

ORIGINAL

Decision No. 90491 JUL 3 1979

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of)

CALIFORNIA WATER SERVICE COMPANY,)
a corporation,)

Application No. 58094
(Filed May 25, 1978)

for an order authorizing it to)
increase rates charged for water)
service in the Marysville)
District.)

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 N

Introduction

Applicant California Water Service Company filed this and five other applications for rate relief in 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 \$103,000 or 26 percent. The Commission set public hearing on a consolidated record including all six district proceedings.^{1/}

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

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.

Exhibit A in this proceeding indicates that applicant has complied with all requirements for notice, service, and publications 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 the staff. An extension was granted to the staff to allow it to file its brief. 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 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 Marysville Fire Chief testified to seek reduction in charges for private fire protection water service.

Service Area and Water System

Applicant owns and operates water systems in 21 districts in California. Its Marysville District includes all of the city of Marysville. The terrain is flat, with the mean elevation being approximately 63 feet above sea level. The population within the area served is estimated at 12,300.

Water for the Marysville District is obtained from eleven company-owned wells located throughout the district. The well pumps are electrically powered; two of them are also equipped with

auxiliary standby engines. Production from the wells is delivered directly into the distribution system. That system includes about 49 miles of mains, ranging in size up to 12 inches, and approximately 300,000 gallons of storage capacity. There are about 940 metered services, 2,510 flat rate residential services, 22 private fire protection services and 240 public fire hydrants.

Service

Applicant asserts 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 an indication that service is not unsatisfactory.

Rates

Applicant's present tariffs for this district consist primarily of schedules for general metered service, residential flat-rate service, private fire protection service, and public fire hydrant service.

Applicant proposes to increase all of these rates except those for fire protection service and also proposes 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 which, among other things, eliminate monthly fire hydrant charges. Applicant and the city of Marysville entered into such an agreement on August 7, 1978, to become effective concurrently with the rates established in this proceeding.

The following Table I presents a comparison of applicant's present and proposed rates for general metered service and residential flat rate service:

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

General Metered Service	Present* Rates	Proposed Rates‡			Adopted Rates		
		1979	1980	1981	1979	1980	1981
Service Charge:							
For 5/8 x 3/4-inch meter	\$ 3.86	\$ 3.86	\$ 3.86	\$ 3.86	\$ 3.90	\$ 4.00	\$ 4.10
For 3/4-inch meter	4.27	5.10	5.30	5.50	4.75	5.00	5.20
For 1-inch meter	5.79	7.00	7.20	7.40	6.50	6.80	7.10
For 1½-inch meter	8.12	9.70	10.10	10.50	9.00	10.00	11.00
For 2-inch meter	10.40	12.50	13.00	13.50	12.00	13.00	14.00
For 3-inch meter	19.29	23.00	24.00	25.00	21.00	22.00	23.00
For 4-inch meter	26.24	32.00	33.00	34.00	28.00	30.00	32.00
For 6-inch meter	43.60	52.00	54.00	56.00	49.00	53.00	55.00
For 8-inch meter	64.82	78.00	81.00	84.00	72.00	76.00	79.00
For 10-inch meter	80.24	96.00	100.00	104.00	90.00	95.00	99.00
Quantity Rates:							
For the first 300 cu.ft., per 100 cu.ft.	0.135	0.150	0.156	0.160	0.135	0.137	0.143
For the next 200 cu.ft., per 100 cu.ft. ....	.135	.200	.208	.213	.174	.180	.185
For all over 500 cu.ft., per 100 cu.ft. ....	.156	.187	.195	.200	.174	.180	.185

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 2135-W, effective August 27, 1978.

‡ Set forth in applicant's Exhibit 40-M, Page 1, which reflects rates set forth in application minus the reductions effected by Advice Letter 630.

TABLE I
(Page 2 of 2)

MARYSVILLE DISTRICT
COMPARISON OF MONTHLY RATES

	Present* Rates	Proposed Rates†			Adopted Rates		
		1979	1980	1981	1979	1980	1981
<u>Residential Flat Rate Service</u>							
With premises of:							
6,000 sq.ft. or less	\$ 7.05	\$ 8.63	\$ 9.03	\$ 9.28	\$ 7.95	\$ 8.25	\$ 8.50
6,001 to 10,000 sq.ft.	8.22	10.19	10.69	10.99	9.30	9.60	9.90
10,001 to 16,000 sq.ft.	9.77	12.03	12.68	12.93	11.00	11.50	11.90
16,001 to 25,000 sq.ft.	12.50	15.43	16.03	16.53	14.00	14.60	15.10
Each additional unit	4.73	5.92	6.02	6.32	5.40	5.60	5.80

1
5
1

* From Tariff Sheet 2136-W, effective August 27, 1978.

† Set forth in applicant's Exhibit 40-M, Page 2, which reflects rates set forth in the application minus the reductions effected by Advice Letter 630.

A.58094 FS

In this district, an average metered commercial (business and residential) customer will use about 44,000 cubic feet of water per year, or 37 Ccf (hundred of cubic feet) per month. The corresponding use for an average industrial user in this district is 510,000 cubic feet of water per year, or 425 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 applicant's proposed rates. The table also presents similar comparisons 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	\$ 9.53	\$ 9.53	\$ 9.53
Rates Proposed at Hearing:			
Monthly Charge	10.69	10.98	11.17
Increase Over Present Rates:			
Amount	1.16	1.45	1.64
Percent	12.2%	15.2%	17.2%
Adopted:			
Monthly Charge	\$ 10.22	\$ 10.53	\$ 10.82
Increase Over Present Rates:			
Amount	.69	1.00	1.29
Percent	7.2%	10.5%	13.5%
<u>Average Industrial Customer</u>			
Present Rates:			
Monthly Charge	\$ 92.44	\$ 92.44	\$ 92.44
Rates Proposed at Hearing			
Monthly Charge	111.39	115.78	118.91
Increase Over Present Rates:			
Amount	18.95	23.34	26.47
Percent	20.5%	25.2%	28.6%
Adopted:			
Monthly Charge	\$101.83	\$106.37	\$110.50
Increase Over Present Rates:			
Amount	9.39	13.93	18.06
Percent	10.2%	15.1%	19.5%
<u>Average Flat-Rate Customer</u>			
Present Rates:			
Monthly Charge	\$ 8.22	\$ 8.22	\$ 8.22
Rates Proposed at Hearing:			
Monthly Charge	10.19	10.69	10.99
Increase Over Present Rates:			
Amount	1.97	2.47	2.77
Percent	24.0%	30.0%	33.7%
Adopted:			
Monthly Charge	\$ 9.30	\$ 9.60	\$ 9.90
Increase Over Present Rates:			
Amount	1.08	1.38	1.68
Percent	13.1%	16.8%	20.4%

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 40-M, 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. 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.

Applicant does not entirely agree with some of the staff's adjustments and estimates of consumption and the related revenue items but, for the purpose of expediting this proceeding, does not take issue with the staff in regard to most items. That leaves only four issues to be resolved with respect to the summary of earnings, as shown on Table III. The first two of 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 No. 90425 in Application No. 58093 involving applicant's Hermosa-Redondo District. That discussion need not be repeated here.

TABLE III
(Page 1 of 2)RECONCILIATION OF APPLICANT'S AND STAFF'S SUMMARY OF EARNINGSMARYSVILLE DISTRICT, TEST YEAR 1979

(Dollars in Thousands)

Item	Applicant's Adjusted Estimates (a)	Effect of Issues			Staff's Adjusted Estimates (f)
		G.O. Exp. Prorates (b)	Ad Val. Txs. For Inc. Txs. (c)	Well Install. (d)		Non-Specific Budget Items (e)
<u>Present Rates</u>					
Operating Revenues	\$ 391.1	\$ -	\$ -	\$ -	\$ 391.1
Operating Expenses:					
Purchased Power	41.6	-	-	-	41.6
Purchased Chemicals	0.1	-	-	-	0.1
Payroll - District	102.3	-	-	-	102.3
Other Oper. & Maint.	25.4	-	-	-	25.4
Other A. & G. & Misc.	9.2	-	-	-	9.2
Ad Valorem Tax - Dist.	17.4	-	-	-	17.4
Payroll Taxes	7.0	-	-	-	7.0
Depreciation	40.0	-	-	-	40.0
Ad Valorem Tax - G.O.	0.3	-	-	-	0.3
Payroll Taxes - G.O.	1.1	-	-	-	1.1
Other Prorates - G.O.	40.7	(0.2)	-	-	40.5
Subtotal*	285.1	(0.2)	-	-	284.9
Business License	0.3	-	-	-	0.3
Inc. Taxes Before ITC	14.7	0.1	(1.1)	2.2	15.9
Invest. Tax Credit	(12.8)	-	-	1.7	(11.1)
Total Oper. Exp.	287.3	(0.1)	(1.1)	3.9	290.0
Net Oper. Revenues	103.8	0.1	1.1	(3.9)	101.1
Rate Base	1,209.1	-	-	(42.4)	1,166.7
Rate of Return	8.58%	0.01%	0.09%	(0.01)%	8.67%
<u>Authorized Rates</u>					
Operating Revenues	\$ 464.9	-	-	-	\$ 464.9
Operating Expenses:					
Subtotal*	285.1	\$(0.2)	-	-	284.9
Business License	0.3	-	-	-	0.3
Inc. Taxes Before ITC	52.2	0.1	\$(1.1)	\$ 2.2	53.4
Invest. Tax Credit	(12.8)	-	-	1.7	(11.1)
Total Oper. Exp.	324.8	(0.1)	(1.1)	3.9	327.5
Net Oper. Revenues	140.1	0.1	1.1	(3.9)	137.4
Rate Base	1,209.1	-	-	(42.4)	1,166.7
Rate of Return	11.59%	0.01%	0.09%	0.09%	11.78%

(a) Applicant's adjusted estimates from Exhibit 40-M, Page 6, Column (d).

(b) Effect of adjustment to General Office prorated expense.

(c) Effect of staff's use of ad valorem taxes on a fiscal year basis in computing income taxes.

(d) Effect of staff's exclusion of \$86,100 for a well installation included in applicant's 1979 final construction budget.

(e) Staff's exclusion of various non-specific budget items included in applicant's 1980 preliminary construction budget does not affect 1979 estimates.

(f) Staff's estimates from Exhibit 40-M, Page 6, Column (f).

* Subtotal of expenses exclusive of business license and income tax items.

(red figure)

TABLE III
(Page 2 of 2)RECONCILIATION OF APPLICANT'S AND STAFF'S SUMMARY OF EARNINGSMARYSVILLE DISTRICT, TEST YEAR 1980

(Dollars in Thousands)

Item	Applicant's Adjusted Estimates (a)	Effect of Issues				Staff's Adjusted Estimates (f)
		G.O. Exp. Prorates (b)	Ad Val. Txs. For Inc. Txs. (c)	Well Install. (d)	Non-Specific Budget Items (e)	
<u>Present Rates</u>						
Operating Revenues	\$ 407.2	\$ -	\$ -	\$ -	\$ -	\$ 407.2
Operating Expenses:						
Purchased Power	43.5	-	-	-	-	43.5
Purchased Chemicals	0.1	-	-	-	-	0.1
Payroll - District	109.6	-	-	-	-	109.6
Other Oper. & Maint.	26.5	-	-	-	-	26.5
Other A. & G. & Misc.	9.6	-	-	-	-	9.6
Ad Valorem Tax - Dist.	20.9	-	-	(0.5)	-	20.4
Payroll Taxes	7.4	-	-	-	-	7.4
Depreciation	42.8	-	-	(1.9)	-	40.9
Ad Valorem Tax - G.O.	0.3	-	-	-	-	0.3
Payroll Taxes - G.O.	1.2	-	-	-	-	1.2
Other Prorates - G.O.	43.3	(0.2)	-	-	-	43.1
Subtotal*	305.2	(0.2)	-	(2.4)	-	302.6
Business License	0.3	-	-	-	-	0.3
Inc. Taxes Before ITC	9.6	0.1	(0.4)	4.6	0.3	14.2
Invest. Tax Credit	(11.2)	-	-	1.7	0.4	(9.1)
Total Oper. Exp.	303.9	(0.1)	(0.4)	3.9	0.7	308.0
Net Oper. Revenues	103.3	0.1	0.4	(3.9)	(0.7)	99.2
Rate Base	1,284.1	-	-	(85.1)	(6.4)	1,192.6
Rate of Return	8.04%	0.01%	0.03%	0.25%	(0.01)%	8.32%
<u>Authorized Rates</u>						
Operating Revenues	\$ 504.7	-	-	-	-	\$ 504.7
Operating Expenses:						
Subtotal*	305.2	\$(0.2)	-	\$(2.4)	-	302.6
Business License	0.3	-	-	-	-	0.3
Inc. Taxes Before ITC	59.2	0.1	\$(0.4)	4.6	\$ 0.3	63.8
Invest. Tax Credit	(11.2)	-	-	1.7	0.4	(9.1)
Total Oper. Exp.	353.5	(0.1)	(0.4)	3.9	0.7	357.6
Net Oper. Revenues	151.2	0.1	0.4	(3.9)	(0.7)	147.1
Rate Base	1,284.1	-	-	(85.1)	(6.4)	1,192.6
Rate of Return	11.77%	0.01%	0.03%	0.51%	0.01%	12.33%

(a) Applicant's adjusted estimates from Exhibit 40-M, Page 7, Column (d).

(b) Effect of adjustment to General Office prorated expense.

(c) Effect of staff's use of ad valorem taxes on a fiscal year basis in computing income taxes.

(d) Effect of staff's exclusion of \$86,100 for a well installation included in applicant's 1979 final construction budget.

(e) Effect of staff's exclusion of \$13,000 for various non-specific budget items or 30% of total specific and non-specific plant items included in applicant's 1980 preliminary construction budget.

(f) Staff's estimates from Exhibit 40-M, Page 7, Column (f).

* Subtotal of expenses exclusive of business license and income tax items.

(red figure)

Well Installation

The third issue relates to the staff's exclusion of \$86,100 for a well installation included in applicant's 1979 final construction budget. The well is scheduled to be installed in conjunction with the development of a new subdivision at the north-east corner of the Marysville District service area. That subdivision includes an estimated 330 single-family dwellings which will eventually create a nine percent increase in users in this district.

The staff's principal basis for the exclusion of the new well is the Real Estate Questionnaire prepared by applicant at the time the subdivision was being planned. Those questionnaires are furnished to the Commission staff, so that the staff can advise the California Real Estate Commission as to the probable availability of an adequate water supply. The staff contends that the particular questionnaire involved shows that applicant has an adequate supply without adding the scheduled new well.

Applicant contends that, although the questionnaires are suitable for their intended purpose, they are not prepared with the same detailed consideration required in deciding when to install new production facilities. Applicant points out, for example, that it must prepare about 300 such questionnaires each year and takes the somewhat broad-brush approach of developing only once per year the statistical numbers to apply to the questionnaires' empirical mathematical equation for determining minimum water supply requirements.

Applicant argues that it must consider much more before committing company funds to construction of new production facilities. It reviews previous historical customer use and projects of resulting anticipated water supply requirements over the budgeted period. Further, there are several constraints which affect timing as to well construction, such as the environmental considerations discussed in detail in Exhibit 31-D & M. As a practical matter, construction

convenience and resulting construction cost make it preferable that a well in a new subdivision be constructed prior to the time that homes in the development are occupied.

Applicant's more detailed studies in Exhibit 31-D & M indicate that, without the new well and during peak-hour demand, there would be somewhere between a deficiency of about 200 g.p.m., and a surplus of about 740 g.p.m., depending upon the assumptions made. Further, applicant states that water quality problems inhibit the use of one of its other wells and that still another is nearing the end of its useful life. The staff has not adequately countered applicant's showing. Since the new well is with reasonable certainty necessary for both supply and quality requirements, it is not an imprudent expenditure.

Non-Specific Budget Items

The fourth issue relates to the staff's exclusion of \$13,000 for various non-specific budget items, representing 30 percent of the total specific and non-specific plant items included in applicant's 1980 preliminary construction budget. The effect of the staff's adjustment is hardly discernible in the rate of return, being 0.01 percent for the year 1980, as shown on Table III, Page 2, Column (e), and thus would not affect the rates to be authorized. Nevertheless, applicant considered that the principle involved precludes its acceptance of the staff adjustment.

Applicant's construction budgets include specific items, where the location, size, type, and cost can reasonably be estimated in advance. The budgets also include non-specific items, for which the exact location, size, and type cannot be determined in advance, but for which experience has shown a need in prior years. For example, applicant has a program for replacing old and undersized mains as they reach the end of their useful lives. The determination of which mains to replace can be affected by such factors as recent leak experience, low operating pressures, a decision by the city to repave a street, and many other factors. Although many

of those factors cannot be determined far in advance, they affect primarily where in the district the budgeted amounts will be spent, rather than how much will be spent.

The staff reviewed applicant's history of expenditures for the non-specific budget items over a five-year period ending with the year 1977. The exclusion of the 1980 budgeted non-specific items by the staff was based upon a comparison with the five-year average. A witness for applicant testified that if the past expenditures had been adjusted by the staff to reflect the inflation that has taken place in construction costs over that period, no justification for adjustment to applicant's estimates of 1980 non-specific items would have been indicated. That testimony is uncontroverted in the record. Applicant's estimate for non-specific 1980 budgeted items should be adopted.

Rate of Return

In the Hermosa-Redondo District decision, supra, the Commission discussed at some length the basis for its 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 Marysville District and need not be repeated here.

Trend in Rate of Return

The Hermosa-Redondo District decision, supra, 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.

In the Marysville District results, there is one such unusual condition which must be recognized in the attrition allowance. The plant installations in the test period cause a somewhat greater than normal increase between 1979 and 1980 in rate base, depreciation, and ad valorem taxes, not fully offset by customer growth. We

therefore conclude that, instead of the calculated attrition of 0.83 percent between 1979 and 1980, the appropriate attrition allowance to use in setting step rates for 1981 is 0.60 percent in this district. This represents the average effect over the past four years of changes in rate base and expense levels not subject to advice letter offsets. The corresponding recommendations at the hearing, without consideration of the new well, had been 0.50 percent by applicant and 0.30 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 proposed herein.

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 power rate utilized is the composite PG&E 4.937 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

RECOMMENDED SUMMARY OF EARNINGS
MARYSVILLE DISTRICT, TEST YEARS 1979-1980
(Dollars in Thousands)

	<u>1979</u>	<u>1980</u>
<u>Present Rates</u>		
Operating Revenues	\$ 391.1	\$ 407.2
Operating Expenses:		
Purchased Power	41.6	43.5
Purchased Chemicals	0.1	0.1
Payroll - District	102.3	109.6
Other Oper. & Maint.	25.4	26.5
Other A. & G. & Misc.	9.2	9.6
Ad Valorem Tax - Dist.	17.4	20.9
Payroll Taxes	7.0	7.4
Depreciation	40.0	42.8
Ad Valorem Tax - G.O.	0.3	0.3
Payroll Taxes - G.O.	1.1	1.2
Other Prorates - G.O.	<u>40.7</u>	<u>43.3</u>
Subtotal*	285.1	305.2
Business License	0.3	0.3
Inc. Taxes Before ITC	16.1	9.6
Invest. Tax Credit	<u>(12.8)</u>	<u>(11.2)</u>
Total Operating Expenses	288.7	303.9
Net Operating Revenues	102.4	103.3
Rate Base	1,209.1	1,284.1
Rate of Return	8.47%	8.04%
<u>Rates Adopted Herein</u>		
Operating Revenues	\$ 430.8	\$ 465.4
Operating Expenses:		
Subtotal*	285.1	305.2
Business License	0.3	0.3
Inc. Taxes Before ITC	36.3	39.2
Investment Tax Credit	<u>(12.8)</u>	<u>(11.2)</u>
Total Operating Expenses	308.9	333.5
Net Operating Revenues	121.9	131.9
Rate Base	1,209.1	1,284.1
Rate of Return	10.08%	10.27%
Average Metered Services	974	999
Average Flat Rate Services	2,598	2,713
Water Production - KCcf	1,173.3	1,224.1
Metered Sales - KCcf	494.7	516.8

* Subtotal of expenses exclusive of business license and income tax items.

(red figure)

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 Marysville District should be increased approximately 0.9 percent, whereas the overall revenue increase is 10.2 percent. The increase for flat-rate service is 13.1 percent. For step-rate increases in subsequent years, lifeline rates should be raised by the same percentage as the total revenue increase. Flat-rate customers can avail themselves of the lifeline rates by requesting metered service, as provided in applicant's tariffs. Appendices A and B included herewith set forth 1979 rates and increases in rates for 1980, 1981, and 1982.

Private Fire Protection Service

The Marysville Fire Chief proposed that the monthly rates now charged for private sprinkler system service pursuant to applicant's Tariff Schedule No. MR-4, amounting to \$1.50 per inch of diameter of service connection, be discontinued and that the resulting loss in revenues be offset by increases in other rates. He testified that the existence of fire sprinkler systems on private buildings benefits the general public by preventing large fires which could spread to adjoining buildings. Further, he pointed out that the early extinguishment of a fire by a private sprinkler system uses relatively lower flows and less total water than would the fire department's use of hydrants, pumpers, and hoses if the fire had not been controlled by the private sprinklers. He concluded that the elimination of charges for private sprinkler system service (1) was consistent with the elimination of charges for public fire hydrants, and (2) would encourage the installation of private sprinkler systems.

A. 58094 Alt.-JDR-fg

The suggestion of the Fire Chief for the City of Marysville should be studied for consideration in future rate proceedings. This should include the benefits of the offsetting reduction in fire insurance rates to customers who install sprinkler systems and whether the transfer of this cost to all general service customers would put an excessive burden on the residential customer who cannot usually benefit from a sprinkler system. Applicant should be ordered to present such a study in its next rate application for any district where these or similar rates apply.

We will therefore retain the present fire protection charges in this proceeding until applicant has completed its study. Revised fire protection rates could be accomplished for all districts by advice letter filings if the study justifies any change to this class of service.

Metering of Flat-Rate Customers

In Decision No. 88692, dated April 11, 1978, the third interim opinion in Case No. 10114, the Commission ordered each Class A and B water utility to include, as part of any new general rate application, an analysis of (1) the costs and benefits of metering new service to various classes of customers and (2) the costs and benefits of converting various classes of existing flat rate service to metered service. On November 6, 1978, applicant

submitted to the staff, in compliance with that decision, studies related to the Marysville District, showing that the metering of flat-rate customers would not be cost-effective.

In our Oroville decision (No. 90490) in Application No. 58095 we explained our resolution of this issue. That discussion need not be repeated here. We should indicate, however, that our staff has no present plans to move for additional metering in this District.

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 Fact

1. Applicant's water quality, conservation program, and service are satisfactory.
2. Applicant is in need of additional revenues, but the rates requested would produce an excessive rate of return.
- 3.a. 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 0.60 percent in rate of return into 1981 due to operational attrition reasonably indicate the results of applicant's operations for the near future.
 - b. It is reasonable and prudent for applicant to install the new well and pumping equipment scheduled in its 1979 construction budget.

A. 58094 Alt.-JDR-fg

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 13.00 percent. This will require an increase of \$39,700, or 10.2 percent, in annual revenues for 1979; a further increase of \$16,700, or 3.7 percent, for 1980; and a further increase of \$15,500 or 3.3 percent, for 1981.

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

b. The elimination of charges for private fire protection service is not justified at this time.

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 rate-making adjustment for the twelve months ended September 30, 1979, and/or September 30, 1980, exceeds the rate of return found reasonable by the Commission for applicant during the corresponding period in the most recent rate decision.

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 Marysville 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 Marysville 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 30 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 Marysville 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

49

A. 58094 Alt.-JDR-fg

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 30 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. Applicant shall prepare a study applicable to all of its districts into the equity and advisability of eliminating its private fire protection rates. Such study is to be submitted with the next general rate increase application for any district filed after October 1, 1979.

The effective date of this order is the date hereof.

Dated JUL 3 1979, at San Francisco, California.

John E. Byrne

 President

Joseph L. Stanger

Richard D. Howell

Clarence J. DeLoach

Edward M. James

 Commissioners

APPENDIX A
Page 1 of 3

Schedule No. MR-1

Marysville Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Marysville and vicinity, Yuba County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
<u>Service Charge:</u>		
For 5/8 x 3/4-inch meter	\$ 3.90	(I)
For 3/4-inch meter	4.75	|
For 1-inch meter	6.50	|
For 1 1/2-inch meter	9.00	|
For 2-inch meter	12.00	|
For 3-inch meter	21.00	|
For 4-inch meter	28.00	|
For 6-inch meter	42.00	|
For 8-inch meter	79.00	|
For 10-inch meter	90.00	(I)
 <u>Quantity Rates:</u>		
For the first 300 cu.ft., per 100 cu.ft.	\$ 0.135	(T)
For all over 300 cu.ft., per 100 cu.ft. ....	.174	(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 3

Schedule No. MR-2R

Marysville Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Marysville and vicinity, Yuba County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
For a single-family residential unit, including premises having the following areas:	
6,000 sq.ft., or less	\$ 7.95 (I)
6,001 to 10,000 sq.ft.	9.30 |
10,001 to 16,000 sq.ft.	11.00 |
16,001 to 25,000 sq.ft.	14.00 (I)
 For each additional single-family residential unit on the same premises and served from the same service connection	 5.40 (I)

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. MR-1, General Metered Service.

APPENDIX A
Page 3 of 3

Schedule No. MR-5L

Marysville Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to the City of Marysville.

TERRITORY

The City of Marysville, Yuba County.

RATE

	<u>Per Month</u>	(T)
For each hydrant	No Charge	(R)

SPECIAL CONDITIONS

1. Within the City of Marysville, 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. (T)
2. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. MR-1, General Metered Service. (L)
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, type, and size of each hydrant. (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)

APPENDIX B

Marysville 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>1-1-80</u>	<u>1-1-81</u>
Service Charge:		
For 5/8 x 3/4-inch meter	\$.10	\$.15
3/4-inch meter	.25	.20
1-inch meter	.30	.30
1 1/2-inch meter	1.00	1.00
2-inch meter	1.00	1.00
3-inch meter	1.00	1.00
4-inch meter	2.00	2.00
6-inch meter	4.00	2.00
8-inch meter	4.00	3.00
10-inch meter	5.00	4.00
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft.	0.002	0.006
For all over 300 cu.ft., per 100 cu.ft.	.006	.006
<u>Residential Flat Rate Service</u>		
With premises of:		
6,000 sq.ft. or less	\$.30	\$.35
6,001 to 10,000 sq.ft.	.30	.40
10,001 to 16,000 sq.ft.	.50	.50
16,001 to 25,000 sq.ft.	.60	.65
Each additional unit	.20	.25