

Decision No. 86014

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 authorizing
it to increase rates charged for water
service in the Bear Gulch district.

Application No. 55327
(Filed November 20, 1974)

McCutchen, Doyle, Brown & Enersen, by A. Crawford
Greene, Attorney at Law, for California Water
Service Company, applicant.
Walter H. Kessenick, Attorney at Law, and Ernst G.
Knolle, for the Commission staff.

FINAL OPINION

By Decision No. 85283 dated December 30, 1975 we authorized California Water Service Company (CWS) to increase its rates to produce additional revenue in the amount of \$202,700 on a preliminary basis, pending resolution of certain company-wide issues and the effect of a proposed filter plant to be installed in the Bear Gulch District. A hearing was held on April 19, 1976 regarding the filter plant.

Preliminary Order

The preliminary order was based upon the staff's recommendations for normal-year water sales, normal-year expenses exclusive of those related to the new filter plant, purchased power at Pacific Gas and Electric Company rates which became effective on September 21, 1975, payroll expense at the 1975 wage rate level, rate base exclusive of effect of the new filter plant, the temporary increase to 10 percent from 4 percent in investment tax credit (ITC), and the staff's post-refinancing recommended rate of return. The resulting summary of earning at the authorized rates set forth in the preliminary order is shown in column (a) of Table II.

The Issues

The preliminary order did not dispose of the following issues with respect to the Bear Gulch District:

- (1) Effect of changed accounting for State Corporation Franchise Tax.
 - (a) Does the accounting change result in an immediate saving in federal income taxes (FIT) or only a potential ultimate saving if and when applicant goes out of business?
 - (b) Should the amortization of the SCFT not previously expensed be retroactive or should it be prospective for future years commencing with the first year in each district that the change is recognized in setting rates?
- (2) Should capitalized overheads be increased?
- (3) What is a reasonable rate of return?

The jurisdictional service area and service facts were set forth in D.85283, and will not be repeated.

State Corporation Franchise Tax

The prepaid franchise tax issue resulting from an accounting changeover was considered and decided in D.85161 dated November 25, 1975 in A.55177. We again considered this issue in our final order on CWS's eight prior applications, D.85847, dated May 18, 1976, A.55053, et al. In both decisions we found it unreasonable to include in future revenues an allowance to amortize amounts in the Prepaid Franchise Tax Account. We will follow those findings here.

Capitalized Overheads

The capitalization of overheads issue was considered and decided in D.85847, cited above. There we adopted the staff's approach, which we will do here. Our reasons were set forth in that decision and will not be repeated.

Rate of Return

In D.85847 we adopted a 9.7 percent rate of return, setting forth our reasons therefor. We will not repeat that discussion. A 9.7 percent rate of return will be adopted for this proceeding.

Step Rates

CWS proposes step rates to be effective during the years 1975-1977. While the passage of time has rendered moot the step rate proposals for 1974 and 1975, we will authorize step rates for this district because of special conditions and the financial impact of the installation of a new filter plant.

Rates

Table I presents a comparison showing CSW's rates authorized in our preliminary order in D.85283, its proposed rates, and the adopted rates. The increases which we are authorizing amount to \$50,600 in 1976, and \$98,000 in 1977. The service charge increases amount to \$0.06 in 1976, and \$0.10 in 1977, and the quantity rate increases amount to \$0.008 in 1976 and \$0.014 in 1977.

TABLE I

Bear Gulch District

<u>Item</u>	<u>Comparison of Monthly Rates</u>					
	<u>D.85283 Present Rates</u>	<u>Requested Rates</u>			<u>Authorized Rates</u>	
		<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>	<u>1977</u>
<u>General Metered Service</u>						
Service Charge ^a	\$3.64	\$3.75	\$3.87	\$4.04	\$3.70	\$3.80
Quantity Rate, per 100 cu.ft.	0.479	0.489	0.506	0.526	0.487	0.501

^a Service charge for a 5/8 x 3/4-inch meter. A graduated scale of increased charges is provided for larger meters.

Results of Operations

Payroll, Payroll Related Expenses,
Postage, and Ad Valorem Taxes

Operating expenses adopted in D.85283 reflected company direct wage rates, indirect fringe benefits, and postage rates in effect for the year 1975. Since that time, the direct wage rates increased by approximately 9.5 percent in 1976. Various fringe benefits change in proportion to wage rates. Payroll tax rates and bases increased effective January 1, 1976, resulting in a 17.6 percent increase in expense for this district. Postage rates have increased to 13 cents from 10 cents for first class mail or an increase of 30 percent. The ad valorem taxes adopted in the preliminary order reflected the 1974-75 fiscal year composite effective tax rate of 2.312 percent. The 1975-76 fiscal year composite tax rate has now been established at 2.080 percent. The impact of the changes in these items of expense are summarized in column (c) of Table II.

Effect of Filter Plant

The preliminary order did not take into account the effects of the new filter plant on the summary of earnings. All parties agreed that consideration of those effects should be deferred to the final order for this district which disposes of the issues hereinabove discussed.

The construction contract agreement for the filter plant was signed during the second full week in April 1976. The low bid contract amounted to \$484,820. The total estimated cost of the filter plant is \$903,840. The target completion date is November 1976. It is anticipated that the plant will be in operation by December 1976.

The impact of the new filter plant on the partial-year basis which will prevail during the calendar year 1976 is summarized in Table II. Because of the significantly different revenue requirements for 1976 and 1977, step rates will be authorized in Bear Gulch in lieu of the single level authorized in the preliminary order before consideration of the effect of the new filter plant.

TABLE III

Pearl Beach District

Summary of Income - 1971
(Dollars in thousands)

Item	Income \$ 3,327		Increase from Increase		Additional Income		Effect of		Effect of		Effect of		Effect of		Effect of		Effect of		Effect of	
	Present	1971	1971	1971	1971	1971	1971	1971	1971	1971	1971	1971	1971	1971	1971	1971	1971	1971	1971	1971
Operating Revenue	\$1,237.3	\$ -	\$1,237.3	\$ -	\$1,237.3	\$ -	\$1,237.3	\$ -	\$1,237.3	\$ -	\$1,237.3	\$ -	\$1,237.3	\$ -	\$1,237.3	\$ -	\$1,237.3	\$ -	\$1,237.3	\$ -
Operating Expenses																				
Maintenance & Administration	1,522.7	-	1,522.7	-	1,522.7	-	1,522.7	-	1,522.7	-	1,522.7	-	1,522.7	-	1,522.7	-	1,522.7	-	1,522.7	-
Plant & Equipment	21.3	-	21.3	-	21.3	-	21.3	-	21.3	-	21.3	-	21.3	-	21.3	-	21.3	-	21.3	-
Plant Other Than Income	234.6	-	234.6	-	234.6	-	234.6	-	234.6	-	234.6	-	234.6	-	234.6	-	234.6	-	234.6	-
Depreciation	217.5	-	217.5	-	217.5	-	217.5	-	217.5	-	217.5	-	217.5	-	217.5	-	217.5	-	217.5	-
Interest Expense	177.0	-	177.0	-	177.0	-	177.0	-	177.0	-	177.0	-	177.0	-	177.0	-	177.0	-	177.0	-
S&P Acquisition	6.1	-	6.1	-	6.1	-	6.1	-	6.1	-	6.1	-	6.1	-	6.1	-	6.1	-	6.1	-
Subtotal	2,278.7	-	2,278.7	-	2,278.7	-	2,278.7	-	2,278.7	-	2,278.7	-	2,278.7	-	2,278.7	-	2,278.7	-	2,278.7	-
Total on Income	231.8	-	231.8	-	231.8	-	231.8	-	231.8	-	231.8	-	231.8	-	231.8	-	231.8	-	231.8	-
Total Operating Exp.	2,450.5	-	2,450.5	-	2,450.5	-	2,450.5	-	2,450.5	-	2,450.5	-	2,450.5	-	2,450.5	-	2,450.5	-	2,450.5	-
Net Operating Revenue	786.8	3.2	790.0	3.2	790.0	3.2	790.0	3.2	790.0	3.2	790.0	3.2	790.0	3.2	790.0	3.2	790.0	3.2	790.0	3.2
Depreciated Rate Base	6,355.3	(21.4)	6,333.9	-	6,333.9	-	6,333.9	-	6,333.9	-	6,333.9	-	6,333.9	-	6,333.9	-	6,333.9	-	6,333.9	-
Rate of Return	9.45%	-	9.45%	-	9.45%	-	9.45%	-	9.45%	-	9.45%	-	9.45%	-	9.45%	-	9.45%	-	9.45%	-

(See Figure)

Findings of Fact

1. CWS is in need of additional revenues in the Bear Gulch District beyond those authorized in D.85283.
2. The staff has shown that the sought increases are excessive.
3. It is unreasonable to include in future revenues an allowance to amortize amounts in the Prepaid Franchise Tax Account.
4. Overhead expenses, such as fringe benefits, should be capitalized at the same ratio as payroll expenses are capitalized.
5. Substantial amounts of money have been invested in a filter plant in the Bear Gulch District which is expected to be in operation by December 1976.
6. It is reasonable to include a partial-year effect, in 1976, of the impact of the filter plant on the results of operations, and a full year effect in 1977.
7. The impact of the filter plant on revenue requirements is such that it is reasonable to provide for a two-step rate increase.
8. A rate of return of 9.7 percent on the adopted rate base is reasonable.
9. The further increase in revenues authorized is \$148,600 or 4.6 percent.
10. The adopted estimates of operating revenues, operating expenses, and rate base for the test year 1975, and the adopted rate of return, reasonably indicate the results of the Bear Gulch District operations for the near future.
11. The increases in rates and charges authorized herein are justified. The rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

Conclusion of Law

The Commission concludes that the application should be granted to the extent set forth in the following order.

FINAL ORDER

IT IS ORDERED that, 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 hereof.

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

Dated at San Francisco, California, this 29th
day of JUNE, 1976.

William A. Lyons, Jr. President
Vernon L. Sturgeon
Alton
Robert R. B... Commissioners

Commissioner D. W. Holmes, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. BG-1

Bear Gulch Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The communities of Atherton, Menlo Park, Portola Valley, Woodside, and vicinity, San Mateo County.

RATES

Service Charge:	Per Meter Per Month		
	Before 1/1/77	After 12/31/76	
For 5/8 x 3/4-inch meter	\$ 3.70	\$ 3.80	(I)
For 3/4-inch meter	4.00	4.15	
For 1-inch meter	5.50	5.65	
For 1 1/2-inch meter	7.70	7.95	
For 2-inch meter	9.90	10.20	
For 3-inch meter	18.30	18.85	
For 4-inch meter	25.00	25.70	
For 6-inch meter	41.50	42.70	
For 8-inch meter	61.65	63.50	
For 10-inch meter	76.30	78.60	(I)

Quantity Rates:

For all water delivered per 100 cu.ft.	\$.487	.501	(I)
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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.