

Decision No. 90490 JUL 3 1979**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 Oroville District.)

Application No. 58095
(Filed March 25, 1978)

McCutchen, Doyle, Brown & Enersen, by A. Crawford
Greene, Attorney at Law, for applicant.
J. F. Young, for Southern California Water Company;
and W. H. Fairfield, for City of Dixon;
interested parties.
Peter Fairchild, Attorney at Law, for the Commission
staff.

O P I N I O NIntroduction

Applicant California Water Service Company filed this and five other applications for rate relief covering 6 of the 21 individual districts served by the company. This application originally proposed annual step rates which would continue through calendar year 1981, ultimately producing an annual revenue increase of \$368,000 or 47 percent. The Commission set public hearing on a consolidated record including all six district proceedings.^{1/}

The hearings were conducted by Administrative Law Judge Gilman in San Francisco on January 8, 9, 10, 12, 17, 18, and 19, 1979; in Menlo Park on January 11, 1979; in Redondo Beach on January 16, 1979; in Oroville on January 23 and 24, 1979; in Marysville on January 25, 1979; and in Dixon on January 26, 1979.

^{1/} The consolidated proceedings are Applications Nos. 58091 through 58096.

Exhibit A in this proceeding indicates that applicant has complied with all requirements for notice, service, and publication applicable to general rate increase proceedings.

The consolidated applications were submitted on February 1, 1979 to allow an opening brief by applicant and a reply brief by staff. An extension was granted to the staff to allow it to file its brief by March 15. Further oral argument was set on the subject of rate of return attrition before the Presiding Officer, Commissioner Claire T. Dedrick, with Commissioner Sturgeon and Commissioner Grimes in attendance on March 5, 1979 in San Francisco.

In support of the requests for rate relief in the six districts, applicant presented the testimony of its president, its vice president-treasurer, its vice president-chief engineer, its vice president in charge of regulatory matters, and its assistant chief engineer in charge of construction.

The Commission staff presentation in these proceedings was made through a financial expert and six engineers.

The Mayor and the City Administrator of the City of Oroville and 16 other Oroville District customers expressed their opposition to the requested rate increase.

Service Area and Water System

Applicant owns and operates water systems in 21 districts in California. Its Oroville District includes generally the City of Oroville and unincorporated portions of Butte County adjacent to that city. In addition, several irrigation customers take service from applicant's transmission canal at points considerably removed from the city. A substantial portion of the terrain is relatively hilly, with elevations ranging from 157 feet to more than 350 feet above sea level. The population within the area served is estimated at 10,600.

Water for the Oroville District is obtained from four sources: (1) Pacific Gas and Electric Company (PG&E), at the tail-race of its Coal Canyon Powerhouse; (2) Butte County (County), at

the Thermalito Power Canal; (3) three company-owned wells located within the service area; and (4) a leased well also located within the service area.

Water from PG&E is transported about nine miles through applicant's Powers Canal to a large raw-water reservoir, and water from County is also pumped into applicant's raw-water system. The water from both those surface supplies is transported by flumes and ditches to applicant's pretreatment reservoir, whence it passes through a comprehensive treatment plant before entering the distribution system. Water from the well sources is pumped directly into the distribution system.

Four separate pressure zones are required to serve the area, due to the variations in elevations. All of the electrically powered booster stations are equipped with connections which permit the use of portable gasoline-powered booster pumps, two of which are permanently stationed in the district, with others being available at other districts in Northern California.

In addition to the transmission canals, the transmission and distribution system includes about 47 miles of mains, ranging in size up to 20 inches, and approximately 7.2 million gallons of storage capacity. There are about 2,000 metered services, 1,200 flat rate residential services, 25 private fire protection services, and 340 public fire hydrants.

Service

Applicant states that there have been no informal complaints to the Commission from this district during 1977 and the first eight months of 1978. The utility claims that customer complaints received at applicant's district office were quickly resolved. The absence of any customer service complaints at the hearing is a further indication that service is not unsatisfactory.

Rates

Applicant's present tariffs for this district consists primarily of schedules for general metered service, residential flat-rate service, measured irrigation service, limited flat-rate irrigation service, and public fire hydrant service.

Applicant proposes to increase all of these rates except for fire protection rates and also proposes to modify its rates for public fire hydrant service to implement the provisions of Section VIII.4 ("Fire Hydrant Agreements") of General Order No. 103. That section provides for agreements between the water utility and fire protection agencies, which, among other things, eliminate monthly fire hydrant charges. Applicant and the City of Oroville entered into such an agreement on June 5, 1978 to become effective concurrently with the rates established to this proceeding. Applicant entered into a similar agreement with El Medio Fire District on October 12, 1978.

The following Table 1 presents a comparison of applicant's present and adopted general metered service rates, residential flat rates, limited flat rates, and irrigation service rates:

TABLE I
(Page 1 of 2)
OROVILLE DISTRICT
COMPARISON OF MONTHLY RATES

<u>General Metered Service</u>	<u>Present*</u> <u>Rates</u>	<u>Proposed Rates‡</u>			<u>Adopted Rates</u>		
		<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Service Charge:							
For 5/8 x 3/4-inch meter	\$ 7.14	\$ 9.10	\$ 9.35	\$10.20	\$ 7.20	\$ 7.45	\$ 7.60
For 3/4-inch meter	7.84	11.00	11.75	13.50	10.30	10.70	10.90
For 1-inch meter	10.72	15.00	16.00	18.30	14.00	14.60	14.90
For 1½-inch meter	14.99	21.00	22.50	26.00	19.00	20.00	21.00
For 2-inch meter	19.27	27.00	29.00	31.00	25.00	26.00	27.00
For 3-inch meter	35.73	50.00	54.00	61.00	47.00	48.00	50.00
For 4-inch meter	48.63	68.00	73.00	84.00	63.00	66.00	69.00
For 6-inch meter	80.79	113.00	120.00	139.00	105.00	110.00	113.00
For 8-inch meter	120.10	161.00	180.00	206.00	157.00	163.00	168.00
For 10-inch meter	148.69	208.00	222.00	255.00	194.00	202.00	209.00
Quantity Rates:							
For the first 300 cu.ft., per 100 cu.ft.	0.320	0.390	0.400	0.436	0.400	0.415	0.424
For the next 200 cu.ft., per 100 cu.ft. ....	.320	.529	.543	.589	.480	.499	.515
For the next 29,500 cu.ft., per 100 cu.ft. ....	.332	.529	.543	.589	.480	.499	.515
For all over 30,000 cu.ft., per 100 cu.ft. ....	.332	.362	.371	.407	.418	.433	.438

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.

* From tariff sheet 2137-W, effective August 27, 1978.

‡ Set forth in applicant's Exhibit 41-O, Page 1, which reflects rates set forth in application minus the reductions effected by Advice Letter 630.

TABLE I
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OROVILLE DISTRICT
COMPARISON OF MONTHLY RATES

<u>Residential Flat Rate Service</u>	<u>Present*</u> <u>Rates</u>	<u>Proposed Rates†</u>			<u>Adopted Rates</u>		
		<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>With premises of:</u>							
6,000 sq.ft. or less	\$14.51	\$18.74	\$19.24	\$21.04	\$18.00	\$18.65	\$19.00
6,001 to 10,000 sq.ft.	16.17	21.05	21.65	23.65	20.00	20.70	21.15
10,001 to 16,000 sq.ft.	19.44	26.08	26.98	29.48	24.00	24.90	25.50
16,001 to 25,000 sq.ft.	24.06	31.73	32.93	36.03	30.00	31.00	31.70
Each additional unit	8.43	11.16	11.56	12.66	10.50	10.90	11.15
<u>Limited Flat Rate Service</u>							
Single irrigation customer	5.12	6.71	6.91	7.54	6.50	6.70	6.90
<u>Irrigation Service</u>							
All use, per Miner's Inch Day ..	0.51	0.62	0.64	0.69	0.59	0.60	0.61

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* From tariff sheets 2138-W, 1576-W, and 1577-W, effective August 27, 1978, January 4, 1976, and January 4, 1976, respectively.

† Set forth in applicant's Exhibit 41-O, Page 2, which reflects rates set forth in the application minus the reductions effected by Advice Letter 630.

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In this district, an average metered commercial (business and residential) customer will use about 27,000 cubic feet of water per year, or 23 Ccf (hundred of cubic feet) per month. The corresponding use for an average industrial user in this district is 3,140,000 cubic feet of water per year, or 2,619 Ccf per month. An average flat-rate residential customer in this district has premises which fall within the 6,001- to 10,000-square foot bracket.

The following Table II presents a comparison of monthly charges for an average commercial customer with a 5/8 x 3/4-inch meter under present and adopted rates. The table also presents similar comparison for an average industrial customer with a 4-inch meter and for an average residential flat-rate customer.

TABLE II
Comparison of Monthly Charges

<u>Item</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>Average Commercial Customer</u>			
Present Rates, Monthly Charge	\$ 14.72	\$ 14.72	\$ 14.72
Rates Proposed at Hearing:			
Monthly Charge	20.85	21.41	23.29
Increase Over Present Rates:			
Amount	6.13	6.69	8.57
Percent	41.6%	45.4%	58.2%
Rates Adopted:			
Monthly Charge	\$ 18.00	\$ 18.68	\$ 19.17
Increase Over Present Rates:			
Amount	3.28	3.96	4.45
Percent	22.3%	26.9%	30.2%
<u>Average Industrial Customer</u>			
Present Rates:			
Monthly Charge	\$ 918.08	\$ 918.08	\$ 918.08
Rates Proposed at Hearing:			
Monthly Charge	1,065.76	1,095.82	1,204.07
Increase Over Present Rates:			
Amount	147.68	177.74	285.99
Percent	16.1%	19.4%	31.2%
Rates Adopted:			
Monthly Charge	\$1,176.10	\$1,219.58	\$1,238.95
Increase Over Present Rates:			
Amount	258.02	301.50	320.87
Percent	28.1%	32.8%	35.0%
<u>Average Flat-Rate Customer</u>			
Present Rates:			
Monthly Charge	\$ 16.17	\$ 16.17	\$ 16.17
Rates Proposed at Hearing:			
Monthly Charge	21.05	21.65	23.65
Increase Over Present Rates:			
Amount	4.88	5.48	7.48
Percent	30.2%	33.9%	46.3%
Rates Adopted:			
Monthly Charge	\$ 20.00	20.70	21.15
Increase Over Present Rates:			
Amount	3.83	4.53	4.98
Percent	23.7%	28.0%	30.8%

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in the following Table III, based upon Exhibit 39-0, Pages 6 and 7, the final reconciliation exhibit sponsored jointly by applicant and the staff, are the estimated results of operation for the test years 1979 and 1980, under present rates and under the step rates proposed by applicant for those years.

Applicant's original estimates were completed in May 1978. 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 adopted those estimates on which there were no differences and also some items where the impact of the difference was insignificant. Applicant does not entirely agree with some of the staff's adjustments and estimates of consumption, revenues, and rate base items but, for the purpose of expediting this proceeding, does not take issue with the staff in regard to those items. That leaves only two issues to be resolved with respect to summary of earnings, as shown on Table III. Those issues, relating to general office prorates and the treatment of ad valorem taxes used for income tax purposes, were discussed in detail in decision on Application No. 58093 involving applicant's Hermosa-Redondo District.

RECONCILIATION OF APPLICANT'S AND STAFF'S SUMMARY OF EARNINGS
OROVILLE DISTRICT, TEST YEAR 1979
(Dollars in Thousands)

<u>Item</u>	Applicant's Adjusted Estimates (a)	Effect of Issues		Staff's Adjusted Estimates (d)
		G.O. Exp. Prorate (b)	Ad Val. Taxes For Inc. Taxes (c)	
<u>Present Rates</u>				
Operating Revenues	\$ 760.0	\$ -	\$ -	\$ 760.0
Operating Expenses:				
Purchased Water	52.0	-	-	52.0
Purchased Power	48.2	-	-	48.2
Purchased Chemicals	12.0	-	-	12.0
Payroll - Dist.	142.7	-	-	142.7
Other Oper. & Maint.	73.3	-	-	73.3
Other A. & G. & Misc.	10.0	-	-	10.0
Ad Valorem Tax - Dist.	45.7	-	-	45.7
Business License	0.1	-	-	0.1
Payroll Taxes	9.7	-	-	9.7
Depreciation	85.5	-	-	85.5
Ad Valorem Tax - G.O.	0.4	-	-	0.4
Payroll Taxes - G.O.	1.8	-	-	1.8
Other Prorates - G.O.	65.7	(0.4)	-	65.3
Subtotal*	547.1	(0.4)	-	546.7
Inc. Taxes Before ITC	0.4	0.2	(0.8)	(0.2)
Invest. Tax Credit	(30.7)	-	-	(30.7)
Total Oper. Exp.	516.8	(0.2)	(0.8)	515.8
Net Oper. Revenues	243.2	0.2	0.8	244.2
Rate Base	3,265.0	-	-	3,265.0
Rate of Return	7.45%	0.01%	0.02%	7.48%
<u>Proposed Rates</u>				
Operating Revenues	\$1,003.5	-	-	\$1,003.5
Operating Expenses:				
Subtotal*	547.1	\$(0.4)	-	546.7
Inc. Taxes Before ITC	124.1	0.2	\$(0.8)	123.5
Invest. Tax Credit	(30.7)	-	-	(30.7)
Total Oper. Exp.	640.5	(0.2)	(0.8)	639.5
Net Operating Revenues	363.0	0.2	0.8	364.0
Rate Base	3,265.0	-	-	3,265.0
Rate of Return	11.12%	0.01%	0.02%	11.15%

- (a) Applicant's adjusted estimates from Exhibit 39-0, Page 3, Column (d).
(b) Effect of adjustment to General Office prorated expense which was disposed of at the hearing.
(c) Effect of staff's use of ad valorem taxes on a fiscal year basis in computing income taxes.
(d) Staff's estimates from Exhibit 39-0, Page 3, Column (f).

* Subtotal of expenses exclusive of income tax items.

(red figures)

RECONCILIATION OF APPLICANT'S AND STAFF'S SUMMARY OF EARNINGS
OROVILLE DISTRICT, TEST YEAR 1980
(Dollars in Thousands)

<u>Item</u>	<u>Applicant's Adjusted Estimates</u> (a)	<u>Effect of Issues</u>		<u>Staff's Adjusted Estimates</u> (d)
		<u>G.O. Exp. Prorate</u> (b)	<u>Ad Val. Taxes For Inc. Taxes</u> (c)	
<u>Present Rates</u>				
Operating Revenues	\$ 766.0	-	-	\$ 766.0
Operating Expenses:				
Purchased Water	54.1	-	-	54.1
Purchased Power	48.7	-	-	48.7
Purchased Chemicals	12.8	-	-	12.8
Payroll - Dist.	152.7	-	-	152.7
Other Oper. & Maint.	78.9	-	-	78.9
Other A. & G. & Misc.	10.0	-	-	10.0
Ad Valorem Tax - Dist.	48.4	-	-	48.4
Business License	0.1	-	-	0.1
Payroll Taxes	10.4	-	-	10.4
Depreciation	87.5	-	-	87.5
Ad Valorem Tax - G.O.	0.4	-	-	0.4
Payroll Taxes - G.O.	1.9	-	-	1.9
Other Prorates - G.O.	69.9	(0.4)	-	69.5
Subtotal*	575.8	(0.4)	-	575.4
Inc. Taxes Before ITC	(9.3)	0.2	(0.6)	(9.7)
Invest. Tax Credit	(29.7)	-	-	(29.7)
Total Oper. Exp.	536.8	(0.2)	(0.6)	536.0
Net Oper. Revenues	229.2	0.2	0.6	230.0
Rate Base	3,277.2	-	-	3,277.2
Rate of Return	6.99%	0.01%	0.02%	7.02%
<u>Proposed Rates</u>				
Operating Revenues	\$1,044.0	-	-	\$1,044.0
Operating Expenses:				
Subtotal*	575.8	\$(0.4)	-	575.4
Inc. Taxes Before ITC	132.1	0.2	\$(0.6)	131.7
Invest. Tax Credit	(29.7)	-	-	(29.7)
Total Oper. Exp.	678.2	(0.2)	(0.6)	677.4
Net Operating Revenues	365.8	0.2	0.6	366.6
Rate Base	3,277.2	-	-	3,277.2
Rate of Return	11.16%	0.01%	0.02%	11.19%

- (a) Applicant's adjusted estimates from Exhibit 39-0, Page 4, Column (d).
(b) Effect of adjustment to General Office prorated expense which was disposed of at the hearing.
(c) Effect of staff's use of ad valorem taxes on a fiscal year basis in computing income taxes.
(d) Staff's estimates from Exhibit 39-0, Page 4, Column (f).

* Subtotal of expenses exclusive of income tax items.

(red figure)

Rate of Return

In Decision No. 90425, relating to Application No. 58093 applicant's Hermosa-Redondo District rate proceeding, we discussed at some length the basis for our findings that rates of return of 10.08, 10.27, and 10.43 percent on rate base and a uniform 13.0 percent on common equity are reasonable for applicant's operations for the period from 1979 through 1981. The same discussion, including consideration of quality of service, applies to applicant's Oroville District and need not be repeated herein.

Trend in Rate of Return

The Hermosa-Redondo District decision also discussed the allowance that must be made beyond the 1980 test year for the reduction in rate of return on rate base that would otherwise result from continuing changes in expenses and rate base. We concluded that, absent any unusual departure from the test-year estimates, the operational attrition allowance should be the amount indicated between the adopted test years 1979 and 1980.

In the Oroville District adopted results, the assumed increases in plant and expenses are reasonably consistent with the assumed increases in customers, making it suitable to recognize the apparent trend in rate of return between 1979 and 1980. The appropriate attrition allowance to use in setting step rates for 1981 is 0.33 percent in this district. The corresponding recommendations at the hearing had been 0.54 percent by applicant and 0.40 percent by the staff.

Summary of Earnings

The following Table IV is derived from Column (a) of Table III, modified to reflect the use, for income tax calculations, of interest deductions which are consistent for each year with the same cost of debt used in establishing a reasonable rate of return for that year. This modification was discussed in the Hermosa-Redondo District decision. This table shows the recommended summary of earnings at present rates and at the rates adopted.

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Table IV will provide a basis for review of future advice letter requests for rate increases or decreases to offset changes not reflected either in the test years 1979 and 1980 or in the operational attrition in rate of return on rate base adopted as the basis for the rates recommended herein. The purchased water rates utilized are the current \$32,400 per year payable to PG&E and \$11.68 per acre-foot payable to County. The rate utilized for the Western Pacific leased well is the current \$250 per month. The purchased power rate utilized is the composite PG&E 4.947 cents per kWh rate which became effective October 3, 1978. The ad valorem tax rate is the assumed rate of 1.25 percent of the dollars of estimated "market value" used for assessment purposes, which is the rate estimated to be applicable to the fiscal year 1979-80. The income tax rates are the 9 percent state and 46 percent (with intermediate steps) federal rates.

TABLE IV
ADOPTED SUMMARY OF EARNINGS
OROVILLE DISTRICT, TEST YEARS 1979-1980

(Dollars in Thousands)

	<u>1979</u>	<u>1980</u>
<u>Present Rates</u>		
Operating Revenues	\$ 760.0	\$ 766.0
Operating Expenses:		
Purchased Water	52.0	54.1
Purchased Power	48.2	48.7
Purchased Chemicals	12.0	12.8
Payroll - Dist.	142.7	152.7
Other Oper. & Maint.	73.3	78.9
Other A & G & Misc.	10.0	10.0
Ad Valorem Tax - Dist.	45.7	48.4
Business License	0.1	0.1
Payroll Taxes	9.7	10.4
Depreciation	85.5	87.5
Ad Valorem Tax - G.O.	0.4	0.4
Payroll Taxes - G.O.	1.8	1.9
Other Prorates - G.O.	65.7	69.9
Subtotal*	<u>547.1</u>	<u>575.8</u>
Inc. Taxes Before ITC	4.2	(8.8)
Invest. Tax Credit	<u>(30.7)</u>	<u>(29.7)</u>
Total Oper. Exp.	520.6	537.3
Net Operating Revenues	239.4	228.7
Rate Base	3,265.0	3,277.2
Rate of Return	7.33%	6.98%
<u>Authorized Rates</u>		
Operating Revenues	\$ 942.5	\$ 985.6
Operating Expenses:		
Subtotal*	547.1	575.8
Inc. Taxes Before ITC	97.0	102.9
Invest. Tax Credit	<u>(30.7)</u>	<u>(29.7)</u>
Total Operating Expenses	613.4	649.0
Net Operating Revenues	329.1	336.6
Rate Base	3,265.0	3,277.2
Rate of Return	10.08%	10.27%
Average Metered Services#	2,061	2,087
Average Flat-Rate Services	1,172	1,146
Water Production - KCcf#	1,660.6	1,679.7
Metered Sales - KCcf#	907.1	933.3

* Subtotal of expenses exclusive of income tax items.

Excluding raw water.

Rate Spread

The principles to be followed in designing the rates to be authorized for the current series of proceedings were discussed in the previously mentioned Hermosa-Redondo District decision. For 1979, rates for lifeline service in the Oroville District should be increased approximately 3.7 percent, much less than overall revenue increase of 24.0 percent. For step-rate increases in subsequent years, lifeline rates should be raised by the same percentage as is the total revenue increase. Appendices A and B included herewith set forth adopted rates for 1980 and 1981.

Other Items

The subject of applicant's water conservation efforts and the staff's recommendations regarding consideration of bimonthly billing and improvement of pump efficiency were discussed at length in the Hermosa-Redondo District decision.

Metering of Flat-Rate Customers

Late in 1976, the Commission opened Case No. 10114, an investigation into the operations and practices of public utility water companies relating to conservation. An order was issued early in 1977 requiring all of our companies to make conservation kits and conservation information available to their customers at no initial cost and established a procedure for mandatory water rationing.

A Second Interim Order in this case (Decision No. 88466 dated February 7, 1978) required Class A and B water companies to meter all new service connections for nonresidential service (excluding fire protection), multi-family dwellings and residential service with lots larger than 10,000 square feet. These utilities were also ordered to meter all existing flat rate services in these categories on a schedule designed to have all such services metered by December 31, 1981. In addition, these utilities were ordered to file the results of studies of the probable cost-effectiveness of metering services to smaller lots within 120 days.

Soon after our Second Interim Order was issued, the Commission received many communications including one from Assemblyman Gualco objecting to the metering requirements and at least two bills were proposed in the Legislature for the purpose of making the Commission's Order ineffective. As a result, the Commission issued a Third Interim Order (Decision No. 88692) in Case No. 10114 which rescinded our metering requirements. This Order does require Class A and Class B water utilities to include, as part of any new general rate application, an analysis of the costs and benefits of metering new service to various classes of customers and the costs and benefits of converting various classes of existing flat rate service to metered service. Assemblyman Thurman's proposed bill was dropped, but Assemblyman Gualco's bill resulted in new Public Utilities Code Section 781. ✓

Code Section 781 prohibits the Commission from requiring metering of services which were unmetered on January 1, 1979, except after hearing to be held in the service area, and all of the following findings have been made.

- (a) Metering will be cost-effective within the service area of the corporation.
- (b) Metering will result in a significant reduction in water consumption within the service area of the corporation.
- (c) The costs of metering will not impose an unreasonable financial burden on customers within the service area of the corporation unless it is found to be necessary to assure continuation of an adequate water supply within the service area of the corporation.

Applicant attempted to comply with the requirements of Decision No. 88692 by supplying certain estimates and opinions. The Commission staff did not accept applicant's proposals, objecting to the failure of applicant to include a benefit value for the water which would be consumed through metering. Both sides introduced evidence on the dispute during hearing. Staff did not propose

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that rate relief be postponed because of applicant's unwillingness to comply with its requests.

The adoption of Section 781 provides guidance in the scope of the cost/benefit analysis required by Decision No. 88692. If the Commission desires to order metering of those flat rate services which were in existence as of January 1, 1979, the hearing on a general rate increase application meets all requirements of Section 781 for a public hearing. The cost/benefit analysis submitted by applicant should therefore have been prepared so as to permit the Commission to determine whether or not it can make the findings directed in Section 781.

Position of City of Oroville

The Mayor of Oroville stated the principal concerns of the City Council in opposing applicant's requested rate increases. He pointed out that the water rates are already high and that further increases have an adverse effect on those customers with fixed income.

The city was also concerned that future expenses may be lower than estimated, because of the passage of the Jarvis-Gann Tax Initiative, and that future revenues may be greater than estimated, due to possible future rapid customer growth within the city limits. If the Commission were to assume higher expense levels or lower customer levels than those which occur, applicant might earn an excessive return.

In regard to the impact on residential customers, the rates recommended herein continue the existing "lifeline" concept with certain refinements recommended by the Commission staff. Those rates would result in significantly lower charges to small users than would the conventional "cost-of-service" approach to rate making.

In regard to the customer growth in the area, the staff's estimates, concurred in by applicant, of future individual commercial

(residential and business) customers appear reasonable. There is a possibility, however, that potential housing development for senior citizens and the city's efforts to attract industry to the community could result in greater numbers of customers than were anticipated by either applicant or the staff. We will use the estimates of customers, consumption and revenue concurred in by applicant and the staff for the purpose of setting rates. It would be appropriate, however, to require applicant to provide information reflecting actual growth before each step rate increase authorized herein, actually becomes effective. This should include data on actual number of customers added during the past year and those reasonably anticipated for each quarter of the coming year. This will provide an assurance that increases in number of customers do not produce excessive rates of return.

In regard to the ad valorem tax reduction which took place after this application was filed, the record shows that, by Advice Letter No. 630, applicant has already passed on the estimated savings through to customers in the present rates and has reduced its original requests accordingly to the proposed rates set forth in Table I of this opinion. Further, the ad valorem taxes and related revenues are subject to a balancing account so that when final adjusted tax bills are received, any surplus or deficiency resulting from deviations from estimated composite tax rates can be reflected in future rates.

Water Treatment Plant

Applicant's rates in Oroville are comparatively high. Much of the unusual revenue requirement can be traced to the fact that nearly half of applicant's local rate base, ad valorem tax, and depreciation expense is represented by the water treatment plant installed in 1976. The staff does not recommend any ratemaking adjustments in connection with the treatment plant for this proceeding. Some of the statements in the staff's Exhibit 20-0, however, seem to imply that applicant might have had some viable alternative to the continued use of surface water. The staff presentation on this issue seems designed to lay the groundwork for a possible future disallowance of expenses and rate base

associated with this plant. This would not be sound ratemaking. The plant was installed pursuant to an apparently unqualified requirement of the Department of Health. Applicant could at that time have legitimately believed that there was a binding state policy requiring such projects for any surface water system, regardless of the degree of real threat to life and health, and regardless of whether the supposed beneficiaries were willing to pay the cost. Whether or not such a policy was binding, applicant was entitled to rely on the appearance and construct the plant. We will not attempt to change the rules after applicant has irrevocably committed itself in good faith to comply with what appeared to be the law. We also note that this Commission's staff had more than sufficient notice of the impending project to challenge it before applicant had irrevocably committed funds to construction; no such challenge was made.

In terms of future water utility projects, however, we believe it would be preferable that single item plant additions of this magnitude should not be installed without an impartial weighing of each individual project's merits or without public input concerning whether the benefits are worth the cost.

If those basic elements are not available elsewhere, this Commission will sponsor whatever informal and formal proceedings may be appropriate to supply them.

Major plant additions which are constructed with either a finding of public convenience and necessity (or a comparable determination from another agency) or positive fully-informed local support, would be far less subject to post hoc challenges by the staff on the grounds of imprudent investment. We are not at the present time ready to guarantee that no such challenge will ever be entertained, but it should be obvious to utilities, staff, and other interested parties that both consumer and investor interests are best served if imprudent investments are identified before they are made.

As for this particular plant item, if staff should challenge it in the future, it will be expected to give a convincing explanation

why the Commission should entertain a post hoc challenge. We will expect the company to retain its own copies of the transcript and exhibits on this issue indefinitely.

Wage and Price Guidelines

When this decision was submitted the Wage and Price Council had not issued detailed regulations to adapt its general guidelines for application to regulated water utilities. Since the water utility industry is so fundamentally different from either manufacturing or service industries, any attempt to apply the guidelines directly involves more art than science. Under these circumstances, we can only assert our belief that this increase, being the minimum which could be justified under California law, complies with the spirit if not the letter of the guidelines.

It is clear that the wage increases granted by applicant to its employees and executives fall well within guideline levels.

Findings of Facts

1. Applicant's water quality, conservation program, and service are satisfactory.
2. Applicant required additional revenues, but the rates requested would produce an excessive rate of return.
3. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test years 1979 and 1980 and an annual fixed-rate decline of 0.33 percent in rate of return into 1981 due to operational attrition reasonably indicate the results of applicant's operations for the near future.
4. Rates of return of 10.08, 10.27, and 10.43 percent, respectively, on applicant's rate base for 1979, 1980, and 1981 are reasonable. The related return on common equity each year is 13.0 percent. This will require an increase of \$182,500, or 24.0 percent, in annual revenues for 1979; a further increase of \$34,600, or 3.6 percent, for 1980; and a further increase of \$22,000, or 2.2 percent, for 1981.

5. The type of rate spread agreed to by applicant and staff, as hereinbefore discussed, is reasonable.

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.

7. The offset increases authorized in Appendix B should be appropriately modified in the event the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1979, and/or September 30, 1980, exceeds the lower of the rate of return found reasonable by the Commission for applicant during the corresponding period in the most recent rate decision or those found reasonable herein.

8. In regard to applicant's Oroville Treatment Plant:

- a. The State Department of Public Health requires applicant to treat the surface water supplies for the Oroville District.
- b. Based upon information developed in the record in this proceeding and in prior Application No. 55115, upon which Decision No. 85279 dated December 30, 1975 was based, applicant's construction of a filter plant was a necessary and prudent addition to applicant's Oroville District utility plant.
- c. In view of the foregoing findings, it is proper to include the full effect of the filter plant in the rate base and expenses upon which revenue requirements have been based in this proceeding.

9. The applicant's showing with respect to metering of flat rate service was insufficient to permit the findings required by Section 781 of the Public Utilities Code before metering of flat

A. 58095 CTD-fg Alt.

rate service may be ordered by this Commission. Nor was the staff, on the basis of available data, able to augment the applicant's showing to the extent necessary to permit the required findings. This matter should be continued to the next appropriate proceeding where the public can be specifically notified that the subject of requiring the metering of flat rate services is an issue in the proceeding.

Conclusions of Law

1. The application should be granted to the extent provided by the following order.

2. Because of the limited number of issues involved in this proceeding, the fact that applicant and the staff are the only active parties to this proceeding, and the fact that the returns found reasonable herein are based upon the full-year 1979 effect of the rate increase, the following order should be effective on the date of signature.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant California Water Service Company is authorized to file for its Oroville District the initial 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.

2. On or after November 15, 1979, applicant is authorized to file step rates incorporating the appropriate step rate increases attached to this order as Appendix B or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the Oroville District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ended September 30, 1979, exceeds the lower of 10.08 percent or the rate of return found reasonable for 1979 in a final subsequent decision involving one of applicant's other districts. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be January 1, 1980, or thirty days after the filing of the step rates, whichever comes later. The revised schedule shall apply only to service rendered on and after the effective date thereof.

3. On or after November 15, 1980, applicant is authorized to file step rates incorporating the appropriate step-rate increases attached to this order as Appendix B or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the Oroville District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ended

September 30, 1980, exceeds the lower of 10.27 percent or the rate of return found reasonable for 1980 in a final subsequent decision involving one of applicant's other districts. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be January 1, 1981 or thirty days after the filing of the step rates, whichever comes later. The revised schedule shall apply only to service rendered on and after the effective date thereof.

4. When filing step rates as authorized in paragraphs 2 and 3 of this order, applicant shall include in the related advice letter a summary of the number of customers, by classification, and amount of revenue, by classification, for each month of the twelve-month period covered by the supporting data in the advice letter, together with estimates for each quarter of the then next succeeding year.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 3rd day of JULY, 1979.

Joe E. Byrne
President
William L. Steppan
Richard W. Swale
Clair T. DeWitt
Leonard M. Jensen
Commissioners

APPENDIX A

Page 1 of 6

Schedule No. OR-1

Oroville Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Oroville and vicinity, Butte County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 7.20	(I)
For 3/4-inch meter	10.30	|
For 1-inch meter	14.00	|
For 1½-inch meter	19.00	|
For 2-inch meter	25.00	|
For 3-inch meter	47.00	|
For 4-inch meter	63.00	|
For 6-inch meter	105.00	|
For 8-inch meter	157.00	|
For 10-inch meter	194.00	(I)
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft.....	0.400	(I)(T)
For the next 29,700 cu.ft., per 100 cu.ft.....	.480	| |
For all over 30,000 cu.ft., per 100 cu.ft.....	.418	(I)(T)

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 2 of 6

Schedule No. OR-2R

Oroville Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Oroville and vicinity, Butte County.

RATES

Per Service Connection
Per Month

For a single-family residential unit,
including premises having the following
areas:

6,000 sq.ft., or less	\$18.00	(I)
6,001 to 10,000 sq.ft.	20.00	|
10,001 to 16,000 sq.ft.	24.00	|
16,001 to 25,000 sq.ft.	30.00	|

For each additional single-family residential unit on the same premises and served from the same service connection	10.50	(I)
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SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classification shall be furnished only on a metered basis.
3. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. OR-1, General Metered Service.

APPENDIX A

Schedule No. OR-3M

OROVILLE TARIFF AREA

IRRIGATION SERVICE

APPLICABILITY

Applicable to service of untreated water from Powers Canal to irrigation districts and to irrigation or mining ditches, for uses including but not limited to the irrigation of vineyards, orchards and pasture lands.

TERRITORY

Lands located along the Powers Canal, between Coal Canyon Powerhouse and Cherokee Reservoir, north of the City of Oroville, Butte County.

RATE

	<u>Per Miner's Inch Day</u>	
For all water delivered	\$.59	(I)

SPECIAL CONDITION

A miner's inch day is defined as the quantity of water equal to 1/40 of a cubic foot per second flowing continuously for a period of 24 hours.

APPENDIX A
Page 4 of 6

Schedule No. OR-2UL

OROVILLE TARIFF AREA

LIMITED FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished to customers taking untreated water directly from Powers Canal.

TERRITORY

Oroville and vicinity, Butte County.

RATE

	<u>PER MONTH</u>	
Mr. Francis Carmichael.....	\$6.50	(I)

SPECIAL CONDITION

Service under this schedule is limited to the above service which was being furnished as of January 1, 1955.

APPENDIX A
Page 5 of 6

Schedule No. OR-5

OROVILLE TARIFF AREA

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

Oroville and vicinity, Butte County.

RATES

	<u>Per Hydrant Per Month</u>		
	<u>City of Oroville and El Medio Fire District</u>	<u>Remainder of Territory with Facilities Installed at Cost of Public Authority</u>	
		<u>Standard</u>	<u>Wharf-type</u>
For each hydrant...No charge		\$ 1.00	\$.50

SPECIAL CONDITIONS

1. Within the city of Oroville, the city is responsible for the 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 pipeline 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 adjustments of the hydrant; painting; and clearing of weeds.

(Continued)

APPENDIX A
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Schedule No. OR-5

OROVILLE TARIFF AREA

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS (Contd.)

2. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. OR-1, General Metered Service.

(T)
|
(T)

3. The cost of relocation of any hydrant shall be paid by the party requesting relocation.

(N)

4. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size.

(N)

5. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

(T)
(T)

6. Outside of the City of Oroville, whenever the facilities are installed at the cost of the public authority, such costs include all labor and materials except that the utility will provide the materials for the service tee and the shutoff valve. The service tee and valve will be installed only by authorized utility personnel.

(N)
|
(N)

APPENDIX B
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Oroville Tariff Area

AUTHORIZED INCREASE IN RATES

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rates which would otherwise be in effect on that date.

<u>Metered Service</u>	<u>Rates to be Effective</u>	
	<u>1-1-80</u>	<u>1-1-81</u>
<u>Service Charge:</u>		
5/8 x 3/4-inch meter	\$.25	\$.15
3/4-inch meter	.40	.20
1-inch meter	.60	.30
1½-inch meter	1.00	1.00
2-inch meter	1.00	1.00
3-inch meter	1.00	2.00
4-inch meter	3.00	3.00
6-inch meter	5.00	3.00
8-inch meter	6.00	5.00
10-inch meter	8.00	7.00
<u>Quantity Rates:</u>		
For the first 300 cu.ft., per 100 cu.ft.	.015	.009
For the next 29,700 cu.ft., per 100 cu.ft.	.019	.016
For all over 30,000 cu.ft., per 100 cu.ft.	.015	.005

APPENDIX B
Page 2 of 2

Oroville Tariff Area

AUTHORIZED INCREASE IN RATES

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rates which would otherwise be in effect on that date.

	<u>Rates to be Effective</u>	
	<u>1-1-80</u>	<u>1-1-81</u>
<u>Residential Flat Rate Service</u>		
With premises of:		
6,000 sq.ft. or less	\$.65	\$.55
6,001 to 10,000 sq.ft.	.70	.65
10,001 to 16,000 sq.ft.	.90	.85
16,001 to 25,000 sq.ft.	1.00	1.00
Each additional unit	.40	.35
<u>Limited Flat Rate Service</u>		
Single irrigation customer	.20	.20
<u>Irrigation Service</u>		
All use, per Miner's Inch Day	.01	.01