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ORIGINAL

Decision No. 79445

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 Visalia district.	Application No. 52054 Petition for Modification (Filed July 22, 1971)

O P I N I O N

This is a request of the California Water Service Company for modification of Decision No. 78827 (A. 52054), dated June 22, 1971, which authorized the applicant to increase rates charged for water service in its Visalia District. Said increased rates became effective for service on and after July 16, 1971. Applicant requests said decision be modified to authorize further increases for water service in said district on January 1, 1972, and January 1, 1973. Applicant's position being based only on evidence now in the record and on Commission decisions, relief is requested ex parte.

Applicant states that in Decision No. 78827 (the Decision) a rate of return of 7.55 percent on the adopted rate base for 1971 was found reasonable, that applicant neither takes exception to that finding nor to any other finding of the Commission in the Decision but that applicant does take exception to the Commission's failure to take into consideration in establishing the existing schedules applicant's operational decline in rate of return which was demonstrated in the testimony and exhibits in this proceeding.

Applicant relies on Decision No. 76607 (A. 51077), dated December 23, 1969, which authorized a stepped progression of increased rates in applicant's Selma District and on 18 decisions preceding the Selma decision which included allowances for an operational decline in the rate of return in various of applicant's districts.

Applicant, in this application, initially requested periodic increases in rates which would compensate it for projected decline in the rate of return because of operational factors and because of projected financial decline attributable to increases in the cost of money. This request for modification of the Decision is concerned only with operational decline, or slippage, of the rate of return.

Exclusive of the allowance for financial decline, applicant requested initially in this proceeding a rate of return of 7.5 percent in each year through 1973. The staff recommended a range in the rate of return between 7.25 and 7.55 percent. In the Decision the Commission found reasonable a rate of return of 7.55 percent for the test year 1971.

In the Decision the Commission commented:

> "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 of fixing rates to be paid by the public."

In this proceeding applicant has not convincingly demonstrated the reasonableness of its projected future operating results. Nevertheless, in the Decision, the Commission found reasonable for the test year the upper limit of the range of rate of return recommended by the staff, which we found reasonable for the foreseeable future. Said rate of return makes adequate allowance for speculative future decline in the rate of return. The consolidation

of the rate of return found reasonable for the test period and the allowance for decline in the return resulted from the infirmities of this record. To eliminate confusion, for the purpose of this proceeding, we will separately state the reasonable rate of return and the reasonable allowance for future decline in the rate of return.

Findings and Conclusion

We find that:

1. Applicant has not convincingly demonstrated the reasonableness of its future operating results.

2. A rate of return of 7.25 percent is reasonable for applicant's operation in the test year and .30 percent is a reasonable allowance for any decline in the rate of return in the near future.

We conclude that applicant's request for step rates for the years 1972 and 1973 should be denied.

O R D E R

IT IS ORDERED that the request that Decision No. 78827 be modified to authorize increased rates in 1972 and 1973 for water service in the Visalia District of the California Water Service Company is denied.

The effective date of this order shall be the date hereof.

Dated at Los Angeles, California, this 14th day of DECEMBER, 1971.

Chairman

Commissioners