

Decision No. 79879

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 author-)
izing it to increase rates charged)
for water service in the Bear Gulch)
District.)

Application No. 52498
(Filed March 15, 1971;
Amended August 25, 1971)

McCutchen, Doyle, Brown & Enersen, by A. Crawford
Greene, Jr., Attorney at Law, for applicant.
Charles W. Kieser, for himself, protestant.
James H. Legg, for Woodside Oaks Water Co.,
interested party.
William C. Bricca, Attorney at Law, and John E. Brown,
for the Commission staff.

O P I N I O N

After notice, public hearing in this matter was held before Examiner Gillanders on September 13 and 14, 1971 at Menlo Park. The matter was submitted on November 19, 1971, upon the receipt of late-filed Exhibit 18.

Applicant, a California corporation, seeks authority to increase its rates for water service to about 15,000 metered customers in its Bear Gulch district which includes the Cities of Atherton, Menlo Park, the towns of Portola Valley and Woodside, and unincorporated portions of San Mateo County adjacent to those communities. Applicant owns and operates water systems in 21 operating districts, all of which are in California.

Rates

Increases are proposed in General Metered 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 SERVICERATESPER METER PER MONTHPresent
RatesCalendar Year1970 1971 1972 1973 1974

Service Charge:

For 5/8 x 3/4-inch meter....	\$ 2.89	\$ 3.14	\$ 3.25	\$ 3.38	\$ 3.52	\$ 3.67
For 3/4-inch meter....	3.19	3.45	3.58	3.72	3.87	4.04
For 1-inch meter....	4.29	4.71	4.88	5.07	5.28	5.51
For 1 1/2-inch meter....	5.99	6.59	6.83	7.10	7.39	7.71
For 2-inch meter....	7.59	8.48	8.78	9.13	9.50	9.91
For 3-inch meter....	14.09	15.70	16.25	16.90	17.60	18.35
For 4-inch meter....	19.09	21.35	22.10	22.98	23.94	24.96
For 6-inch meter....	32.09	35.48	36.73	38.19	39.78	41.47
For 8-inch meter....	47.09	52.75	54.60	56.78	59.14	61.66
For 10-inch meter....		65.31	67.60	70.30	73.22	76.34

Quantity Rate:

For all water delivered per

100 cu. ft. \$ 0.352 .385 .398 .413 .430 .450

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 the staff:

Item	Applicant Estimated		Staff Adjusted		Applicant Exceeds Staff#
	Rates		Rates		
	Company*		Company*		
	Present	Proposed	Present	Proposed	
(Dollars in Thousands)					
Operating Revenues	\$2,330.7	\$2,631.3	\$2,330.7	\$2,631.3	\$ -
<u>Operating Expenses</u>					
Operating and Maintenance	1,292.1	1,292.1	1,262.2	1,262.2	29.9
Admin., General and Misc.	25.7	25.7	26.7	26.7	(1.0)
Taxes other than Income	240.3	243.1	230.1	232.9	10.2
Depreciation	171.0	171.0	165.5	165.5	5.5
Allocated Common	143.5	143.5	137.7	137.7	5.8
Subtotal	1,872.6	1,875.4	1,822.2	1,825.0	50.4
Income Taxes	108.8	262.6	139.5	293.3	(30.7)
Total Expenses	1,981.4	2,138.0	1,961.7	2,118.3	19.7
Net Operating Revenues	349.3	493.3	369.0	513.0	(19.7)
Depreciated Rate Base	6,527.2	6,527.2	6,405.6	6,405.6	121.6
Rate of Return	5.35%	7.56%	5.76%	8.01%	(0.41)%
(Red Figure)					

At present rates.

* At applicant's amended proposed 1971 rates.

DiscussionOperating Revenues

As can be seen by the results of operation, supra, applicant and the staff agree to the dollar in their revenue estimates at both present rates and proposed rates.

Operating Expenses

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, applicant's Rate and Valuation Assistant testified that his method of making expense estimates was identical to the method used in Hermosa-Redondo.

This record clearly reveals the inflated results referred to in Decision No. 78807. We will not establish rates based on inflated estimates.

The staff differs with applicant in total operating, maintenance and A & G expenses for 1971 estimated by \$28,900.

Taxes Other Than on Income

The major difference between the company and the staff for this item of expense results from the staff having available and utilizing the 1971-1972 fiscal year assessed value of utility plant for ad valorem tax purposes. In addition, the staff utilized the 1970-1971 average tax rate to determine the 1970 and 1971 calendar year estimates of ad valorem tax expense. The company's estimates were based on past historical trend of effective tax rates.

It is interesting to note that San Mateo County recently announced that for fiscal year 1971-1972 the County tax rate was down 6 cents per \$100 of assessed valuation. Neither estimate gave consideration to this breakthrough.

Rate Base

According to the staff, the principal differences in the rate bases between applicant and staff for the two test years result from the staff's use of 1970-recorded rate base items and applicant-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 applicant-developed cost indices. The staff, therefore, estimated 1971 actual additions while applicant's figures represent a trending of past years' construction levels.^{1/}

In addition, the staff made a downward adjustment to beginning-of-year plant for 1970 of \$17,300, representing the facilities at Station No. 3 which are not used, and cannot be used, until such time as the station is tied into the treatment system. A related \$5,000 adjustment was made to depreciation reserve and reflected in depreciation expenses.

In determining his net advances, the staff engineer inadvertently made a double deduction for this item.

Applicant contends that the facilities of Station No. 3 are actually useful in its utility operation, while the staff contends the facilities are no longer used and useful. However, the staff by its rate base treatment of these facilities appears to believe that, in essence, they were an imprudent investment.

Rate of Return

In its application, filed on March 15, 1971, applicant proposed a schedule of step-rates designed to produce a rate of return of approximately 7.5 percent during 1971 and maintain it adequately

^{1/} In Decision No. 79438, dated December 21, 1971, in Application No. 52323 - a rate increase request for applicant's Oroville District - we rejected this approach.

through 1974. Applicant sought annual increases in the rate of return because, as stated in paragraph 10 of the application:

"Financing costs of Applicant for new capital requirements during the past 10 years have increased very substantially and, while interest rates have decreased over the past few months from their recent 100-year peak, so long as the effective cost to Applicant of new bond financing exceeds 5%, any such financing will result in an overall increase in the Company's effective bond interest rate. Consequently the requested rates are necessary in order to meet the present financial costs of Applicant and enable Applicant to finance the required system replacements and improvements."

For the same reasons set forth in the quotation in the preceding paragraph, applicant sought a similar annual increase in the rate of return in its application for increase in rates in its Livermore district Application No. 52052. However, by reason of Decision No. 78789, dated June 15, 1971, relating to that application, which found a rate of return of 7.55 percent to be reasonable but which did not approve applicant's proposed annual increase in rate of return to offset the so-called financial decline in rate of return, applicant has concluded that there should be eliminated from its proposed rate schedules in this proceeding the annual increase in rate of return attributable to such financial decline. Accordingly, applicant on August 25, 1971 proposed that the amended schedule of step-rates attached to its amended application as Exhibit A be adopted to supersede the General Metered Service Rate Schedule now on file in the Bear Gulch district. The amended schedule gives effect to the operational decline in rate of return while disregarding any financial decline.

Applicant estimates that the amended schedule would have yielded a rate of return of approximately 7.55 percent if it had been in effect for all of 1971 and would have resulted in an increase in revenues of approximately 13 percent for 1971. Under the amended

schedule, further increases to offset the estimated operational decline in rate of return in the years subsequent to 1971 would be: 1972 - 3.77 percent; 1973 - 4.08 percent; and 1974 - 4.50 percent. If the amended proposed rate schedule were effective over the years 1972-1974, applicant estimates that it would realize a rate of return in each of those years of approximately 7.55 percent.

The staff recommends a range of return between 7.30 percent and 7.60 percent on rate base and a rate of return on common equity ranging from 10.52 percent to 11.20 percent.

The indicated downward trend in rate of return is sufficient to justify the authorization of stepped progression of rates. We do find reasonable a rate of return of 7.55 percent for the future, which will produce a return on equity of approximately 11 percent. With the operational slippage of 0.4 percent, the rates authorized herein should produce a rate of return of 7.55 percent for the remaining months of 1972 and the years 1973 and 1974.

The order that follows will, however, require that applicant file additional earnings statements for the Bear Gulch district to permit review of future decline in rate of return and the initiation of appropriate action if a reduction in rates is indicated.

Service

According to the staff, during year 1970 and first quarter 1971, customer complaints received and resolved at the district office totalled 79, all of which related to high bills. Ten informal complaints were filed with the Commission from customers of the district during the past three and one-half years, nine of which were regarding amounts of bills, and one concerned rules and regulations. All were resolved to the satisfaction of the parties. Service provided by applicant in its Bear Gulch district is good, according to the staff's engineering witness.

Public Presentation

Four members of the public attended the hearing. One, representing Woodside Oaks Water Co., entered an appearance as an interested party, and one entered an appearance as a protestant.

Woodside Oaks' representative claimed its customers are at a disadvantage as Woodside Oaks pays filed tariff rates for water it purchases from applicant. He requested that wholesale rates be authorized for Woodside Oaks.

Protestant stated that rate increases are against the President's policy, and he resented the Commission proceeding with the hearing. He questioned the level of salaries and expenses paid to the officers of applicant. He declined the opportunity to question applicant's president regarding these items.

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 corrected rate base for the test year 1971 and an annual decline of 0.4 percent in rate of return, reasonably indicate the results of applicant's operations in the near future.

3. A rate of return of 7.55 percent for the future 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.

5. Under existing federal guidelines the authorized increases would appear to be consistent with the Federal Government's economic stabilization program. Data for the Federal Price Commission are shown in Appendix B.

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:

1. After the effective date of this order California Water Service Company is authorized to file the revised rate schedule 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.

2. On or before April 1, 1973, applicant shall file with the Commission an earnings statement for the Bear Gulch district for 1972 normalized and adjusted to the rate levels authorized herein for 1972 together with an estimate of earnings for 1973 under similar normalized conditions. On or before April 1, 1974, applicant shall file similar earnings statements for 1973 and 1974.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 1/26
day of APRIL 4, 1972.

William L. Sturgeon Chairman
Thomas A. Sturgeon
Thomas A. Sturgeon
Thomas A. Sturgeon
Commissioners

APPENDIX A

Schedule No. BG-1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The communities of Atherton, Menlo Park, Portola Valley, Woodside, and vicinity, San Mateo County.

RATES

		<u>Per Meter Per Month</u>			
		Before	1/1/73 Through	After	
		<u>1/1/73</u>	<u>12/31/73</u>	<u>12/31/73</u>	
Service Charge:					
For	5/8 x 3/4-inch meter	\$ 3.25	\$ 3.30	\$ 3.40	(I)
For	3/4-inch meter	3.55	3.60	3.70	
For	1-inch meter	4.85	4.95	5.05	
For	1 1/2-inch meter	6.80	6.95	7.10	
For	2-inch meter	8.75	8.95	9.10	
For	3-inch meter	16.20	16.55	16.85	
For	4-inch meter	22.05	22.50	22.95	
For	6-inch meter	36.60	37.35	38.15	
For	8-inch meter	54.45	55.60	56.70	
For	10-inch meter	67.40	68.85	70.20	
Quantity Rate:					
For all water delivered					
per 100 cu. ft.398	.407	.414	(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 Rate.

APPENDIX B

DATA REGARDING RATE INCREASE
AUTHORIZED FOR
CALIFORNIA WATER SERVICE COMPANY
BEAR GULCH DISTRICT

Pursuant to provisions of Section 300.16 of the Economic Stabilization Act Amendments of 1971, the Public Utilities Commission of the State of California does hereby certify to the Federal Price Commission as follows:

1. The increased rates are expected to provide increased revenue of \$297,700 yearly. ✓
2. The rate of return is expected to average 7.55 percent as compared to 5.76 percent under present rates, an increase of 31 percent.
3. Sufficient evidence was contained in the record to determine that the criteria set forth in paragraph (d), (1) through (4) of Title 6, Chapter III, Part 300, Sect. 300.16 of the Code of Federal Regulations, as amended effective January 17, 1972, were met by the rate increase.
4. The increase is cost-based and does not reflect future inflationary expectations; the increase is the minimum required to assure continued, adequate and safe service and to provide for necessary expansion to meet future requirements; the increase will achieve the minimum rate of return needed to attract capital at reasonable costs and not to impair the credit of the public utility. This appendix to the rate decision constitutes the certification required by the Code of Federal Regulations.