

Decision No. 84874**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of CALIFORNIA WATER SERVICE COMPANY,  
a corporation, for an order autho-  
rizing it to increase rates charged  
for water service in the Bakersfield  
district.

Application No. 55053  
(Filed July 23, 1974;  
amended December 26, 1974)

McCutchen, Doyle, Brown & Enerson, by A. Crawford  
Greene, Attorney at Law, for applicant.  
Verner R. Muth, for Garden Water Corporation,  
interested party.  
Walter H. Kessenick, Attorney at Law, Kenneth Chew,  
and Ernst G. Knolle, for the Commission staff.

INTERIM OPINION

California Water Service Company (CWS) seeks an increase in its Bakersfield District rates, in the form of step rates, to produce an 8.85 percent average rate of return through 1977. The proposed rates would produce \$1,422,500 increase in gross revenues in 1975 assuming they were effective for the full year or a 32.60 percent increase.

After duly noticed filing of the application and amendment, public hearings were held in Bakersfield on March 4 through 6, 1975 before Examiner Bernard A. Peeters. Further hearings on the matter were held in conjunction with CWS's applications for increased rates in its Hermosa-Redondo Beach District and the Dixon District. The matter was submitted in San Francisco on March 20, 1975, subject to the filing of two late-filed exhibits. Those exhibits were filed on April 18, 1975.

On June 26, 1975, CWS filed its petition for interim relief. During the pendency of the hearings the Kern County Water Agency (Agency) adopted Resolution No. 20-75 on April 10, 1975 which established a ground water charge (pump tax) of \$15 per acre-foot for all water other than agricultural water, applicable to the 1975-76 water year. The water year is July 1 to June 30. Because of the magnitude of the pump tax (about \$750,000 for the 1975 test year) which became effective July 1, 1975, CWS believes it would be inappropriate to defer offsetting the major new expense until the less significant issues, in terms of dollars, can be decided.

#### Discussion

We believe it is appropriate to consider interim rate relief under the circumstances here, rather than wait until a final decision is made on all of the issues. Under other circumstances CWS could have filed for an offset under the advice letter proceeding and received relief promptly.

There is no disagreement between the staff and CWS with respect to the water production (49,807 acre feet) to which the Agency will apply the pump tax. Original computations by both the staff and CWS were based upon the maximum tax Agency could impose - \$20 per acre foot.

In recomputing its summary of earnings to reflect the \$15 tax, CWS used the staff figures found in Exhibit 24, page 1, column j. A \$741,100 negative adjustment was made to the Operating and Maintenance expense under present rates to back out the pump tax. The Income Tax expense was also adjusted by an amount of \$365,600. The restated summary of earnings by CWS under present rates and proposed rates for interim relief is as follows:

Summary of Earnings  
1975 Test Year  
 (000 omitted)

	<u>Present Rates</u>	<u>Proposed Interim Rates</u>	
		<u>Change</u>	<u>Total</u>
Operating Revenues	\$4,373.7	\$756.2	\$5,129.9
<u>Operating Expenses</u>			
Oper. & Maint.	1,448.3	747.1	2,195.4
Admin. & Gen'l.	70.9		70.9
Miscellaneous	10.1		10.1
Taxes o/t Income	532.5	9.5	542.0
Depreciation	455.5		455.5
SIT Amortization	5.6		5.6
Alloc. Expenses	313.4		313.4
Total	2,836.3	756.6	3,592.9
Income Taxes	404.1	(0.2)	403.9
Total Optg. Exp.	3,240.4	756.4	3,996.8
Net Operating Income	1,133.3	(0.2)	1,133.1
Depreciated Rate Base	\$14,401.3		\$14,401.3
Rate of Return	7.87%		7.87%

(Red Figure)

The staff has submitted its report on the Petition for Interim Relief. The report will be received in evidence as Exhibit 29. Among other recommendations, it states that the interim relief sought may be granted ex parte.

The staff disagrees with the amount of interim revenue sought by CWS. It recommends that the sought revenue be reduced in the amount of \$59,900 to benefit the ratepayer by flowing through the \$28,000 additional investment tax credit authorized by the Tax Reduction Act of 1975. The staff's reduction of CWS's request will not exceed the previously authorized rate of return of 7.85 percent authorized in Decision No. 81661 dated July 31, 1973, nor increase the present rate of return.

A restated summary of earnings reflecting the increase authorized herein is as follows:

<u>Summary of Earnings</u> <u>1975 Test Year</u> (000 omitted)	
	<u>Authorized Interim Rates</u>
Operating Revenues	\$5,070.0
<u>Operating Expenses</u>	
Oper. & Maint.	2,195.4
Admin. & Gen'l.	70.9
Miscellaneous	10.1
Taxes o/t Income	541.2
Depreciation	455.5
SIT Amortization	5.6
Alloc. Expenses	313.4
Total	<u>3,592.1</u>
Income Taxes	<u>372.0</u>
Total Optg. Exp.	<u>3,965.1</u>
Net Operating Income	1,105.3
Depreciated Rate Base	\$14,401.3
Rate of Return	7.67%

The granting of interim rate relief is an extraordinary remedy. It is applicable only in the instance where an emergency situation is shown that the minimum financial obligations of the utility cannot be met prior to the establishment of definitive rates. (Coast Counties Gas & Electric Co., (1951) 50 CPUC 580, 586.)

On the other hand, an offset proceeding is one where the utility is faced with an immediate known increase in expenses that will seriously erode its earnings if some relief is not granted. In recognition of this situation, the Commission has adopted a policy of permitting relief to be sought through the advice letter procedure, whereby only the increased expense is offset by increased rates, with no change in rate of return.

Here we have a petition for an offset of a pump tax which expense represents about three quarters of a million dollars out of the \$1,422,500 increase being sought. There has been a full record made on the application and the staff has analyzed the Petition for Interim Relief. The staff's recommended reduction of the sought interim revenue increase does not increase the rate of return nor does it exceed that last authorized, as does CWS's proposal. We will adopt the staff proposal.

#### Findings

1. The pump tax established by Agency is \$15 per acre foot rather than the \$20 used by staff and CWS in their computations to become effective July 1, 1975.

2. CWS's method of income tax adjustment in connection with the increased investment tax credit authorized by the Tax Reduction Act of 1975 does not pass the benefit on to the ratepayer, and produces an increase in rate of return over that last authorized.

3. The staff's method of adjusting the income tax expense related to the investment tax credit is reasonable and passes the benefit on to the ratepayer.

4. CWS is entitled to an increase in revenues in the amount of \$696,300 (15.9%) to offset the increased pump tax and corresponding changes in income tax.

5. The revenue increase in Finding 4 will not produce earnings greater than CWS's last authorized rate of return, nor cause any change in the rate of return under present rates.

6. The schedule of rates in Appendix A are reasonable for interim rates to recover only the increased expense.

7. A public hearing is not necessary.

#### Conclusion

California Water Service Company should be authorized to file the increased rates set forth in Appendix A.

INTERIM ORDER

IT IS ORDERED that:

1. California Water Service Company is authorized to establish the increased rates in Appendix A. Tariff publications authorized to be made as a result of this order shall be filed not earlier than the effective date of this order and may be made effective not earlier than five days after the effective date of this order on not less than five days' notice to the Commission and to the public.

2. The authority shall expire unless exercised within ninety days after the effective date of this order.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 3rd  
day of SEPTEMBER, 1975.

William J. Synge President  
George L. Stangen  
Robert S. Kinnel Commissioners

APPENDIX A  
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Schedule No. BK-1

Bakersfield Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Bakersfield and vicinity, Kern County.

RATES

Per Meter Per Month

Quantity Rate:

For all water delivered per 100 cu.ft. ....	\$ 0.170	(I)
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Service Charge:

For 5/8 x 3/4-inch meter .....	3.00
For 3/4-inch meter .....	3.30
For 1-inch meter .....	4.50
For 1 1/2-inch meter .....	6.00
For 2-inch meter .....	8.10
For 3-inch meter .....	15.00
For 4-inch meter .....	20.40
For 6-inch meter .....	33.90
For 8-inch meter .....	50.40
For 10-inch meter .....	62.40

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rate.

APPENDIX A  
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Schedule No. BK-2R

Bakersfield Tariff AreaRESIDENTIAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Bakersfield and vicinity, Kern County.

RATESPer Service Connection  
Per Month

1. For a single-family residential unit,  
including premises having the following  
area:

6,000 sq.ft. or less .....	\$ 8.32	(I)
6,001 to 10,000 sq.ft. ....	9.18	
10,001 to 16,000 sq.ft. ....	11.86	
16,001 to 25,000 sq.ft. ....	15.40	

2. For each additional single-family  
residential unit on the same premises  
and served from the same service  
connection .....

5.35 (I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than  
one inch in diameter.

(Continued)



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Page 3 of 4

Schedule No. BK-2R

Bakersfield Tariff Area

RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS - Contd.

2. All service not covered by the above classification will be furnished only on a metered basis.

3. Meters shall be installed if either the utility or customer so chooses for above classification, in which event service thereafter shall be furnished on the basis of Schedule No. BK-1, General Metered Service.

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PROPOSED INTERIM RATES

Schedule No. BK-2L

Bakersfield Tariff Area

LIMITED FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished to customers listed on this schedule.

TERRITORY

Bakersfield and vicinity, Kern County.

RATES

	<u>Per Month</u>	
Jewelry Store .....	\$ 5.79	(I)
Shoe Store .....	5.79	
Lamp Store .....	5.79	
Plant Store .....	5.79	(I)

SPECIAL CONDITIONS

1. No new service connections may receive service under this schedule.
2. Meters shall be installed if the utility chooses for the above customers, in which event service thereafter shall be furnished on the basis of Schedule No. BK-1, General Metered Service.