

Decision No. 79923

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 authorizing
it to increase rates charged for water
service in the South San Francisco
district.

Application No. 52877
(Filed September 21, 1971;
Amended January 7, 1972)

McCutcheon, Doyle, Brown & Emerson, by
A. Crawford Greene, Attorney at Law, for
California Water Service Company, applicant.
William C. Bricca, Attorney at Law, and John E.
Brown, for the Commission staff.

O P I N I O N

On September 21, 1971, applicant California Water Service Company filed the application herein requesting authority to increase certain of its rates charged for water service in the South San Francisco District. An amendment to the application was filed by applicant on January 7, 1972.

The following table compares applicant's present and proposed rates for metered water service for the years 1972, 1973 and 1974. The proposed rates for the years 1970 and 1971 are not shown because the amendment to the application was filed and the hearing was held in 1972.

General Metered ServiceRatesPer Meter Per Month

| Service Charge: | Present | <u>Proposed for Calendar Year</u> | | |
|--------------------------|---------|-----------------------------------|-------------|-------------|
| | | <u>1972</u> | <u>1973</u> | <u>1974</u> |
| For 5/8 x 3/4-inch meter | \$ 2.35 | \$ 2.66 | \$ 2.73 | \$ 2.79 |
| For 3/4-inch meter | 2.60 | 2.93 | 3.00 | 3.07 |
| For 1-inch meter | 3.50 | 3.99 | 4.10 | 4.19 |
| For 1-1/2-inch meter | 4.90 | 5.59 | 5.73 | 5.86 |
| For 2-inch meter | 6.25 | 7.18 | 7.37 | 7.53 |
| For 3-inch meter | 11.55 | 13.30 | 13.65 | 13.95 |
| For 4-inch meter | 16.05 | 18.09 | 18.56 | 18.97 |
| For 6-inch meter | 26.05 | 30.06 | 30.85 | 31.53 |
| For 8-inch meter | 39.05 | 44.69 | 45.86 | 46.87 |
| For 10-inch meter | 48.05 | 55.33 | 56.78 | 58.03 |

Quantity Rates:

| | | | | |
|--|---------|---------|---------|---------|
| For the first 50,000 cu. ft., per 100 cu. ft. | \$.242 | \$.275 | \$.282 | \$.288 |
| For all over 50,000 cu. ft., per 100 cu. ft. | .222 | .251 | .258 | .264 |

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.

After notice, public hearing on this matter was held before Examiner Cline on February 3, 1972. The matter was taken under submission upon the filing of late filed Exhibits Nos. 9 and 17 on February 7, 1972.

On March 3, 1972, applicant and the Commission staff filed a stipulation offering late-filed Exhibits Nos. 18 and 19 in evidence and a joint motion that said exhibits be received in evidence without further hearing. Said motion is granted and Exhibits Nos. 18 and 19 are hereby received in evidence.

In 1971 applicant had approximately 11,657 metered services, 223 private fire protection flat rate services, and 867 public fire protection flat rate services in its South San Francisco District

which comprises the presently improved area within the corporate limits of the City of South San Francisco. Applicant owns and operates water systems in 21 operating districts, all of which are in California.

Results of Operation

The following tabulation compares the estimated summary of earnings for the test year 1972, under present and proposed rates, prepared by applicant and by the staff:

| <u>Summary of Earnings</u> | | | | | |
|----------------------------|-------------------------|-----------|---------------------|------------|---------------|
| <u>Estimated Year 1972</u> | | | | | |
| Item | : Applicant Estimated : | | : Staff Estimated : | | : Applicant : |
| | : Present : | | : Co. Proposed : | | : Exceeds : |
| | : Rates : | : Rates : | : Rates : | : Rates* : | : Staff# : |
| (Dollars in Thousands) | | | | | |
| Operating Revenues | \$1,288.5 | \$1,456.3 | \$1,285.8 | \$1,453.2 | \$ 2.7 |
| <u>Operating Expenses</u> | | | | | |
| Oper. & Maint. | 821.2 | 821.2 | 800.8 | 800.8 | 20.4 |
| Admin., Gen'l. & Misc. | 12.9 | 12.9 | 13.8 | 13.8 | (.9) |
| Taxes Other Than Income | 93.9 | 93.9 | 92.8 | 92.8 | 1.1 |
| Depreciation | 91.4 | 91.4 | 91.4 | 91.4 | - |
| Allocated Common | 97.5 | 97.5 | 93.4 | 93.4 | 4.1 |
| Subtotal | 1,116.9 | 1,116.9 | 1,092.2 | 1,092.2 | 24.7 |
| Income Taxes | 30.7 | 117.9 | 33.1 | 120.1 | (2.4) |
| Total Expenses | 1,147.6 | 1,234.8 | 1,125.3 | 1,212.3 | 22.3 |
| Net Operating Revenues | 140.9 | 221.5 | 160.5 | 240.9 | (19.6) |
| Depreciated Rate Base | 2,931.4 | 2,931.4 | 2,931.4 | 2,931.4 | - |
| Rate of Return | 4.81% | 7.56% | 5.48% | 8.22% | (.67)% |
| Average Metered Customers | 11,707 | | | | |

(Red Figure)

At present rates.

* At applicant's 1972 proposed rates.

At the hearing the applicant adopted the foregoing staff estimated results of operation and depreciated rate base.

Rate of Return

The applicant is requesting step rates which will allow it to earn approximately 7.56 percent rate of return during the years 1972, 1973 and 1974. According to applicant's estimates, the operational slippage during these three years amounts to approximately .47 percent.

The staff recommends a range of rate of return between 7.4 and 7.70 percent. At proposed rates, the staff estimates show .46 percent operational slippage.

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. In authorizing a rate of return of 7.55 percent for the test year, we recognize that there will be operational slippage of .45 percent over the years. The step rates shown in Appendix A attached are designed such that the average rate of return for the future will result in adequate earnings.

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

Public Presentation

No customers appeared at the hearing to make a presentation.

Findings and Conclusion

The Commission finds and certifies in accordance with the regulations of the Price Commission:

1. Applicant is in need of additional revenues, but the proposed rates set forth in Exhibit No. 12 for the calendar years 1972, 1973 and 1974 are excessive.
2. The staff estimates, previously shown herein, of operating revenues, operating expenses, and rate base for the test year 1972, reasonably indicate the results of applicant's operations in the near future at present rates and at the applicant's proposed rates.
3. A rate of return of 7.55 percent on the adopted rate base for the future is reasonable. Such rate of return, combined with operational slippage of .45 percent, will produce a reasonable average rate of return.
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. The following table shows the present rates, the newly authorized rates to be effective in 1972 and the percentage increase:

| <u>General Metered Service</u> | | | |
|--------------------------------|----------------------------|-------------------------|----------------------------|
| <u>Rates</u> | <u>Per Meter Per Month</u> | | |
| Service Charge: | <u>Present</u> | <u>Newly Authorized</u> | <u>Percentage Increase</u> |
| For 5/8 x 3/4-inch meter | \$ 2.35 | \$ 2.66 | 13.2 |
| For 3/4-inch meter | 2.60 | 2.93 | 12.7 |
| For 1-inch meter | 3.50 | 3.99 | 14.0 |
| For 1-1/4-inch meter | 4.90 | 5.59 | 14.1 |
| For 2-inch meter | 6.25 | 7.18 | 14.9 |
| For 3-inch meter | 11.55 | 13.30 | 15.2 |
| For 4-inch meter | 16.05 | 18.09 | 12.7 |
| For 6-inch meter | 26.05 | 30.06 | 15.4 |
| For 8-inch meter | 39.05 | 44.69 | 14.4 |
| For 10-inch meter | 48.05 | 55.33 | 15.2 |

Quantity Rates:

| | | | |
|---|---------|---------|-----|
| For the first 50,000 cu. ft. per 100 cu. ft. | \$.242 | \$.264 | 9.1 |
| For all over 50,000 cu. ft. per 100 cu. ft. | .222 | .240 | 8.1 |

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.

6. The authorized increase in rates for 1972 annualized is expected to provide \$126,400 of increased revenue to applicant.

7. The authorized increase in rates for 1972 will increase applicant's profits by approximately .19 percent of its total sales.

8. The authorized increase in rates for 1972 will increase applicant's overall rate of return on capital by approximately .06 percent.

9. The authorized increase in rates is cost-based and does not reflect future inflationary expectations.

10. The authorized increase in rates is the minimum required to assure applicant's continued, adequate and safe service or to provide for necessary expansion by applicant to meet future requirements.

11. The increase is the minimum rate of return or profit margin needed to attract capital at reasonable costs and not to impair the credit of the applicant.

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

O R D E R

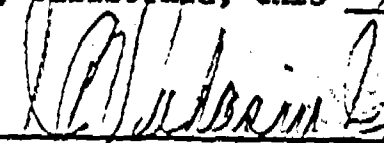
IT IS ORDERED that:


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

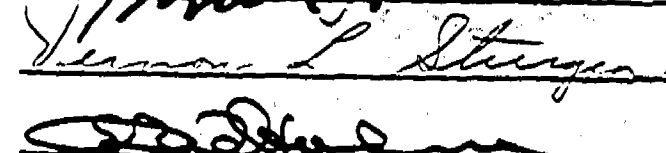
2. On or before April 1, 1973, applicant shall file with the Commission an earnings statement for the South San Francisco District for 1972 normalized and adjusted to the rate levels authorized herein for 1972, together with an estimate of earnings for 1973 under similar normalized conditions. On or before April 1, 1974, applicant shall file similar normalized and estimated 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 11th day of APRIL, 1972.



Chairman


William L. Sturgeon


Commissioners

APPENDIX A

Schedule No. SS-1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

South San Francisco and vicinity, San Mateo County.

RATES

| Service Charge: | | Per Meter Per Month |
|-----------------|----------------------------|------------------------|
| For | 5/8 x 3/4-inch meter | \$ 2.66 |
| For | 3/4-inch meter | 2.93 |
| For | 1-inch meter | 3.99 |
| For | 1 1/2-inch meter | 5.59 |
| For | 2-inch meter | 7.18 |
| For | 3-inch meter | 13.30 |
| For | 4-inch meter | 18.09 |
| For | 6-inch meter | 30.06 |
| For | 8-inch meter | 44.69 |
| For | 10-inch meter | 55.33 |

Quantity Rates:

| | Before 1/1/73 | 1/1/73 Through 12/31/73 | After 12/31/73 |
|---|------------------|-------------------------------|-------------------|
| First 50,000 cu.ft., per 100 cu.ft. ... | \$.264 | \$.272 | \$.279 |
| Over 50,000 cu.ft., per 100 cu.ft. ... | .240 | .246 | .253 |

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month.