

ORIGINAL

Decision No. 78827

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 Visalia district.

Application No. 52054
(Filed July 21, 1970)

McCutchen, Doyle, Brown & Enersen, by A. Crawford
Greene, Jr., Attorney at Law, for applicant.
Nat O. Bradley, Attorney at Law, for City of
Visalia, protestant.
John C. 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 4, 1971, at Visalia, California. The matter was submitted on April 1, 1971, upon receipt of the reporter's transcript of the hearing.

Applicant, a California corporation, seeks authority to increase its rates for water service to about 1,635 metered customers, 8,050 flat rate customers, and 650 fire protection connections in its Visalia District, which includes the City of Visalia and the unincorporated area of Tulare County adjacent to the city limits. 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, were incorporated in this proceeding by reference. This evidence relates to matters common to both proceedings.

Rates

The following tabulations compare applicant's present and proposed rates for general metered water service and for residential flat rate 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.	\$.117	\$.134	\$.141	\$.148	\$.155
Service Charge:					
For 5/8 x 3/4-inch meter..	\$ 2.26	\$ 2.57	\$ 2.71	\$ 2.84	\$ 2.97
For 3/4-inch meter..	2.46	2.83	2.98	3.12	3.27
For 1-inch meter..	3.36	3.86	4.06	4.26	4.46
For 1 1/2-inch meter..	4.61	5.40	5.68	5.96	6.24
For 2-inch meter..	5.91	6.94	7.31	7.67	8.03
For 3-inch meter..	11.11	12.85	13.53	14.20	14.87
For 4-inch meter..	15.11	17.48	18.40	19.31	20.22
For 6-inch meter..	24.11	29.04	30.58	32.09	33.59
For 8-inch meter..	36.11	43.18	45.46	47.71	49.95
For 10-inch meter..	45.11	53.46	56.28	59.07	61.84

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

RESIDENTIAL FLAT RATE SERVICE

	PER SERVICE CONNECTION PER MONTH				
	Present Rates	Proposed Rates Calendar Year			
		1970	1971	1972	1973
For a single-family residential unit, including premises having the following area:					
6,000 sq. ft., or less...	\$ 3.76	\$ 4.32	\$ 4.55	\$ 4.77	\$ 5.00
6,001 to 10,000 sq. ft. .	4.96	5.75	6.05	6.35	6.65
10,001 to 16,000 sq. ft. .	6.11	7.08	7.46	7.83	8.20
16,001 to 25,000 sq. ft. .	7.66	8.94	9.41	9.88	10.34
For each additional single-family residential unit on the same premises and served from the same service connection:	3.11	3.54	3.73	3.91	4.10

Applicant presented at the hearing so-called "alternate rates" which reflect applicant's downward revision of its estimate of taxes other than income, but applicant did not amend its request for the rates set forth in the application.

No increases are proposed for limited municipal flat rate service, public fire hydrant service, or private fire protection service.

Results of Operation

The following tabulation compares the estimated summary of earnings for the test year 1971, under present and alternate 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 Est.		Staff Estimated		Adopted:
	Present	Co. Proposed	Present	Co. Proposed	
	Rates	Rates	Rates	Rates	Rates
(Dollars in Thousands)					
Operating Revenues	\$ 689.2	\$ 813.2	\$ 689.2	\$ 813.2	\$ 795.6
<u>Operating Expenses</u>					
Oper. & Maint.	231.8	231.8	213.9	213.9	216.4
Admin., General & Misc.	14.5	14.5	15.4	15.4	15.4
Taxes Other Than Income	104.8	104.8	100.8	100.8	100.8
Depreciation	88.1	88.1	87.2	87.2	88.1
Allocated Common	60.2	60.2	57.8	57.8	57.8
Subtotal	499.4	499.4	475.1	475.1	478.5
Income Taxes	39.1	103.2	53.0	117.0	104.9
Total Expenses	538.5	602.6	528.1	592.1	583.4
Net Operating Revenues	150.7	210.6	161.1	221.1	212.2
Deprec. Rate Base	2,810.8	2,810.8	2,752.5	2,752.5	2,810.8
Rate of Return	5.36%	7.49%	5.85%	8.03%	7.55%

The staff accepted, as reasonable, applicant's estimates of operating revenues. The City of Visalia presented the estimate of a consulting civil engineer that operating revenues under present rates in the test year 1971 would be \$710,000 and under proposed rates would be \$851,900. City's witness estimated 221 more service connections, including fire protection, in the test year than did applicant. It appears that customer data furnished to the witness by applicant contained 77 customers acquired by applicant subsequent to filing of this application and to whom the rates proposed herein will not apply. Considering Chart 4-C of applicant's Exhibit No. 1, it appears that operating revenues under present rates reasonably could exceed \$710,000 under present rates in the test year 1971. Considering Chart 4-A of applicant's Exhibit No. 1, it appears that the number of average active services, excluding fire protection, in 1971 reasonably could be approximately 9,900, or 215 more services than estimated by applicant. We find that City's estimate of operating revenue in 1971 under present rates, \$710,000, is reasonable. The trend of water production and purchased power set forth on Charts 4-B and 5-A of applicant's Exhibit No. 1 indicates that the estimates made by applicant, and accepted by the staff, for these items are sufficiently generous so that the expenses hereafter adopted will not be adjusted to reflect our acceptance of City's estimate of revenue.

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 results in inflated estimates. Incorporated 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 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.

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 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. We will include an allowance for recent increases in postal rates.

It appears that applicant's method of making expense estimates, which it has used for 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.

At the hearing, applicant reduced its estimate of taxes other than income from \$122,700 to \$104,800 for the test year 1971, making its estimate of ad valorem taxes for 1971 the same as that of the staff. We find reasonable the staff estimate of taxes other than income.

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 reasonable the staff estimate of allocated common expense.

Most of the \$58,300 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 reasonable applicant's rate base and depreciation expense.

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 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

In addition to the presentation by the City of Visalia in opposition to the proposed rate increases, the County of Tulare requested fire hydrant charges be distributed to property owners which the county considers to be the primary beneficiaries of the service, thus relieving the general taxpayer of charges which presently benefit only one subdivision, or alternately saving the cost of legal services to create a county service district. Tulare County recently adopted a new subdivision ordinance in which the subdivisions are required to be equipped with standard fire hydrants. This record does not contain sufficient information for

the Commission to consider changing the long established policy of charges for public fire hydrant service. No adverse comments on water service were voiced.

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 a 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.

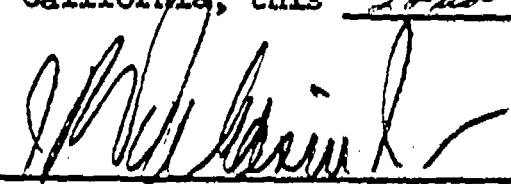
The Commission concludes that the application should be granted to the extent set forth in the order which follows.


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 22nd
day of JUNE, 1971.



Chairman




William L. Sturgeon


Commissioners

APPENDIX A
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Schedule No. VS-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Visalia and vicinity, Tulare County.

RATES

		Per Meter Per Month	
Quantity Rate:			
For all water delivered per 100 cu. ft.		\$.135	(I)
Service Charge:			
For 5/8 x 3/4-inch meter	\$ 2.60		
For 3/4-inch meter	2.85		
For 1-inch meter	3.90		
For 1 1/2-inch meter	5.45		
For 2-inch meter	7.00		
For 3-inch meter	12.95		
For 4-inch meter	17.60		
For 6-inch meter	29.30		
For 8-inch meter	43.70		
For 10-inch meter	54.10		(I)

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

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Schedule No. VS-2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Visalia and vicinity, Tulare County.

RATES

	Per Service Connection	
	Per Month	
For a single-family residential unit, including premises having the following area:		
6,000 sq.ft., or less	\$ 4.35	(I)
6,001 to 10,000 sq. ft.	5.80	
10,001 to 16,000 sq. ft.	7.15	
16,001 to 25,000 sq. ft.	9.00	
For each additional single-family residential unit on the same premises and served from the same service connection	3.55	(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. VS-1, General Metered Service.