

Decision No. 87336

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 Livermore district.

Application No. 56208
(Filed January 16, 1976)

McCutchen, Doyle, Brown & Enersen, by
Crawford Greene, Attorney at Law, for applicant.
Katie L. Richardson, for herself,
interested party.
Lionel B. Wilson, Attorney at Law, and
Jasjit Sekhon, for the Commission staff.

O P I N I O N

Applicant California Water Service Company seeks authority to increase rates for water service in its Livermore District. The proposed rates would increase revenues by a total of \$539,000, or 35 percent. Public hearing was held before Examiner Gilman in Livermore on October 25, 1976. Copies of the application had been served; notice of filing of the application published and mailed to customers; and notice of hearing published, mailed to customers, and posted, in accordance with this Commission's Rules of Practice and Procedure. The matter was submitted on October 25, 1976, subject to filing by applicant of a proposed decision draft by November 19, 1976. At the conclusion of the hearing, no issues remained to be resolved in the decision draft.

Testimony on behalf of applicant^{1/} was presented by its vice president. Three customers attended the hearing. One of the customers made a statement concerning conservation of sewage effluent. Another customer asked that the Commission give consideration to the plight of customers with fixed incomes. The Commission staff presentation^{1/} was made through two engineers.

Service Area and Water System

Applicant owns and operates water systems in twenty-two districts in California. Its Livermore District service area comprises much of the incorporated city of Livermore as well as unincorporated areas of Alameda County adjacent to the city of Livermore. While the majority of the area served is fairly flat, the service area also includes low rolling hills; elevations range from approximately 435 feet to approximately 571 feet above sea level. Total population served is estimated at 45,900.

The water supply for the Livermore District is from two sources. One supply consists of fourteen wells, thirteen of which are company-owned and one of which is leased. Connections to the distribution facilities of Zone 7 of the Alameda County Flood Control and Water Conservation District furnish the other supply.

The distribution system includes about 140 miles of mains, ranging in size up to 12-inch, and approximately 10 million gallons of storage capacity. There are about 12,400 metered services, 50 private fire protection services, and 1,200 public fire hydrants.

^{1/} Testimony applicable to overall company operations was presented by witnesses for applicant and the staff in Application No. 56134, the East Los Angeles District rate proceeding. This testimony was incorporated by reference in Application No. 56208.

Service

An investigation of applicant's operations, service, and facilities in its Livermore District was made by the Commission staff. The staff reported that there was only one informal complaint to the Commission from this district during the period from August 1975 through June 1976. Utility records indicate that customer complaints received at applicant's district office were quickly resolved. This number of complaints does not appear excessive. None of the three customers who appeared at the hearing presented any service complaints. Service is satisfactory.

Rates

Applicant's present tariffs for this district consist primarily of schedules for general metered service and public fire hydrant service. Applicant proposes to increase its rates for general metered service and to modify its rates for public fire hydrant service to implement the provisions of Section VIII.4. "Fire Hydrant Agreement" of General Order No. 103. That section provides for agreements between the water utility and fire protection agencies. It further provides:

"If such agreement between the utility and the agency provides that the agency thereafter shall maintain or cause to be maintained and install or cause to be installed all fire hydrants, starting with the tee in the main, and shall supply or cause to be supplied all labor and materials for all new hydrants on new or existing mains, the agency shall be relieved of hydrant service charges."

The following Table I presents a comparison of applicant's present and proposed general metered service rates and those authorized herein:

TABLE I
Comparison of Monthly Rates

	<u>Present</u>	<u>Proposed</u>		<u>Authorized</u>
		<u>For 1977</u>	<u>After 1977</u>	
Service Charge:				
For 5/8 x 3/4-inch meter	\$ 3.00	\$ 3.66	\$ 3.78	\$ 3.00
For 3/4-inch meter	3.31	4.03	4.16	4.12
For 1-inch meter	4.48	5.49	5.67	5.62
For 1-1/2-inch meter	6.31	7.69	7.94	7.88
For 2-inch meter	8.09	9.88	10.21	10.12
For 3-inch meter	15.01	18.30	18.90	18.75
For 4-inch meter	20.35	24.89	25.70	25.50
For 6-inch meter	33.88	41.36	42.71	42.38
For 8-inch meter	50.36	61.49	63.50	63.00
For 10-inch meter	62.06	76.13	78.62	78.00
Quantity Rates:				
First 500 cu.ft., per				
100 cu.ft.	\$.373	\$.494	\$.509	\$.373
Over 500 cu.ft., per				
100 cu.ft.386	.507	.522	.489

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

Applicant's studies show that an average commercial customer (business and residential) uses about 23,000 cubic feet of water per year, or 19 Ccf (hundreds of cubic feet) per month. For a customer with a standard 5/8 x 3/4-inch meter, the charge for that quantity of water under present rates is \$10.27 per month. At applicant's proposed rates for the year 1977, the corresponding monthly charge would be \$13.23, or 29 percent higher than under present rates. At applicant's proposed rates for subsequent years, the corresponding monthly charge would be \$13.63 or 33 percent higher than under present rates. At the rates authorized herein, the corresponding monthly charge will be \$11.71, or 14 percent higher than under present rates.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in the following Table II, based upon Exhibit 8, the final reconciliation exhibit sponsored jointly by applicant and the staff, are the estimated results of operation for the test year 1977, under present rates and under those proposed by applicant for the year 1977.

Applicant's original estimates were completed in October 1975. Between then and the completion date of the staff's exhibit, several changes took place in rates for purchased water, purchased power, ad valorem taxes, and other expenses, some of which have been reflected in offset increases in applicant's rates. Also, additional data became available as to actual numbers of customers, year-end 1975 plant balances, and other recorded data.

In addition, another full year's weather data became available for use in adjusting recorded consumption to normal weather conditions. Further, a standardized method of estimating normal consumption by use of computer technology in lieu of the formerly accepted graphical method has been developed recently by a joint committee of industry and Commission staff representatives.

Instead of amending the estimated summaries of earnings each time a change took place and each time later data became available, applicant kept the Commission staff advised of changes and new data so they could be reflected in the staff's estimates. When the staff exhibits were distributed, applicant checked the staff's independent estimates for reasonableness and adopted those portions on which there were no issues. Staff estimates with which applicant disagreed were pointed out to the staff, who then reviewed those items and revised the estimates. This process eliminated all issues with respect to summary of earnings, as shown on Table II.

TABLE II

Reconciliation of Applicant's and Staff's Summary of Earnings
Test Year 1977

(Dollars in Thousands)

Item	Applicant's Estimates		Both Estimates Modified	Staff's Estimates	
	Original (a)	Change (b)		Change (d)	Original (e)
<u>PRESENT RATES</u>					
Operating Revenues	\$1,531.5	\$210.0	\$1,741.5	\$128.1	\$1,613.4
<u>Operating Expenses</u>					
Operation & Maintenance	848.2	37.9	886.1	9.4	876.7
Admin. & General Misc.	26.4	0.5	26.9	-	26.9
Taxes Other Than Income	204.5	(16.9)	187.6	1.3	186.3
Depreciation	154.8	(2.3)	152.5	-	152.5
Amortiz. SCFT	3.6	(3.6)	-	-	-
G.O. Prorated Expenses	129.1	(5.2)	123.9	-	123.9
Income Taxes	(95.5)	102.5	7.0	61.8	(54.8)
Total Expenses	1,271.1	112.9	1,384.0	72.5	1,311.5
Net Operating Revenues	260.4	97.1	357.5	55.6	301.9
Deprec. Rate Base	4,822.2	(126.1)	4,696.1		4,696.1
Rate of Return	5.40%	2.21%	7.61%	1.18%	6.43%
<u>PROPOSED RATES</u>					
Operating Revenues	\$2,005.1	\$231.5	\$2,236.6	\$128.1	\$2,108.5
<u>Operating Expenses</u>					
Operation & Maintenance	848.2	37.9	886.1	9.4	876.7
Admin. & General Misc.	26.4	0.5	26.9	-	26.9
Taxes Other Than Income	209.2	(16.7)	192.5	1.3	191.2
Depreciation	154.8	(2.3)	152.5	-	152.5
Amortiz. SCFT	3.6	(3.6)	-	-	-
G.O. Prorated Expenses	129.1	(5.2)	123.9	-	123.9
Income Taxes	151.4	113.9	265.3	61.8	203.5
Total Expenses	1,522.7	124.5	1,647.2	72.5	1,574.7
Net Operating Revenues	482.4	107.0	589.4	55.6	533.8
Deprec. Rate Base	4,822.2	(126.1)	4,696.1	-	4,696.1
Rate of Return	10.00%	2.55%	12.55%	1.18%	11.37%

(Red Figure)

(Footnotes to Table II on next page)

TABLE II
(Footnotes)

- (a) Applicant's estimates, summarized on staff's Exhibit 12, page 1, Lines 15-27.
- (b) Effect of applicant's adoption of staff's modified estimates.
- (c) Modified applicant's estimates, consisting of the sum of Columns (a) and (b) of this table, and modified staff's estimates, consisting of the sum of Columns (d) and (e) of this table.
- (d) Effect of staff's adjustment to the January 1, 1976 purchased water rates, the August 27, 1976 P.G.&E. Co. power rates and to include the offset rate increases authorized by Resolutions Nos. W-1846 and W-1937.
- (e) Staff's estimates, summarized in staff's Exhibit 12, page 1, Lines 15-27.

Consumption Per Commercial Customer

Applicant's original estimate of 221.9 Ccf per commercial customer for the year 1977 was consumption-based, using a preliminary proposed method of estimating then being considered by the joint committee of industry and Commission staff representatives hereinbefore mentioned. Subsequently, certain improvements and modifications were incorporated in the final method adopted by the committee. The staff applied that final method to total metered commercial consumption and updated weather statistics. Using that method, the estimate of probable normal consumption per commercial customer is 230.2 Ccf per year. Applicant concurred with the staff estimate.

Water Conservation

Applicant presented, as Exhibit 3, a comprehensive review of its efforts to effect water conservation.

Applicant's witness testified that part of the present program has been in effect for several years. Although it is impossible to separate the effects of this program from all other possible causes of the changes in normal consumption per customer, the witness stated that, in his opinion, at least a portion of the

change in usage can reasonably be attributed to the conservation program. In this regard, we note that the general trend in usage per commercial customer was upward until about the year 1970 and downward since that year. We would rate the program and its apparent results as satisfactory. No adjustment in rate of return is warranted.

Rate of Return

The appropriate rate of return for applicant's operations is discussed in detail in the decision on Application No. 56159, relating to applicant's East Los Angeles District. In that decision, we concluded that the staff recommendation of a 9.85 percent return on rate base and 12.78 percent return on common stock equity strikes a reasonable balance between a consumer's short-term interests in the lowest rates possible and his long-term interest in ensuring that the applicant can obtain the financing needed to maintain good service.

Trend in Rate of Return

Applicant's Exhibit 9 shows that, for a three-year test period even at present rates with offset rate increases covering such items as wage increases, tax increases, and increased rates for purchased water and power^{2/}, an average annual decline of 0.29 percent per year would still be expected. Applicant's proposed rates were step rates, with small automatic annual increases to counter this decline. The staff's Exhibit 12 shows a decline of 0.11 percent between the test years 1976 and 1977 at present rates and a corresponding decline of 0.37 percent if applicant's 1977 proposed

^{2/} Such items are normally dealt with by advice-letter-rate procedures.

rates were applied to both years. The staff witness recommended against step rates but recognized a 0.29 percent attrition in the rate of return caused by unavoidable increases in rate base. He recommended a single level of rates high enough to accommodate three years' attrition. Applicant's witness stated that, although he felt that step rates were somewhat more equitable, he took no issue with the staff's recommendation.

In some prior decisions in rate proceedings involving other districts of applicant, the future trend in rate of return has been offset by the authorization of a level of rates to remain in effect for several years and designed to produce, on the average over that period, the rate of return found reasonable. In other decisions, the Commission authorized step rates designed to maintain, in each of several future years, the rate of return found reasonable. In view of the staff's stated policy against step rates, and applicant's acquiescence to single-level rates which would produce the same result as step rates over a given period, we will deny applicant's original request for step rates.

The rate increase authorized herein will not be in effect for any part of the year 1976. With the indicated future trend in rate of return, the 10.14 percent return for the test year 1977 under the level of rates authorized herein should produce rates of return of 10.14 percent, 9.85 percent, and 9.56 percent, respectively, for 1977, 1978, and 1979, or an average rate of return of 9.85 percent for the three-year period.

Pending Investigation

Comprehensive studies have been and are being made by the Commission staff of officers' salaries and expense reimbursements of many major California utilities. At the time of submission of this application, the staff had commenced, but not yet completed, such a study applicable to applicant's operations. At hearings held in San Francisco on November 30 and December 2 and 3, 1976 in Application No. 56186, applicant's Chico-Hamilton City District rate proceeding, the staff's studies and applicant's response were presented. The maximum adjustments resulting from this additional evidence would have a minimal effect upon the rates authorized herein. It would therefore not be reasonable to delay this decision to await careful review by the Commission of the additional evidence. Applicant stipulated that the maximum staff adjustment could be reflected in the six rate proceedings now pending. If such adjustment is later found to be inappropriate by a final order in Application No. 56186, applicant offered to forego the additional revenue requirement until such time as it must again seek rate relief for other reasons. Pursuant to applicant's stipulation, the minor adjustment recommended by one of the staff witnesses will be incorporated in the summary of earnings at authorized rates.

Summary of Earnings at Authorized Rates

The following Table III is derived from Column (c) of Table II, modified to reflect the rates authorized herein in lieu of applicant's present rates and expanded to show a more detailed breakdown of the various items of revenues and expenses:

TABLE III

Summary of Earnings - Test Year 1977
(Dollars in Thousands)

<u>Item</u>	<u>Applicant @ Present Rates</u>	<u>Authorized Changes</u>	<u>Adopted Rates</u>
<u>Operating Revenues</u>			
Metered	\$1,709.9	\$276.0	\$1,985.9
Fire Protection & Miscellaneous	31.6	(25.8)	5.8
Total Revenues	<u>1,741.5</u>	<u>250.2</u>	<u>1,991.7</u>
<u>Operating Expenses</u>			
<u>Oper. & Maint., Admin. & Gen'l. & Misc.</u>			
Purchased Water	583.4	-	583.4
Purchased Power	77.2	-	77.2
Total Payroll	151.7	-	151.7
Other Operation & Maintenance	85.2	(1.0)*	84.2
Other Admin. & Gen'l. & Misc.	15.5	-	15.5
Total Oper. & Maint., Admin. & Gen'l. & Misc.	<u>913.0</u>	<u>(1.0)</u>	<u>912.0</u>
<u>Taxes Other Than on Income</u>			
Ad Valorem Taxes	160.9	-	160.9
Local Taxes	17.0	2.5	19.5
Payroll Taxes	9.7	-	9.7
Total Taxes Other Than on Income	<u>187.6</u>	<u>2.5</u>	<u>190.1</u>
Depreciation	152.5	-	152.5
<u>G.O. Prorated Expenses</u>			
Payroll - Union Contract	21.9	-	21.9
- Other	25.0	(2.2)#	22.8
- Total Payroll	<u>46.9</u>	<u>(2.2)</u>	<u>44.7</u>
Payroll Taxes	3.5	-	3.5
Other G.O. Prorated Expenses	73.5	-	73.5
Total G.O. Prorated Expenses	<u>123.9</u>	<u>(2.2)</u>	<u>121.7</u>
Subtotal	<u>1,377.0</u>	<u>(0.7)</u>	<u>1,376.3</u>

(Red Figure)

* The amount of \$1,000 fire hydrant maintenance expenses to be assumed by fire agency.

Adjustment recommended by the staff compensation witness.

(Continued)

TABLE III
(Continued)

<u>Item</u>	<u>Applicant @ Present Rates</u>	<u>Authorized Changes</u>	<u>Adopted Rates</u>
<u>Income Taxes</u>			
Income Taxes Before Invest. Tax Cr.	\$ 33.3	132.1	165.4
Investment Tax Credit @ 10%	(26.3)	-	(26.3)
Total Income Taxes	<u>7.0</u>	<u>132.1</u>	<u>139.1</u>
Total Operating Expenses	1,384.0	131.4	1,515.4
Net Operating Revenues	357.5	118.8	476.3
Depreciated Rate Base	4,696.1	-	4,696.1
<u>Rate of Return</u>			
Before Attrition Adjustment	7.61%	2.53%	10.14%
Attrition Adjustment	-	(0.29)	(0.29)
After Attrition Adjustment	<u>7.61%</u>	<u>2.29%</u>	<u>9.85%</u>

(Red Figure)

The more detailed breakdown in Table III will provide a basis for review of future advice-letter requests for rate increases or decreases to offset changes not reflected in either the test year 1977 or in the trend in rate of return adopted as the basis for the rates authorized herein.

The purchased water rate used by the staff for the test years 1976 and 1977 is the current rate schedule which went into effect January 1, 1976. The purchased power rates are the current rates which became effective August 27, 1976. The wage rates used for union employees are the 1977 contract rates already established. When wage rates for other employees are established, any adjustment will presumably be the subject of part of the expense changes to be offset by future advice-letter requests. Applicant took no exception to this procedure. The composite effective ad valorem tax rate of 2.698 percent of the dollars of beginning-of-year net plant plus materials and supplies is that applicable to the fiscal year 1975-76. The payroll tax rates and coverages are the current ones which became effective January 1, 1976.

The city of Livermore has availed itself of the provisions of General Order No. 103 which relieve the fire protection agency from monthly charges for public fire hydrant service under specific conditions set forth in detail in the general order. The city's fire protection agency serves essentially all of applicant's Livermore District except for two hydrants located outside the city limits. This will result in the loss of \$25,800 in 1977 revenues and a partly offsetting decrease in operation and maintenance expenses of \$1,000. This is reflected in the "Authorized Changes" column of Table IV. The agreement provides that it shall become effective concurrently with the effective date of the rate increases authorized in this proceeding.

Lifeline Rates

The staff suggested in Exhibit 12 that the rate for the first 500-cubic foot (lifeline) block and the service charge for a 5/8 x 3/4-inch meter not be increased. The company did not challenge this proposal. It will therefore be adopted. The staff proposal appears to be an adequate response to the need to give special protection to those customers on fixed incomes.

Findings

1. Applicant is in need of additional revenues but the rates requested would produce an excessive rate of return.

2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1977, and an annual decline of 0.29 percent in rate of return, reasonably indicate the probable range of results of applicant's operations for the near future.

3. An average rate of return of 9.85 percent on applicant's rate base for 1977, 1978, and 1979 is reasonable. The related average rate of return on common equity over the three-year period is 12.78 percent.

4. 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.

5. The increase in rates is approximately \$250,200.

The Commission concludes that the application should be granted to the extent provided by the following order.

O R D E R

IT IS ORDERED that, after the effective date of this order, applicant California Water Service Company is authorized to file for its Livermore District the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised 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.

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

Dated at San Francisco, California, this 17th day of MAY, 1977.

Robert B. ...
President

...
...

Commissioners

I will file a dissent as to before only.
William S. ...
Commissioner

APPENDIX A
Page 1 of 4

Schedule No. LV-1

Livermore Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Livermore and vicinity, Alameda County.

RATES

Service Charge:	<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 3.00	
For 3/4-inch meter	4.12	(I)
For 1-inch meter	5.62	
For 1-1/2-inch meter	7.88	
For 2-inch meter	10.12	
For 3-inch meter	18.75	
For 4-inch meter	25.50	
For 6-inch meter	42.38	
For 8-inch meter	63.00	
For 10-inch meter	78.00	(I)

(Continued)

APPENDIX A
Page 2 of 4

Schedule No. LV-1

Livermore Tariff Area

GENERAL METERED SERVICE

RATES (Continued)

Quantity Rates:

First 500 cu.ft., per 100 cu.ft.	\$0.373	
Over 500 cu.ft., per 100 cu.ft.	0.489	(I)

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

APPENDIX A
Page 3 of 4

Schedule No. LV-5

Livermore Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, (T)
incorporated fire districts or other political subdivision of the State. (T)

TERRITORY

The City of Livermore and vicinity, Alameda County.

RATES

	<u>Per Hydrant Per Month</u>		
	<u>To City of</u>	<u>Remainder of</u>	(T)
	<u>Livermore</u>	<u>Territory</u>	(T)
For fire hydrant service	No Charge	\$2.00	(R)

SPECIAL CONDITIONS

1. Within the city of Livermore, the city is responsible for the (T)
hydrant installation and maintenance costs including, without limitation:
the capital cost of new hydrant installations starting with the tee in the
main and the branch gate valve; any hydrant replacements caused by age,
wear, or change in hydrant standards; relocations to accommodate street
improvements or changes of grade to the utility's pipelines or changes to
the right-of-way; relocations or reconnections of hydrants brought about
by replacement of the main by the utility; maintenance (including repairs
caused by traffic accidents and the expense of shutting down and re-
establishment of service); mechanical maintenance or adjustment of the
hydrant; painting; and clearing of weeds. (T)

(Continued)

Schedule No. LV-5

Livermore Tariff Area

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS (Continued)

2. Outside of the city of Livermore, the hydrants will be installed, maintained, painted, inspected and relocated at the expense of the fire protection agency. The utility will install and own the tee in the main, the hydrant branch, and the control valve. (T)

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

4. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. LV-1, General Metered Service. (T)

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

A. 56134 D.
A. 56159 D.
A. 56186 D.
A. 56208 D. 87336
A. 56225 D.
A. 56251 D.

WATER RATE INCREASE FOR CALIFORNIA WATER SERVICE COMPANY

COMMISSIONER WILLIAM SYMONS, JR., Dissenting,


It is silly to introduce give-away water rates at a time when California is facing the worst drought in recorded history. I am referring to the euphemistically-termed "lifeline" provision which the Commission majority mandates into this water company pricing structure today.

This appears to be a knee-jerk carry-over from "lifeline" installed in our natural gas and electric utility tariffs. But no case for need has been established in the water cases.

It is a plain fact that water prices have not escalated like energy prices have. Water prices are modest. There is no argument for the necessity of welfare via raising prices to non-benefited utility rate payers. Neither has the Legislature in the case of water seen it necessary to mandate subsidy.

A maximum conservation effort is essential in the face of our severe water shortage. To relieve any class of water-users of their fair share of the increased costs to serve them water, has the counter productive effect of preventing natural price signals to encourage reduced consumption. "Lifeline" freezes the first 500 cubic feet of water used for all residential customers. So this confused price signal is sent to all residential users. This is the substitution of nonsense for public policy.

San Francisco, California
May 17, 1977


WILLIAM SYMONS, JR.
Commissioner