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ORIGINAL

Decision No. 82484

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
DUNSMUIR WATER CORPORATION under )  
Section 454 of the Public Utilities )  
Code for Authority to Increase )  
Rates for Water Service. )

Application No. 54002  
(Filed May 2, 1973)

Robert F. Harrington, Attorney at Law, for applicant.  
Elmer S. Jostrom, Attorney at Law, and John Reader,  
for the Commission staff.

O P I N I O N

Dunsmuir Water Corporation (applicant) is a California corporation organized in 1950. It is a wholly owned subsidiary of Boise Water Corporation, which in turn is wholly owned by General Waterworks Corporation. On March 1, 1968 General Waterworks Corporation became a wholly owned subsidiary of International Utilities Corporation, an enterprise engaged in a wide variety of business activities.

General Waterworks Corporation is the second largest privately owned water utility company in North America. Its headquarters is in Philadelphia, Pennsylvania. The corporation owns and operates 74 water utilities (8 of which also provide sewerage service), one sewer company, and eight heating companies. Water and sewerage services are provided to about 350,000 customers in 18 states and in one Canadian province.

Applicant is engaged in the business of supplying public utility water service in Siskiyou County, California: in the city of Dunsmuir and vicinity, and in the town of Fort Jones and vicinity through separate, nonintegrated systems.

For the city of Dunsmuir and vicinity, applicant obtains water from three springs and two tunnels with a rated capacity of 2,250 gallons per minute. There is one storage reservoir with a capacity of 392,600 gallons. The distribution system consists of approximately 91,268 feet of cast iron and steel pipe ranging in size from 3/4 inch to 18 inches in diameter. There were 1,133 metered services, 71 of which are inactive and 112 fire hydrant connections as of December 31, 1972.

For the town of Fort Jones and vicinity, applicant obtains water from a well with two pumps rated at 200 and 145 gallons per minute. The well capacity is 600 gallons per minute. There is one storage reservoir with a capacity of 90,000 gallons. The distribution system consists of approximately 19,661 feet of cast iron, steel and cement asbestos pipe ranging in size from 3/4 inch to 8 inches in diameter. There were 220 metered services of which 210 are active and 29 fire hydrants as of December 31, 1972.

In 1972 applicant had and it now has three employees in Dunsmuir and one employee in Fort Jones.

Applicant's present rates in the city of Dunsmuir and vicinity and in the town of Fort Jones and vicinity were established by Decision No. 76887 dated March 10, 1970 in Application No. 51050. The rates applied for would, if authorized, result in an increase in gross revenues of \$30,395 or 37.16 percent to customers in Dunsmuir and vicinity, and \$3,726 or 23.88 percent to customers in Fort Jones and vicinity based on applicant's estimated 1973 operations. At the rates authorized herein, Dunsmuir's gross revenues would increase \$7,280 or 8.8 percent, and for Fort Jones \$490 or 3.1 percent.

Public hearing was held before Examiner Gillanders at Dunsmuir on October 10 and at Fort Jones on October 11, 1973. Applicant had published, mailed, and posted notice of the hearings in accordance with this Commission's rules of procedure. The matter was submitted on November 1, 1973 upon receipt of the transcript.

Twenty-six members of the public attended the hearing at Dunsmuir of whom four testified regarding the proposed increase. In addition, the city manager presented a resolution of the city council and a statement of the city's concern regarding any increase. The mayor of Fort Jones was the only member of the public present at the hearing held at Fort Jones. He presented a statement on behalf of the city council.

Testimony on behalf of applicant was presented by its president, a senior rate analyst, and a senior rate economist employed by General Waterworks Management and Service Company of Philadelphia, Pennsylvania. Testimony on behalf of the Commission staff was presented by a registered professional engineer and by a rate of return expert.

Results of Operation

The following tabulations show applicant's and staff's estimated results of operation for the test year 1973:

Dunsmuir and Fort Jones Combined  
Year 1973

Item	Applicant		Staff	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$ 97,400	\$131,521	\$ 98,800	\$133,500
<u>Deductions</u>				
Operating Expenses	55,800	55,800	55,160	55,160
Depreciation	11,198	11,198	10,030	10,030
Taxes, Others	13,500	13,500	12,600	12,600
Income Taxes	7,527	25,502	4,670	22,950
Total Expenses	88,025	106,000	82,460	100,740
Net Operating Revenues	9,375	25,521	16,340	32,760
Rate Base	268,640	268,640	271,000	271,000
Rate of Return	3.49%	9.50%	6.03%	12.09%

Trend in Rate of Return

Although the staff's results of operation for 1972 and 1973 show an upward trend in rate of return (.08 percent at present rates, .10 percent at proposed rates), the staff recommends that the Commission consider the trend in rate of return to be level as growth tends to be sporadic and taxes have seldom been reduced for more than one consecutive tax year.

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Dunsmuir  
Year 1973

Item	Applicant		Staff	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$ 81,800	\$112,195	\$ 83,200	\$114,100
<u>Deductions</u>				
Operating Expenses	47,650	47,650	45,700	45,700
Depreciation	9,050	9,050	8,500	8,500
Taxes, Others	12,000	12,000	11,100	11,100
Income Taxes	5,715	21,727	4,250	20,530
Total Expenses	74,415	90,427	69,550	85,830
Net Operating Revenues	7,385	21,768	13,650	28,270
Rate Base	229,132	229,132	231,500	231,500
Rate of Return	3.22%	9.50%	5.90%	12.21%

Fort Jones  
Year 1973

Item	Applicant		Staff	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$15,600	\$19,326	\$15,600	\$19,400
<u>Deductions</u>				
Operating Expenses	8,150	8,150	9,460	9,460
Depreciation	2,148	2,148	1,530	1,530
Taxes, Others	1,500	1,500	1,500	1,500
Income Taxes	1,812	3,775	420	2,420
Total Expenses	13,610	15,573	12,910	14,910
Net Operating Revenues	1,990	3,753	2,690	4,490
Rate Base	39,508	39,508	39,500	39,500
Rate of Return	5.04%	9.50%	6.81%	11.37%

Operating Revenues

Applicant's estimates are based on the contention that present revenues are relatively constant and that there will be no customer growth in the near future. The staff, however, concluded that its estimates of future revenues should be based upon a 1 percent annual growth in customers in Dunsmuir and a 2 percent annual growth in customers in Fort Jones, which is the experience since the last rate proceeding. The year 1972 was considered by both applicant and staff to represent fairly normal revenues.

Applicant cross-examined the staff engineer in considerable detail regarding his conclusion that there would be growth in number of customers. The examiner requested details regarding actual number of customers for the first six months of 1973, which were furnished by the staff engineer. As applicant expressed some doubt as to the validity of the customer count, it was given the opportunity to file its version of the end-of-month customer count as late-filed Exhibit No. 12.

On October 25, 1973 the Commission received the following letter from applicant:

"During the course of hearings held on the above-captioned Application in Dunsmuir and Fort Jones, California, on October 10 and 11, respectively, Applicant was afforded the opportunity to file as Late-Filed Exhibit 12 to the proceedings a tabulation of metered customers in Dunsmuir and Fort Jones for each of the first nine months of calendar year 1973. Examiner Gillanders requested that should the Applicant elect not to file such an exhibit that it advise the Examiner and the Commission Staff of record to such effect.

"Because until year end, Applicant's data in this area consists of billings which may or may not reflect the number of customers actually served during a given month, Applicant feels that any information furnished at this time would be inaccurate and misleading and thus would not provide any beneficial addition to the record in this proceeding."

In view of the above letter, and the fact that the staff witness had compiled, in the course of his investigation, some 50 pages of working papers, and the fact that he ably withstood cross-examination, we find that the staff estimates of revenues can be used in setting rates.

Operating Expense

Recorded operating expenses for the years 1971 and 1972 are in total almost equal and were used by applicant and staff as the basis for adjustments.

Applicant made three adjustments to the book operating expenses for 1972.

The first adjustment was an annualization of wage and salary increase effective January 1, 1973. It is an upward adjustment in the amount of \$1,166 and is applicable to Dunsmuir only.

The second adjustment was an upward adjustment in the amount of \$151 to cover an increase in the budgeted management and service charges for 1973. The \$151 was allocated - \$90 assigned to Dunsmuir and \$61 to Fort Jones.

The third adjustment was an increase in operating expense to cover the amortization of the rate case expense for this proceeding. Applicant estimated that the total rate case expense would be \$9,580. This was amortized over a three-year period. The annual rate case amortization expense is \$3,193 with \$2,751 allocated to Dunsmuir and \$442 allocated to Fort Jones. These figures were adjusted to actual costs at the last day of hearing and are \$10,509. Applicant's witness explained his rationale for amortizing the rate case expense over a three-year period as follows:

"I anticipate that it will be four years from the end of the base year for this rate case to the end of the base year for the next rate case. Since it will be at least a year from the end of base year of this rate case before an order can be issued, this will leave only three years over which to amortize the rate case expenses. By the end of base year for the next case Dunsmuir Water Corporation will certainly not be earning the rate of return that the Commission will find in this case, and therefore will be unable to recover the annual rate expense allowed by the Commission in this proceeding."

Staff adjustments to applicant's estimated 1973 expenses include an additional \$690 for power for pumping, \$620 for additional office rent, and the deduction of \$500 for a one-time cost of converting to new office procedures. The staff has allowed the requested \$3,200 annual charge for three years for regulatory expense but has deducted \$2,020 stemming from the last rate proceeding. The staff also transferred some payroll from Dunsmuir to Fort Jones to more accurately reflect present operating conditions. Administration charges from Boise and Philadelphia included in operating expenses were estimated by the staff to total \$4,900<sup>1/</sup> for these two water systems in 1973. These charges amount to 32 cents per customer per month which appeared to the staff to be reasonable.

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<sup>1/</sup> Taken from work papers of applicant which were supplied to staff. At the direction of the examiner, these work papers were received as Exhibit 11.



Exhibit 11 shows that allocation percentages were developed using two factors: (1) gross assets less depreciation reserve and (2) revenues. Included in gross assets are receivables from associated companies ("upstream loans").

According to applicant's witness the final rate case expense for this proceeding will be \$10,509<sup>2/</sup> with \$3,103 applicable to Dunsmuir and \$484 allocated to Fort Jones amortized over a three-year period. Applicant's breakdown of the \$10,509 is as follows:

Attorneys fees including out-of-pocket expenses - \$2,375.

The time of Mr. Eckelmeyer, Mr. Mulle, and Mr. Greenstein - \$6,248.

The balance of \$1,886 is for travel expenses, motels, and other out-of-pocket expenses.

Applicant had no breakdown of how many hours are represented by the amount for attorneys' fees. The amount is merely the same amount charged by the same firm for the 1969 rate case.

The \$6,248 figure represents 42 working days for the rate department of General Waterworks Management and Service Company of Philadelphia, Pennsylvania. (One day for Mr. Eckelmeyer, the supervisor of Mr. Mulle and Mr. Greenstein; Mr. Mulle, 8 days and Mr. Greenstein, 33 days. Included in the totals is 10 days' travel time.) We can barely understand how Mr. Mulle could spend 3 days (in addition to 5 days' travel time during which he was working) preparing his rate of return testimony and preparing for cross-examination, but it is beyond our comprehension why a senior rate analyst with years of experience would require 33 days to prepare and present a test year results of operation study which consists entirely of recorded figures with three extremely simple adjustments.

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2/ \$10,493, if coach air fares are substituted for first class air fares and the cost of two copies of the transcript is added.

The rate department charges to applicant average \$148 per day. For purposes of this proceeding 17 days at \$100 per day (\$1700) would be a most generous allowance for charges from a nonutility service company.

\$1,500 for travel time and out-of-pocket costs is reasonable for this proceeding.

Attorneys fees, including out-of-pocket costs, should be no more than \$1,000.

We find that \$4,200 spread over three years is the reasonable rate case expense for this proceeding.

We agree completely with the staff's disallowance of past rate case expenses.

Depreciation Expense and Reserve

By Decision No. 50963 dated January 10, 1955 in Application No. 35620, the Commission ordered applicant to use the straight-line remaining life accrual method. The rates by accounts were to be reviewed at intervals of five years. The last review was made in 1970, hence the next one is due in 1975. Applicant and staff computed the estimated 1973 accrual on the basis of the presently effective rates by accounts, which appear reasonable for use in this proceeding. For income tax purposes, applicant and staff used accelerated depreciation to the maximum extent permissible.

According to applicant, in 1970, 1971, and 1972 depreciation on the entire depreciable plant in service including contributed property was charged to Depreciation (Account 503) and credited to Reserve for Depreciation (Account 250). In 1972 the depreciation expense on contributed property included in Account 503 is \$2,133 with \$2,019 attributable to Dunsmuir and \$114 to Fort Jones.

Taxes Other than on Income

Applicant's estimates for taxes other than on income generally reflect past recorded amounts. The staff's lower figures reflect a recent reduction in property taxes. It is our policy to use the latest known tax rates and assessment ratios. We will therefore adopt the staff amounts.

Income Taxes

Applicant computed income taxes without either capital debt interest deductions or prorated surtax exemptions. The staff applied its computed parent company debt ratio and composite interest rate to rate base to develop allocated interest. During recent years applicant's parent, Boise Water Corporation, has included applicant in a consolidated federal income tax filing in which it elected to pay a 6 percent penalty in order to claim the \$25,000 surtax exemption for each of several corporations. The law permitting such filings has now been changed and the provision for taking a surtax exemption for each corporation is being gradually eliminated over three years and will be gone by 1975. The staff has based its income tax calculations on the filing of a consolidated return by Boise Water Corporation with appropriate allocation of the surtax exemption between five corporations. The staff's method of determining income taxes for rate making is proper and will be used.

Rate Base

Applicant's and staff's rate bases are essentially the same. The staff figures are slightly higher because of a \$2,400 adjustment for a returned contribution in aid of construction from the Fire Department.<sup>3/</sup>

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<sup>3/</sup> The project was never installed.

Rate of Return

According to applicant's rate of return witness, a fair and reasonable rate of return to be applied to the rate base of Dunsmuir would be 9.75 percent. However, applicant has applied for rates in this proceeding which would produce a rate of return of approximately 9.5 percent.

According to the staff's rate of return witness, a range of 7.70 percent to 8.00 percent applicable to the respective rate bases for the Dunsmuir District and the Fort Jones District would be reasonable. Such range in rate of return would produce earnings on common stock equity of General Waterworks Corporation ranging from 8.95 percent to 9.59 percent.

In arriving at his recommended fair rate of return for Dunsmuir Water Corporation, applicant's witness first determined that the fair rate of return should be at least adequate to cover the cost of outstanding and immediately projected senior capital and common equity. Second, since all of its capital requirements are being provided indirectly by General Waterworks Corporation,<sup>4/</sup> he concluded that the cost of capital for General should be used in arriving at the fair rate of return for Dunsmuir.

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<sup>4/</sup> As of December 31, 1972 Dunsmuir Water Corporation's current assets included receivables of \$165,077 from Boise Water Corporation and \$42,540 from General Waterworks Corporation. Over the past five years receivables from associated companies have averaged about \$158,000. Applicant's witness described these receivables not as "upstream loans" but as "upstream advances". The distinction drawn by the witness escapes us. Over the past five years gross plant additions totaled \$39,081 while depreciation accruals totaled \$70,806. The five-year average depreciation reserve as recorded is \$204,821.

According to the staff's rate of return witness, a reasonable rate of return should provide for the servicing of a company's fixed charges and allow earnings for common stock equity sufficient to increase retained earnings moderately after payment of a suitable dividend. The earnings allowance for common stock equity is necessarily a judgment based on many considerations, some of which are (a) financial requirements for construction and other purposes, (b) the amount of funds available from advances, contributions, and other sources, (c) Dunsmuir Water Corporation's status as a member of the General Waterworks Corporation group, (d) the consolidated capital structure and related senior security costs of General Waterworks Corporation and subsidiary companies, (e) earnings of other water utilities, (f) recently authorized rates of return, and (g) the objectives of the Federal Government's Economic Stabilization Program.

During cross-examination the staff witness testified that, if he looked at International Utilities Corporation and used its capital structure and costs instead of General Waterworks Corporation's, his recommendation re rate of return would yield about 13 to 14 percent on common equity. He further testified that if he were to again work on Dunsmuir he would use International Utilities instead of General Waterworks, but he would recommend the same rate of return. He characterized the resulting 13 to 14 percent return on common equity as "very generous".

The record is clear that an investor, sophisticated or not, whose investment aim is to buy common stock must, if he is interested in Dunsmuir Water Corporation, buy the common stock of International Utilities. It follows therefore that this Commission should also look to International Utilities. A rate of return of 7.70 percent on the adopted rate base and return on International Utilities' common equity of 13 percent for the future is reasonable.

Quality of Service

At Dunsmuir, the first public witness testified that she could see no reason that the rates should be raised as the water flowed by gravity and was of excellent quality.

The superintendent of the Dunsmuir Elementary School District testified that a one-third increase in rates would ultimately create financial problems for the district.

The third public witness requested that if an increase were granted that the minimum amount of water be increased.

The fourth public witness testified that he could see no reason for a 37 percent increase. In addition, he complained that his pressure meter showed that during the winter he had pressures of 110 pounds.<sup>5/</sup>

At Fort Jones, the mayor (a former employee of applicant) testified that the service was excellent.

Applicant's local manager testified that he placed a recording pressure gauge at complainant's house and that the pressure indicated was 80 pounds.

The staff engineer testified that he made a field inspection of applicant's systems, examined books and records, and concluded that applicant is furnishing reasonably good service - reasonable, not excellent, as one of the tanks was leaking water.

Resolution No. 73-22 of the City Council of Dunsmuir was read into the record by the city manager. It opposed applicant's request and appealed for a denial of applicant's requested increase.

Rate Spread

The staff recommends that for purposes of simplification the number of quantity rate blocks be reduced from six to four. This recommendation is reasonable and will be adopted.

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<sup>5/</sup> Measured by an old meter normally used to measure steam and well within the limits of this Commission's General Order No. 103.

The present meter rates include 600 cubic feet of water in the minimum as do the proposed meter rates. There appears no reason to raise this quantity as it is now at a very generous level compared to the trend to do away with minimum water allowances.

Appendix A, attached, shows the authorized rates.

#### Adopted Results

A summary of the adopted test year 1973 earnings at authorized rates is:

<u>Dunsmuir and Fort Jones</u>	
Operating Revenues	\$106,570
<u>Deductions</u>	
Operating Expenses	53,360
Depreciation	10,030
Taxes, Others	12,600
Income Taxes	<u>9,710</u>
Total Expenses	85,700
Net Operating Revenue	20,870
Rate Base	271,000
Rate of Return	7.7%

#### Findings

1. Applicant is in need of additional revenues, 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 indicate that results of applicant's operation in the near future will produce a reasonable rate of return.
3. A rate of return of 7.70 percent on the adopted rate base and return on International Utilities' common equity of 13 percent for the future is reasonable.
4. The increases in rates and charges authorized herein totaling \$7,770 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. Service meets the requirements of General Order No. 103.

Conclusion

The application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that Dunsmuir Water Corporation is authorized to file the revised schedules attached to this order as Appendix A, and concurrently to cancel its present schedules for such service. The filings shall comply with General Order No. 96-A. The effective date of the new and revised tariff sheets shall be four days after the date of filing. The new and revised schedules 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 20th  
day of FEBRUARY, 1974.

Vernon L. Spencer  
President  
William J. Sproule  
William J. Sproule  
William J. Sproule  
William J. Sproule  
Commissioners



APPENDIX A  
Page 1 of 2

Schedule No. DU-1

Dunsmuir Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Dunsmuir and vicinity, Siskiyou County.

RATES

		Per Meter Per Month	
Quantity Rates:			
First	600 cu.ft. or less .....	\$ 3.00	(I)
Next	2,400 cu.ft., per 100 cu.ft. ....	.46	(C)
Next	9,000 cu.ft., per 100 cu.ft. ....	.27	(C)
Over	12,000 cu.ft., per 100 cu.ft. ....	.14	(I)
Minimum Charge:			
For	5/8 x 3/4-inch meter .....	3.00	(I)
For	3/4-inch meter .....	4.00	(I)
For	1-inch meter .....	6.20	
For	1 1/2-inch meter .....	11.80	
For	2-inch meter .....	16.50	
For	3-inch meter .....	28.00	
For	4-inch meter .....	38.00	
For	6-inch meter .....	60.00	
For	8-inch meter .....	82.00	

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

SPECIAL CONDITION

All billing under this schedule to customers in the City of Dunsmuir is subject to a surcharge of 2.0%.

APPENDIX A  
Page 2 of 2

Schedule No. FJ-1

Fort Jones Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Fort Jones and vicinity, Siskiyou County.

RATES

Quantity Rates:

	Per Meter Per Month	
First 600 cu.ft. or less .....	\$3.00	(I)
Next 1,400 cu.ft., per 100 cu.ft. ....	.36	(C)
Next 8,000 cu.ft., per 100 cu.ft. ....	.18	(C)
Over 10,000 cu.ft., per 100 cu.ft. ....	.09	

Minimum Charge:

For 5/8 x 3/4-inch meter .....	3.00	(I)
For 3/4-inch meter .....	3.10	
For 1-inch meter .....	3.35	
For 1 1/2-inch meter .....	3.85	
For 2-inch meter .....	5.80	
For 3-inch meter .....	7.70	

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.