

MS

Decision No. 77388

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

JAMES VEAL, et al.,

Complainants,

vs.

CALIFORNIA WATER SERVICE CO.,
a corporation,

Defendant.

Case No. 8972
(Filed September 29, 1969)

James G. Bowles, for complainants.
McCutchen, Doyle, Brown & Enersen, by
A. Crawford Greene, Jr., for defendant.
John D. Reader, for the Commission staff.

O P I N I O N

Complainants seek an order establishing a uniform rate for residential water service in defendant's Bakersfield District.

Public hearing was held before Examiner Catey at Bakersfield on January 22, 1970. Two of the complainants, a neighbor of complainants and a Councilman of the City of Bakersfield testified on behalf of complainants. The City Attorney of the City of Bakersfield and defendant's Vice President testified on behalf of defendant. The matter was submitted on January 22, 1970, subject to receipt of a late-filed exhibit by April 30, 1970, and further subject to setting aside submission if either complainants or defendant requested further hearing relative to the late-filed exhibit. The exhibit was received on April 29, 1970, and neither complainants nor defendant have requested further hearing.

Complainants and Defendant

Complainants are residents of the City of Bakersfield within the Crest Tariff Area of defendant's Bakersfield District. There are about 1,900 of defendant's customers in the Crest Tariff Area.

Defendant is a public utility water corporation serving a number of separate communities in California. Its Bakersfield District serves about 37,000 customers, including those in the Crest Tariff Area.

History

Defendant's Crest Tariff Area was formerly served by Crest Water Company (Crest), a public utility under this Commission's jurisdiction. Crest had been granted a certificate to construct the water system in 1956.

Crest obtained its water supply from local wells. The quality of the water was not good and it deteriorated further over a period of years to the point where customers were quite dissatisfied. In response to customer complaints, the Commission instituted an investigation, Case No. 7937, on its own motion into Crest's operations in 1964.

At that time, Crest's rates were considerably higher than defendant's rates in adjoining territory. The record in Case No. 7937 showed that extensive further treatment of Crest's well water would be needed to bring the quality up to acceptable standards. Such treatment would have been quite expensive and undoubtedly would have resulted in even higher rates to Crest's customers.

A solution to the water quality problem was presented by defendant's acquisition of Crest's water system pursuant to the

authorization in Decision No. 70242, dated January 18, 1966, in Application No. 48069. A sizable investment in supply and transmission facilities was made by defendant to deliver water of better quality from its other Bakersfield District sources to the Crest area. Defendant continued to serve the Crest Tariff Area, however, at the former Crest rates.

The differential between rates in the Crest Tariff Area and those in the rest of defendant's Bakersfield District was narrowed somewhat when, by Decision No. 72235, dated April 4, 1967, in Application No. 48590, the basic Bakersfield District rates were increased without changing the Crest Tariff Area rates. There is still a significant differential, as indicated by the following comparisons of basic rates paid by complainants and the basic rates those complainants would pay if their premises were in defendant's Bakersfield District outside of the Crest Tariff Area.

Comparison of Charges

| No. of Complainants | Rates | | Crest Exceeds Bakersfield | |
|------------------------|--------------|--------------------|---------------------------|----------|
| | <u>Crest</u> | <u>Bakersfield</u> | <u>\$</u> | <u>%</u> |
| 10 | \$ 8.50 | \$6.35 | \$2.15 | 34% |
| 9 | 9.50 | 6.35 | 3.15 | 50 |
| 5 | 11.25 | 8.20 | 3.05 | 37 |
| 2 | 13.00 | 8.20 | 4.80 | 59 |
| 2 | 15.00 | 8.20 | 6.80 | 83 |

Discussion

The rate differential between the Crest Tariff Area and the rest of defendant's Bakersfield District was discussed in Decision No. 70242. At that time the Crest rates ranged up to over double the Bakersfield rates. The decision stated:

"Although we find it reasonable for buyer initially to adopt seller's rates, a determination should be made in future rate proceedings as to whether zone rates are still warranted and, if so, whether the location of the zone boundaries are then still appropriate."

The only Bakersfield District general rate proceeding since then was in 1967. Decision No. 72235 retained the same zone boundaries but closed the gap somewhat between the rates in the two zones.

Exhibits Nos. 3, 4 and 5 show the Bakersfield District rates of return for 1967, 1968 and 1969, respectively, separated into Crest, non-Crest and total district operations. The resultant rates of return are:

Comparison of Earnings

| <u>Year</u> | <u>Bakersfield District Rate of Return</u> | | |
|-------------|--|------------------|-----------------------|
| | <u>Crest</u> | <u>Non-Crest</u> | <u>Total District</u> |
| 1967 | 5.45% | 6.81% | 6.68% |
| 1968 | 6.00 | 6.83 | 6.75 |
| 1969 | 6.47 | 7.04 | 6.99 |

Those exhibits indicate that, even with the higher zone rates in the Crest Tariff Area, earnings there lag behind earnings in the rest of the Bakersfield District. Under these circumstances, a uniform rate throughout the Bakersfield District would require a subsidy from non-Crest resident. It is noted, however, that the rate of return for the Crest Tariff Area is becoming closer to that for the non-Crest area. By the time of the next general rate proceeding involving the Bakersfield District, it may well be that a smaller differential or even a uniform rate will be found reasonable.

A city councilman testified that on the periphery of the Crest Tariff Area adjoining the rest of defendant's Bakersfield District, residents within the Crest Tariff Area pay higher rates than their neighbors across the front street, across the back alley, or on adjoining property. This indicates that, if zone rates are continued after the next general rate proceeding for the Bakersfield District, consideration should be given to revision of the zone boundary. In

the meantime, Exhibit No. 5 indicates that the present Crest Tariff Area rates are not now excessive when related to the rate base and expenses allocable to operations in that area.

By Resolution No. 97-69, dated October 6, 1969, the Bakersfield City Council expressed its opposition to a rate change in this complaint proceeding since it would result in a burden on other rate-payers in the city. It further urged that the rate differential not be removed in the future until the capital costs of the water system in the Crest area are fully amortized.

We concur with the City Council that a rate adjustment is not now warranted. We do not concur that a differential necessarily should be continued for the relatively long life of the plant involved. The addition of Crest customers did provide some benefits to the rest of the customers in the Bakersfield District, such as spreading any relatively fixed items of expense over a greater number of customers. Within a few years, a review of all factors then may warrant elimination of zone rates.

Finding and Conclusion

The Commission finds that defendant's present Crest Tariff Area rates do not produce an excessive return on rate base allocable to that area. The Commission concludes that no adjustment in the Crest Tariff Area rates is warranted at this time.

O R D E R

IT IS ORDERED that the complaint in Case No. 8972 is dismissed.

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

Dated at Los Angeles, California, this 23rd day of JUNE, 1970.

William J. Sproul
President
Richard
W. J. Sproul
W. J. Sproul
Vernon L. Sturgeon
Commissioners