

Decision No. 83746

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA-PACIFIC UTILITIES
COMPANY, a California corporation,
for authority to increase its rates
for water service in its Weaverville
Division.

Application No. 54224
(Filed August 3, 1973)

Orrick, Herrington, Rowley & Sutcliffe, by
James F. Crafts, Jr., Attorney at Law, for
California-Pacific Utilities Company, applicant.
Bill Neill, Attorney at Law, for Trinity County,
protestant.
William H. Edwards, Attorney at Law, and Ralph O.
Hubbard, for the California Farm Bureau Federation,
interested party.
Peter Arth, Jr., Attorney at Law, and Don Houck,
for the Commission staff.

O P I N I O N

By this application, California-Pacific Utilities Company, a California corporation (applicant),^{1/} requests increases in water rates which are designed to increase annual revenues in the test year 1973 by approximately \$67,133 over the rates now in effect. Copies of the application were served and notice of hearing was published, posted, and mailed in accordance with this Commission's Rules of Practice and Procedure.

^{1/} Applicant owns and operates public utility electric, gas, water, and telephone systems in various parts of California; electric, gas, and telephone systems in Oregon; electric, gas, water, and telephone systems in Nevada; and electric systems in Utah and Arizona. Applicant is also engaged in the nonutility sale of liquefied petroleum gas in Oregon. Applicant's principal place of business is located at San Francisco, California.

Public hearing was held at Weaverville on March 19 and 20, 1974 before Examiner Gillanders. The matter was submitted on March 20, 1974, subject to receipt of late-filed Exhibits 2, 9, 10, and 11. These exhibits were presented by applicant under cover of letters dated May 8 and 9, 1974 and the matter submitted for decision.

Oral and written testimony on behalf of applicant was presented by six witnesses. The Commission staff presentation was made by a rate of return expert and an engineer. Eighty members of the public attended the hearing, of whom seven testified regarding applicant's service and their views regarding the proposed increase. The District Attorney stated Trinity County's opposition to the proposed increase.

Applicant's Weaverville Division Water Operations

Applicant supplies water for residential, commercial, industrial, and fire protection service in the town of Weaverville and adjacent territory. Water is obtained from East Weaver Creek by means of a diversion dam located some four miles north of the center of town. Emergency service to a small portion of Weaverville is available from the Moon Lee Ditch and some supplemental water is available from West Weaver Creek.

Applicant's Position

At present rates, the rate of return for the year 1973 estimated is a negative amount. A reasonable rate of return, taking into consideration applicant's capital structure, the embedded cost of long-term debt and preferred stock, and the current and prospective financial markets would be no less than 9.00 percent. This would result in a return on equity of approximately 12-1/2 percent, which is a minimum return necessary to attract new capital at the lowest possible cost.

The last increase in general metered service rates was made effective September 1, 1964 pursuant to Commission Decision No. 67548. Rates for public fire hydrant service and private fire protection

service have been effective since October 1, 1962 as provided for in Decision No. 64187. Applicant's proposed rates are designed to produce additional gross revenues on an annual basis of approximately \$67,300 or a 100 percent increase.

Applicant is not in favor of obtaining an increase in two steps as suggested by the staff.

Staff's Position

A staff engineer recommended that if an increase of the magnitude requested is authorized that approximately one-half of such increase be deferred until one year after the effective date of the initial increase in order to lessen the financial impact on customers.

The staff's rate of return witness testified that an 8.45 percent rate of return applied to the staff engineer's rate base would be fair and reasonable. Such a return would require an increase in revenues of \$60,866 or 90.44 percent of applicant's request.

Public's Position

Eighty members of the public attended the hearing, all of whom were against the proposed increase for one reason or another. ✓

Exhibit 1 is a letter signed by two homeowners protesting the increase and complaining of repeated breaks in the pipes. The signers requested that the application be denied. Exhibit 3 is a petition with 490 signatures which states, among other things, that the proposed increase in water rates is beyond all reason. Exhibit 4 is a petition signed by 240 people of Trinity County protesting the increase in price of water.^{2/}

^{2/} In 1972 the average number of customers was 804.

A student from Trinity High School testified that after discussing the proposed rate increase with his fellow students it was his recommendation that rates should be increased to the big users.

The pastor of the First Baptist Church testified that in many cases the company used four-five men to do a job which two men could do.

A gentlenan testified that the service was good but that the system was overbuilt in that it was designed for a population of 7,500. Consequently, there was no need to purchase the Moon Lee system.

A lady testified that she would not object to a 10 percent increase but she believed a 100 percent increase was unreasonable.

The chief of the Weaverville Volunteer Fire Department testified that the free flow of the system was but 168 gallons per minute; that the fire flow at the high school was inadequate; that the valves and hydrants were furnished by the fire district; that he was stopped by the company from flushing the hydrants; that certain hydrants were full of sediment; and that the company had no program for flushing hydrants.

A summary of operations as presented by applicant and staff is set forth below:

California-Pacific Utilities Company
Weaverville Division, Water Department
Comparison of Staff and Utility Summary of Earnings
1973 Estimated

Item	Staff	Utility	Utility Exceeds Staff: Amount	Ratio
<u>Present Rates</u>				
Operating Revenues	\$ 67,100	\$ 66,300	\$ (800)	(1.2)%
<u>Operating Expenses</u>				
Operation & Maintenance	33,100	31,900	(1,200)	(3.6)
Administrative & General	13,800	13,600	(200)	(1.4)
Depreciation	14,300	14,300	-	-
Taxes Other Than on Income	11,700	12,600	900	7.7
Taxes Based on Income	<u>(16,100)</u>	<u>-</u>	<u>16,100</u>	<u>(100.0)</u>
Total Operating Expenses	56,800	72,400	15,600	27.5
Net Revenues	10,300	(6,100)	(16,400)	(159.2)
Depreciated Rate Base	460,800	487,700	26,900	5.8
Rate of Return	2.24%	(1.25)%	(3.49)%	-
	<u>Staff</u>	<u>Utility</u>	<u>Adopted Results</u>	
Operating Revenues	\$135,100	\$133,600 ^{1/}	\$132,270	
<u>Operating Expenses</u>				
Operation & Maintenance	33,500	32,200	33,500	
Administrative & General	13,800	13,600	13,800	
Depreciation	14,300	14,300	11,300	
Taxes Other Than on Income	11,700	12,600	11,700	
Taxes Based on Income	<u>19,500</u>	<u>17,000</u>	<u>18,000</u>	
Total Operating Expenses	92,800	89,700	91,300	
Net Revenues	42,300	43,900	40,970	
Depreciated Rate Base	460,800	487,700	460,800	
Rate of Return	9.18%	9.00%	8.89%	

(Red Figure)

^{1/} Company Table 4-A indicates application of proposed rates will produce \$133,500, \$100 short of \$133,600 required to produce 9.0% R/R. \$133,500 will produce 8.98% R/R.

As shown above, the major differences between staff and applicant are in the item of income taxes and rate base.

The staff explains these differences thusly:

- "5. Other income deductions consist of five items which were treated as follows:
- a. The staff excluded dues and donations from the total company income deductions in the amount of \$23,000 since amounts for these types of expenses are not properly included in operating expenses by either the utility or the staff.
 - b. The utility estimated interest on long-term debt at \$2,511,000 and amortization of debt discount and expense at \$18,000. The staff calculated a weighted average of these two items at \$2,537,000 by applying the 1973 year-end effective rates to monthly balances of net proceeds to total company.
 - c. The staff accepted the utility estimates of \$171,000 for other interest expense and \$6,200 for preferred dividends of total company.
 - d. The sum of the five items comprising other income deductions was allocated to the Weaverville Water Department on the basis of net plant in service. The allocation factor is 0.76% for 1973.
- "6. In calculation of tax depreciation, as shown in its results of operations report, the utility used the straight-line method for all plant installed prior to 1965 and for all building additions installed in years 1971 through 1973. The double-declining balance method was used by the utility for plant installed during the years 1965 through 1973 (less building additions installed during the years 1971 through 1973). The difference between federal and state tax depreciation is attributable to earlier authorization of accelerated depreciation, for some categories of plant, by the Internal Revenue Service.

- "7. In September, 1973, the utility elected to use the Class Life System and Asset Depreciation Range for calculating its federal income tax, beginning with the year 1971. The staff calculated its estimate of FIT for 1973 in accordance with the CLS/ADR procedures using staff estimated additions.
- "8. The utility also recently decided to calculate depreciation for California Corporation Franchise Tax on a base of depreciable plant, excluding contributions in aid of construction, beginning in 1973, instead of excluding both contributions and customer advances as was done in prior years. The utility R/O report does not reflect this recent decision. The staff calculated its estimate of CCFT for 1973 on this new basis using staff estimated additions.
- "9. The staff excluded the \$300 adjustment to income for construction overheads expensed in prior years. It has been determined that this benefit accrued to stockholders in the form of reduced taxes during the years that these amounts were expensed. Therefore, the inclusion of this item, at this time, would require the ratepayers to pay for a benefit which was reaped by the stockholders in past years.
- "10. Job development investment credit (JDIC) is calculated at 4% of gross additions to plant. The utility's estimate of \$2,900 in JDIC was based on its 1973 estimate of \$70,700 in plant additions. The staff's \$1,300 estimate of JDIC is based on the average annual plant additions for the years 1969-1972 recorded and 1973, as estimated by the staff.

"Comparison of Staff and Utility Water Plant in Service
1973 Estimated

Item	Staff (a)	Utility (b)	Utility Exceeds Staff:	
			Amount (c)	Ratio (d)
Water Dept. Plant in Service 1/1/73	\$680,800	\$680,800	\$ -	-%
Less General Plant	<u>(6,100)</u>	<u>(6,100)</u>	-	-
Direct Plant in Service 1/1/73	674,700	674,700	-	-
1973 Net Additions	<u>10,900</u>	<u>69,400</u>	<u>58,500</u>	<u>536.7</u>
Direct Plant 12/31/73	685,600	744,100	58,500	8.5
<u>Allocated Common Plant</u>				
Weaverville Division	25,900	26,200	300	1.2
General Office	<u>1,800</u>	<u>1,800</u>	-	-
Allocated Subtotal	27,700	28,000	300	1.1
Total Plant in Service 12/31/73	713,300	772,100	58,800	8.2

(Inverse Item)

Rate Base

* * *

"d. The staff weighted plant additions at 42.41%, in accordance with the month in which the plant additions were placed in service, in order to determine estimated weighted average net plant. (Line 13, Table 11-A) The utility used the arithmetical average of recorded beginning and estimated end-of-year net plant for its corresponding estimate."

It is the policy of this Commission to use 13 months weighted average additions to plant in determining rate base. The staff's rate base calculations will be adopted, as will be the staff's tax calculation.

Rate of Return

After making the customary studies^{3/} involved in rate of return determinations, it was the opinion of one of applicant's assistant treasurers that the rates proposed by applicant would result in a rate of return of 9.00 percent on the Weaverville Water Division rate base. Such rate of return would produce a rate of return on common equity in the range of 12-1/2 percent to 13-1/2 percent.

He testified that many factors are considered in arriving at his recommended rate of return, but the three tests which are used generally are derived from decisions of the United States Supreme Court. They include a comparison of the earnings of this company with the earnings of comparable companies with comparable risks, a consideration of whether the rates are sufficiently high to enable the company to continue to attract capital that is needed for supplying the utility service that it is obligated to supply, and whether they are sufficient to permit the company to maintain its credit and financial integrity.

In the final analysis, according to the witness, the selection of what is a fair and reasonable rate of return, however, is a subjective opinion; it is not a mathematically precise exercise. It is not a factual matter that is capable of being proven as is the number of vehicles the company uses. That is why expert opinion evidence is required on the issue of a fair and reasonable rate of return.

Some of the many factors considered by the witness in arriving at his subjective opinion include things such as the characteristics of the locality served by the company, the size of the company in comparison to other utilities, the capital structure of the company, the financial history and earnings experience that the

3/ Exhibit 7 contains 9 tables in support of the rate of return requested by applicant.

company has had, the requirement that the company pay reasonable dividends to its common stockholders, the future debt and equity needs of the company, the internally supplied funds the company is able to generate, the trend of long-term interest rates, the trend of interest coverages, the fact that the embedded cost of debt in the company will continue to rise even though current interest rates are lower than their peaks, the degree of anticipated inflation, the possibility of an economic downturn nationally or locally, and the level of applicant's rates as compared to the level of other rates.

Another important factor is the anticipated regular increases which can be expected in the costs that the company pays for the gas or electricity which it purchases from other sources and the policy of the regulatory body in authorizing or not authorizing the tracking or the passing through to customers of those increased costs. Such increases can be reasonably anticipated on the basis of the increasing fuel and construction costs that these suppliers are experiencing.

The Commission's rate of return expert prepared a study (Exhibit 13) consisting of text and 16 tables. Based upon his study it was his judgment that a range for rate of return of 8.45 percent to 8.65 percent was applicable to the rate base to be determined for the Weaverville Division Water Department of applicant. Within this rate of return range, according to the witness, the allowance for common equity is 11.21 percent to 11.73 percent. He recommended that an 8.45 percent rate of return would be reasonable and would cover fixed charges for senior securities and allow earnings for common equity sufficient to increase retained earnings moderately after payment of a suitable dividend. Such a return would also enable the utility to serve its consumers efficiently and to obtain additional capital at reasonable costs when needed in order to satisfy the public's demands for its services.

The earnings allowance for common equity, according to the witness, is necessarily a judgment based on many considerations, some of which are (a) capital structure and related costs, (b) trends in interest rates and coverage for senior securities, (c) earnings experience of applicant and other utilities, (d) capital requirements and sources of financing, and (e) the objectives of the Federal Government's Economic Stabilization Program.

Service

A field investigation of the utility's Weaverville water operations, service, and facilities was made by the staff engineer during the week of October 29, 1973. The plant, on the whole, was in satisfactory condition and it appeared to him that good service was being provided. Customers were interviewed and they generally seemed satisfied with the service and quality of the water. The principal of Trinity High School complained of occasional low pressure although a check made by the staff engineer indicated operating pressures of approximately 50 psi. Another customer recalled sediment in the water which was cleared by flushing the mains.

There were no informal complaints from Weaverville water customers filed with the Public Utilities Commission during the years 1971 through 1973.

The Farm Bureau representative presented three sets of bills which members of his organization believed were erroneous. These bills were given Exhibits Nos. 9, 10, and 11, late-filed. Upon receipt of these exhibits on May 8, 1974 it appeared that the bills were in fact proper.

It has long been the policy of this Commission that a water utility may be required to supply water for the use of fire fighting departments or agencies only to the extent that water for such purposes is available in the normal course of its operations.

The Commission is currently reconsidering this policy in Case No. 9263, a proceeding to consider the establishment of fire protection standards. As of this date no decision has been reached in this proceeding.

Applicant's local manager testified that its water supply was barely adequate and that during a hot summer it must draw down its large reservoir almost to depletion. On the other hand, during the winter season, the record shows that vast quantities of water flow down East Weaver Creek bypassing applicant's diversion dam.

Applicant's manager testified that because of the water supply situation, applicant had no flushing program. It seems elementary that applicant could easily flush the fire hydrants during the winter season without affecting its summer operations one iota.

Exhibit 2 shows that the Department of Public Health of the State of California requires filtration of applicant's surface water supply under Sections 4010 through 4035 of the Domestic Water Law.

In an effort to avoid the high costs of filtering its surface water supply, applicant has diligently tried to develop a "well farm". All it obtained was a dry hole. It appears from this record that applicant must, in the near future, expend considerable funds to conform to the Health Department orders. None of the "dry hole" costs are included in this proceeding.

Findings

1. Applicant is in need of additional revenues, but the proposed rates set forth in the application are slightly excessive.
2. The staff's estimates of operating revenues, expenses, including taxes, depreciation, and rate base for the test year 1973 are reasonable.
3. A rate of return of 8.89 percent on the adopted rate base and return on common equity of 12.35 percent for the future is reasonable. Rates should be increased by approximately \$65,170
4. Schedule WE-2L, Limited Flat Rate Service, should be eliminated as requested by applicant as no customers are presently being served on this schedule.

5. Applicant, in conjunction with the Fire Department, should flush fire hydrants during periods of excessive creek flow.

6. 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.

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 after the effective date of this order applicant is authorized to file the revised rate schedules attached to this order as Appendix A and to cancel Schedule No. WE-2L, Limited Flat Rate Service. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

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

Dated at San Francisco, California, this 26th day of NOVEMBER, 1974.

Commissioner THOMAS MORAN

Present but not participating.

William L. Sturgis
President
William J. Givens

Robert E. McFarland
Commissioners

APPENDIX A
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Schedule No. WE-1

Weaverville Division Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Weaverville and vicinity, Trinity County.

RATES

Quantity Rates:

	Per Meter Per Month	
First 500 cu.ft. or less	\$ 5.00	(I)
Next 1,500 cu.ft., per 100 cu.ft.68	
Next 3,000 cu.ft., per 100 cu.ft.53	
Over 5,000 cu.ft., per 100 cu.ft.39	

Minimum Charge:

For 5/8 x 3/4-inch meter	5.00	
For 3/4-inch meter	6.50	
For 1-inch meter	10.00	
For 1-1/2-inch meter	18.00	
For 2-inch meter	26.00	
For 3-inch meter	42.00	
For 4-inch meter	60.00	
For 6-inch meter	110.00	
For 8-inch meter	180.00	
For 10-inch meter	260.00	(I)

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

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Schedule No. WE-4

Weaverville Division Tariff AreaPRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Weaverville and vicinity, Trinity County.

RATESPer Month

For each 1-1/2-inch service connection	\$ 4.50	(I)
For each 2-inch service connection	6.00	
For each 3-inch service connection	9.00	
For each 4-inch service connection	12.00	
For each 6-inch service connection	18.00	
For each 8-inch service connection	24.00	
For each 10-inch service connection	30.00	(I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

2. The diameter for fire protection service shall be not more than the diameter of the main to which the service is connected.

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in
(Continued)

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Schedule No. WE-4

Weaverville Division Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

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Schedule No. WE-5

Weaverville Division Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized fire districts and other political subdivisions of the State.

TERRITORY

Weaverville and vicinity, Trinity County.

RATES

Per Month

- | | | |
|---|--------|-----|
| 1. For each hydrant on four-inch or larger mains | \$3.00 | (I) |
| 2. For each hydrant on mains smaller than four-inch ... | 2.00 | (I) |

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges shall be made at the quantity rates under Schedule No. WE-1, General Metered Service.

2. The cost of installation and maintenance of hydrants shall be borne by the customer.

3. Relocation of any hydrant shall be at the expense of the party requesting relocation.

4. Fire hydrants shall be attached to the utility's distribution mains upon receipt of proper authorization from the appropriate public authority. Such authorization shall designate the specific location at which each is to be installed.

(Continued)

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Schedule No. WE-5

Weaverville Division Tariff Area

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS--Contd.

5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

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Schedule No. AA-10

All Districts

EMPLOYEES' SERVICE

(T)

APPLICABILITY

Applicable to residence water service for regular full-time employees (T)
and pensioners of the utility. (T)

TERRITORY

Throughout the territory served by California-Pacific Utilities Company
in the State of California.

RATE

A discount of fifty percent (50%) from the filed schedule applicable.

SPECIAL CONDITIONS

1. A "regular full time" employee is one so classified by the management. To be eligible for this classification, an employee must have completed at least three months' continuous service with the utility and normally work at least 40 hours per week. (C)
2. This schedule does not apply to service to spouses of deceased employees or pensioners. All service under this schedule must be in the name of a regular full-time employee or pensioner.
3. Service hereunder is available only to the single family residence where the employee or pensioner normally lives. Only one such service per employee or pensioner is permitted under this schedule. (C)