

ORIGINAL

Decision No. 78807

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 autho-)
 rizing it to increase rates charged)
 for water service in the Hermosa-)
 Redondo district.)

Application No. 52055
 (Filed July 21, 1970;
 Amended January 22, 1971)

McCutchen, Doyle, Brown & Enersen, by A. Crawford
Greene, Jr., Attorney at Law, for California
 Water Service Company, applicant.
John S. Fick, Attorney at Law, and J. E. Johnson,
 for the Commission staff.

O P I N I O N

After due notice, public hearing in this matter was held before Examiner Coffey on February 8 and 9, 1971 at Redondo Beach California. The matter was submitted on March 24, 1971, upon the receipt of the hearing transcript.

Applicant, a California corporation, seeks authority to increase its rates for water service to about 21,900 metered customers and 1,000 fire protection connections in its Hermosa-Redondo district which includes the Cities of Hermosa Beach and Redondo Beach, a small portion of the City of Torrance and unincorporated portions of Los Angeles County adjacent to these cities. Applicant owns and operates water systems in 21 operating districts, all of which are in California.

Exhibits Nos. 1, 2, 3, 4, 5, 6, 8, 9 and 10, together with associated testimony and cross-examination, in the concurrent proceeding on applicant's request for increased rates for water service in its Livermore district, Application No. 52052, were incorporated in this proceeding by reference. This evidence relates to matters common to both proceedings.

A. 52055 ms

Rates

The following tabulation compares applicant's present and proposed rates for metered water service:

General Metered Service

Present Rates	PER METER PER MONTH			
	Proposed Rates			
	Calendar Year			
	1970	1971	1972	1973

Quantity Rate:

For all water delivered, per 100 cu.ft.	\$.26	\$.283	\$.305	\$.327	\$.352
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Service Charge:

For 5/8 x 3/4-inch meter ..	\$ 2.73	\$ 2.89	\$ 3.01	\$ 3.18	\$ 3.36
For 3/4-inch meter ..	2.98	3.18	3.31	3.50	3.70
For 1-inch meter ..	4.03	4.34	4.52	4.77	5.04
For 1-1/2-inch meter ..	5.58	6.07	6.32	6.68	7.06
For 2-inch meter ..	7.13	7.80	8.13	8.59	9.07
For 3-inch meter ..	13.13	14.45	15.05	15.90	16.80
For 4-inch meter ..	17.63	19.65	20.47	21.62	22.85
For 6-inch meter ..	29.13	32.66	34.01	35.93	37.97
For 8-inch meter ..	44.13	48.55	50.57	53.42	56.45
For 10-inch meter ..	54.13	60.11	62.61	66.14	69.89

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

Applicant proposes no changes in rates for private fire protection and public fire hydrant services and for the service discount to company employees.

Results of Operation

The following tabulation compares the estimated summary of earnings for the test year 1971, under present and proposed rates, prepared by the applicant and by the staff, with the summary of operations adopted for the purposes of this proceeding:

SUMMARY OF EARNINGS

Estimated Year 1971

Item	Applicant Estimated		Staff Estimated		
	Present	Co. Proposed	Present	Co. Proposed	Adopted
	Rates	Rates	Rates	Rates	Rates
(Dollars in Thousands)					
Operating Revenues	\$2,222.4	\$2,548.6	\$2,222.4	\$2,548.6	\$2,540.9
Operating Expenses					
Oper. & Maint.	1,007.3	1,007.3	1,001.0	1,001.0	1,006.9
Admin., Gen'l. & Misc.	28.2	28.2	27.8	27.8	27.8
Taxes Other Than Income	254.8	255.1	253.7	254.0	254.0
Depreciation	200.8	200.8	199.4	199.4	199.4
Allocated Common	153.2	153.2	147.0	147.0	147.0
Subtotal	1,644.3	1,644.6	1,628.9	1,629.2	1,635.1
Income Taxes	121.4	289.7	131.8	300.0	293.0
Total Expenses	1,765.7	1,934.3	1,760.7	1,929.2	1,928.1
Net Operating Revenues	456.7	614.3	461.7	619.4	612.8
Deprec. Rate Base	8,176.2	8,176.2	8,116.8	8,116.8	8,116.8
Rate of Return	5.59%	7.51%	5.69%	7.63%	7.55%

Considering the trend data for operating and maintenance expenses depicted on Chart 6-A of applicant's Exhibit No. 3 in Application No. 52052 and on Chart 5-A of applicant's Exhibit No. 1, it is apparent that applicant's method of trending operating and maintenance expenses, other than purchases, results in inflated estimates. Staff Exhibit No. 9 in Application No. 52052 compares recorded data with applicant's estimates made for the years 1966 to 1969 in past rate increase applications. Of the six estimates presented by applicant of total operation and maintenance expenses, only the estimate for 1966 was lower than recorded results, all others being higher. We find the staff estimate of operating and maintenance expenses for the test year 1971 is reasonable. The staff estimate gives annualized effect in the test year 1971 to increased charges effective July 1, 1971 by The Metropolitan Water District for water sold to applicant. We will also include an allowance for the recent increase in postal rates.

Likewise, considering the trend data for administrative and general expenses depicted on Chart 6-B of applicant's Exhibit No. 3 in Application No. 52052, on Chart 6-A of applicant's Exhibit No. 1 and staff Exhibit No. 9 in Application No. 52052, it appears that applicant's estimate of administrative and general expenses is inflated. Of the six prior estimates of administrative and general salaries made by applicant for rate increase, only one was less than the recorded amount, the remaining five all being higher. Of six prior estimates presented by applicant for "other" administrative and general expenses, again, only one was lower than recorded. All of applicant's prior estimates of Regulatory Commission Expense, by substantial amounts, exceed the corresponding recorded amounts. We find the staff estimates of administrative and general expenses to be reasonable.

It appears that applicant's method of making expense estimates, which it has used many years for budgetary and regulatory purposes, yields consistently inflated results which may be appropriate for a budget but are not sufficiently accurate and indicative of future operating expectations to justify the use of the method as a basis for fixing rates to be paid by the public.

Applicant at the hearing increased its estimate of taxes other than income from \$234,400 to \$254,800 for the test year, making its estimate of ad valorem taxes for 1971 the same as that of the staff. We find reasonable the staff estimate of taxes other than income.

The difference between applicant and staff estimates of allocated common expense is mainly due to the more selective use by the staff of labor factors which resulted in lower total common expense. We find the staff estimate of allocated common expense to be reasonable.

Most of the \$59,400 difference between the rate base estimates of applicant and staff appears to result from the staff estimate of normal annual net plant additions. Considering net additions for the years 1966 through 1969 as set forth on Table 8-A of applicant's Exhibit No. 1, it appears that the staff's estimate of net additions for the year 1971 is reasonable. We find the staff rate base and depreciation expense to be reasonable.

Rate of Return

In addition to requesting an initial rate increase and annual rate increases thereafter for two years to prevent attrition in the rate of return from operational slippage, applicant requests annual increases of 0.1 percent in the rate of return based for assumed financial slippage in the future. Applicant requests rates to produce a rate of return of 7.5 percent for 1971, 7.6 percent for 1972 and 7.7 percent for 1973, while proposing to maintain throughout the period a level of earnings on common equity of approximately 11 percent.

The staff recommends a range of rate of return between 7.25 and 7.55 percent. The staff concurs in the concept of step rates but opposes step rates of return based on financial slippage because of the uncertainty of future interest rates.

We recognize that past inflation and delays in effecting rate relief support the concept of step rates but such a mechanism automatically increases inflationary pressures which work against the national, state and local efforts to control inflation. This record does not contain a prediction of future capital structure, which will vary with the dynamics of the money market. We will not authorize step rates but we do find reasonable a rate of return of

7.55 percent for the test year which will produce a return of 11.16 percent on common equity.

Public Presentation

Eight customers testified they opposed the requested rate increase. Many of the public witnesses complained generally of water quality and/or service. Applicant investigated and reported on complaints received at the hearing. The Metropolitan Water District appears to be considering further treatment of the water it sells to applicant. No further action by this Commission on these complaints appears necessary at this time. Since no service presentation was made by the staff, we will assume that service by applicant conforms to the standards prescribed by General Order No. 103.

Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues, but the proposed rates set forth in the application are excessive.
2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1971, reasonably indicate the results of applicant's operations in the near future.
3. A rate of return of 7.55 percent on the adopted rate base for the year 1971 is reasonable. It is estimated that such rate of return will provide a return on common equity of approximately 11.16 percent.
4. The increases in rates and charges authorized herein are justified, the rates and charges authorized herein are reasonable, and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.


The Commission concludes that the application should be granted to the extent set forth in the order which follows.

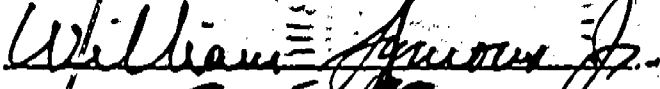
O R D E R

IT IS ORDERED that after the effective date of this order California Water Service Company is authorized to file 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 schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.


The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 27th day of JUNE, 1971.


Chairman




Vernon L. Stinger


Commissioners

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
Quantity Rate:		
For all water delivered, per 100 cu. ft.		\$ 0.304 (I)
Service Charge:		
For 5/8 x 3/4-inch meter		\$ 3.00
For 3/4-inch meter		3.30
For 1-inch meter		4.50
For 1 1/2-inch meter		6.30
For 2-inch meter		8.10
For 3-inch meter		15.00
For 4-inch meter		20.40
For 6-inch meter		33.90
For 8-inch meter		50.40
For 10-inch meter		62.40 (I)

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