

Decision No. 79487**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 authoriz-
ing it to increase rates charged
for water service in the Marysville
district.

) Application No. 52322
(Filed November 24, 1970;
Amended April 7, 1971)

McCutchen, Doyle, Brown & Enersen, by A. Crawford
Greene, Jr., Attorney at Law, for California
Water Service Company, applicant.

Joseph L. Heenan, Attorney at Law, for City of
Marysville, protestant.

Mrs. Robert J. Olewine, for herself, interested
party.

William C. Bricca, Attorney at Law, and J. E. Johnson,
for the Commission staff.

O P I N I O N

After notice, public hearing in this matter was held
before Examiner Gillanders on May 27, 1971 at Marysville and the
matter submitted.

Applicant, a California corporation, seeks authority to
increase its rates for water service to about 950 metered customers
and 2,360 flat rate customers in its Marysville district which
encompasses the City of Marysville and vicinity. 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 and for residential
flat rate service.

General Metered Service

<u>RATES</u>	<u>PER METER PER MONTH</u>			
	<u>Proposed</u>			
	<u>Calendar Year</u>			
<u>Service Charge:</u>	<u>Present</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
For 5/8 x 3/4-inch meter	\$2.82	\$3.44	\$3.65	\$3.85
For 3/4-inch meter	3.07	3.78	4.02	4.24
For 1-inch meter	4.17	5.16	5.48	5.78
For 1-1/2-inch meter	5.87	7.22	7.67	8.09
For 2-inch meter	7.52	9.29	9.86	10.40
For 3-inch meter	14.07	17.20	18.25	19.25
For 4-inch meter	19.07	23.39	24.82	26.18
For 6-inch meter	31.07	38.87	41.25	43.51
For 8-inch meter	46.07	57.79	61.32	64.68
For 10-inch meter	57.07	71.55	75.92	80.08

Quantity Rate:

For all water delivered,
per 100 cu. ft. \$.111 \$.117 \$.124

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

Residential Flat Rate Service

RATES

For a single-family residential unit, including premises having the following area:	<u>PER SERVICE CONNECTION PER MONTH</u>			
	<u>Present</u>	<u>Proposed</u>		
		<u>Calendar Year</u>		
	<u>1971</u>	<u>1972</u>	<u>1973</u>	
6,000 sq. ft. or less	\$4.57	\$5.61	\$5.92	\$6.27
From 6,001 to 10,000 sq.ft.....	5.32	6.55	6.91	7.32
From 10,001 to 16,000 sq.ft.....	6.32	7.79	8.22	8.71
From 16,001 to 25,000 sq.ft.....	8.07	9.97	10.35	11.15
For each additional single-family residential unit on the same premises and served from the same service connection	3.07	3.74	3.95	4.18

SPECIAL CONDITIONS:

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All residential service not covered by the above classification will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer for above classification in which event service thereafter will be furnished only on the basis of Schedule No. MR-1, General Metered Service.

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:

SUMMARY OF EARNINGS

Estimated Year 1971

Item	Applicant Estimated		Staff Estimated		Applicant Exceeds Staff#
	Present Rates	Co. Proposed Rates*	Present Rates	Co. Proposed Rates*	
(Dollars in Thousands)					
Operating Revenues	\$233.8	\$285.6	\$235.3	\$287.5	\$(1.5)
<u>Operating Expenses</u>					
Oper. & Maint.	92.5	92.5	89.9	89.9	2.6
Admin., Gen'l. & Misc.	8.1	8.1	7.3	7.3	.8
Taxes Other Than Income	37.4	37.4	36.3	36.3	1.1
Depreciation	26.0	26.0	25.4	25.4	.6
Allocated Common	23.7	23.7	22.7	22.7	1.0
Subtotal	187.7	187.7	181.6	181.6	6.1
Income Taxes	5.7	32.4	9.9	36.9	(4.2)
Total Expenses	193.4	220.1	191.5	218.5	1.9
Net Operating Revenues	40.4	65.5	43.8	69.0	(3.4)
Depreciated Rate Base	871.8	871.8	840.5	840.5	31.3
Rate of Return	4.63%	7.51%	5.21%	8.21%	(0.58)%

(Red Figure)

At present rates.

* At company amended proposed 1971 rates.

Explanation of Differences - Results of OperationDirect Operating Expenses

The staff has modified applicant's use of a trended "labor factor" to exclude retirement and group insurance costs from the factor since these items are separately estimated and retirement costs will henceforth be a general office allocated expense. Applicant has applied its higher labor factor to virtually all categories of expense,

whereas the staff has separately analyzed those expenses without significant direct labor content, thereby resulting generally in estimates lower than applicant's.

The staff has separately estimated the retirement contribution cost portion of administrative, general and miscellaneous expenses and determined a slightly lower level thereof than applicant.

The staff's and applicant's estimates of 1971 direct expenses are compared in the following tabulation:

Operating, Maintenance and A&G Expenses - 1971 Estimated

Item	Applicant Estimated	Staff Estimated	Applicant: Exceeds Staff
(Dollars in Thousands)			
<u>Operating Expenses</u>			
Purchased Power	\$ 15.8	\$ 15.9	\$ (0.1)
Payroll	49.2	48.8	.4
Uncollectibles	{ 11.0	.3	{ 0.2
Postage	{ 11.0	3.5	{ 0.2
Other	{ 11.0	7.0	{ 0.2
Subtotal Operating Expenses	<u>76.0</u>	<u>75.5</u>	0.5
<u>Maintenance Expenses</u>			
Payroll	6.7	6.7	-
Other	9.8	7.7	2.1
Subtotal Maintenance Expenses	<u>16.5</u>	<u>14.4</u>	2.1
Total O&M Expenses	92.5	89.9	2.6
<u>A&G Expenses</u>			
Regulatory Comm. Exp.	1.0	1.0	-
Uninsured Losses	{ 5.3	.1	{ .8
Retirement Contributions	{ 5.3	1.7	{ .8
Other	{ 5.3	2.7	{ .8
Dues and Donations Adj.	(0.2)	(0.2)	-
Subtotal A&G Expenses	<u>6.1</u>	<u>5.3</u>	.8
<u>Misc. Expenses</u>			
Rents	2.0	2.0	-
Total O&M, A&G, & Miscellaneous	100.6	97.2	3.4

(Red Figure)

We find that the staff estimates of direct operating expenses are reasonable.

Taxes Other Than on Income

The major difference between the company and staff for this item of expense results from the staff having available and utilizing the actual 1970-1971 fiscal year ad valorem taxes as assessed, whereas these amounts were estimated by the company. 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 1969-1970 tax level. We find that staff estimates and method of computing taxes is reasonable.

Income Taxes

The differences in income taxes as determined by the staff and company are the result of differences in estimates of expenses, together with differences in income tax depreciation resulting from differences in plant additions and the staff's use of interest expense consistent with the staff's rate of return exhibit in Applications Nos. 52052-52055.

Allocated Common Expenses

The difference between the applicant and staff estimates of total common expense for the test years is mainly due to the staff's more selective use of labor factors. In connection with prior Applications Nos. 52052-52055, the staff reviewed applicant's allocation factors to each district and found that it had used staff methods and that the factors were reasonable. Staff and applicant's estimates, and the allocations thereof to the Marysville District, are summarized as follows:

Allocated Common Expense

Item	Estimated 1970		Estimated 1971	
	Applicant	Staff	Applicant	Staff
(Dollars in Thousands)				
Administrative, General & Misc. Exp.	\$1,118.9	\$1,084.2	\$1,207.8	\$1,156.7
Operation and Maintenance Expense	499.6	489.4	545.6	523.2
Taxes, Deprec. & Amort.	102.2	101.2	110.0	109.0
Total	1,720.7	1,674.8	1,863.4	1,788.9
Allocation to the Marysville District at 1.27%	21.9	21.3	23.7	22.7

We find that the staff estimates and methods of computing allocated common expenses are reasonable.

Rate Base

Net plant additions estimated by the staff for 1971 are less than the company estimate primarily because the staff considered applicant's estimated 1971 construction budget as reasonable in estimating plant additions, whereas applicant based plant growth estimates on trending inflation-adjusted past experience. The staff's computation of working capital differs from applicant's estimate only because it includes slightly lower levels of materials and supplies. Applicant's working cash estimate was adopted though slight theoretical differences would result from use of staff revenues and expenses. Staff depreciation reserves reflect use of 1970 recorded accruals, retirements and adjustments. With the exception of minor staff adjustments in Applications Nos. 52052-52055, the staff has accepted applicant's allocation of common utility rate base for its development of the district rate base. The following tabulations show a comparison of staff and applicant's estimated plant and rate bases:

Estimated Average Utility Plant

Item	1970		1971	
	Applicant	Staff	Applicant	Staff
(Dollars in Thousands)				
Beginning-of-Year Balance	\$1,179.4	\$1,179.4	\$1,220.2	\$1,197.1
Gross Additions	48.0	23.5	50.9	32.9
Retirements & Adjustments	7.2	5.8	7.2	7.2
Net Additions	40.8	17.7	43.7	25.7
Weighted Average Amount	1,202.9	1,189.6	1,245.3	1,211.9

Estimated Average Rate Bases

Item	1970		1971	
	Applicant	Staff	Applicant	Staff
(Dollars in Thousands)				
Utility Plant	\$1,202.9	\$1,189.6	\$1,245.3	\$1,211.9
Less Adjustments to Plant	73.7	72.4	65.6	62.6
Working Capital	20.3	19.0	20.7	22.2
Undepreciated Rate Base	1,149.5	1,136.2	1,200.4	1,171.5
Less Depreciation Reserve	379.4	330.6	349.1	351.0
Depreciated Rate Base	820.1	805.6	851.3	820.5
Allocated Common Rate Base	20.3	20.3	20.5	20.0
Total Deprec. Rate Base	840.4	825.9	871.8	840.5

We find that the staff estimates and methods of determining rate bases are 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 7.51 percent for 1971, 7.61 percent for 1972 and 7.71 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 7.40 percent for the test year. In authorizing a rate of return of 7.40 percent for the test year, we recognize that there will be operational slippage of .3 percent over the years. The rates shown in Appendix A attached are designed such that the average rate of return for the future will result in adequate earnings for the short term.

Public Presentation

Two members of the public attended the hearing. The City of Marysville opposes the application as it believes the increases requested are excessive.

Service

During the year 1970, customer complaints received and resolved at the district office totaled 40, of which 35 related to taste, odor, color or pressure. No informal complaints were filed with the Commission from customers of the district during the past three years.

The complaints concerning color were mainly the result of fire-flow tests conducted in September, and the other complaints were localized, nonrecurring conditions partly resulting from customer-owned plumbing.

Service provided by applicant in Marysville is good.

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 staff 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 7.40 percent on the adopted rate base for the year 1971 is reasonable. Such rate of return combined with operational slippage of .3 percent will produce a reasonable average rate of return over a short term.
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 rates authorized herein will produce a reasonable rate of return for applicant and are consistent with the purposes of the Federal Government's economic stabilization program. No undue inflationary pressures will be engendered thereby.

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 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 21st day of DECEMBER, 1971.

M. J. ... Chairman
William ...
Thomas ...
Vernon L. ...
... Commissioners

APPENDIX A
Page 1 of 2

Schedule No. MR-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Marysville and vicinity, Yuba County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 3.30	(I)
For 3/4-inch meter	3.65	
For 1-inch meter	4.95	
For 1 1/2-inch meter	6.95	
For 2-inch meter	8.90	
For 3-inch meter	16.50	
For 4-inch meter	22.45	
For 6-inch meter	37.30	
For 8-inch meter	55.45	
For 10-inch meter	68.65	
Quantity Rate:		
For all water delivered, per 100 cu. ft.	\$ 0.107	(I)

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

APPENDIX A
Page 2 of 2

Schedule No. MR-2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

Marysville and vicinity, Yuba County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
1. For a single-family residential unit, including premises having the following area:		
6,000 sq. ft. or less	\$ 5.45	(I)
From 6,001 to 10,000 sq. ft.	6.35	
From 10,001 to 16,000 sq. ft.	7.55	
From 16,001 to 25,000 sq. ft.	9.65	
a. For each additional single-family residential unit on the same premises and served from the same service connection	3.65	(I)

SPECIAL CONDITIONS:

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All residential service not covered by the above classification will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer for above classification in which event service thereafter will be furnished only on the basis of Schedule No. MR-1, General Metered Service.