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Decision No. 87337

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 )  
San Carlos district. )

Application No. 56225  
(Filed January 23, 1976)

McCutchen, Doyle, Brown & Enersen, by Crawford Greene,  
Attorney at Law, for applicant.  
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 San Carlos District. The proposed rates would increase revenues by a total of \$370,000, or 30 percent. Public hearing was held before Examiner Gilman in San Carlos on October 27, 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 27, 1976, subject to filing by applicant of a 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<sup>1/</sup> was presented by its vice president. One customer appeared and made statements regarding expense reduction and his opposition to step rates. The Commission staff presentation<sup>1/</sup> was made through two engineers. Some portions of the staff presentation were accepted without need for testimony by the expert witnesses who prepared them.

Service Area and Water System

Applicant owns and operates water systems in twenty-two districts in California. Its San Carlos District includes the city of San Carlos and the unincorporated area adjacent to the city located in San Mateo County. While the business, industrial, and the easterly portion of the residential area is relatively flat, a large portion of the system is in hilly terrain. Elevations served in this district vary between 25 feet to more than 905 feet above sea level, requiring 14 separate pressure zones to serve the territory. Total population of the area served is estimated at 30,100.

All water distributed in the San Carlos District is purchased from the San Francisco Water Department (SFWD). From this source there are one 8-inch, one 16-inch, and two 10-inch meters which deliver water from SFWD's 60-inch and 66-inch Bay Crossing pipelines ahead of their discharge into Crystal Springs Reservoir. An 8-inch reversible connection for emergency use is maintained with the Belmont County Water District.

The transmission and distribution system includes about 100 miles of mains, ranging in size up to 21-inch, and approximately 3.8 million gallons of storage capacity. There are about 8,800 metered services, 80 private fire protection services, and 620 public fire hydrants.

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<sup>1/</sup> 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. 56225.

Service

An investigation of applicant's operations, service, and facilities in its San Carlos District was made by the Commission staff. The staff reported that there were no informal complaints to the Commission from this district during the period from January 1975 through June 1976. Utility records and customer interviews by the staff indicate that customer complaints received at applicant's district office were quickly resolved. The customer who appeared at the hearing did not present any service complaints. Service is very good.

Rates

Applicant's present tariffs for this district consist primarily of schedules for general metered service and public fire hydrant service.

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>	
<b>Service Charge:</b>				
For 5/8 x 3/4-inch meter ...	\$ 2.65	\$ 3.32	\$ 3.44	\$ 2.65
For 3/4-inch meter ...	2.93	3.65	3.78	3.76
For 1-inch meter ...	3.92	4.98	5.16	5.13
For 1-1/2-inch meter ...	5.45	6.97	7.22	7.18
For 2-inch meter ...	6.94	8.96	9.29	9.23
For 3-inch meter ...	12.75	16.60	17.20	17.10
For 4-inch meter ...	17.69	22.58	23.39	23.26
For 6-inch meter ...	28.66	37.52	38.87	38.65
For 8-inch meter ...	42.92	55.78	57.79	57.46
For 10-inch meter ...	52.80	69.06	71.55	71.14
<b>Quantity Rates:</b>				
First 500 cu.ft., per 100				
cu.ft.....	\$ .480	\$ .592	\$ .613	\$ .480
Next 29,500 cu.ft., per				
100 cu.ft. ....	.480	.592	.613	.656
Over 30,000 cu.ft., per				
100 cu.ft. ....	.452	.582	.613	.656

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 17,400 cubic feet of water per year, or 15 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 \$9.85 per month. At applicant's proposed rates for the year 1977, the corresponding monthly charge would be \$12.20, or 24 percent higher than under present rates. At applicant's proposed rates for subsequent years, the corresponding monthly charge would be \$12.64, or 28 percent higher than under present rates. At the rates authorized herein, the corresponding monthly charge will be \$11.61, or 18 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, 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, Column (c).

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

(Dollars in Thousands)

Item	Applicant's Estimates		Both	Staff's Estimates	
	Original (a)	Change (b)	Estimates Modified (c)	Change (d)	Original (e)
<u>PRESENT RATES</u>					
Operating Revenues	\$1,241.0	\$ 15.2	\$1,256.2	\$(11.5)	\$1,267.7
<u>Operating Expenses</u>					
Operation & maintenance	672.0	(1.7)	670.3	5.2	665.1
Admin. & general misc.	22.0	(3.7)	18.3	-	18.3
Taxes other than income	126.4	(13.0)	113.4	(0.2)	113.6
Depreciation	111.9	1.0	112.9	-	112.9
Amortiz. SCFT	2.9	(2.9)	-	-	-
G.O. prorated expenses	102.2	(3.2)	99.0	-	99.0
Income taxes	<u>(34.8)</u>	<u>17.2</u>	<u>(17.6)</u>	<u>(8.7)</u>	<u>(8.9)</u>
Total expenses	1,002.6	(6.3)	996.3	(3.7)	1,000.0
Net Operating Revenues	238.4	21.5	259.9	(7.8)	267.7
Deprec. Rate Base	3,818.5	7.6	3,826.1	-	3,826.1
Rate of Return	6.24%	0.55%	6.79%	(0.21)%	7.00%
<u>PROPOSED RATES</u>					
Operating Revenues	\$1,549.2	\$ 13.1	\$1,562.3	\$(16.0)	\$1,578.3
<u>Operating Expenses</u>					
Operation & maintenance	672.0	(1.7)	670.3	5.2	665.1
Admin. & general misc.	22.0	(3.7)	18.3	-	18.3
Taxes other than income	131.3	(13.0)	118.3	(0.3)	118.6
Depreciation	111.9	1.0	112.9	-	112.9
Amortiz. SCFT	2.9	(2.9)	-	-	-
G.O. prorated expenses	102.2	(3.2)	99.0	-	99.0
Income taxes	<u>125.0</u>	<u>16.1</u>	<u>141.1</u>	<u>(11.0)</u>	<u>152.1</u>
Total expenses	1,167.3	(7.4)	1,159.9	(6.1)	1,166.0
Net Operating Revenues	381.9	20.5	402.4	(9.9)	412.3
Deprec. Rate Base	3,818.5	7.6	3,826.1	-	3,826.1
Rate of Return	10.00%	0.52%	10.52%	(0.26)	10.78%

(Red Figure)

(Continued)

Table II (continued)

- (a) Applicant's estimates, summarized on staff's Exhibit 13, 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 August 27, 1976 PG&E. Co. power rates and to include the offset rate increase authorized by Resolution No. W-1892.
- (e) Staff's estimates, summarized in staff's Exhibit 13, page 1, Lines 15-27.

Consumption Per Commercial Customer

Applicant's original estimate of 174.3 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 also 174.3 Ccf per year. Applicant concurs with this estimate, and it will be adopted.

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 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 the consumer's short-term interest in the lowest rates possible and his long-term interest in ensuring that the applicant can obtain the financing necessary to maintain good service.

Trend in Rate of Return

Applicant's Exhibit 9 shows that for a three-year period at present water rates, even with offset rate increases covering such items as wage increases, tax increases, and higher rates for purchased water and power<sup>2/</sup>, an average annual decline of 0.54 percent per year would still be expected. Applicant's exhibit does not show the corresponding decline at the proposed rates because those rates incorporate step increases designed to offset the decline that otherwise would occur. The staff's Exhibit 13 shows a decline of 0.50 percent between the test years 1976 and 1977 at present rates and a corresponding decline of 0.73 percent if applicant's 1977 proposed rates were applied to both years. The staff witness recommended against step rates but recognized a 0.54 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 to customers he took no issue with the staff's recommendation.

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<sup>2/</sup> Such items are normally dealt with by advice letter rate procedures.

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 10.39 percent return for the test year 1977 under the level of rates authorized herein should produce rates of return of 10.39 percent, 9.85 percent, and 9.31 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

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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 has been 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	\$1,233.6	\$293.6	\$1,527.2
Fire Protection & Miscellaneous	22.6	-	22.6
Total Revenues	<u>1,256.2</u>	<u>293.6</u>	<u>1,549.8</u>
<u>Operating Expenses</u>			
<u>Oper. &amp; Maint., Admin. &amp; Gen'l. &amp; Misc.</u>			
Purchased Water	436.9	-	436.9
Purchased Power	49.5	-	49.5
Total Payroll	128.0	-	128.0
Other Operation & Maintenance	67.3	-	67.3
Other Admin. & Gen'l. & Misc.	6.9	-	6.9
Total Oper. & Maint., Admin. & Gen'l. & Misc.	<u>688.6</u>	<u>-</u>	<u>688.6</u>
<u>Taxes Other Than On Income</u>			
Ad Valorem	85.1	-	85.1
Local Taxes	20.1	4.7	24.8
Payroll Taxes	8.2	-	8.2
Total Taxes Other Than On Income	<u>113.4</u>	<u>4.7</u>	<u>118.1</u>
Depreciation	112.9	-	112.9
<u>G.O. Prorated Expenses</u>			
Payroll - Union Contract	17.5	-	17.5
- Other	20.0	(1.8)*	18.2
- Total Payroll	<u>37.5</u>	<u>(1.8)</u>	<u>35.7</u>
Payroll Taxes	2.7	-	2.7
Other G.O. Prorated Expenses	58.8	-	58.8
Total G.O. Prorated Expenses	<u>99.0</u>	<u>(1.8)</u>	<u>97.2</u>
Subtotal	<u>1,013.9</u>	<u>2.9</u>	<u>1,016.8</u>
<u>Income Taxes</u>			
Income Taxes Before Invest. Tax Credit	11.3	153.1	164.4
Investment Tax Credit @ 10 Percent	(28.9)	-	(28.9)
Total Income Taxes	<u>(17.6)</u>	<u>153.1</u>	<u>135.5</u>
Total Operating Expenses	<u>996.3</u>	<u>156.0</u>	<u>1,152.3</u>
Not Operating Revenues	259.9	137.6	397.5
Depreciated Rate Base	3,826.1	-	3,826.1
<u>Rate of Return</u>			
Before Attrition Adjustment	6.79%	3.60%	10.39%
Attrition Adjustment	-	(0.54)	(0.54)
After Attrition Adjustment	<u>6.79%</u>	<u>3.06%</u>	<u>9.85%</u>

(Red Figure)

\* Adjusted to reflect staff-proposed compensation adjustment.

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 December 18, 1974. 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 1.827 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.

#### Lifeline Rates

The staff suggested in Exhibit 13 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. The rates authorized herein implement that suggestion.

#### 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 0.54 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 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.

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

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ORDER

IT IS ORDERED that, after the effective date of this order, applicant California Water Service Company is authorized to file for its San Carlos District 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 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.

*I will file a dissent  
to be filed only  
William Agnew, Jr.*

*Robert Batimund*  
President

*Vernon L. Strayhorn*  
*Richard W. Howell*

Commissioner

Commissioners

APPENDIX A  
Page 1 of 2

Schedule No. SC-1

San Carlos Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

San Carlos and vicinity, San Mateo County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 2.65	
For 3/4-inch meter .....	3.76	(I)
For 1-inch meter .....	5.13	
For 1 1/2-inch meter .....	7.18	
For 2-inch meter .....	9.23	
For 3-inch meter .....	17.10	
For 4-inch meter .....	23.26	
For 6-inch meter .....	38.65	
For 8-inch meter .....	57.46	
For 10-inch meter .....	71.14	(I)

(Continued)



APPENDIX A  
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Schedule No. SC-1

San Carlos Tariff Area

GENERAL METERED SERVICE

RATES—Contd.

Quantity Rates:

First 500 cu.ft., per 100 cu.ft. ....	0.480	
Over 500 cu.ft., per 100 cu.ft. ....	.656	(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. (T)

(T)

A. 56134 D.  
A. 56159 D.  
A. 56186 D.  
A. 56208 D.  
A. 56225 D. 87337  
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