

Decision No. 78789

ORIGINAL

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)
Livermore district.)

Application No. 52052
(Filed July 21, 1970;
Amended January 13, 1971)

McCutchen, Doyle, Brown & Enersen, by A. Crawford
Greene, Jr., Attorney at Law, for California
Water Service Company, applicant.
John S. Fick, Attorney at Law, and J. E. Johnson,
for the Commission staff.

O P I N I O N

After due notice, public hearing in this matter was held before Examiner Coffey on February 1 and 2 at Livermore, California. The matter was submitted on March 24, 1971, upon the receipt of the hearing transcript.

Applicant, a California corporation, seeks authority to increase its rates for water service to about 10,000 metered customers and 900 fire protection connections in its Livermore district which encompasses the City of Livermore and vicinity in Alameda County. Applicant owns and operates water systems in 21 operating districts, all of which are in California.

Rates

The following tabulation compares applicant's present and proposed rates for metered water service:

General Metered Service

	Per Meter Per Month				
	Present Rates	Proposed Rates Calendar Year			
		1970	1971	1972	1973
Quantity Rate:					
For all water delivered per 100 cu. ft.	\$.22	\$.288	\$.302	\$.320	\$.338
Service Charge:					
For 5/8 x 3/4-inch meter ..	\$ 2.40	2.80	2.96	3.13	3.31
For 3/4-inch meter ..	2.65	3.08	3.26	3.44	3.64
For 1-inch meter ..	3.60	4.20	4.44	4.70	4.97
For 1 1/2-inch meter ..	5.00	5.88	6.22	6.57	6.95
For 2-inch meter ..	6.50	7.56	7.99	8.45	8.94
For 3-inch meter ..	12.00	14.00	14.80	15.65	16.55
For 4-inch meter ..	16.00	19.04	20.13	21.28	22.51
For 6-inch meter ..	27.00	31.64	33.45	35.37	37.40
For 8-inch meter ..	40.00	47.04	49.73	52.58	55.61
For 10-inch meter ..	50.00	58.24	61.57	65.10	68.85

The Service Charge is a readiness-to-serve charge to which is to be added the monthly charge computed at the Quantity Rate.

Applicant proposes no changes in rates for private fire protection and public fire hydrant services and for the service discount to company employees.

Results of Operation

The following tabulation compares the estimated summary of earnings for the test year 1971, under present and proposed rates, prepared by the applicant and by the staff, with the summary of operations adopted for the purposes of this proceeding:

SUMMARY OF EARNINGS

Estimated Year 1971

Item	Applicant Estimated		Staff Estimated		
	Present	Co. Proposed	Present	Co. Proposed	Adopted
	Rates	Rates	Rates	Rates	Rates
(Dollars in Thousands)					
Operating Revenues	\$ 899.0	\$1,181.9	\$ 899.0	\$1,181.9	\$1,179.8
<u>Operating Expenses</u>					
Oper. & Maint.	478.4	478.4	474.2	474.2	476.9
Admin., Genl. & Misc.	17.1	17.1	15.0	15.0	15.0
Taxes Other Than Inc.	150.9	153.6	151.2	153.9	155.0
Depreciation	115.2	115.2	114.1	114.1	115.2
Allocated Common	65.4	65.4	62.8	62.8	62.8
Subtotal	827.0	829.7	817.3	820.0	824.9
Income Taxes	(41.3)	103.3	(34.3)	110.2	104.7
Total Expenses	785.7	933.0	783.0	930.1	929.6
Net Oper. Revenues	113.3	248.9	116.0	251.8	250.2
Deprec. Rate Base	3,313.5	3,313.5	3,219.1	3,219.1	3,313.5
Rate of Return	3.42%	7.51%	3.60%	7.82%	7.55%

(Red Figure)

Considering the trend data for operating and maintenance expenses depicted on Chart 6-A of applicant's Exhibit No. 3, and on Chart 5-A of applicant's Exhibit No. 11, it is apparent that applicant's method of trending operating and maintenance expenses, other than purchases, results in inflated estimates. Staff Exhibit No. 9 compares recorded data with applicant's estimates made for the years 1966 to 1969 in past rate increase applications. Of the six estimates presented by applicant of total general office operation and maintenance expenses, only the estimate for 1966 was lower than recorded results, all others being higher. We find the staff estimate of operating and maintenance expenses for the test year 1971 is reasonable. We will include an allowance in these expenses for the recent increases in postage rates.

Likewise, considering the trend data for administrative and general expenses depicted on Chart 6-B of applicant's Exhibit No. 3, on Chart 6-A of applicant's Exhibit No. 11 and staff Exhibit No. 9, it appears that applicant's estimate of administrative and general expenses is inflated. Of the six prior estimates of general office administrative and general salaries made by applicant for rate increase, only one was less than the recorded amount, the remaining five all being higher. Of six prior estimates presented by applicant for "other" administrative and general expenses, again, only one was lower than recorded. All six of applicant's prior estimates of Regulatory Commission Expense, by substantial amounts, exceed the corresponding recorded amounts. We find the staff estimates of administrative and general expenses to be reasonable.

It appears that applicant's method of making expense estimates, which it has used many years for budgetary and regulatory purposes, yields consistently inflated results which may be appropriate for a budget but are not sufficiently accurate and indicative of future operating expectations to justify the use of the method as a basis for fixing rates to be paid by the public.

The staff estimate for taxes other than income is higher than that of applicant since the staff had available and utilized the actual 1970-1971 fiscal year ad valorem taxes as assessed, whereas these amounts were estimated by applicant. As a result of this later information, the staff used the same effective tax rate for both estimated years whereas applicant used the past historical upward trend, extended from the 1969-1970 tax level. We find reasonable the staff method of estimating taxes other than income but will adjust the staff estimate of taxes other than income for the plant additions adopted hereafter.

The difference between applicant and staff estimates of allocated common expense is mainly due to the more selective use by the staff of labor factors which resulted in lower total common expense. We find the staff estimate of allocated common expense to be reasonable.

Most of \$94,400 difference between the rate base estimates of applicant and staff appears to result from the staff estimate of normal annual net plant additions. Considering the trend of net additions for the years 1966 through 1969 as set forth on Table 8-A of applicant's Exhibit No. 11, it appears that applicant's estimate of net additions for the years 1970 and 1971 is reasonable. We find applicant's rate base and depreciation expense to be reasonable.

Rate of Return

In addition to requesting an initial rate increase and annual rate increases thereafter for two years to prevent attrition in the rate of return from operational slippage, applicant requests annual increases of 0.1 percent in the rate of return based on assumed financial slippage in the future. Applicant requests rates to produce a rate of return of 7.5 percent for 1971, 7.6 percent for 1972 and 7.7 percent for 1973, while proposing to maintain throughout the period a level of earnings on common equity of approximately 11 percent.

The staff recommends a range of rate of return between 7.25 and 7.55 percent. The staff concurs in the concept of step rates but opposes step rates of return based on financial slippage because of the uncertainty of future interest rates.

We recognize that past inflation and delays in effecting rate relief support the concept of step rates but such a mechanism automatically increases inflationary pressures which work against

the national, state and local efforts to control inflation. This record does not contain a prediction of future capital structure, which will vary with the dynamics of the money market. We will not authorize step rates but we do find reasonable a rate of return of 7.55 percent for the test year which will produce a return of 11.16 percent on common equity.

Public Presentation

Nine customers attended the hearing to indicate they opposed the requested rate increase. One customer requested that any increase in rates be predicated on improved service, such as softer and fluoridated water. Another customer complained of a lack of attention to a leak complaint. A third customer opposed the general concept of step rate increases as assuming the continuation of inflationary trends and very high financing rates. He argued that such assumptions in themselves contribute to inflation. He further argued that step rate increases tend to reduce the incentive for operational improvements and efficiencies and that step rates reduce the frequency of the review of the operations of the public utility. Applicant investigated and reported on complaints received at the hearing. No further action by this Commission on these complaints appears necessary. Since no service presentation was made by the staff, we will assume that service by applicant conforms to the standards prescribed by General Order No. 103.

Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues, but the proposed rates set forth in the application are excessive.
2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1971, reasonably indicate the results of applicant's operations in the near future.

3. A rate of return of 7.55 percent on the adopted rate base for the year 1971 is reasonable. It is estimated that such rate of return will provide a return on common equity of approximately 11.16 percent.

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 to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that after the effective date of this order California Water Service Company is authorized to file the revised rate schedules 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.

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

Dated at San Francisco, California, this 15th day of JUNE, 1971.

[Signature]
Chairman
William Synovis, Jr.
[Signature]
Yvonne L. Sturgeon
[Signature]
Commissioners

APPENDIX A

Schedule No. LV-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Livermore and vicinity, Alameda County.

RATES

Quantity Rate:	<u>Per Meter</u> <u>Per Month</u>	
For all water delivered per 100 cu. ft.	\$ 0.302	(I)
Service Charge:		
For 5/8 x 3/4-inch meter	2.95	
For 3/4-inch meter	3.25	
For 1-inch meter	4.40	
For 1 1/2-inch meter	6.20	
For 2-inch meter	7.95	
For 3-inch meter	14.75	
For 4-inch meter	20.00	
For 6-inch meter	33.30	
For 8-inch meter	49.50	
For 10-inch meter	61.00	(I)

The Service Charge is a readiness-to-serve charge to which is to be added the monthly charge computed at the Quantity Rate.