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ORIGINAL

Decision No. 90650 AUG 14 1979

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CP NATIONAL CORPORATION, a California)
Corporation, for authority to increase)
its rates for water service in its)
Susanville District. }

Application No. 57824
(Filed January 20, 1978)

Orrick, Herrington, Rowley & Sutcliffe, by
Robert J. Gloistein, Attorney at Law, for
applicant.

Jim Chapman, Lassen County Supervisor,
District 2, for himself and Citizens of
Lassen County, protestant.

Charles S. Richardson, for City of Susanville;
and Alice T. Dresel, William H. Moore, Jr.,
and James E. Fardee, for themselves; interested
parties.

Sara Steck Myers, Attorney at Law, and Bertram
Patrick, P.E., for the Commission staff.

O P I N I O N

By this application, CP National Corporation (applicant) requests authority to establish rates for its Susanville District Water Department which were designed to increase annual revenues by \$209,500 or 77.7 percent over the revenues produced by the authorized rate levels now in effect based on test year 1979 operations. In addition, applicant seeks to establish separate rates for test year 1980 which would be applicable until revised by a new showing of revenues, expenses, and rate base that would be applicable beyond that time.

Public hearing was held before Administrative Law Judge Gillanders in Susanville on October 26, 1978, and the matter was submitted upon receipt of late-filed exhibits on February 19, 1979. Copies of the application had been served and notice of hearing had been published and posted in accordance with this Commission's Rules of Practice and Procedure.

Oral testimony on behalf of applicant was presented by one witness. The Commission staff presentation was made by an engineer.

General Information

Applicant is a corporation duly organized and existing under the laws of the State of California. It owns and operates public utility electric, gas, water, and telephone systems in California; electric, gas, and telephone systems in Oregon; electric, gas, water, and telephone systems in Nevada; and electric systems in Utah and Arizona. Its principal place of business is located in San Francisco, California.

Lassen Division Water Department

Present Operations

Organization

Applicant's Lassen Division includes the Susanville Electric and Water Departments. The Lassen Division Manager, Division Engineer, Office Manager, and clerks perform duties in the electric and water departments. The business office of the Lassen Division is located at 65 South Roop Street, Susanville.

Territory Served

The Susanville Water Department furnishes water service in Susanville and the nearby rural areas. Susanville was settled about 1850. It is the county seat of Lassen County.

and is located on the Susan River about 50 miles east of Mount Lassen and the Lassen Volcanic National Park. The estimated population of Susanville is about 7,000.

Water Production

General

The water supply for the Susanville water system is obtained from Cady Springs, Bagwell Springs, Well No. 3, Paul Bunyan Well, and Millwood Well. Water flows by gravity from both springs to the two upper storage tanks and from there by gravity to four lower storage tanks and one 500,000-gallon tank on South Street before entering the distribution system. During times of heavy demand a booster pump is used on the Bagwell Springs transmission line and additional water is pumped from Cady Springs. Water from the wells is pumped into the lower end of the distribution system as needed during the summer months.

Cady Springs

Cady Springs, located about 2½ miles west of Susanville, is on 40 acres of land owned by the applicant. The springs are about 300 feet below the Susan River Canyon rim at a point where the canyon is about 500 to 600 feet deep. At the springs, water is collected in a 14-inch pipe that extends about 400 feet along the cliff side. Water there flows by gravity through 2½ miles of transmission main varying in size from 12 to 14 inches. The flow at the rate of about 1,200 gallons per minute is fairly consistent. During high summer peaks, water is pumped from a small spring below Cady Springs to provide an auxiliary supply.

Bagwell Springs

The springs are located about 1½ miles north of Susanville on a 1,225-acre tract of land owned by the applicant. Water is collected in an enclosed walled excavation constructed in 1973. The springs flow from a number of fissures in lava rock at the rate of about 600 gallons per minute. The water flows into an 8-inch transmission main and flows through 2 miles of pipe to the storage tanks.

Paul Bunyan Well

The Paul Bunyan Well is located at the site of the former Paul Bunyan Lumber Company in southeast Susanville. The well depth is 456 feet; it has a 12-inch casing and was drilled about 1948. The deep well turbine pump driven by a 75-horsepower motor has a rating of 800 gallons per minute. The pump is operated automatically and pumps directly into the distribution system. A pressure device will also operate this pump if the distribution pressure becomes abnormally low.

Millwood Well

This well is located at the Millwood power substation in southeast Susanville. It was drilled in 1952 to a depth of 380 feet. The manually operated deep well turbine pump is rated at 189 gallons per minute and discharges directly into the distribution system. It is driven by a 40-horsepower motor.

Well No. 3

The location of Well No. 3 is approximately 1.3 miles east of the town of Susanville. This well was drilled in April 1961 to a depth of 650 feet. It is gravel packed and cased to the bottom. An outer casing, grouted in place, extends to 80 feet to cut off surface water. The highest perforations are below the 90-foot depth. A 200-horsepower pump, automatically controlled, pumps water at the rate of 1,655 gallons per minute into the distribution system.

Water Treatment

The water pumped from the wells is not treated; however, water originating from the springs is treated by chlorination. Routine monthly bacteriological tests are made in accordance with General Order No. 103.

Transmission, Distribution, and Storage

On December 31, 1976, there were approximately 231,796 feet of transmission and distribution mains of various sizes from 3/4 inch to 14 inches in diameter. A tabulation of piping by sizes for the length in feet is shown below for both distribution and transmission mains.

| <u>Distribution</u> | | <u>Transmission</u> |
|---------------------|---------------|---------------------|
| <u>Diameter</u> | <u>Length</u> | <u>Length</u> |
| Less than 2" | 21,111' | - |
| 2" | 70,429' | 10' |
| 3" to 6" | 77,043' | 693' |
| 8" to 9" | 23,802' | 7,774' |
| 10" to 22" | 8,609' | 22,325' |
| Total | 200,994' | 30,802' |

The tabulation below gives the storage capacity and approximate installation date where known of the seven water tanks. With the exception of the 130,000-gallon redwood tank, all tanks are made of steel.

| <u>Tank No.</u> | <u>Capacity (gallons)</u> | <u>Date In Service</u> |
|-----------------|-------------------------------|----------------------------|
| 1 | 130,000 | 1931 |
| 2 | 49,000 | Prior to 1930 |
| 3 | 105,000 | Prior to 1930 |
| 4 | 105,000 | Prior to 1930 |
| 5 | 458,000 | 1936 |
| 6 | 186,000 | 1944 |
| 7 | 500,000 | 1971 |
| Total | 1,533,000 | |

Results of Operation

During the course of hearings in this proceeding, the disputed issues between applicant and the staff were narrowed to (1) rate of return; (2) appropriate allowance for the cost of Stanford Research Institute's (SRI) management audit; and (3) appropriate allowance for the capitalized cost of applicant's customer information services system. Application's witness and witnesses for the Commission staff analyzed and estimated applicant's operating results for test year 1979.

At the conclusion of the hearing, applicant stated that, after a review of the staff showing which was based on later data, it was prepared to agree with the staff's estimate, except for rate of return and the management audit, in order to expedite a decision. To this end, a late-filed exhibit, jointly sponsored by applicant and the Commission staff, was filed showing an agreed summary of earnings at present rates. This exhibit also reflects reduced ad valorem property taxes due to the passage of Proposition 13, the new federal income tax rate of 46 percent, and a reduction in the working-cash allowance. The effect of the joint exhibit was to reduce applicant's rate increase request from \$209,500, to \$124,000.

Applicant hired SRI to conduct a management audit of its general office and top level management. SRI conducted its audit at a cost of \$110,000 and submitted a report which covered applicant's strengths and weaknesses and proposed solutions to problems and changes in organization and business. The report also focused on problems with data systems, management practices and training, the need for development of a public relations program, and the role of the Board of Directors. Applicant considers the cost of the SRI study to be a proper

charge to its ratepayers. Thus, it allocates the cost among its operating divisions. The staff recommends that the entire cost of the study be charged to the stockholders because the ratepayers have already paid for competent management in the rates charged and should not have to pay for correcting deficiencies, corporate acquisitions and divestments, and profitability improvement which, according to the staff, are clearly for the benefit of the stockholders. We agree with the staff and will adopt the staff's disallowance of the cost of the SRI study.

In Decision No. 90597, issued in OII No. 14, we found the expense for the management audit conducted for CP National by the Institute of Management Research should be disallowed when setting rates for CP National's districts. However, we directed CP National to develop an improved training program for its customer relations personnel and to provide better supervision over such personnel. We recognized the expense required for this undertaking to be \$38,000 annually for CP National's total California operations. Accordingly, we will include \$2,100 expense in the adopted test year to fund this activity (allocated to this CP National district by the four-factor methodology).

The following table sets forth the jointly sponsored summary of earnings at rates in effect on January 1, 1978 for test year 1979, the amount of additional revenue required to raise applicant's rate of return to that recommended by the Commission staff and the additional revenue required to raise applicant's rate of return to that recommended by applicant.

SUSANVILLE WATER DISTRICT
Test Year 1979

| | <u>At Present</u> <u>Rates</u> | <u>Staff</u> <u>Rate of Return @ 9.50%</u> | | <u>Applicant</u> <u>Rate of Return</u> <u>At 11.03% & SRI</u> <u>Adjustment of \$184</u> | |
|----------------------------|-----------------------------------|---|----------------|---|----------------|
| | | <u>Adjustment</u> | <u>Results</u> | <u>Adjustment</u> | <u>Results</u> |
| (Dollars in Thousands) | | | | | |
| <u>Operating Revenues</u> | | | | | |
| Sales Revenues | \$ 309.0 | \$86.3 | \$ 395.3 | \$37.7 | \$ 433.0 |
| Total Revenues | 309.0 | 86.3 | 395.3 | 37.7 | 433.0 |
| <u>Operating Expenses</u> | | | | | |
| Operation and Maintenance | 98.5 | 0.5 | 99.0 | 0.2 | 99.2 |
| Administrative and General | 72.1 | - | 72.1 | 0.2 | 72.3 |
| Subtotal | 170.6 | 0.5 | 171.1 | 0.4 | 171.5 |
| Depreciation Expense | 37.2 | | 37.2 | | 37.2 |
| Taxes Other Than Income | 28.4 | | 28.4 | | 28.4 |
| State Corp. Franchise Tax | 2.3 | 7.7 | 10.0 | 3.4 | 13.4 |
| Federal Income Tax | (1.1) | 35.9 | 34.8 | 15.6 | 50.4 |
| Total Oper. Exp. | 237.4 | 44.1 | 281.5 | 19.4 | 300.9 |
| Net Operating Revenues | 71.6 | 42.2 | 113.8 | 18.3 | 132.1 |
| Rate Base | 1,197.5 | | 1,197.5 | | 1,197.5 |
| Rate of Return | 5.98% | | 9.50% | | 11.03% |

(Red Figure)

Based on its original studies, the staff recommended that applicant be granted step rates for 1980. However, it also recommended that before the step increase is authorized applicant should be required to file an advice letter with appropriate work papers at the end of the test to justify the increases. Because of significant changes between the staff's original estimates and the agreed upon test year results of operation, we can not use the original results to gauge attrition. With only one usable test year there is no way to determine attrition. We will therefore allow no attrition in setting rates for the future. Applicant may, of course, apply for rate increases if in fact attrition does take place.

Rate of Return

Any rate of return determination necessarily requires the weighing of a number of economic intangibles which are difficult to measure by statistical comparisons. It devolves upon the judgment of the Commission, after weighing the evidence presented by all of the experts, to determine and set a fair and reasonable rate of return. (Pac. Tel. & Tel. Co. (1968) 69 CPUC 53.) It was the testimony of applicant's rate of return witness that a 11.03 percent rate of return on rate base or approximately 16 percent rate of return on common stock equity is needed to enable applicant to sell its shares at a price which would not be punitively dilutive to the present stockholders and destructive to the market for applicant's common stock.

The staff's financial witness recommended a rate of return of 9.50 percent on rate base, or approximately 12.21 percent return on common stock equity. We have considered the arguments advanced by applicant and staff and adopt as reasonable a rate of return of 9.50 percent on rate base. Such rate of return will provide a return on equity of approximately 12.21 percent, an after-tax interest coverage of 2.53 times, and a combined coverage of 2.00 times. This return on capital is adequate to attract capital at a reasonable cost and to maintain the credit of applicant.

Rate Design

The staff after reviewing applicant's requested increases in the rate schedule proposed the following:

- a. Convert from the present minimum charge rates to service charge rates.
- b. Establish the following two quantity blocks with inverted quantity rates:
 - 0 - 300 cu.ft.
 - Over 300 cu.ft.
- c. The service charge for the 5/8 x 3/4-inch meter and the first quantity rate be set so that the amount of the increase in lifeline use of 300 cu.ft. is a lesser percentage increase than the amount of the increase for the nonlifeline usage.
- d. The service charge rates for the larger size meters be determined by the following procedure: Calculate the equivalent meter factors by using the average of the factors for minimum charge and for service charge as shown in Standard Practice U-25; "Guide for Adjusting and Estimating Operating Revenues of Water Utilities". This alleviates the situation whereby a user on a large meter would otherwise receive a substantial reduction in the total bill during a period of low water use under a service charge schedule.
- e. The service charge should be rounded to the nearest ten cents for 3/4-inch and 1-inch meters. The service charges for meters larger than 1-inch should be rounded to the nearest dollar.
- f. Accept the applicant's proposal to increase the private and public fire protection rates.

The staff's proposal is reasonable and will be adopted.

Findings of Fact

1. Applicant is in need of additional revenues, but the proposed rates set forth in the application are excessive.

2. The adopted estimates of operating expense and rate base for the test year 1979 reasonably indicate the results of applicant's operations for the future.

3. A rate of return of 9.50 percent on the adopted rate base for the year 1979 will produce a return on common equity of approximately 12.21 percent. Such rate of return requires an increase in gross revenues of \$86,300 which amount is reasonable. This increase is consistent with the President's Wage and Price Guidelines.

4. The staff's rate spread is reasonable and should be adopted.

5. 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.

Conclusion of Law

The application should be granted to the extent set forth in the order which follows, which should be effective the date of signature because there is an immediate need for the authorized rate increase.

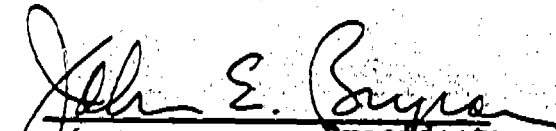
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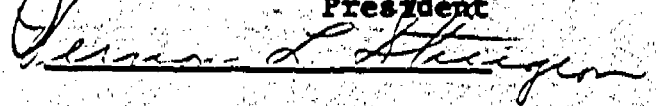
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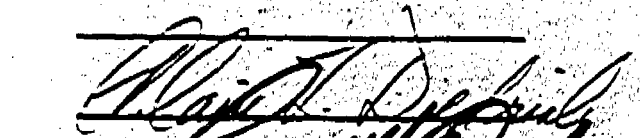
IT IS ORDERED that after the effective date of this order, CP National Corporation is authorized to file the revised rate schedules attached to this order as Appendix A, and concurrently to withdraw and cancel its presently effective schedules. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be five 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 is the date hereof.

Dated AUG 14 1979, at San Francisco,
California.



President






Commissioners

Commissioner Richard De Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. SU-1

Susanville District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Susanville and vicinity, Lassen County.

RATES

| | <u>Per Meter</u> <u>Per Month</u> | |
|--|--------------------------------------|--------|
| Quantity Rates: | | |
| First 300 cu.ft., per 100 cu.ft. | \$ 0.28 | (C)(I) |
| Over 300 cu.ft., per 100 cu.ft. | .339 | |
| Service Charge: | | |
| For 5/8 x 3/4-inch meter | \$ 2.75 | |
| For 3/4-inch meter | 4.10 | |
| For 1-inch meter | 5.70 | |
| For 1-1/2-inch meter | 10.00 | |
| For 2-inch meter | 13.00 | |
| For 3-inch meter | 23.00 | |
| For 4-inch meter | 34.00 | |
| For 6-inch meter | 60.00 | |
| For 8-inch meter | 97.00 | |
| For 10-inch meter | 131.00 | (C)(I) |

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month. (C) (C)

The rates and charges have been reduced to reflect the Order Instituting Investigation No. 19 issued June 27, 1978 regarding reduction of property taxes based on Article XIII-A of the California Constitution.

SPECIAL CONDITION

Meters may not be read for billings for the months of December, January, February and March. When meters are not read, bills will be based on an estimate of customer's use, to be adjusted to actual use based on the April meter reading.

APPENDIX A
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Schedule No. SU-4

Susanville District Tariff Area

PRIVATE FIRE PROTECTION

APPLICABILITY

Applicable to all water service furnished for private fire protection.

TERRITORY

The City of Susanville and vicinity, Lassen County.

RATES

| | <u>Per Month</u> | |
|--|------------------|-----|
| For each 1-1/2-inch connection | \$ 5.20 | (I) |
| For each 2-inch connection | 7.00 | |
| For each 3-inch connection | 10.50 | |
| For each 4-inch connection | 14.00 | |
| For each 6-inch connection | 21.00 | |
| For each 8-inch connection | 28.00 | |
| For each 10-inch connection | 35.00 | (I) |

(D)

SPECIAL CONDITIONS

1. The fire protection service connection will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.

2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.

3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water.

4. For water delivered for other than fire protection purposes, charges will be made therefor under Schedule No. SU-1.

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