

ORIGINAL

Decision No. 82096

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 autho- )  
rizing it to increase rates charged )  
for water service in the Stockton )  
district. )

Application No. 53562  
(Filed September 1, 1972;  
amended May 25, 1973)

McCutchen, Doyle, Brown & Enersen, by  
A. Crawford Green, Jr., Attorney at Law,  
for California Water Service Company,  
applicant.  
Thomas J. Shepard, Attorney at Law, for  
Stockton-East Water District, protestant.  
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 Stockton 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 36,600 metered customers in CWSC's Stockton District \$578,000 (16.61 percent) for the year 1973, an additional \$137,300 (3.17 percent) for the year 1974, and an additional \$164,800 (3.63 percent) for the year 1975 to provide full-year net operating revenues of \$1,198,500 for the year 1973, \$1,259,300 for 1974, and \$1,310,500 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 Stockton District is in San Joaquin County and includes most of

the city of Stockton and adjacent unincorporated territory in San Joaquin County.

After notice, public hearing was held before Examiner Johnson on July 24, 25, and 26, 1973 at Stockton, California, and the matter was submitted on August 15, 1973 upon receipt of the transcripts.

Testimony<sup>1/</sup> on behalf of CWSC was presented by its president and three vice presidents. Testimony was presented on behalf of the city of Stockton by its mayor and on behalf of the Stockton-East Water District by one of its directors. The Commission staff presentation was made through a financial examiner and two engineers. Statements in opposition to the proposed rate increase on the basis that such increases would inhibit industrial growth were made by a city councilman, a vice president of a food processing plant, the executive secretary of the Stockton Board of Realtors, a director of the French Camp Fire District, a member of the San Joaquin County Board of Supervisors, a representative of the San Joaquin County Building Trade Council, and a consumer. In addition a representative of the League of Women Voters of San Joaquin County made a statement urging citizen participation in the decision making process.

#### Rates

The rates presently in effect in the Stockton District were authorized by Decision No. 75502 dated April 1, 1969 on Application No. 50351 as modified by Commission Resolution W-1204 dated January 6, 1970 to reflect the substitution on January 1, 1970 of a five percent federal income tax surcharge for the former ten

<sup>1/</sup> 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.

percent surcharge. 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.

<u>Present</u> <u>Rates</u>	<u>Per Meter Per Month</u> <u>Proposed Rates</u>		<u>Calendar Year</u>	
	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>

## Service Charge:

For 5/8 x 3/4-inch meter	\$ 3.05	\$ 3.47	\$ 3.55	\$ 3.66	\$ 3.80
For 3/4-inch meter	3.35	3.82	3.90	4.03	4.18
For 1-inch meter	4.55	5.21	5.32	5.49	5.70
For 1 1/2-inch meter	6.40	7.29	7.46	7.69	7.98
For 2-inch meter	8.25	9.37	9.58	9.88	10.26
For 3-inch meter	15.00	17.35	17.75	18.30	19.00
For 4-inch meter	21.00	23.60	24.14	24.89	25.84
For 6-inch meter	35.00	39.21	40.12	41.36	42.94
For 8-inch meter	51.00	58.30	59.64	61.49	63.84
For 10-inch meter	63.00	72.18	73.84	76.13	79.04

## Quantity Rates:

For the first 30,000 cu.ft., per 100 cu.ft...	\$ 0.164	\$ .186	\$ .191	\$ .197	\$ .204
For all over 30,000 cu.ft., per 100 cu.ft...	0.124	.141	.146	.151	.156

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.

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	\$ 3,550.6	\$ 4,128.6	\$ 3,571.3	\$ 4,152.6	\$ 3,569.2
<u>Operating Expenses</u>					
Operations and Maintenance	976.6	976.6	970.4	970.4	970.4
Admin. and General	129.3	129.3	100.4	100.4	100.4
Miscellaneous	10.0	10.0	10.0	10.0	10.0
Taxes Other Than Income	638.3	641.1	624.1	627.0	628.6
Depreciation	407.1	407.1	401.2	401.2	401.2
Allocated Expenses	246.2	246.2	268.3	268.3	268.3
Subtotal	2,407.5	2,410.3	2,374.4	2,377.3	2,378.9
Income Taxes	216.8	519.8	242.8	547.5	239.3
Total Expenses	2,624.3	2,930.1	2,617.2	2,924.8	2,618.2
Net Operating Revenues	926.3	1,198.5	954.1	1,227.8	951.0
Depreciated Rate Base	14,530.7	14,530.7	14,143.7	14,143.7	14,311.4
Rate of Return	6.37%	8.25%	6.75%	8.68%	6.65%
Avg. Commercial Customers	36,176	36,176	36,089	36,089	36,089

1 At present rates. Bases for adopted results are discussed in the following paragraphs.

### Operating Revenues

After review of CWSC's methods of estimating consumption and revenue and after preparing independent estimates the staff adopted as reasonable CWSC's estimated 1973 commercial water sales per customer and customer growth. The difference between the staff and CWSC in commercial revenues at present and proposed rates is due to the staff's application of the adopted 1973 customer growth to 1972 recorded number of commercial customers.

The difference between staff's and CWSC's estimates of industrial revenues is due primarily to the use by the staff of later recorded data.

Included in staff's estimate of revenues is \$3,200 rental from the River Ranch property. The inclusion of this amount in rentals received is inconsistent with staff's elimination from rate base of \$143,100 of the \$149,413 River Ranch well-field amount included in rate base by CWSC.

We will adopt staff's estimated 1973 revenues decreased by \$2,100 (two-thirds of \$3,200) to reflect the proportionate amount of River Ranch property excluded from the adopted rate base.

### Operation and Maintenance Expense

The staff analyzed CWSC's work papers and methods of estimating operating and maintenance, and administrative and general expenses and, in addition, prepared its own independent estimates. The staff's estimate of purchased power, purchased chemicals, and ground water extraction charges differ slightly from CWSC's estimates to reflect differences in estimates of quantities of water sold. The staff adjusted CWSC's 1973 estimated payroll expense downward \$5,200 to eliminate an inadvertent duplication of wages of two employees. The staff's estimates will be adopted.

### Administrative and General Expenses

The staff estimate of Stockton District administrative and general expenses is \$24,600 less than CWSC's estimate for Account 795,

Employees' Pensions and Benefits, to reflect a change in accounting procedure, wherein charges formerly made to the district are now included in general expenses. In addition, the staff's estimate of other district administrative and general expense is \$4,300 less than CWSC's estimate due to the staff utilization of later recorded data.

CWSC estimated allocated common administrative and general expenses (Account 791) by trending recorded expenses. An overstatement of \$16,900 was inadvertently included in the 1971 recorded trend data resulting in its 1973 estimate being high by this amount. In addition to adjusting for this overstatement, the staff, in accordance with past practice made a \$1,600 rate-making adjustment to dues and donations. The staff estimates will be adopted.

Taxes Other Than Income

Differences between CWSC and the Commission staff for estimated payroll, business license, and local franchise taxes are negligible. The staff estimates will be adopted.

Ad valorem taxes are related to net utility plant plus material and supplies at the beginning of the year. CWSC and staff differ with respect to estimated 1973 utility plant, materials and supplies, and rate base as subsequently discussed. We will adopt an ad valorem tax of \$584,200 commensurate with the adopted rate base.

Allocated Common Expenses

The staff's review of CWSC's allocation factors to each operating district indicated that they were computed in a manner similar to staff practices. The staff accepted CWSC's Stockton District four-factor percentage figure, and general operation and maintenance expense for the year 1973. The staff excluded \$16,900 from Account 791, administrative and general salaries and \$1,600 dues and donations as previously discussed. The staff estimate of total company Account 795, Employees' Pensions and Benefits, is \$213,100 higher than that of CWSC to reflect accounting changes. 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 4. 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 Utility Plant

Staff estimates of district utility plant differ from CWSC's estimates primarily because they are based on later recorded data. In addition the staff eliminated as non-operative utility plant the major portion of the River Ranch well field included in CWSC's rate-base calculations.

The River Ranch property comprises approximately 283 useable acres purchased for approximately \$448,238. This Commission's Decision No. 75502 dated April 1, 1969, in Application No. 50351 adopted one-third of this amount, or \$149,413, as operative utility plant for inclusion in rate base, one-third as plant held for future use, and one-third as non-utility property.

CWSC asserted at that time it planned to immediately install five wells on the River Ranch property together with the requisite transmission mains to connect those wells into strategic points in the distribution system. An additional well was contemplated for installation in 1972.

These plans did not materialize and at the present time there are two producing wells and two test wells operating on the River Ranch property.

CWSC's position is that these two producing wells are an integral part of the solution to the Stockton water problem and therefore the whole amount of \$149,413 should continue in the rate

base as operating utility property. The staff assumed that each of the two producing and two test wells utilizes one acre of land and that, therefore, the equivalent of four acres of the well field should be allowed in utility plant. Multiplying the four acres by the unit cost of the River Ranch property results in an allowance in rate base of \$6,328 and an adjustment to CWSC's rate base computations of \$143,085.

The \$149,413 allowed in rate base by Decision No. 75502 was premised on six operating wells being installed by the year 1972. Since changed circumstances obviated the necessity of installing four of these six wells at this time, further adjustment to rate base appears warranted. Since one-third of the producing wells contemplated for operation by 1972 are actually installed, we will allow one-third of the \$149,413, or \$49,804 in the rate base as operating utility plant. The staff estimates for other items of utility plant based on more recent data than CWSC's estimates will be adopted.

#### Working Capital

Working capital, included in rate base to compensate investors for monies advanced to permit the utility to operate economically and efficiently, consists of working cash and materials and supplies.

The working cash allowance is developed by lead-lag studies of the relationship of the collection of revenues to the disbursement of monies. Staff's estimates generally reflect the relatively higher revenue and lower overall expense estimates developed by the staff. In addition, CWSC computed working cash requirements using proposed rates whereas the staff used present rates. A staff witness testified that at the staff recommended rate of return of 7.85 percent the working cash requirement would be approximately \$354,000. This latter figure will be adopted as commensurate with the adopted rate of return subsequently discussed.



In computing its materials and supplies allowance, the staff included what it considered a liberal allowance for materials and supplies used for plant operation and maintenance but deleted any allowance for materials used for plant additions on the basis that materials required for maintenance are also available for plant additions and to include both in rate base would be a duplication of the return allowed on construction work in progress.

CWSC's vice president testified that materials and supplies for plant additions are essential for efficient planning and to obtain quantity discounts and are includable in construction work in progress only after the construction is started so that there is no duplication of allowances. Irrespective of whether the materials and supplies are stocked for construction or operation and maintenance they represent monies expended for utility purposes and are therefore properly included in the rate base. CWSC's estimate of materials and supplies 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 the requested 8.25 percent rate of return is neither more nor less than the amount required to compensate for the change in imbedded interest cost since the Commission last adjusted the allowed rate of return. CWSC's president also 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 mayor of Stockton, appearing in opposition to the rate increase, testified that the Commission should not only consider what will provide a reasonable rate of return to the company but also what is a reasonable rate to charge from the consumers' point of view. He further testified that water charges are essentially regressive in that they constitute a larger percentage of household expense for lower income families than for more affluent families; that, contrary to its assertions, CWSC should be expected to effect efficiency gains as has the city of Stockton water system; that high water rates will have a detrimental effect on Stockton's efforts to attract the new industry necessary to alleviate the high unemployment rate; that CWSC's present rates are higher than those of similar neighboring communities; and that this Commission has a duty to regard the capability of the customers to pay increased rates.

A director of the Stockton-East Water District (District) testified that District contemplates the future construction of a water treatment plant in order to relieve the overdraft of the ground water basin underlying the district. He further testified that the conversion of a portion of the metropolitan area water supply from pumped water to treated surface water will result in increased costs to the water users; that such increased costs mandate that any water rate increase at this time be held to the lowest possible level; and that the required further increase to existing high water rates when treated water becomes available will significantly further disadvantage Stockton in its competition for industrial and commercial development.

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.

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 0.34 percent. The staff witness estimated an annual decline in rate of return of 0.07 percent at present rates and 0.15 percent at proposed rates which, in his opinion, reasonably reflects the trend of rate of return for the future. This estimated annual slippage of 0.15 percent per year is sufficient to justify a stepped progression of rates and the order that follows will so provide. 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.

Decision No. 75502 dated April 1, 1969 in Application No. 50351 for a general rate increase in CWSC's Stockton District established rates designed to yield a rate of return of approximately 7.2 percent for the year 1969, 6.9 percent for 1970, 6.6 percent for 1971. The comparable recorded rates of return for the Stockton District were considerably higher, being 7.97 percent for 1969, 7.45 percent for 1970, and 7.18 percent for 1971. This differential was caused in part to a greater investment tax credit than was anticipated in the decision. To preclude a higher than authorized rate of return being realized on a normalized basis the order that follows will require that CWSC file additional earnings statements for the Stockton 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 herein of operating revenues, operating expenses, and rate base for the test year 1973 reasonably indicate the results of CWSC's operations in its Stockton 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 0.15 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 6.65 percent on a rate base of \$14,311,400 based on adopted results of operation.

7. The authorized increase in rates is expected to provide increased revenues of \$364,600 for the full year 1973, an additional \$45,600 for the year 1974, and an additional \$45,600 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 Stockton District for 1973 normalized and adjusted to the rate levels authorized herein for 1973, together with an estimate of earnings for 1974, under

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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  
7<sup>th</sup> day of NOVEMBER, 1973.

Version L. Sturgeon  
President  
William J. Symons  
William J. Symons  
John J. Symons  
John J. Symons  
Commissioners

## APPENDIX A

## Schedule No. ST-1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered service.

TERRITORY

Stockton and vicinity, San Joaquin County.

RATES

## Service Charge:

Per Meter Per Month

For 5/8 x 3/4-inch meter	\$ 3.37	(I)
For 3/4-inch meter	3.70	↑
For 1-inch meter	5.02	↑
For 1 1/2-inch meter	7.07	↑
For 2-inch meter	9.11	↑
For 3-inch meter	16.56	↑
For 4-inch meter	23.19	↑
For 6-inch meter	38.65	↑
For 8-inch meter	56.32	↑
For 10-inch meter	69.57	(I)

## Quantity Rates:

Per Meter Per Month

	<u>1-1-74</u>		
	Before	through	After
	<u>1-1-74</u>	<u>12-31-74</u>	<u>12-31-74</u>
For the first 30,000 cu.ft., per 100 cu.ft.	.181	.185	.189 (I)
For all over 30,000 cu.ft., per 100 cu.ft.	.137	.139	.141 (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.