

Decision No. 80199

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 Broadmoor)
 district.)

Application No. 52876
 (Filed September 21, 1971;
 Amended January 7, 1972)

McCutchen, Doyle, Brown & Enerson, by A. Crawford
Greene, Jr., 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

After notice, public hearing in this matter was held before Examiner Cline on March 2, 1972 at San Francisco. The matter was taken under submission on April 14, 1972, upon the filing of the transcript herein.

Applicant, a California corporation, seeks authority to increase its rates for water service to about 1,663 metered customers in its Broadmoor district which largely consists of that section of unincorporated San Mateo County area lying between the City of Colma and the City of Daly City. Applicant's service in the Broadmoor district also is extended to a few customers within the corporate limits of the City of Colma. Applicant owns and operates water systems in 22 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 SERVICERates

| Service Charge: | <u>Present Rates</u> | <u>Per Meter Per Month Proposed for Calendar Year</u> | | |
|--------------------------|--------------------------|---|-------------|-------------|
| | | <u>1972</u> | <u>1973</u> | <u>1974</u> |
| | | | | |
| For 5/8 x 3/4-inch meter | \$ 2.35 | \$ 2.47 | \$ 2.52 | \$ 2.56 |
| For 3/4-inch meter | 2.60 | 2.72 | 2.77 | 2.82 |
| For 1-inch meter | 3.50 | 3.71 | 3.78 | 3.84 |
| For 1 1/2-inch meter | 4.95 | 5.19 | 5.29 | 5.38 |
| For 2-inch meter | 6.35 | 6.67 | 6.80 | 6.91 |
| For 3-inch meter | 11.75 | 12.35 | 12.60 | 12.80 |
| For 4-inch meter | 16.00 | 16.80 | 17.14 | 17.41 |
| For 6-inch meter | 27.00 | 27.91 | 28.48 | 28.93 |
| For 8-inch meter | 39.00 | 41.50 | 42.34 | 43.01 |
| For 10-inch meter | 49.00 | 51.38 | 52.42 | 53.25 |

Quantity Rates:

| | | | | |
|---|---------|---------|---------|---------|
| For all water delivered, per 100 cu. ft. | \$.410 | \$.430 | \$.439 | \$.446 |
|---|---------|---------|---------|---------|

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 1972, under present and proposed rates, prepared by applicant and by the staff:

SUMMARY OF EARNINGS

Estimated Year 1972

| | | | | | | | | | | | | | | | | |
|---------------------|------|---------------------|-------|---|-----------------|---|-------|------------|--------|---|--------------|--|---|---------|--|---|
| Estimated Year 1972 | | | | | | | | | | | | | | | | |
| : | : | Applicant Estimated | | : | Staff Estimated | | : | Applicant: | | | | | | | | |
| : | : | Present | | : | Co. Proposed | | : | Present | | : | Co. Proposed | | : | Exceeds | | : |
| : | Item | : | Rates | : | Rates | : | Rates | : | Rates* | : | Staff# | | | : | | |

(Dollars in Thousands)

| | | | | | |
|---------------------------|---------|---------|---------|---------|---------|
| Operating Revenues | \$169.2 | \$177.3 | \$169.7 | \$177.8 | \$(0.5) |
| <u>Operating Expenses</u> | | | | | |
| Oper. & Maint. | 85.0 | 85.0 | 83.1 | 83.1 | 1.9 |
| Admin., Gen'l. & Misc. | 2.2 | 2.2 | 2.3 | 2.3 | (.1) |
| Taxes Other Than Income | 15.5 | 15.5 | 15.3 | 15.3 | .2 |
| Depreciation | 11.5 | 11.5 | 11.5 | 11.5 | - |
| Allocated Common | 12.1 | 12.1 | 11.3 | 11.3 | .8 |
| Subtotal | 126.3 | 126.3 | 123.5 | 123.5 | 2.8 |
| Income Taxes | 14.3 | 18.4 | 15.0 | 19.1 | (.7) |
| Total Expenses | 140.6 | 144.7 | 138.5 | 142.6 | 2.1 |
| Net Operating Revenues | 28.6 | 32.6 | 31.2 | 35.2 | (2.6) |
| Depreciated Rate Base | 432.2 | 432.2 | 432.2 | 432.2 | - |
| Rate of Return | 6.62% | 7.54% | 7.22% | 8.14% | (0.60)% |
| Average Metered Customers | 1,663 | | 1,663 | | |

(Red Figure)

At present rates.

* At applicant's proposed 1972 rates.

DiscussionOperating Revenues

In making its estimates of revenue for the test year 1972, the staff witness used the average service charge on January 1, 1971, rather than on January 1, 1970, as was done by the applicant. The staff estimate of revenue from industrial customers was computed by multiplying the average usage per customer by the estimated number of industrial customers. The applicant based its estimate on a least-squares trend line of total consumption by industrial customers over a period of several years. The staff's estimates of operating revenues will be adopted as reasonable.

Operating & Maintenance Expenses and Administrative,
General & Miscellaneous Expenses

The staff estimated payroll based on the latest known wage and salary levels and estimates of district growth. The staff payroll estimate for 1972 includes the 5.5 percent wage increase and the increase in fringe benefits negotiated in 1972 with the locals of the Utility Workers Union of America. Applicant used a 7 percent wage increase for 1972 derived from a trending of recorded payrolls for 1960 through 1969 adjusted by its cost indices.

The small difference of \$100 in Other Administrative and General Expenses is due to rounding and the use of later recorded data by the staff.

Neither the applicant nor the staff included in their estimates of purchased water the additional service charge of \$439 resulting from the installation of a new San Francisco Water Department connection nor the \$190 charge for amortization of limited term investments relating to such additional connection.

The staff estimates of Operating and Maintenance Expenses and Administrative, General and Miscellaneous Expenses adjusted for these two charges totaling \$629 per year for the additional San Francisco Water Department connection will be adopted as reasonable.

Taxes Other than Income

The staff has utilized the 1970-1971 and 1971-1972 fiscal year ad valorem taxes as assessed in developing its estimates of ad valorem taxes for the year 1971 and the year 1972. The applicant developed its estimates of ad valorem tax by trending recorded ad valorem taxes.

The staff's payroll taxes are based on the staff's payroll estimates which have been adopted as reasonable in this proceeding. The staff's estimates of Taxes Other than Income will also be adopted as reasonable.

Allocated Common Expenses

The difference between the staff and applicant's estimates of total common expense for the test years is mainly due to the staff's more selective use of cost indices. The staff's estimate will be adopted as reasonable.

Income Taxes

The differences in estimated income tax liabilities of the applicant and the staff result from differences in estimates of revenues and expenses. The staff's estimates make provision for the investment tax credit accruing from plant additions in the Broadmoor district. The applicant's estimate of income taxes does not make allowance for such investment tax credit.

The staff estimate of income taxes adjusted for the additional annual charge of \$629 for the San Francisco Water Department connection previously discussed will be adopted as reasonable.

Rate Base

The Depreciated Rate Base estimates of the applicant and the staff are the same. Such estimates are adopted as reasonable.

Rate of Return

The applicant is requesting step rates which will allow it to earn approximately 7.54 to 7.56 percent rate of return during the years 1972, 1973 and 1974. According to applicant's witness the operational slippage for the Broadmoor district under normal conditions amounts to .25 percent.

The staff recommends a range of return between 7.40 and 7.70 percent on rate base and a rate of return on common equity ranging from 10.74 to 11.20 percent. At proposed rates, the staff estimates show .02 percent operational slippage which is insignificant.

The indicated downward trend in rate of return of .02 percent is not 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. The rates shown in Appendix A are designed such that the rate of return for the future will result in adequate earnings.

Service

During 1970 and the first 10 months of 1971, customer complaints received at applicant's district office totalled 68, of which 37 pertained to high bills, 3 related to quality, pressure or volume, and the remaining to miscellaneous items including leaking meters and broken meter boxes or meter box covers. 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 investigations, the staff has concluded that no significant dissatisfaction with service is evident and that service provided by applicant in its Broadmoor district appears satisfactory.

Public Presentation

No customers appeared at the hearing to make a presentation.

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, adjusted for the additional service charge of \$439 resulting from the installation of the new San Francisco Water Department connection and the \$190 charge for amortization of limited term investment relating to such additional connection, 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.

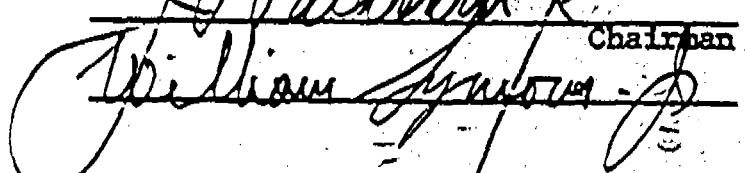
O R D E R


IT IS ORDERED that 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 schedules 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 27th day
of June, 1972.



Chairman


Vernon L. Sturgeon


Commissioners

Commissioner Thomas Moran, being
necessarily absent, did not participate
in the disposition of this proceeding.

APPENDIX A

Schedule No. BD-1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Broadmoor and vicinity, adjacent to Daly City, San Mateo County.

RATES

| | | Per Meter Per Month | |
|--------------------------------|--|------------------------|---|
| Service Charge: | | | |
| For 5/8 x 3/4-inch meter | | \$ 2.40 | I |
| For 3/4-inch meter | | 2.65 | |
| For 1-inch meter | | 3.57 | |
| For 1 1/2-inch meter | | 5.05 | |
| For 2-inch meter | | 6.47 | |
| For 3-inch meter | | 12.00 | |
| For 4-inch meter | | 16.30 | |
| For 6-inch meter | | 27.50 | |
| For 8-inch meter | | 39.75 | |
| For 10-inch meter | | 49.95 | I |

Quantity Rates:

For all water delivered, per 100 cu. ft. \$ 0.42 I

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.

APPENDIX B
Page 1 of 2

DATA REGARDING RATE INCREASE
AUTHORIZED FOR
CALIFORNIA WATER SERVICE COMPANY
BROADMOOR 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 | \$ 2.35 | \$ 2.40 | 2.1 |
| For 3/4-inch meter | 2.60 | 2.65 | 1.9 |
| For 1-inch meter | 3.50 | 3.57 | 2.0 |
| For 1 1/2-inch meter | 4.95 | 5.05 | 2.0 |
| For 2-inch meter | 6.35 | 6.47 | 1.9 |
| For 3-inch meter | 11.75 | 12.00 | 2.1 |
| For 4-inch meter | 16.00 | 16.30 | 1.9 |
| For 6-inch meter | 27.00 | 27.50 | 1.9 |
| For 8-inch meter | 39.00 | 39.75 | 1.9 |
| For 10-inch meter | 49.00 | 49.95 | 1.9 |

Quantity Rates:

| | | | |
|---|------|-----|------|
| For all water delivered, per 100 cu. ft. | 0.41 | .42 | 2.4% |
|---|------|-----|------|

2. The authorized increase in rates for 1972 annualized is expected to provide \$3,800.00 of increased revenue to applicant.

3. The authorized increase in rates for 1972 will increase applicant's profits by approximately 0.0058 percent of its total sales.

4. The authorized increase in rates for 1972 will increase applicant's overall rate of return on capital by approximately 0.0017 percent.

APPENDIX B
Page 2 of 2

5. The rate of return is expected to average 7.55 percent as compared to 7.14 percent under present rates, an increase of about 6 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 applicant by the last decision of this Commission applicable to that utility.

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 applicant 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.