

ORIGINAL

Decision No. 80090

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 consolidate its Hamilton  
 City district with its Chico district  
 for all purposes, and for an order  
 authorizing it to increase rates  
 charged for water service in the new  
 consolidated district, including the  
 Chico area and the Hamilton City area.

Application No. 52321  
 (Filed November 24, 1970;  
 Amended April 7, 1971)

McCutchen, Doyle, Brown & Enersen, by A. Crawford  
 Greene, Jr., Attorney at Law, applicant.  
Dale Anderson, for Fire Department and Community  
 Services District; Clara G. Pruett, for  
 Hamilton City Women's Club, California Federa-  
 tion; Daniel O. Paul, for himself; and J. W.  
 Huntoon, for Hamilton City Community Services  
 District; protestants.  
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 25, 1971 at Chico and Hamilton City  
 and at Hamilton City on August 31, 1971. The matter was submitted on  
 November 19, 1971, upon receipt of various late-filed exhibits.

Applicant, a California corporation, seeks authority to  
 increase its rates for water service to about 11,600 customers and  
 to consolidate its Hamilton City district with its Chico district.

Rates

Increases are proposed in General Metered Service, General  
 Flat Rate Service and Schools and Public Park Flat Rate Service. No  
 increases are proposed for Private Fire Protection Service and  
 Public Fire Hydrant Service.

Public Presentation

Seven members of the public were present at the hearing room in Chico on the morning of May 25, 1971 of whom five testified regarding various problems including pressure, the effects of inflation, and the effect of applicant's proposal on persons on fixed income.

Twenty-six members of the public were present at the hearing held at Hamilton City on the afternoon of May 25, 1971.

A petition bearing 200 names was received as Exhibit 16. The petition states:

"The water users of Hamilton City oppose the terms of Application #52321 because they are unreasonable and unjust."

The Fire Chief of Hamilton City testified that of the 32 fire hydrants in Hamilton City, 23 were good or fair, 5 were not good and 4 were not good at all. Of the three hydrants located east of the tracks, 1 was good, 1 was fair, and 1 was not good. His complaint was that applicant could not supply water to fire hydrants.

One customer testified that even after the installation of the new well, at times the water tastes and smells like stagnant water. One customer testified that he cannot wash dishes and use the hose at the same time. One customer complained of constant low pressures.

A representative of the local Community Services District testified that it did not want consolidation as consolidation would stop purchase of the system by the district. A poll of the audience showed all members of the public endorsed his testimony.

As it was impossible to conclude the hearing, it was put over to a date to be set.

Further hearing was held at Hamilton City on August 31, 1971. Thirty-two members of the public were in attendance. Testimony and exhibits were presented by applicant and staff. One public witness testified regarding a billing problem.

Results of Operation

As it was apparent that the Hamilton City customers did not want their system consolidated with Chico's system, the Examiner directed the staff to prepare a summary of earnings which would show the earnings of the proposed consolidated operation as well as the separate results of operation for the Chico and Hamilton City districts. This exhibit was numbered Exhibit 28, late filed.

It was received on November 19, 1971 and the matter submitted as neither the staff nor applicant availed themselves of the opportunity to file written closing statements regarding the proceeding.

Late filed Exhibit 28 is reproduced below:

California Water Service Company  
Consolidated Chico = Hamilton City and Chico Districts

SUMMARY OF EARNINGS

Item	Staff Estimated					
	Present Rates			Company Proposed Rates#		
	Consolid.	Chico	Hamilton	Consolid.	Chico	Hamilton
	Chico	District	City	Chico	District	City

(Dollars in Thousands)

Estimated Year 1970

Operating Revenues	\$ 796.4	\$ 781.4	\$ 15.0	\$ 937.6	\$ 913.6	\$ 24.0
<u>Operating Expenses</u>						
Oper. & Main.	257.6	251.1	6.5	257.6	251.1	6.5
Admin., Gen. & Misc.	17.1	16.7	.4	17.1	16.7	.4
Taxes Other than Income	118.3	117.0	1.3	118.3	117.0	1.3
Depreciation	97.0	95.1	1.9	97.0	95.1	1.9
Allocated Common	64.2	62.5	1.7	64.2	62.5	1.7
Subtotal	554.2	542.4	11.8	554.2	542.4	11.8
Income Taxes	60.5	60.0	.5	133.4	128.3	5.1
Total Expenses	614.7	602.4	12.3	687.6	670.7	16.9
Net Operating Revenue	181.7	179.0	2.7	250.0	242.9	7.1
Depreciated Rate Base	3,089.8	3,026.8	63.0	3,089.8	3,026.8	63.0
Rate of Return	5.88%	5.91%	4.29%	8.09%	8.02%	11.27%

Estimated Year 1971

Operating Revenues	\$ 809.3	\$ 794.0	\$ 15.3	\$ 952.5	\$ 928.0	\$ 24.5
<u>Operating Expenses</u>						
Oper. & Main.	272.7	265.9	6.8	272.7	265.9	6.8
Admin., Gen. & Misc.	17.4	17.0	.4	17.4	17.0	.4
Taxes Other than Income	117.9	116.6	1.3	117.9	116.6	1.3
Depreciation	101.9	99.9	2.0	101.9	99.9	2.0
Allocated Common	68.5	66.7	1.8	68.5	66.7	1.8
Subtotal	578.4	566.1	12.3	578.4	566.1	12.3
Income Taxes	49.9	49.5	.4	123.8	118.6	5.2
Total Expenses	628.3	615.6	12.7	702.2	684.7	17.5
Net Operating Revenues	181.0	178.4	2.6	250.3	243.3	7.0
Depreciated Rate Base	3,208.8	3,142.4	66.4	3,208.8	3,142.4	66.4
Rate of Return	5.64%	5.68%	3.92%	7.80%	7.74%	10.54%

# Company amended proposed 1971 rates.

The rate schedules now in effect in the present Hamilton City district are those authorized by the Commission and which became effective January 16, 1957. Subsequent to that date the Hamilton City system was acquired by Pacific Gas and Electric Company and then by applicant.

Since applicant acquired the Hamilton City water system from Pacific Gas and Electric Company in 1962, it has operated that system as one of its 21 separate districts maintaining separate books and separate rates. However, applicant has now concluded that the Hamilton City district should be consolidated with the Chico district and the two operated together as applicant's Chico district. Physically, the two areas are within eight miles of each other. The Hamilton City district has no employees allocated solely to it; on the contrary, that district is operated out of Chico with Chico district personnel. Service in the two districts is generally comparable, and the expense<sup>1/</sup> of maintaining separate records for both districts would be eliminated if the two were consolidated. Consequently, the consolidation of the two districts for all purposes, including bookkeeping and rate making, is now appropriate, according to applicant.

It is apparent from Exhibit 28 that the rates proposed by applicant would result in excessive earnings on any basis and would result in Hamilton City customers paying a disproportionate share of the increased charges.

Rate of Return

In its application filed on November 24, 1970, applicant proposed a schedule of step-rates designed to produce a rate of return of approximately 7.5 percent if in effect during the full year 1971.

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<sup>1/</sup> The record shows the expense is de minimis.

The staff recommends a range of return between 7.25 and 7.55 percent on rate base and a rate of return on common equity ranging from 10.48 percent to 11.16 percent.

We do find reasonable a rate of return of 7.55 percent for the future which will produce a return of approximately 11 percent on common equity. In authorizing a rate of return of 7.55 percent, we recognize that there will be operational slippage of .3 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 for the short term.

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

#### 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. There is no need to consolidate the Hamilton City and Chico districts.
3. The staff estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1971, and an annual decline of 0.3 percent in rate of return, indicate the results of applicant's operations in the near future in the Hamilton City and Chico districts produce an unreasonable rate of return.
4. A rate of return of 7.55 percent for the future is reasonable.

5. The increases in rates and charges authorized herein for each district 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.

6. 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.

7. Service meets the requirements of General Order No. 103 in the Chico district and in the Hamilton City district with the exception of service to 338 Main Street at which premise applicant stated it would replace its service pipe.

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 schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A, and concurrently to cancel and withdraw presently effective Chico Tariff Area Schedules Nos. CH-1 and CH-2, and Hamilton City Tariff Area Schedules Nos. HM-2 and HM-2L. 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.

2. Applicant shall file a written statement showing that it has replaced the service at 338 Main Street, Hamilton City.

3. On or before April 1, 1973 applicant shall file with the Commission an earnings statement for the Hamilton City and Chico districts 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 18<sup>th</sup> day of MAY, 1972.

William Lyndon - Jr. Chairman  
John A. ...  
Vernon L. Sturgeon  
[Signature] Commissioners

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.



APPENDIX A  
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Schedule No. CH-1

Chico Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Chico and vicinity, Butte County.

(T)

RATES

Service Charge:	Per Meter Per Month	
For 5/8 x 3/4-inch meter .....	\$ 3.00	(I)
For 3/4-inch meter .....	3.30	
For 1-inch meter .....	4.50	
For 1-1/2-inch meter .....	6.30	
For 2-inch meter .....	8.10	
For 3-inch meter .....	15.00	
For 4-inch meter .....	20.40	
For 6-inch meter .....	33.90	
For 8-inch meter .....	50.40	
For 10-inch meter .....	62.40	

Quantity Rate:

	Per Meter Per Month			
	Before	1/1/73 through	After	
	1/1/73	12/31/73	12/31/73	
For all water delivered per 100 cu.ft. ....	\$ .100	\$ .110	\$ .120	(I)

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

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Schedule No. CH-2  
Chico Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Chico and vicinity, Butte County.

(T)

RATES

	<u>Per Service Connection Per Month</u>			
	<u>Before</u> <u>1/1/73</u>	<u>1/1/73</u> <u>through</u> <u>12/31/73</u>	<u>After</u> <u>12/31/73</u>	
For a single-family residential unit, including premises having the following area:				
6,000 sq.ft., or less .....	\$ 5.34	\$ 5.38	\$ 5.42	(I)
6,001 to 10,000 sq.ft. ....	6.23	6.28	6.32	
10,001 to 16,000 sq.ft. ....	7.30	7.35	7.41	
16,001 to 25,000 sq.ft. ....	9.20	9.27	9.33	
For each additional single-family residential unit on the same premises and served from the same service connection .....	3.86	3.89	3.91	(I)

SPECIAL CONDITIONS:

1. The above residential flat rates apply to service connections not larger than one inch in diameter.
2. All 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. CH-1, General Metered Service. When a meter is installed at option of customer, metered service must be continued for at least 12 months before service will again be furnished at flat rates.

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Schedule No. HM-2  
Hamilton City Tariff Area  
RESIDENTIAL FLAT RATE SERVICE (T)

APPLICABILITY

Applicable to all flat rate residential water service. (T)

TERRITORY

Hamilton City and vicinity, Glenn County.

RATES

	<u>Per Service Connection Per Month</u>			(T)
	Before <u>1/1/73</u>	<u>1/1/73</u> through <u>12/31/73</u>	After <u>12/31/73</u>	
For a single-family residential unit, including premises having the following area:				
6,000 sq.ft., or less .....	\$ 4.57	\$ 4.68	\$ 4.78	(I)
6,001 to 10,000 sq.ft. ....	5.33	5.46	5.58	
10,001 to 16,000 sq.ft. ....	6.25	6.40	6.53	
16,001 to 25,000 sq.ft. ....	7.87	8.06	8.23	
For each additional single-family residential unit on the same premises and served from the same service connection .....	3.30	3.38	3.45	(I)

SPECIAL CONDITIONS:

1. The above residential flat rates apply to service connections not larger than one inch in diameter. (T)
2. All 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. HM-1, General Metered Service. When a meter is installed at option of customer, metered service must be continued for at least 12 months before service will again be furnished at flat rates. (T)

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Schedule No. HM-2L

Hamilton City Tariff Area

SCHOOLS AND PUBLIC PARK FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on a flat rate basis to schools and public parks.

TERRITORY

Hamilton City and vicinity, Glenn County.

RATE

	<u>Per Meter Per Month</u>			
	Before <u>1/1/73</u>	<u>1/1/73</u> through <u>12/31/73</u>	After <u>12/31/73</u>	
For each Public School or Public Park .....	\$22.86	\$23.60	\$24.44	(I)

SPECIAL CONDITION

Meters may be installed at option of utility or customer for above classifications in which event service thereafter will be furnished only on the basis of Schedule No. HM-1, General Metered Service.

APPENDIX B

DATA REGARDING RATE INCREASE  
AUTHORIZED FOR  
CALIFORNIA WATER SERVICE COMPANY  
HAMILTON CITY AND CHICO DISTRICTS

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 \$5,000 yearly for Hamilton City District and \$121,700 yearly for Chico District.
2. The rate of return is expected to average 7.55 percent in both districts. For Hamilton City, the 7.55 compares with 3.92 percent under present rates, an increase of 93 percent. For Chico, the 7.55 compares with 5.68 percent under present rates, an increase of 33 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.