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Decision No. 78836

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
THE CAMPBELL WATER COMPANY, a
corporation, for authority to
increase its Rates and Charges for
its Water System serving the City
of Campbell, City of San Jose and
adjacent territory in Santa Clara
County.

Application No. 52004
(Filed June 29, 1970;
Amended October 13, 1970
and April 26, 1971)

Orrick, Harrington, Rowley & Sutcliffe, by
James F. Craft, Jr., Attorney at Law, for
applicant.

Lester F. McDonough, for self, protestant.
John S. Fick, Attorney at Law, and John E.
Johnson, for the Commission staff.

O P I N I O N

Applicant, The Campbell Water Company, seeks authority to increase rates for General Metered Water Service.

Public hearing was held before Examiner Gillanders in Campbell on December 2, 1970 and the matter submitted on December 4 upon receipt of late-filed Exhibit 4. Copies of the application had been served and notice of hearing had been published and posted in accordance with this Commission's rules of procedure.

Testimony on behalf of applicant was presented by its Secretary-General Manager and by its Engineer. The Commission staff presentation was made by an accountant and an engineer. Three customers attended the hearing and one cross-examined applicant's manager.

The Commission, having concluded that the evidence adduced at the hearing did not conclusively demonstrate that applicant was entitled to an increase in rates, by Decision No. 78368, dated March 2, 1971 reopened the matter for further hearing.

Further hearing was held before Examiner Gillanders at San Francisco on April 26, 1971 and the matter submitted.

In his opening statement, counsel for applicant stated that 1971 wages were now known; that 1971 contract rates for water were now known; that 1971 customer growth could be estimated; that 1972 customer growth was relatively well known; and that the last substantial growth in applicant's service area is about to occur. For these reasons, he requested that applicant's requested second step rates be authorized.

Staff counsel stated that the staff was standing on its previous testimony regarding accounting matters and rate of return and would produce evidence showing 1971 estimated results of operation at present and proposed rates.

Counsel for applicant stated that attrition was no longer an issue in this reopened proceeding.

Testimony on behalf of applicant was presented by its Secretary-General Manager, its Engineer, and by the General Manager of the Santa Clara Flood Control and Water District. The Commission staff presentation was made by an engineer.

Results of Operation

The following tabulation shows applicant's estimated results of operation at proposed rates.

SUMMARY OF EARNINGS AND RATES OF RETURN
PROPOSED RATES

<u>DESCRIPTION</u>	<u>ESTIMATED</u>		
	<u>PROPOSED RATES</u>		
	<u>1971 (Step 1)</u>	<u>1971 (Step 2)</u>	<u>1972 (Step 2)</u>
	\$	\$	\$
Operating Revenues	594,990	611,740	639,130
<u>Operating Expenses</u>			
Operation & Maintenance	238,000	238,000	251,880
Administrative & General	90,950	90,950	96,250
Miscellaneous	820	820	820
Taxes other than on Income	63,930	63,930	67,360
Depreciation	<u>56,910</u>	<u>56,910</u>	<u>60,190</u>
Total - Excluding			
Income Taxes	450,610	450,610	476,500
<u>Net Operating Revenues</u>			
Before Income Taxes	144,380	161,130	162,630
Income Taxes	49,500	58,150	55,560
Net Operating Revenue	<u>94,880</u>	<u>102,980</u>	<u>107,070</u>
Depreciated Rate Base	1,293,190	1,294,670	1,366,270
Rate of Return	7.3%	8.0%	7.8%

The following tabulation shows staff estimated results of operation.

Item	1971 Estimated		
	At Present: Rates	At Proposed Rates :First Step	At Proposed Rates :Second Step
Operating Revenues	\$ 563,000	\$ 594,500	\$ 611,200
<u>Deductions</u>			
Contract Water Cost	61,000	61,000	61,000
Purchased Power	31,900	31,900	31,900
Ground Water Charge	69,000	69,000	69,000
Other Oper. & Maintenance	78,200	78,200	78,200
Administrative & General	90,900	90,900	90,900
Depreciation	56,900	56,900	56,900
Non-income Taxes	64,300	64,300	64,300
Income Taxes	31,700	47,900	56,600
Total Deductions	483,900	500,100	508,800
Net Revenue	79,100	94,400	102,400
Depreciated Rate Base	1,290,000	1,293,000	1,295,000
Rate of Return	6.1%	7.3%	7.9%

Estimates reflect growth in services physically in evidence, wage scales actually paid or committed to, and known increases in the ground water charge, the quantity and price of purchased water and the purchased power cost. Revenue estimates reflect exclusion of interest revenue.

As can be seen from the above tabulations, applicant's and staff's test year 1971 results of step 2 rates, are for all intents and purposes identical.

The only issue before us, therefore, is rate of return.

Rate of Return

According to applicant it is now negotiating a loan commitment with Pacific Mutual Life Insurance Company for \$150,000 at 9 percent. It proposes to borrow \$90,000 of the \$150,000 upon approval, with the remaining \$60,000 to be drawn down on or before June 30, 1972.

The following tabulation shows applicant's calculation of rates of return required on total capital to recover imbedded cost of long term debt and preferred stock and to produce a 10 percent rate of return on common stock equity.

	<u>AMOUNT</u> <u>\$</u>	<u>PERCENT OF</u> <u>CAPITAL</u> <u>(EXCL. ADV.)</u>	<u>COST OF</u> <u>CAPITAL</u>	
<u>AS OF JUNE 30, 1971</u>				
Common Equity	548,539	42.61		4.26
Preferred Stock	50,000	3.88	6.00	0.23
Long-term Debt	<u>689,000</u>	<u>53.51</u>	6.27	<u>3.36</u>
Total Capital	<u>1,287,539</u>	<u>100.00</u>		<u>7.85</u>
<u>AS OF JUNE 30, 1972</u>				
Common Equity	580,976	42.61		4.26
Preferred Stock	50,000	3.67	6.00	0.22
Long-term Debt	<u>732,500</u>	<u>53.72</u>	6.39	<u>3.43</u>
Total Capital	<u>1,363,476</u>	<u>100.00</u>		<u>7.91</u>

To allow applicant its requested increase would require an increase in gross operating revenues of \$48,190.

We suggest to applicant that it do its utmost to secure financing from Pacific Mutual at interest rates less than 9 percent.

According to the staff, its recommended rate of return of 7.6 percent applied to its estimated results of operation would produce a 9.41 percent return on common equity for applicant's estimated capital structure at June 30, 1971 and would require a gross increase in operating revenues of \$39,500.

Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues but proposed rates set forth in the amended application are excessive.
2. The estimates, previously discussed herein, of operating revenues, operating expense and rate base for the test year 1971, indicate the results of applicant's operations in the near future.
3. A rate of return of 7.6 percent on the rate base for the year 1971, which return will produce earnings on common equity of 9.41 percent is reasonable.
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.

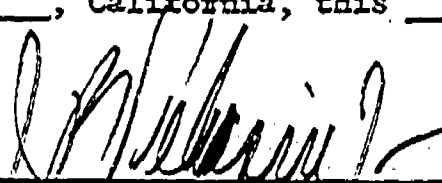
The Commission concludes that the application should be granted to the extent set forth in the order which follows.

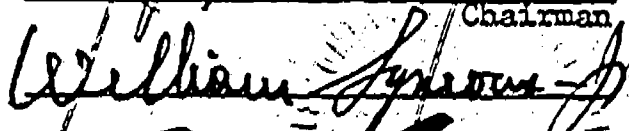
O R D E R


IT IS ORDERED that after the effective date of this order The Campbell Water Company is authorized to file the revised rate schedule attached to this order as Appendix A, and concurrently to withdraw and cancel presently effective Schedule No. 1. 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 schedule 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






Commissioners

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Campbell and vicinity, Santa Clara County.

RATES

Quantity Rates:	Per Meter Per Month	
First 30,000 cu.ft., per 100 cu.ft.	\$0.349	(I)
Over 30,000 cu.ft., per 100 cu.ft.	0.286	
 Service Charge:		
For 5/8 x 3/4-inch meter	2.53	
For 3/4-inch meter	2.79	
For 1-inch meter	3.75	
For 1 1/2-inch meter	5.25	
For 2-inch meter	6.76	
For 3-inch meter	12.59	
For 4-inch meter	17.15	
For 6-inch meter	27.87	
For 8-inch meter	41.80	(I)

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

SPECIAL CONDITION

Customers who receive water deliveries for agricultural purposes under this schedule, and who present evidence to the utility that such deliveries qualify for the lower pump tax rates levied by Santa Clara County Flood Control and Water Conservation District and by Santa Clara Valley Water Conservation District for agricultural water, shall receive a credit of 5.1 cents per 100 cubic feet on each water bill for the quantities of water used during the period covered by that bill. (C)