

ORIGINAL

Decision No. 78826

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 authoriz-
ing it to increase rates charged
for water service in the Salinas
District. }

Application No. 52053
(Filed July 21, 1970)

McCutchen, Doyle, Brown & Enersen by A. Crawford
Green, Jr., Attorney at Law, for applicant.
Thomas L. Dunne, for City of Salinas, protestant.
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 3 at Salinas, California. The matter was submitted upon the receipt of the hearing transcript on March 31, 1971.

Applicant, a California corporation, seeks authority to increase its rates for water service to about 12,900 metered service customers and 1,200 fire protection connections in its Salinas District, which encompasses the City of Salinas and vicinity in Monterey County. Applicant owns and operates water systems in 21 operating districts, all of which are in California.

Exhibits Nos. 1, 2, 3, 4, 5, 6, 8, 9 and 10 together with associated testimony and cross-examination in the concurrent proceeding on applicant's request for increased rates for water service in its Livermore District, Application No. 52052, was incorporated in this proceeding by reference. This evidence relates to matters common to both proceedings.

Rates

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

General Metered Service

	<u>Present Rates*</u>	<u>Per Meter Per Month</u>			
		<u>Proposed Rates</u>			
		<u>Calendar Year</u>			
		<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Quantity Rates:					
First 30,000 cu.ft., per 100 cu.ft.	\$.18	\$.199	\$.205	\$.211	\$.217
Over 30,000 cu.ft., per 100 cu.ft.145	.160	.165	.170	.175
Service Charge:					
For 5/8 x 3/4-inch meter .	\$ 3.15	\$ 3.45	\$ 3.55	\$ 3.66	\$ 3.76
For 3/4-inch meter .	3.45	3.79	3.91	4.02	4.14
For 1-inch meter .	4.65	5.17	5.33	5.49	5.64
For 1-1/2-inch meter .	6.45	7.24	7.46	7.68	7.90
For 2-inch meter .	8.25	9.30	9.59	9.88	10.15
For 3-inch meter .	15.15	17.23	17.77	18.29	18.81
For 4-inch meter .	20.15	23.43	24.16	24.87	25.57
For 6-inch meter .	34.15	38.94	40.15	41.34	42.50
For 8-inch meter .	50.15	57.89	59.69	61.45	63.18
For 10-inch meter .	62.15	71.68	73.90	76.09	78.23

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

* Excepting former Crystal Water Company service area. No increases are proposed for Private Fire Protection

Service. It is also proposed to eliminate the special area rates for the area formerly served by the Crystal Water Company.

Applicant maintains this area is thoroughly integrated with the balance of the system and therefore no differential in rates is warranted. A revision in the special conditions is also proposed in the Public Fire Hydrant Service schedule to delineate the cost of facilities installed at the cost of a public authority.

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 purpose of this proceeding:

SUMMARY OF EARNINGS

Estimated Year 1971

Item	Applicant Estimated		Staff Estimated		Adopted
	Present	Co. Proposed	Present	Co. Proposed	
	Rates	Rates	Rates	Rates	Rates
(Dollars in Thousands)					
Operating Revenues	1,210.2	1,362.7	1,210.2	1,362.7	1,349.7
<u>Operating Expenses</u>					
Oper. & Maint.	299.9	299.9	288.9	288.9	292.4
Admin., Genl. & Misc.	22.3	22.3	20.4	20.4	20.4
Taxes Other Than Inc.	227.7	229.2	222.5	224.0	229.0
Depreciation	141.0	141.0	140.7	140.7	141.0
Allocated Common	85.3	85.3	81.9	81.9	81.9
Subtotal	776.2	777.7	754.4	755.9	764.7
Income Taxes	130.4	208.4	142.2	220.2	208.4
Total Expenses	906.6	986.1	896.6	976.1	973.1
Net Oper. Revenues	303.6	376.6	313.6	386.6	376.6
Deprec. Rate Base	4,987.9	4,987.9	4,947.0	4,947.0	4,987.9
Rate of Return	6.09%	7.55%	6.34%	7.81%	7.55%

Considering the trend data for operating and maintenance expenses depicted on Chart 5-A of applicant's Exhibit No. 1, it is apparent that applicant's method of trending expenses other than purchases results in inflated estimates. Staff incorporated Exhibit No. 9 compares recorded data with applicant's estimates made for the years 1966 to 1969 in past rate increase application. Of the six estimates presented by applicant of total operating and maintenance expenses, only the estimate for 1966 was lower than recorded results, all others being higher. We find reasonable the staff estimate of operating and maintenance expenses for the test year 1971. We will include an allowance for recent increases in postal rates.

Likewise, considering the trend data for administrative and general expenses depicted on Chart 6-A of applicant's Exhibit No. 1 and staff Exhibit No. 9 (incorporated), it appears that applicant's estimate of administrative and general expenses is above that which reasonably can be expected in the future. Exhibit No. 9 sets forth that of six prior estimates of A & G salaries made by applicant for rate increases, only one was less than the recorded amount, the remaining five all being higher. Of six prior estimates presented by applicant for "other" A & G expenses, again, only one was lower than the corresponding recorded amount. 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 budgetary purposes but which 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 difference between estimates of applicant and the staff for taxes other than income results from the staff having available and utilizing the actual 1970-1971 fiscal year taxes as assessed, whereas these amounts were estimated by applicant. As a result of this later information, the staff used the latest known effective tax rate for its 1970 and 1971 estimates, whereas applicant based its estimate upon the extended historical tax rate trend. Considering applicant's Exhibit No. 2, applicant's estimate of total taxes other than income for the year 1971 appears reasonable. We

find applicant's method of estimating taxes other than income to be reasonable for this proceeding.

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 the \$40,900 difference between the rate base estimates of applicant and staff appear to result from the staff estimate of normal annual net plant additions. Considering the amounts of net plant additions for the years 1966 through 1969 as set forth in Table 8-A of applicant's Exhibit No. 1, it appears that applicant's estimate of net additions for the year 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 for 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

The City Manager of the City of Salinas and one witness from the public protested the requested rate increase at the hearing. The City expressed concern with the inflationary nature of the proposed rate increase and opposed the concepts of step rates and step rates of return. No adverse comments on water service were voiced.

Findings and Conclusions

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 and to concurrently withdraw and cancel Schedules Nos. SA-ILC and SA-5LC. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules 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 2nd day of JUNE, 1971.

Chairman

Commissioners

APPENDIX A
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Schedule No. SA-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Salinas and vicinity, Monterey County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 30,000 cu. ft., per 100 cu. ft.	\$.203	(I)
Over 30,000 cu. ft., per 100 cu. ft.163	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 3.50	(I)
For 3/4-inch meter	3.90	
For 1-inch meter	5.30	
For 1 1/2-inch meter	7.40	
For 2-inch meter	9.50	
For 3-inch meter	17.60	
For 4-inch meter	23.90	
For 6-inch meter	39.75	
For 8-inch meter	59.10	
For 10-inch meter	72.80	

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

Schedule No. SA-5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, organized fire districts and other political subdivisions of the State.

TERRITORY

Salinas and vicinity, Monterey County.

RATES

	<u>Per Hydrant Per Month</u>	
	<u>Facilities Installed at Cost of</u>	<u>Public Authority</u>
	<u>Utility</u>	<u>Public Authority</u>
For each hydrant	\$ 6.00	\$ 2.00

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. SA-1, General Metered Service.
2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.
3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size.
4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.
5. Where the facilities are installed at the cost of the public authority, such costs include all labor and materials except that the utility will provide the materials for the service tee and the shutoff valve. The service tee and valve will be installed only by authorized utility personnel.

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