

ORIGINAL

Decision No. 81856

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 service in the San Mateo district.)

Application No. 53561
(Filed September 1, 1972;
amended May 18, 1973)

McCutchen, Doyle, Brown & Enersen, by
A. Crawford Green, Jr., Attorney at Law,
for California Water Service Company,
applicant.
Nathan L. Stork, for himself, interested
party.
Elinore C. Morgan, Attorney at Law, and
John E. Brown, for the Commission staff.

O P I N I O N

California Water Service Company (CWSC) seeks authority to effect step rates for its San Mateo District designed to produce revenues sufficient to yield a rate of return for that district of 8.25 percent through the year 1975. It is estimated that these proposed rates will increase water rates to approximately 22,800 metered customers in CWSC's San Mateo District \$316,900 (11.76 percent) for the year 1973, an additional \$61,800 (2.28 percent) for the year 1974, and an additional \$81,600 (3.00 percent) for the year 1975 to provide full-year net operating revenues of \$645,100 for the year 1973, \$669,100 for 1974, and \$694,900 for 1975.

CWSC, a California corporation, owns and operates water systems in 22 operating districts, all of which are in California. Each system is termed a district and is operated separately. The San Mateo District is in San Mateo County and includes the city of San Mateo and adjacent unincorporated territory in San Mateo County.

After notice, public hearing was held before Examiner Johnson on June 26 and 27, 1973 at San Mateo, California, and on June 28, 1973 at San Francisco, California, and the matter was submitted on July 18, 1973 upon receipt of the transcripts.

Testimony on behalf of CWSC was presented^{1/} by its president and two vice presidents. The Commission staff presentation^{1/} was made through a financial examiner and three engineers.

Rates

The rates presently in effect in the San Mateo district were authorized by Decision No. 77359 dated June 16, 1970 on Application No. 51824. The following tabulation sets forth the proposed step rates for general metered service. No increases are proposed for private fire protection or public fire hydrant service.

^{1/} Testimony and exhibits relating to overall company operations had been presented by witnesses for CWSC and the staff in Application No. 53563 for the Palos Verdes District rate proceeding. This testimony and exhibits together with related cross-examination were incorporated by reference in this proceeding.

		<u>Per Meter Per Month</u>				
		<u>Present</u>	<u>Proposed Rates - Calendar Yr.</u>			
		<u>Rates</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Service Charge:						
For	5/8 x 3/4-inch meter ...	\$ 2.06	\$ 2.23	\$ 2.30	\$ 2.34	\$ 2.42
For	3/4-inch meter ...	2.26	2.45	2.53	2.57	2.66
For	1-inch meter ...	3.06	3.34	3.45	3.51	3.63
For	1 1/2-inch meter ...	4.26	4.68	4.83	4.91	5.08
For	2-inch meter ...	5.46	6.02	6.21	6.32	6.53
For	3-inch meter ...	10.06	11.15	11.50	11.70	12.10
For	4-inch meter ...	14.06	15.16	15.64	15.91	16.46
For	6-inch meter ...	23.06	25.20	25.99	26.44	27.35
For	8-inch meter ...	34.06	37.46	38.64	39.31	40.66
For	10-inch meter ...	42.06	46.38	47.84	48.67	50.34
Quantity Rates:						
For the first 30,000 cu. ft.,						
	per 100 cu. ft.	\$ 0.377	.410	.422	.431	.441
For all over 30,000 cu. ft.,						
	per 100 cu. ft.	0.342	.373	.383	.390	.401

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 Rates.

Results of Operation

The following tabulation compares the estimated summary of earnings for the test year 1973, under present and proposed rates, prepared by CWSC and by the Commission staff, and the adopted summary of earnings at present rates for the test year 1973:

Summary of Earnings
(Estimated Year 1973)

	: CWSC Estimated		: Staff Estimated		
	: Company		: Company		
	: Present	: Proposed	: Present	: Proposed	: Adopted
Item	: Rates	: Rates	: Rates	: Rates	: Results
(Dollars in Thousands)					
Operating Revenues	\$ 2,695.8	\$ 3,012.7	\$ 2,744.6	\$ 3,064.6	\$ 2,734.1
<u>Operating Expenses</u>					
Operations and Maintenance	1,361.2	1,361.2	1,387.1	1,387.1	1,382.7
Admin. and General	64.8	64.8	43.1	43.1	43.1
Miscellaneous	10.7	10.7	10.7	10.7	10.7
Taxes Other Than Income	263.9	263.9	264.6	264.6	264.6
Depreciation	195.5	195.5	196.8	196.8	196.8
Allocated Expenses	171.7	171.7	187.2	187.2	187.2
Subtotal	2,067.8	2,067.8	2,089.5	2,089.5	2,085.1
Income Taxes	132.9	299.8	154.1	322.7	148.7
Total Expenses	2,200.7	2,367.6	2,243.6	2,412.2	2,233.8
Net Operating Revenues	495.1	645.1	501.0	652.4	500.3
Depreciated Rate Base	7,816.9	7,816.9	7,655.9	7,655.9	7,673.9
Rate of Return	6.33%	8.25%	6.54%	8.52%	6.52%
Average Commercial Customers	22,744	22,744	22,803	22,803	22,803

^{1/} At present rates. Bases for adopted results are discussed in the following paragraphs.

Operating Revenues

The staff estimate of metered commercial revenues exceeds CWSC's by \$48,800 or 1.95 percent for the estimated year 1973. Both staff and CWSC utilized the Modified Bean Method of adjusting recorded consumption per customer to average rainfall and temperature conditions. CWSC's vice president testified that the United States Weather Bureau used as normal the average of 30 years

recorded data, updated every 10 years. The period currently used is 1931 to 1960 with the expectation that the averages will be recomputed for the 30-year period 1941 to 1970 when weather bureau personnel is available for the computations. CWSC's vice president further testified that he used a graphical solution to obtain a normal year consumption per commercial customer. This data was extrapolated for the future utilizing a logarithmic curve through datum points for the years 1956, 1962, and 1968 with the projected years' usage per commercial customer increased by 13.9 ccf to compensate for recent extraordinary growth of large-use commercial customers that CWSC does not anticipate will continue in the future.

A staff engineer testified that using the 30-year period 1943 to 1972 as a basis for normalizing commercial consumption for average weather conditions he obtained an estimate of commercial sales per customer of 225.3 ccf for 1972 and 228.7 ccf for 1973 from a computer analysis, and 225.5 ccf for 1972 and 229.0 ccf for 1973 from a graphical analysis. He further testified that using the 30-year period 1941 to 1970 for adjusting commercial sales per customer to average weather conditions he obtained an estimate of 224.2 ccf for 1972 and 227.6 ccf for 1973.

In estimating the number of commercial customers, the staff applied the five-year average incremental customer growth to 1972 recorded data whereas the company's trends were based on earlier recorded data.

The staff's estimate of commercial sales and revenues modified to reflect adjustment of commercial usage per customer to average weather conditions for the 30-year period 1941 to 1970 will be adopted. The 1941 to 1970 period is utilized on the basis that it is the period that would currently be utilized by the weather bureau were it manned as in previous years.

The staff and CWSC used the same estimates for revenues for the other classes of service and these estimates will be adopted in this proceeding.

Operation and Maintenance Expense

The staff's estimate of purchased water and power expenses exceeded CWSC's estimate by \$25,700, reflecting the staff's higher sales estimate. We will adopt a purchased water and power cost of \$4,400 less than the staff's 1973 estimate to be commensurate with adopted sales and revenues.

After analysis of CWSC's work papers and methods of estimating other operating and maintenance expenses, the staff adopted CWSC's estimate as reasonable. The staff computed payroll taxes by using the effective tax rates and tax basis for 1972 and 1973 applied to staff estimated payroll to obtain results that very closely approximated CWSC's estimated payroll taxes. The staff's estimate will be adopted.

Administrative and General Expense

The staff estimate of San Mateo District administrative and general expenses is \$21,900 less than CWSC's estimate for Account 795, Employees' Pensions and Benefits, and \$213,100 more than CWSC for general office expenses to reflect a change in accounting procedure, wherein charges formerly made to the district are now included in general expenses. The product of the San Mateo District four-factor percentage and the \$213,100 general office expense differential is \$17,200. The staff witness testified that most of the difference between the \$21,900 and \$17,200 is due to differences in the estimate of administrative and general - other expense. The staff estimate will be adopted.

Taxes Other Than Income

For the test year 1973 the staff accepted as reasonable CWSC's estimates of payroll and business license taxes. The staff estimate of ad valorem taxes is slightly higher than CWSC's and was obtained by applying the effective tax rate for the fiscal year 1972 to 1973 to the net plant plus materials and supplies balances at the beginning of 1972 and 1973 and then adjusting

the results to represent calendar years 1972 to 1973. The staff estimate will be adopted.

Allocated Common Expenses

The staff's review of CWSC's allocation factors to each operating district indicated they were computed in a manner similar to staff practices. The staff accepted CWSC's operation and maintenance expenses for the year 1973 but excluded \$16,900 from Account 791, administrative and general salaries, to correct for an overstatement of this amount in this account. In addition the staff estimate of Account 795, Employees' Pensions and Benefits, is \$213,100 higher than that of CWSC to reflect accounting changes previously discussed. Also, consistent with Commission decisions, the staff made an adjustment of \$1,600 dues and donations which CWSC did not include in its report. The staff estimates will be adopted as reasonable.

Allocated Common Rate Base

The staff adopted the four-factor allocation percentages as set forth in Table 6-H of Exhibit 2. The staff estimate of allocated common plant rate base exceeds that of CWSC due to higher known costs caused by expansion and construction delays of the general office headquarters building. The staff's estimate will be adopted as reasonable.

District Rate Base

CWSC's estimate of district rate base exceeds that of the staff by \$123,200 for the year 1972 and by \$161,000 for the year 1973. For 1972 the staff used recorded data whereas CWSC used estimated amounts which understated advances for construction and overstated construction expenditure. This \$123,200 differential carried over into the 1973 estimates and accounts for a major portion of the difference of \$161,000 in staff and CWSC's estimated 1973 rate bases. The staff and CWSC used the same composite depreciation rate so the difference of \$1,300 in depreciation expense for the test year 1973 is due to differences in plant amounts. The staff estimate will be adopted.

CWSC states that an adjustment of \$69,300 should be made to the staff rate base figure to reflect unexpended extension deposits. It is CWSC's position that none of this amount was included in the end-of-year balance of the utility plant account but that all of the amount was included in the end-of-year balance of advances for construction account resulting in the staff estimated rate base being understated by \$69,300. The rate base represents moneys invested in utility plant used and useful for utility operation plus working capital, minus contributions and advances for construction. Inasmuch as the unexpended advances represent moneys received by the utilities without a corresponding investment in utility plant the staff treatment of the unexpended advances is correct and the weighted average advances for construction of \$1,021,900 for the year 1973 as estimated by the staff will be adopted.

The staff estimate for materials and supplies is less than that of CWSC because the staff included only materials and supplies normally used for plant operation and maintenance whereas CWSC included all materials and supplies whether used for operation and maintenance, or construction. Irrespective of whether the materials and supplies are stocked for construction or operation and maintenance they represent moneys expended for utility purposes and are therefore properly included in the rate base. CWSC's estimate of material and supplies will be adopted.

The staff estimate of working cash exceeds CWSC's estimate as a result of the respective differences in estimates for revenues and expenses. The staff estimate of working cash for the year 1973 will be adopted.

Rate of Return

CWSC is requesting step rates designed to allow it to earn an 8.25 percent rate of return for the full-years 1973, 1974, and 1975. CWSC's president testified such rates would provide a times interest coverage of approximately 2.75 for the first

12 months that the new rates are in effect, and a return on equity of 12.38 percent for the full year 1973, and 12.19 percent for the year 1974. He further testified that approximately \$21 million of the total \$58 million of first mortgage bonds will mature in 1975 and require refinancing which it is estimated will raise the required rate of return one full percentage point and will require additional rate relief at that time.

The staff financial witness testified that he recommends a 7.85 rate of return which he considers to be the minimum rate of return needed to attract capital at reasonable costs and sufficient not to impair the credit of the public utility. Such a rate of return is estimated to provide a return on common equity of 11.42 percent.

CWSC's vice president testified that for the test years 1973 through 1975 the three-year average annual decline in rate of return amounts to 0.38 percent. The staff estimates an annual decline in rate of return of 0.22 percent at present rates and 0.26 percent at proposed rates based on normalization of revenues and expenses, and states that this reasonably reflects the trend of rate of return for the future.

Decision No. 74783 dated October 8, 1968 on Application No. 50041 for a general rate increase in CWSC's San Mateo District established rates designed to yield a rate of return of approximately 7.0 percent for the year 1969, 6.8 percent for 1970, 6.5 percent for 1971, and 6.2 percent for 1972. The comparable recorded rates of return for the San Mateo District were 7.67 percent for 1969, 7.43 percent for 1970, 7.37 percent for 1971, and 6.85 percent for 1972. While the recorded rate of return was higher than the estimated rate of return in each year, the average annual operational slippage for both estimated and recorded was 0.27 percent which closely approximates the staff estimated slippage at proposed rates of 0.26 percent. Such an operational slippage is sufficient to justify a stepped progression of rates. We find to be reasonable

a rate of return of 7.85 percent for the future, which will produce a return on equity of approximately 11.4 percent.

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

Findings

1. California Water Service Company is in need of additional revenue, but the proposed rates set forth in the application are excessive.

2. The adopted estimates previously discussed hereir of operating revenues, operating expenses, and rate base for the test year 1973 reasonably indicate the results of CWSC's operations in its San Mateo District for the near future.

3. A rate of return of 7.85 percent on the adopted rate base is reasonable. Such rate of return will provide a return on equity of approximately 11.4 percent.

4. An operational slippage of approximately 0.26 percent at proposed rates will be experienced and is sufficient to justify the authorization of a stepped progression of rates.

5. The increases in 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. CWSC's earnings under "Present Rates" from its operations during the 1973 test year produce a rate of return of 6.52 percent on a rate base of \$7,673,900 based on adopted results of operation.

7. The authorized increase in rates is expected to provide increased revenues of \$215,700 (7.89%) for the full year 1973, an additional \$42,200 for the year 1974, and an additional \$42,200 for the year 1975.

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 rate 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, 1974 CWSC shall file with the Commission an earnings statement by the San Mateo District for 1973 normalized and adjusted to the rate levels authorized herein for 1973, together with an estimate of earnings for 1974, under similar normalized conditions. On or before April 1, 1975 CWSC shall file similar normalized and estimated earnings statements for 1974 and 1975.

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

Dated at San Francisco, California, this 12th day of SEPTEMBER, 1973.

William L. Sturgeon President
[Signature]
[Signature]
[Signature] Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. SM-1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

San Mateo and vicinity, San Mateo County.

RATES

Per Meter
Per Month

Service Charge:

For 5/8 x 3/4-inch meter	\$ 2.25	(I)
For 3/4-inch meter	2.50	
For 1-inch meter	3.40	
For 1 1/2-inch meter	4.70	
For 2-inch meter	6.00	
For 3-inch meter	11.20	
For 4-inch meter	15.50	
For 6-inch meter	25.50	
For 8-inch meter	38.00	
For 10-inch meter	47.00	(I)

Quantity Rates:

	Per Meter Per Month		
	Before 1/1/74	1/1/74 Through 12/31/74	After 12/31/74
For the first 30,000 cu.ft., per 100 cu.ft.405	.413	.421 (I)
For all over 30,000 cu.ft., per 100 cu.ft.369	.373	.378 (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 Rates.