

ORIGINAL

Decision No. 73686

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 Hermosa-Redondo district.)

Application No. 49445
(Filed June 9, 1967)

McCutchen, Doyle, Brown & Enersen, by
A. Crawford Greene, Jr., for
applicant.
Mrs. Otto Thiessen, for herself, and
Robert L. Smith, for City of
Redondo Beach, protestants.
William C. Bricca, Counsel, and R. D.
Garoner, for the Commission staff.

O P I N I O N

Applicant California Water Service Company seeks authority to increase rates for water service in its Hermosa-Redondo district.

Public hearing was held before Examiner Catey in Hermosa Beach on December 12, 1967. Copies of the application had been served and notice of hearing had been published and posted, in accordance with this Commission's rules of procedure. The matter was submitted on December 12, 1967, subject to receipt of a late-filed exhibit. That exhibit has been received.

Testimony on behalf of applicant was presented^{1/} by its president, its vice president and his assistant, and its general manager. The Commission staff presentation^{1/} was made by three

^{1/} Testimony relating to overall company operations had been presented by witnesses for applicant and the staff in Application No. 49443, the Salinas District rate proceeding. This testimony was incorporated by reference in the record in Application No. 49445.

accountants and three engineers. No evidence was presented by protestants Mrs. Otto Thiessen and the City of Redondo Beach.

Service Area and Water System

Applicant owns and operates water systems in twenty-one districts in California. Its Hermosa-Redondo district includes the Cities of Hermosa Beach and Redondo Beach, part of the City of Torrance, and unincorporated area of Los Angeles County adjacent to those cities. The service area slopes from sea level to approximately 400 feet above sea level. Total population served in the district is estimated at 84,900.

The principal water supply for this district is purchased from West Basin Municipal Water District (WBMWD), through four separate connections to the facilities of Metropolitan Water District of Southern California (MWD). Small quantities are also purchased from Palos Verdes Water Company. A secondary source is the production of five wells, with three other wells available on a standby basis. Well production has been curtailed in accordance with a court order in the West Basin water right adjudication proceeding.

Two transmission mains deliver the water from the MWD connections to the service area. The transmission and distribution system includes about 200 miles of distribution mains, ranging in size up to 24-inch. There are about 21,600 metered services, 50 private fire protection services and 930 public fire hydrants. Seventeen storage tanks and 25 booster pumps maintain system pressure and provide storage in nine separate pressure zones. All but one of the booster pumps have electric motors, one has a natural-gas engine and all boosters have provision for emergency connection to one of two portable, gasoline-powered pumps.

Service

The protest of Mrs. Thiessen is based upon her allegation that (1) the water has had an oily taste, (2) the pressure is too low to fill her automatic washing machine, and (3) recorded metered consumption by her tenants is greater than her own recorded metered consumption, even though her tenants' use appears to be less. The protest of the City of Redondo Beach is based upon its allegation that three or four complaints per month are received by the city from customers who allege that (1) the water pressure is not adequate, (2) the taste of the water is disagreeable, and (3) the charge made by applicant for restoring service after discontinuance for failure to pay bills is unreasonable.

In regard to the protest of Mrs. Thiessen, applicant's service complaint records show that (1) the oily taste at her residence was apparently due to new plumbing in the home and was not present at outside faucets on the premises, (2) no low pressure complaint had previously been registered by her (but applicant will check the pressure to determine whether there is an abnormal loss in either the applicant's or the customer's piping), and (3) her tenants' meter has already been checked in the field and found to be accurate (but would be checked again).

In regard to the protest of the City of Redondo Beach, applicant's records show that (1) it maintains pressures well above the minimum requirements of General Order No. 103, (2) the water served customers is primarily from the Metropolitan Water District sources and thus does not differ significantly in quality from the water supplied to much of Southern California, and (3) the reconnection charges made are in accordance with applicant's filed tariffs, which conform with the charges prescribed by this Commission.

A field investigation of the company's operations, service and facilities in its Hermosa-Redondo district was made by the Commission staff. The plant was found to be in good condition and good service was being furnished. A staff engineer testified that water pressures exceed minimum requirements and that applicant's continuing program of installing larger mains when replacing existing piping should provide even better pressure during peak periods than is now available.

Rates

Applicant's present tariffs include schedules for: general metered service, private fire protection service, public fire hydrant service and service to company employees. The general metered service rates became effective in 1965 and the other Hermosa-Redondo district rates in 1955.

Applicant proposes to increase its rates for general metered service. There are no proposed changes in the other schedules. The following Table I presents a comparison of applicant's present general metered service rates, those requested by applicant, and those authorized herein.

TABLE I
COMPARISON OF MONTHLY RATES

<u>General Metered Service</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>		
			<u>1968</u>	<u>1969</u>	<u>1970</u>
Quantity Rate, per 100 cu.ft.	\$0.20	\$0.261	\$0.24	\$0.25	\$0.26
Service Charge*	1.95	2.55	2.40	2.50	2.60

* Service charge for a 5/8 x 3/4-inch meter. A graduated scale of increased charges is provided for larger meters.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized

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in Table II, from the staff's Exhibits Nos. 6, 8 and 8-A and applicant's Exhibits Nos. 4 and 11 are the estimated results of operation for the test year 1968, under present rates and under those proposed by applicant. For comparison this table also shows the corresponding results of operation, modified as discussed hereinafter, and the results of operation under the rates authorized herein.

TABLE II

ESTIMATED RESULTS OF OPERATION, TEST YEAR 1968

<u>Item</u>	<u>Staff*</u>	<u>Applicant*</u>	<u>Modified</u>
<u>At Present Rates</u>			
<u>Operating Revenues</u>	\$1,625,600	\$1,625,600	\$1,625,600
<u>Deductions</u>			
Allocated EDP Conversion			
Amortization	2,200	4,400	2,200
Allocated Other CBO Expense	11,600	12,600	11,600
Direct Administrative, General and Miscellaneous Expenses	22,800	24,300	22,800
Direct Ad Valorem Taxes	163,600	162,300	165,200
All other Deductions Excluding Franchise and Income Taxes	1,100,600	1,101,200	1,100,900
Subtotal	1,300,800	1,304,800	1,302,700
Franchise Taxes	1,200	1,200	1,200
Income Taxes	9,700	12,000	8,700
Total	\$1,311,700	\$1,318,000	\$1,312,600
Net Revenue	313,900	307,600	313,000
Rate Base	7,206,100	7,219,000	7,206,100
Rate of Return	4.36%	4.26%	4.34%
<u>At Rates Proposed By Applicant</u>			
<u>Operating Revenues</u>	\$2,118,800	\$2,118,800	\$2,118,800
<u>Deductions</u>			
Excluding Franchise and Income Taxes	1,300,800	1,304,800	1,302,700
Franchise Taxes	1,600	1,600	1,600
Income Taxes	264,200	266,500	263,200
Total	\$1,566,600	\$1,572,900	\$1,567,500
Net Revenue	552,200	545,900	551,300
Rate Base	7,206,100	7,219,000	7,206,100
Rate of Return	7.66%	7.56%	7.65%
<u>At Rates Authorized Herein for 1968</u>			
<u>Operating Revenues</u>	-	-	\$1,967,000
<u>Deductions</u>			
Excluding Franchise and Income Taxes	-	-	1,302,700
Franchise Taxes	-	-	1,500
Income Taxes	-	-	184,800
Total	-	-	\$1,489,000
Net Revenue	-	-	478,000
Rate Base	-	-	7,206,100
Rate of Return	-	-	6.63%

* Some of the figures shown do not appear as such in the various exhibits but, for purposes of comparison, are combinations, breakdowns or reconstructions of estimates presented in those exhibits.

From Table II it can be determined that the rates requested by applicant would result in an increase of 30 percent in operating revenues, whereas the initial rates authorized herein will produce a 21 percent increase. The rates authorized for 1969 and for 1970 will reach, in two steps, approximately the level now requested by applicant.

The principal differences between the estimated results of operation for the test year 1968 presented by applicant and those presented by the Commission staff are in the estimates of (1) the appropriate amortization period for cost of conversion of applicant's billing procedures to electronic data processing, (2) the level of other prorated central billing office expenses, (3) direct administrative, general and miscellaneous expenses, (4) the level of local ad valorem taxes, and (5) the appropriate allowance in rate base for working cash. The staff checked, verified and adopted applicant's estimates of revenues, certain operating expenses, depreciation, and most rate base components.

Operating Expenses

The treatment of the cost of converting applicant's billing to electronic data processing equipment and the adoption of the staff's estimates of other allocated expenses were discussed in detail in the recent decisions^{2/} on the first two districts of the current series of applicant's rate proceedings and need not be repeated here. The staff estimates of direct administrative, general and miscellaneous expenses were prepared in greater detail than those of applicant and are adopted in Table II.

^{2/} Decisions Nos. 73454 and 73456, dated December 12, 1967, in Applications Nos. 49444 and 49443, Visalia and Salinas Districts.

Ad valorem tax bills for the fiscal year 1967-68 have only recently been received by applicant and thus were not available when the application was filed but were available to the staff in preparing its estimates. The "effective tax rate" related to utility plant in the Hermosa-Redondo district over the past six years, when plotted graphically as in Chart 7-A of Exhibit No. 4, forms a saucer-shaped pattern wherein an initial slight downward trend has gradually flattened out and then headed slightly upward. For 1968-69 taxes, the staff assumed no change from the 1967-68 effective tax rate and applicant assumed only a nominal increase.

It is apparent that recognition of a reasonably well-defined trend in the effective rate for ad valorem taxes is more likely to produce reasonable estimates than to ignore the trend. In fact, the recent tax bills received by applicant show that applicant's projection falls short of the actual taxes. Adding the recent tax data to Chart 7-A of Exhibit No. 4 permits the development of a reasonable projection of a trend line of effective tax rates. This trend line is at a somewhat higher level than that estimated by applicant. The ad valorem taxes adopted in Table II reflect a revised apparent projected trend of 1.954 and 1.993 percent of plant for the effective tax rates applicable to 1967-68 and 1968-69, respectively.

In the estimates of operating expenses other than those hereinbefore discussed, there is a very minor difference between the estimates of applicant and the staff, well within the range of accuracy possible in such estimates, so a level about midway between them is adopted in Table II. The income taxes adopted in Table II reflect the revenues and expenses adopted in the table, and the

average investment tax credit including that related to new storage tanks, as recognized by the staff but not by applicant.

Working Cash

Staff Exhibit No. 8 states that one of the primary differences between the staff's and applicant's original working cash estimates is applicant's deduction of bond interest from the total gross working cash requirement. The estimate presented by the staff treats bond interest as investor funds. In Exhibit No. 11, applicant revised its working cash estimate so that there was no longer a reduction to reflect the lag between accrual and payment of bond interest.

In Decisions Nos. 73454 and 73456, we stated that we do not necessarily concur with the staff's inclusion in working cash of amounts provided by subdividers, in the form of temporarily unexpended advances for construction, but the item appeared to be insignificant in those districts. In the current proceeding, the staff presented, in Exhibit 8-A, a revised estimate of working cash which properly reflected the lag between collection and expenditure of advances for construction. The staff witness explained that the original estimate would have been appropriate if the advances were required to be kept in a special bank account and were thus not available for use until the related extensions were installed. The record shows that advances are commingled with other funds and are available to help maintain minimum bank balances or for other purposes.

Applicant contends that the unexpended advances should not reduce the rate base. We have reviewed its argument carefully and can see no reason that the lag between receipt and expenditure of advances should be treated in a different manner than the lag between accrual and payment of expenses.

Rate of Return

In the two recent rate proceedings involving applicant's Salinas and Visalia districts, the Commission found that an average rate of return of 6.6 percent over the next three years is reasonable for applicant's operations. In Exhibit No. 7, the staff recommends as reasonable a range of rates of return, the midpoint of which is about 6.6 percent. Applicant asks that consideration be given to the rate of return likely to be realized over a five-year future period.

Applicant's estimates for the test years 1967 and 1968 indicate an annual decline of 0.57 percent in rate of return at proposed rates. The staff's estimates, which do not include a projection of the ad valorem tax trend, show an annual decline of 0.55 percent at proposed rates. There is no reason to believe that the trend in rate of return will level off in the next few years to less than the 0.57 percent per year estimated by applicant.

If the indicated downward trend is not too great, as in the aforementioned Salinas and Visalia proceedings, a single level of rates can be authorized which can remain in effect for several years without excessive deviation in any one year from the average rate of return found reasonable for the period. When the indicated downward trend is quite steep, as in applicant's Hermosa-Redondo operations, it is more appropriate to increase the rates in steps which should maintain, in each of these future years, the rate of return found reasonable. In Exhibit No. 8, the staff recommended that the part of the future trend caused by known and scheduled increases in cost of purchasing MWD water be offset by authorizing applicant to file progressively higher rates as the MWD rates rise. This would still require compensation in the initial rates for the trend in rate of return due to other causes. The progressive

increases authorized herein consider the trend from all causes and should produce a rate of return of about 6.6 percent each year through 1970. With the abnormally steep trend in this district, projecting more than three years into the future at this time would be unreasonably speculative.

Findings and Conclusions

The Commission finds that:

1. Applicant is in need of additional revenues.
2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the test year 1968, and an annual decline of 0.57 percent in rate of return, reasonably indicate the results of applicant's operations for the near future.
3. A future rate of return of 6.6 percent on applicant's rate base through the year 1970 is reasonable.
4. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

The Commission concludes that the application should be granted.

O R D E R

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

APPENDIX A

Schedule No. HR-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Hermosa Beach, Redondo Beach, Torrance and vicinity, Los Angeles County.

RATES

	Per Meter Per Month			
	Until 1-1-69	Year 1969	After 12-31-69	
Quantity Rate:				
For all water delivered, per 100 cu.ft.	\$ 0.24	\$ 0.25	\$ 0.26	(I)
Service Charge:				
For 5/8 x 3/4-inch meter	2.40	2.50	2.60	
For 3/4-inch meter	2.65	2.75	2.85	
For 1-inch meter	3.60	3.75	3.90	
For 1 1/2-inch meter	5.05	5.25	5.45	
For 2-inch meter	6.50	6.75	7.00	
For 3-inch meter	12.00	12.50	13.00	
For 4-inch meter	16.50	17.00	17.50	
For 6-inch meter	27.00	28.00	29.00	
For 8-inch meter	40.00	42.00	44.00	
For 10-inch meter	50.00	52.00	54.00	

The Service Charge is a readiness-to-serve charge to which is to be added the monthly charge computed at the Quantity Rate.