

Decision No. 80174

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 in the San Carlos District.)

Application No. 52875
(Filed Sept. 21, 1971;
Amended Jan. 7, 1972)

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

Michael Aaronson, Attorney at Law, for City
of San Carlos, protestant.

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 San Carlos 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 ServiceRates

Service Charge:

	Present	Per Meter Per Month Proposed for Calendar Year		
		1972	1973	1974
For 5/8 x 3/4-inch meter	\$ 2.42	\$ 2.63	\$ 2.72	\$ 2.83
For 3/4-inch meter	2.67	2.89	2.99	3.11
For 1-inch meter	3.57	3.95	4.08	4.25
For 1-1/2-inch meter	4.97	5.52	5.71	5.94
For 2-inch meter	6.32	7.10	7.34	7.64
For 3-inch meter	11.62	13.15	13.60	14.15
For 4-inch meter	16.12	17.88	18.50	19.24
For 6-inch meter	26.12	29.72	30.74	31.98
For 8-inch meter	39.12	44.18	45.70	47.54
For 10-inch meter	48.12	54.70	56.58	58.86

Quantity Rates:

First 30,000 cu.ft., per 100 cu.ft.	.388	.433	.448	.463
Over 30,000 cu.ft., per 100 cu.ft.	.388	.393	.407	.422

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 in San Carlos on February 23, 1972 and in San Francisco on February 24, 1972. The matter was taken under submission upon the filing of Volume 2 of the transcript on April 3, 1972.

In 1971 applicant had approximately 8,384 metered services, 62 private fire protection flat rate services, and 570 public fire protection flat rate services in its San Carlos District which includes the City of San Carlos and certain unincorporated area adjacent to the City of San Carlos located in San Mateo County, as delineated on the service area map of the San Carlos District. Applicant owns and operates water systems in 22 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:

Summary of Earnings
(Estimated Year 1972)

Item	:Applicant Estimated:		Staff Estimated		Applicant: Exceeds Staff#
	: Company :		: Company :		
	: Present :	: Proposed:	: Present :	: Proposed :	
	: Rates :	: Rates :	: Rates :	: Rates* :	
(Dollars in Thousands)					
Operating Revenues	\$1,067.2	\$1,163.7	\$1,077.0	\$1,177.2	\$ (9.8)
<u>Operating Expenses</u>					
Operations and maintenance	563.4	563.4	548.9	548.9	14.5
Admin., General and Misc.	12.5	12.5	12.8	12.8	(.3)
Taxes other than Income	108.9	110.4	105.9	107.5	3.0
Depreciation	80.0	80.0	80.0	80.0	-
Allocated Common	73.7	73.7	68.9	68.9	4.8
Subtotal	838.5	840.0	816.5	818.1	22.0
Income Taxes	55.9	105.2	64.5	115.7	(8.6)
Total Expenses	894.4	945.2	881.0	933.8	13.4
Net Operating Revenues	172.8	218.5	196.0	243.4	(23.2)
Depreciated Rate Base	2,890.7	2,890.7	2,890.7	2,890.7	-
Rate of Return	5.98%	7.56%	6.78%	8.42%	(.80)%
Average Metered Customers	8,400			8,437	

(Red Figure)

* At applicant's proposed 1972 rates.

At present rates.

Discussion

Operating Revenues: The staff estimate of operating revenues at present rates exceeds the applicant's estimate by \$9,800.

The staff witness testified that he made a field investigation of the San Carlos area. Eight condominium apartments, which will have 12 to 18 living units, and 26 large residences are presently under construction in applicant's service area. As a result of this field investigation the staff witness included a larger number of commercial customers in his estimate than were included in the

applicant's estimate which was based on the number of historically recorded customers.

Both the applicant and the staff increased their estimates of metered industrial sales after special consideration was given to the Hoslin Hospital Linen Supply's greatly increased consumption. The staff's estimate of revenue from industrial customers is also higher than that of the applicant.

The staff's revenue estimates will be adopted as reasonable.

Operating and Maintenance Expenses and Administrative and General Expenses: The staff's higher estimate of the costs of purchased water is based upon the staff's higher estimate of total water consumption in the test year.

The staff's payroll estimate for 1972 includes an amount for district growth plus the 5.5 percent wage increase and the increase in benefits negotiated with the locals of the Utility Workers of America effective January 1, 1972.

Applicant trended payrolls for 1960 through 1969. This resulted in an estimated increase of 7 percent which also includes fringe benefits. The staff's estimate of fringe benefits was included in the estimate of Administrative and General Expenses. The staff's estimates of Operating Expenses which are \$14,500 lower than those of applicant will be adopted in this proceeding. The staff's estimate of Administrative and General and Miscellaneous Expenses which are \$300 higher than that of applicant will also be adopted.

Taxes Other Than Income: The staff's estimate of Taxes Other Than Income is \$3,000 less than that of the applicant. The staff estimate of payroll taxes is lower than that of applicant because the staff's payroll estimate is lower than that of applicant. On the other hand, the staff's estimate of Local Franchise Taxes is greater than that of applicant because of the staff's higher revenue estimate. The principal difference arises through comparison of the estimates of ad valorem tax. The applicant's estimate of

ad valorem tax was obtained by trending the historical recorded ad valorem tax. The staff witness based his estimate on a judgment that the increasing trend of ad valorem tax would flatten. The staff estimates of Taxes Other Than Income will be adopted as reasonable.

Allocated Common Expenses: The staff has reviewed applicant's allocation factors to each district and has found that applicant used the same methods as the staff and that the factors were reasonable. The difference between the staff and applicant's estimates of total common expense for the test year is mainly due to the staff's more selective use of cost indices. The staff's estimate will be adopted.

Income Taxes: The differences in estimated Income Taxes of applicant and the staff result from differences in estimates of revenues and expenses and applicant's failure to include an Investment Tax Credit in its calculation. The Income Taxes estimate of the staff will be adopted as reasonable.

Rate Base: As the staff has accepted the Depreciated Rate Base estimates shown in applicant's amended application, there is no difference in these estimates. Such estimates will be adopted.

Rate of Return: The applicant is requesting step rates which if based on its estimates will allow it to earn approximately 7.56 percent rate of return during 1972 and maintain it adequately through 1974. According to applicant's estimates the operational slippage under normal conditions during these three years will amount to .42 percent per year.

The staff recommends a range of rate of return between 7.4 and 7.7 percent. At present rates the staff estimates show .32 percent operational slippage and at proposed rates .38 percent operational slippage.

The attorney for the City of San Carlos expressed concern at the hearing because the rates of return in both the applicant's and the staff's exhibits were computed after consideration of an

allowance for income taxes. He concluded, however, that the City of San Carlos would be willing to rely on the staff's evidence and presentation. The staff witness testified that the earnings after Income Taxes of the 110 leading industrial companies which the staff had studied were in excess of the rate of return ranges recommended by the staff.

The indicated downward trend in rate of return is sufficient to justify the authorization of stepped progression of rates. We find to be 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 .35 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 San Carlos District to permit review of future decline in rate of return and initiation of appropriate action if a reduction in rates is indicated.

Service: During 1970 and the first nine months of 1971, customer complaints received at applicant's district office totaled 164 of which 119 pertained to high bills, 32 related to quality, pressure or volume, and the remaining 13 pertained to miscellaneous items including leaking and noisy meters. During this same period there were no informal complaints to the Commission pertaining to service.

As a result of discussions with customers during its field investigation, the staff has concluded that the service provided by applicant is satisfactory.

Public Presentation: The only public presentation was that made by the City of San Carlos which has previously been discussed under the heading "Rate of Return."

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 1972, reasonably indicate the results of applicant's operations in the near future at present rates and at 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 .35 percent per year, will result in reasonable earnings.
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 are 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 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 San Carlos 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 20th day of JUNE, 1972.

Chairman

William Lyons Jr.

[Signature]

Herbert L. Stinson

[Signature]
Commissioners

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

APPENDIX A

Schedule No. SC-1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

San Carlos and vicinity, San Mateo County.

RATES

Service Charge:

	<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 5/8 x 3/4-inch meter	\$ 2.53	\$ 2.57	\$ 2.62	(I)
For 3/4-inch meter	2.79	2.84	2.89	
For 1-inch meter	3.73	3.80	3.87	
For 1-1/2-inch meter	5.19	5.29	5.38	
For 2-inch meter	6.60	6.72	6.85	
For 3-inch meter	12.13	12.36	12.59	
For 4-inch meter	16.82	17.15	17.47	
For 6-inch meter	27.26	27.78	28.30	
For 8-inch meter	40.82	41.61	42.39	
For 10-inch meter	50.22	51.18	52.14	

Quantity Rates:

First 30,000 cu.ft., per 100 cu.ft.	\$.409	\$.418	\$.427	(I)
Over 30,000 cu.ft., per 100 cu.ft.	.390	.395	.400	

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.

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Data Regarding Rate Increase
Authorized for
CALIFORNIA WATER SERVICE COMPANY
San Carlos District.

Pursuant to the provisions of Section 300.16 of the Price Stabilization Regulations of the Federal Price Commission, as amended, the Public Utilities Commission certifies to the Federal Price Commission as follows:

1. The following table shows the present rates, the newly authorized rates to be effective in 1972 and the percentage increase:

General Metered Service

<u>Rates</u>	<u>Per Meter Per Month</u>		
	<u>Present</u>	<u>Newly Authorized</u>	<u>Percentage Increase</u>
Service Charge:			
For 5/8 x 3/4-inch meter	\$ 2.42	\$ 2.53	4.5%
For 3/4-inch meter	2.67	2.79	4.5
For 1-inch meter	3.57	3.73	4.5
For 1-1/2-inch meter	4.97	5.19	4.4
For 2-inch meter	6.32	6.60	4.4
For 3-inch meter	11.62	12.13	4.4
For 4-inch meter	16.12	16.82	4.3
For 6-inch meter	26.12	27.26	4.4
For 8-inch meter	39.12	40.82	4.3
For 10-inch meter	48.12	50.22	4.4

Quantity Rates:

*First 30,000 cu.ft., per 100 cu.ft.	\$.388	\$.409	5.4
*Over 30,000 cu.ft., per 100 cu.ft.	.388	.390	.5

* The present rates have just one block.

2. The authorized increase in rates for 1972 annualized is expected to provide \$46,900 of increased revenues to applicant.
3. The rate of return is expected to average 7.55 percent as compared to 6.78 percent under present rates, an increase of about 11 percent. A rate of return of 7.55 percent is no more than the 7.55 percent rate of return on rate base granted to California Water Service Company by the last decision of this Commission applicable to that utility.

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4. The authorized increase in rates for 1972 will increase the profits of California Water Service Company by approximately 0.071 percent of its total sales.
5. The authorized increase in rates for 1972 will increase applicant's overall rate of return on capital by approximately 0.021 percent.
6. 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, Section 300.16 of the Code of Federal Regulations, as amended effective January 17, 1972, were met by the rate increase.
7. The authorized increase in rates is cost based and does not reflect future inflationary expectations.
8. 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 California Water Service Company to meet future requirements.
9. 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 regulations of the Federal Price Commission.