Present Rates	Proposed Rates	Authorized ⁺ Rates
First	200 cu.ft. #	\$3.90	\$5.35	\$4.55
Next	100 cu.ft., per 100 cu.ft.	.00	.00	.80
Next	1,200 cu.ft., per 100 cu.ft.	.60	.81	.80
Next	3,500 cu.ft., per 100 cu.ft.	.45	.61	.60
Over	5,000 cu.ft., per 100 cu.ft.	.30	.40	.40

* Applicant's annual minimum charge entitles the customer to the quantity of water each month which 1/12 of the annual minimum charge will purchase at the rates shown herein.

1/12 of the annual minimum charge for a 5/8 x 3/4-inch meter. A graduated scale of increased charges is provided for larger meters.

+ Until the 5% surcharge to federal income tax is removed, bills computed under these rates will be increased by 0.8%.

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. 1 and the staff's Exhibit No. 8 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, 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	\$ 88,840	\$ 93,200	\$ 88,600
Deductions			
Pumping Expense	6,570	7,120	7,120
Other Exp., Excl. Taxes & Depr.	41,692	41,780	41,780
Taxes Other Than on Income	6,440	6,410	6,410
Depreciation	17,004	17,360	17,360
Subtotal	71,706	72,670	72,670
Income Taxes	804	(640)	(3,550)
Total	72,510	72,030	69,120
Net Revenue	16,330	21,170	19,480
Rate Base	433,967	453,530	453,530
Rate of Return	3.76%	4.67%	4.3%
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	\$121,034	\$127,000	\$120,700
Deductions			
Excluding Income Taxes	71,706	72,670	72,670
Income Taxes	17,089	15,700	13,020
Total	88,795	88,370	85,690
Net Revenue	32,239	38,630	35,010
Rate Base	433,967	453,530	453,530
Rate of Return	7.43%	8.52%	7.7%
<u>At Rates Authorized Herein</u>			
Operating Revenues	-	-	114,000
Deductions			
Excluding Income Taxes	-	-	72,670
Income Taxes	-	-	9,560
Total	-	-	82,230
Net Revenue	-	-	31,770
Rate Base	-	-	453,530
Rate of Return	-	-	7.0%

(Red Figure)

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 36 percent under applicant's proposed rates and 29 percent under the rates authorized herein.

Operating Revenues

The revenue estimates of applicant and staff differ primarily because applicant estimated no increase in revenue per customer over the 1968 level, whereas the staff estimated a 5 percent increase in average consumption per customer and a resultant 6.3 percent increase in average revenue per metered service. This difference was offset in part by the fact that applicant estimated customer growth at 35 per year, whereas later data reflected in the staff estimates indicate a slower growth rate of only 20 new customers per year.

Applicant's Exhibit No. 11 confirms the staff's estimate of a 5 percent increase in average consumption per customer but applicant contends this would not affect revenues to the extent estimated by the staff. The following Table III shows the percentage increases in customers' bills under present water rates resulting from a 5 percent increase in consumption.

TABLE III

Effect of 5 Percent Consumption Increase

<u>Former Monthly Use</u>	<u>Revenue Increase</u>
200 cu.ft.0%
300 cu.ft.	2.3
1,400 cu.ft.	4.0
1,500 cu.ft.	3.1
4,700 cu.ft.	4.2
5,000 cu.ft.	2.8
10,000 cu.ft.	3.6

The foregoing Table III shows that it would not be possible for a 5 percent increase in average consumption per customer to cause a 6.3 percent increase in average revenue per customer. In fact, based upon the revenues for the 12-month period ended with October 1969, shown in Exhibit No. 10, the increase in average revenue per customer is about 2.6 percent for the 5 percent increase in average consumption per customer. This has been reflected appropriately in the revenues adopted in Table II.

Operating Expenses

The additional treatment facilities to be placed in service during 1970 will result in higher pumping expense. The staff reflected this in its estimates for 1969, whereas applicant did not. The staff's approach is appropriate where 1969 is the test year to be used in setting rates for the future. The staff's estimate is adopted in Table II.

Although there are differences between applicant's and the staff's estimates of certain other expenses and taxes, the net difference, other than for depreciation and income taxes, is small. The staff's estimate of depreciation expense includes an appropriate allocation of depreciation on applicant's common utility plant utilized for company-wide operations, whereas applicant's does not. The staff's estimates 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.

Applicant and staff estimates have used liberalized depreciation for income tax purposes for plant installed in recent years, but the staff tax depreciation is based on the shorter lives authorized for book purposes. Applicant presented no justification for the longer lives it utilized.

The staff's estimates of depreciation to be used for tax purposes is reflected in the taxes adopted in Table II. The staff's use of an investment tax credit is not adopted, however, because that credit was revoked subsequent to the preparation of the staff's estimates.

Rate Base

The difference between rate base estimates of applicant and the staff results primarily from the staff's inclusion of the full-year effect of certain major improvements consisting of 8-inch feeder mains. These were not in service for the full year but are properly includable when using 1969 as the test year for setting future rates. The staff rate base estimate is adopted in Table II.

Surcharge to Federal Income Tax

The former 10 percent surcharge to federal income taxes is now 5 percent and, unless extended, expires June 30, 1970. A 0.8 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 II. 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 not less than the 7.4 percent on rate base allowed recently for its Santa Maria District. A staff financial witness recommended a return of 7 percent. That is within the range which in the Santa Maria District

decision¹ we stated was normal for a utility of applicant's size and capital structure. Conditions peculiar to the Santa Maria District justified the higher return of 7.4 percent. For the Clear Lake District, we adopt the staff's recommendation of 7 percent.

Trend in Rate of Return

Applicant's estimates for the test years 1968 and 1969 indicate an annual decline of 0.07 percent in rate of return at proposed rates. The staff's estimates show an annual increase of 0.65 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 Clear Lake District, the historical trend in rate of return does not provide a valid indication of the probable future trend. Relatively small changes in operating revenues, 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 correction made herein to the staff's estimate of the revenue increase resulting from the 5 percent increase in average consumption per

¹ Decision No. 75548, dated April 8, 1969, in Application No. 50289.

customer. 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 were some accounting changes that should be effected by applicant. The specific suggestions in the staff's exhibit should assist applicant in making 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 7.0 percent on applicant's rate base is reasonable for the Clear Lake District.
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:

1. After the effective date of this order, applicant California Consolidated Water Company, Inc., is authorized to file for its Clear Lake 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 schedules shall apply only to service rendered on and after the effective date thereof.

2. On or before July 1, 1970, applicant shall install and place in operation in its Clear Lake District (a) the new booster pump for the upper zone, and (b) the new treatment plant discussed herein, and shall file in this proceeding a written statement of the dates the new facilities were first placed in operation.

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

Dated at San Francisco, California, this 14th day of APRIL, 1970.

William J. ...
President

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Commissioners

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. CL-1A

Clear Lake Tariff Area (T)

ANNUAL METERED SERVICE (T)

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Clearlake Park and vicinity, Lake County.

RATES

		<u>Per Meter</u> <u>Per Month</u>	
Monthly Quantity Rates:			
First	200 cu.ft. or less	\$ 4.55	(I)
Next	1,300 cu.ft., per 100 cu.ft.80	⋮
Nextt	3,500 cu.ft., per 100 cu.ft.60	⋮
Over	5,000 cu.ft., per 100 cu.ft.40	(I)
Annual Minimum Charge:			
		<u>Per Meter</u> <u>Per Year</u>	
For	5/8 x 3/4-inch meter	\$ 54.60	(I)
For	3/4-inch meter	70.00	⋮
For	1-inch meter	100.00	⋮
For	1 1/2-inch meter	172.00	⋮
For	2-inch meter	255.00	⋮
For	3-inch meter	425.00	⋮
For	4-inch meter	600.00	(I)

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one-twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

(Continued)

APPENDIX A
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Schedule No. CL-1A

Clear Lake Tariff Area

(T)

ANNUAL METERED SERVICE
(Continued)

(T)

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated minimum charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods for water used in excess of the monthly allowance under the annual minimum charge. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis except that meters may be read and quantity charges billed during the winter season at intervals greater than three months. A nonpermanent resident may elect to pay the annual charge in two equal installments. Where such a resident has failed to pay the first half of the annual charge due January 1, service will not be restored until the total annual charge has been paid. (T)
2. The opening bill for metered service shall be the established annual minimum charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred sixty-fifth ($1/365$) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer. (T)
3. Until the 5 percent surcharge to federal income tax is removed bills computed under this tariff will be increased by 0.8 percent. (I)