

ORIGINAL

Decision No. 79488

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 Oroville district.)

Application No. 52323
(Filed November 24, 1970;
Amended April 7, 1971)

McCutchen, Doyle, Brown & Enersen, by
A. Crawford Greene, Jr., for California
Water Service Company, applicant.
C. Keith Lyde, Attorney at Law (Florida),
for City of Oroville, protestant.
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 26, 1971 at Oroville and on June 18, 1971 at San Francisco. The matter was submitted on June 23, 1971, upon the receipt of late-filed Exhibit 22.

Applicant, a California corporation, seeks authority to increase its rates for water service to about 1,600 metered customers, 1,533 flat rate commercial customers and 10 irrigation customers in its Oroville district which includes the city of Oroville and vicinity. Applicant owns and operates water systems in 21 operating districts, all of which are in California.

Rates

Increases are proposed in General Metered Service, Residential Flat Rate Service, Limited Flat Rate Service, and Irrigation Service. No increases are proposed for Public Fire Hydrant Service or Private Fire Protection Service.

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

General Metered ServiceRATES

		PER METER PER MONTH				
		Present	Calendar Year			
		Rates	1970	1971	1972	1973
Service Charge:						
For	5/8x3/4-inch meter	\$3.72	\$4.52	\$4.78	\$5.08	\$5.43
For	3/4-inch meter	4.07	4.97	5.26	5.59	5.97
For	1-inch meter	5.47	6.78	7.17	7.62	8.15
For	1 1/2-inch meter	7.62	9.49	10.04	10.67	11.40
For	2-inch meter	9.67	12.20	12.91	13.72	14.66
For	3-inch meter	18.17	22.60	23.90	25.40	27.15
For	4-inch meter	24.17	30.74	32.50	34.54	36.92
For	6-inch meter	40.17	51.08	54.01	57.40	61.36
For	8-inch meter	60.17	75.94	80.30	85.34	91.22
For	10-inch meter	74.17	94.02	99.42	105.66	112.94

Quantity Rate:

For all water delivered, per 100 cu. ft.	\$0.175	\$0.214	\$0.226	\$0.241	\$0.257
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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 Rate.

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:

Item	Applicant Estimated		Staff Estimated		Exceeds
	Present	Co. Proposed	Present	Co. Proposed	
	Rates	Rates*	Rates	Rates*	

(Dollars in Thousands)

Operating Revenues	\$ 399.4	\$ 515.9	\$ 400.3	\$ 517.1	\$(0.9)
<u>Operating Expenses</u>					
Oper. & Maint.	185.0	185.0	178.5	178.5	6.5
Admin., Gen'l. & Misc.	14.8	14.8	12.3	12.3	2.5
Taxes Other Than Income	55.4	55.4	55.6	55.6	(.2)
Depreciation	42.2	42.2	41.0	41.0	1.2
Allocated Common	35.4	35.4	34.0	34.0	1.4
Subtotal	332.8	332.8	321.4	321.4	11.4
Income Taxes	(3.9)	56.3	8.9	69.2	(12.8)
Total Expenses	328.9	389.1	330.3	390.6	(1.4)
Net Operating Revenues	70.5	126.8	70.0	126.5	(0.5)
Depreciated Rate Base	1,691.0	1,691.0	1,555.6	1,555.6	135.4
Rate of Return	4.17%	7.50%	4.50%	8.13%	(0.33)%

(Red Figure)

At present rates.

* At company amended proposed 1971 rates.

Explanation of Differences - Results of Operation

Direct Operating Expenses

The staff 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 generally resulting in estimates lower than applicant's.

The staff 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	\$ 15.7	\$ 15.7	\$ -
Purchased Water	40.3	40.3	-
Purchased Chemicals	6.5	6.5	-
Payroll	77.4	76.7	0.7
Uncollectibles	} 25.5	1.5	} 2.1
Postage		3.5	
Other		18.4	
Subtotal Operating Expense	165.4	162.6	2.8
<u>Maintenance Expenses</u>			
Payroll	5.9	5.9	-
Other	13.7	10.0	3.7
Subtotal Maintenance Expense	19.6	15.9	3.7
Total O & M Expenses	185.0	178.5	6.5
<u>A&G Expenses</u>			
Regulatory Comm. Expense	1.0	1.0	-
Uninsured Losses	} 10.4	.1	} 2.5
Retirement Contributions		2.5	
Other		5.3	
Dues and Donations Adj.	(.1)	(.1)	-
Subtotal A&G Expenses	11.3	8.8	2.5
<u>Misc. Expenses</u>			
Rents, Amort. Ltd. Trm.			
Util. Inv.	3.5	3.5	-
Total O&M, A&G, & Miscellaneous	199.8	190.8	9.0

(Red Figure)

We find the methods and results of the staff's determination 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 determined a slightly lesser downward trend in the effective tax rate than estimated by applicant. The staff's results are 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. The staff's tax computation is reasonable.

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 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 estimated general office expenses and allocation thereof to the Oroville District are summarized as follows:

Allocated Common Expenses

Item	: Estimated 1970		: Estimated 1971	
	: Applicant:	Staff	: Applicant:	Staff :
(Thousands of Dollars)				
Administrative, General and Miscellaneous Expense	\$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 Oroville District at 1.90%	32.7	31.8	35.4	34.0

The staff's allocation is reasonable.

Rate Base

The differences in the rate bases for the years 1970 and 1971 result from the staff's use of 1970 recorded and company estimated 1971 construction budget as representing reasonable district annual plant additions. Applicant trended several past years' additions after adjustment to year 1965 cost levels by means of a company developed "payroll factor." The staff estimated 1971 actual additions while applicant's figures represent an averaging of past years' construction levels. The staff computation of working capital differs from applicant's only to the extent of incorporating higher estimated levels of materials and supplies. Applicant's working cash was adopted by the staff even though slight differences could result at staff revenue and expense estimates. The staff's depreciation reserves reflect recorded 1970 accruals, retirements and adjustments. With the exception of the 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:

Item	1970		1971	
	Applicant	Staff	Applicant	Staff
(Dollars in Thousands)				
<u>Estimated Average Utility Plant</u>				
Beginning-of-Year Balance	\$1,989.0	\$2,185.1*	\$2,135.4	\$2,221.8
Gross Additions	157.9	63.5	175.2	75.2
Retirements & Adjustments	11.5	26.8	11.5	11.5
Net Additions	146.4	36.7	163.7	63.7
Weighted Average Amount	2,056.1	2,201.9	2,210.4	2,268.3
<u>Estimated Average Rate Bases</u>				
Utility Plant	\$2,056.1	\$2,201.9	\$2,210.4	\$2,268.3
Less Adjustments to Plant	81.3	273.5*	84.7	270.0
Working Capital	60.3	61.1	61.8	62.8
Undepreciated Rate Base	2,035.1	1,989.5	2,187.5	2,061.1
Less Depreciation Reserve	496.2	501.9	527.2	535.5
Depreciated Rate Base	1,538.9	1,487.6	1,660.3	1,525.6
Allocated Common Rate Base	30.4	30.1	30.7	30.0
Total Depr. Rate Base	1,569.3	1,517.7	1,691.0	1,555.6

* Includes \$196,080 of nonrecurring contributed plant constructed in earlier years but not recorded until December, 1970.

In Decision No. 78807 dated June 22, 1971 in Application No. 52055 (California Water Service Company - Hermosa-Redondo District) we said:

"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."

In this proceeding we have testimony from a Vice President that "his estimates of plant additions have no tie into applicant's construction budget."

Late-filed Exhibit 22 ordered by the Examiner is a copy of applicant's 1970 and 1971 construction budget.

For 1970, the budget called for total expenditures of \$51,348. For 1971, the budget called for total expenditures of \$70,656.

Applicant's Exhibit 12 shows that for rate-making purposes it claims it will have gross additions to plant of \$157,900 for 1970^{1/} and gross additions to plant of \$175,200 in 1971^{2/}.

It is obvious from the above that applicant is including in its estimated test year rate base at least \$150,000 of plant it will never install. Thus, it is requesting that the ratepayers pay at least \$30,000 per year costs which it will never incur on such phantom plant.

We point out that since its origin over 60 years ago, this Commission had adhered to original cost of plant as being the proper basis for determining the reasonable value of property devoted to public use.

The staff's method of determining rate base is proper and its results will be adopted.

^{1/} For 1970, additional contributions in aid of construction are estimated to be \$1,400 and additional advances for construction are estimated to be \$3,000.

^{2/} The corresponding amounts for 1971 are \$1,400 and \$3,000, respectively.

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 7.40 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.

Service

According to the staff, during year 1970, customer complaints received and resolved at the district office totalled 28, of which 20 related to taste, odor, color or pressure. Four informal complaints were filed with the Commission from customers of the district during the past three years, of which three concerned billing and one a leaking service line. All were resolved to the satisfaction of the parties. Service provided by applicant in this district is good, according to the staff's engineering witness.

Public Presentation

Twenty-five customers attended the hearing to oppose the requested rate increases. Seven public witnesses complained of water quality and/or service. Applicant at the direction of the Examiner investigated and reported on complaints received at the hearing. Late-filed Exhibits 1, 2 and 3 show the results of applicant's investigations. No further action by this Commission on these complaints appears necessary at this time as the pressure problems are caused by the customers' service pipes not applicant's pipes. The water quality problem is caused by a customer-owned air cooler and is inherent in such coolers.

A member of the City Council testified and presented evidence of the Council's concern regarding the impact the proposed rate increases would have upon the community. Oroville opposed step increases and recommended that the Commission authorize a rate of return not exceeding 7.25 percent - the lowest range of the staff recommendation.

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 in this proceeding are within the zone of reasonableness. Such rates are consistent with the Federal Government's economic stabilization program and, in our opinion, will not engender undue inflationary pressures.

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 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 21st
day of DECEMBER, 1971.

J. P. Sullivan
Chairman

William J. Lyons Jr.

Thomas Morgan

James L. Sturgeon

Edward J. [illegible]
Commissioners

APPENDIX A
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Schedule No. OR-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Oroville and vicinity, Butte County.

RATES

		Per Meter Per Month	
Service Charge:			
For 5/8 x 3/4-inch meter	.....	\$ 4.60	(I)
For 3/4-inch meter	.....	5.05	
For 1-inch meter	.....	6.90	
For 1½-inch meter	.....	9.65	
For 2-inch meter	.....	12.40	
For 3-inch meter	.....	23.00	
For 4-inch meter	.....	31.30	
For 6-inch meter	.....	52.00	
For 8-inch meter	.....	77.30	
For 10-inch meter	.....	95.70	
Quantity Rates:			
For all water delivered, per 100 cu.ft.	.....	\$ 0.221 ✓	(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.

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Schedule No. OR-2R

RESIDENTIAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Oroville and vicinity, Butte County.

RATES

Per Service Connection
Per Month

1. For a single family residential unit, including premises having the following area:

6,000 sq.ft. or less	\$ 9.55	(I)
From 6,001 to 10,000 sq.ft.	10.65	:
From 10,001 to 16,000 sq.ft.	12.80	:
From 16,001 to 25,000 sq.ft.	15.85	:
a. For each additional single family residential unit on the same premises and served from the same service connection	\$ 5.55	(I)

SPECIAL CONDITIONS:

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

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Schedule No. OR-2UL

LIMITED FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished to customers taking untreated water directly from Powers Canal.

TERRITORY

Oroville and vicinity, Butte County.

RATE

Per Month

Mrs. Iola Heberle	\$4.15	(I)
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SPECIAL CONDITION

Service under this schedule is limited to the above service which was being furnished as of January 1, 1955.

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Schedule No. OR-3M

IRRIGATION SERVICE

APPLICABILITY

Applicable to service of untreated water from Powers Canal to irrigation districts and to irrigation or mining ditches, for uses including but not limited to the irrigation of vineyards, orchards and pasture lands.

TERRITORY

Lands located along the Powers Canal, between Coal Canyon Powerhouse and Cherokee Reservoir, north of the City of Oroville, Butte County.

RATE

Per Miner's
Inch Day

For all water delivered	\$0.41	(I)
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SPECIAL CONDITION

A miner's inch day is defined as the quantity of water equal to 1/40 of a cubic foot per second flowing continuously for a period of 24 hours.