

Decision No. 79880

ORIGINAL

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 authoriz-)
 ing it to increase rates charged for)
 water service in the East Los Angeles)
 district.)

Application No. 52500
 (Filed March 15, 1972;
 Amended August 25, 1971)

McCutchen, Doyle, Brown & Enersen, by
A. Crawford Greene, Jr., Attorney at Law,
 for applicant.
William C. Bricca, Attorney at Law, and
John E. Brown, for the Commission staff.

O P I N I O N

After notice, public hearing in this matter was held before Examiner Gillanders on September 28 and 29, 1971 at Montebello and the matter was submitted on November 21, 1971 upon receipt of various late-filed exhibits.

Applicant, a California corporation, seeks authority to increase its rates for water service to about 25,300 metered customers in its East Los Angeles district which encompasses the Cities of Commerce, Montebello, and Vernon and unincorporated areas in the County of Los Angeles. Applicant owns and operates water systems in 21 operating districts, all of which are in California.

Rates

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

GENERAL METERED SERVICERATES

		<u>PER METER PER MONTH</u>					
		<u>Calendar Year</u>					
		<u>Present</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Service Charge:							
For 5/8 x 3/4-inch meter..	\$	3.11	\$ 3.46	\$ 3.62	\$ 3.78	\$ 3.98	\$ 4.19
For 3/4-inch meter..		3.41	3.81	3.98	4.16	4.38	4.61
For 1-inch meter..		4.61	5.19	5.43	5.67	5.97	6.29
For 1-1/2-inch meter..		6.41	7.27	7.60	7.94	8.36	8.80
For 2-inch meter..		8.21	9.34	9.77	10.21	10.75	11.31
For 3-inch meter..		15.11	17.30	18.10	18.90	19.90	20.95
For 4-inch meter..		20.11	23.53	24.62	25.70	27.06	28.49
For 6-inch meter..		34.11	39.10	40.91	42.71	44.97	47.35
For 8-inch meter..		50.11	58.13	60.82	63.50	66.86	70.39
For 10-inch meter..		62.11	71.97	75.30	78.62	82.78	87.15

Quantity Rates:

For the first 30,000 cu.							
ft. per 100 cu. ft.	\$.223	\$.250	.260	\$.273	\$.287	\$.302
For all over 30,000 cu.							
ft. per 100 cu. ft.210	.234	.245	.257	.269	.283

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.

Results of Operation

The following tabulation compares the estimated summary of earnings for the test year 1971, under present and proposed rates, presented by the applicant and by the staff:

Item	Applicant Estimated		Staff Adj. & Est.		Applicant Exceeds
	Present Rates	Co. Proposed Rates*	Present Rates	Co. Proposed Rates*	

(Dollars in Thousands)

Operating Revenues	\$ 3,041.3	\$ 3,533.9	\$ 3,041.3	\$ 3,533.9	\$ -
<u>Operating Expenses</u>					
Oper. & Maint.	1,388.1	1,388.1	1,380.9	1,380.9	7.2
Admin., Gen'l. & Misc.	40.7	40.7	42.8	42.8	(2.1)
Taxes Other Than Income	350.6	358.2	365.2	372.8	(14.6)
Depreciation	288.1	288.1	288.6	288.6	(.5)
Allocated Common	225.8	225.8	216.8	216.8	9.0
Subtotal	2,293.3	2,300.9	2,294.3	2,301.9	(1.0)
Income Taxes	175.9	426.3	174.7	425.1	1.2
Total Expenses	2,469.2	2,727.2	2,469.0	2,727.0	.2
Net Operating Revenues	572.1	806.7	572.3	806.9	(.2)
Depreciated Rate Base	10,685.8	10,685.8	10,773.3	10,773.3	(87.5)
Rate of Return	5.35%	7.55%	5.31%	7.49%	0.04%

(Red Figure)

At present rates.

* At applicant's amended proposed 1971 rates.

Discussion

Operating Revenues

As can be seen by the results of operation (supra), applicant and the staff agree to the dollar in their revenue estimates at both present rates and proposed rates.

Operating Expenses

In Decision No. 78807 dated June 22, 1971 in Application No. 52055 (California Water Service Company - Hermosa-Redondo District) we said:

"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."

In this proceeding, applicant's vice president testified that his method of making expense estimates was identical to the method used in Hermosa-Redondo.

This record clearly reveals the inflated results referred to in Decision No. 78807.

According to the staff, it adjusted the recorded 1970 total operation and maintenance payroll by trending recent recorded data. The staff applied the known overall percentage wage increase to the adjusted total 1970 payroll figure in estimating the 1971 total payroll figure. The total payroll was separated into its operation and maintenance components by the latest recorded ratio of the components to total payroll.

As we understand the staff method, the staff estimates do not project wage increases, but do reflect the effect of a general wage increase effective January 1, 1971, and increases in executive salaries in March, 1971. The staff 1970 test period wages and salaries are at the levels in effect in 1970.

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Applicant trended its recorded payroll after adjustment for inflation, using its "cost indices" including retirement and group insurance cost fringes.

For purchased water and replenishment assessment, applicant and staff used the July 1, 1971, effective price and assessment for both 1970 and 1971 costs.

Other Expenses - Staff trended the last 11 years of recorded data in making the 1970 adjustment and the 1971 estimate, while applicant again used trended cost indices (including wage benefit factors) in its estimates.

A & G - Staff used the six-year average of Other A & G Expense in making the 1970 adjustment and 1971 estimate, while applicant used trended cost indices and wage benefit factors in its estimates.

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The staff's and applicant's estimates of 1971 direct expenses are compared in the following tabulation:

Operating, Maintenance and A & G Expenses - 1971 Estimated

Item	Applicant	Staff	Applicant : Exceeds : Staff
(Dollars in Thousands)			
<u>Operating Expenses</u>			
Purchased Power	\$ 148.1	\$ 148.1	-
Purchased Water	571.9	571.9	-
Replenishment Assessment	67.2	67.2	-
Purchased Chemicals	1.8	1.8	-
Payroll	348.7	331.6	17.1
Uncollectibles	{ -	1.9	{ -
Other	{ 79.6	47.8	{ 2.7
Postage	{ -	27.2	{ -
Subtotal Oper. Exp.	1,217.3	1,197.5	19.8
<u>Maintenance Expenses</u>			
Payroll	78.0	87.5	(9.5)
Other	92.8	95.9	(3.1)
Subtotal Maint. Exp.	170.8	183.4	(12.6)
Total O & M Expenses	1,388.1	1,380.9	7.2
<u>A & G Expenses</u>			
Regulatory Comm. Exp.	2.2	2.3	(.1)
Uninsured Losses	{ -	1.8	{ -
Other	{ 30.4	18.0	{ (2.0)
Retirement Contributions	{ -	12.6	{ -
Dues and Donations Adj.	(.4)	(.4)	-
Subtotal A & G Expenses	32.2	34.3	(2.1)
<u>Miscellaneous Expenses</u>			
Rents, Amort. Ltd. Trm.			
Util. Inv.	8.5	8.5	-
Total O & M, A & G, and Miscellaneous	1,428.8	1,423.7	5.1

(Red Figure)

Taxes Other Than Income

A major difference between the company and the staff for this item of expense results from a change in assessment methods by the Los Angeles County Assessor beginning with the fiscal year 1971-72. The change in method involves the elimination by the assessor of deductions from recorded utility plant investment representing amounts recorded in Account 241, Advances for Construction, and Account 265, Contributions in Aid of Construction. The effect of this change was incorporated in the staff's estimates of ad valorem tax expense for the years 1970 and 1971, but was unknown to applicant at the time of its exhibit preparation.

Income Taxes

The differences in income taxes as determined by the staff and company are the result of differences in estimates of expenses, together with differences in income tax depreciation resulting from differences in plant additions and the staff's use of interest expense consistent with the staff's rate of return exhibit in Applications Nos. 52052-52055, adopted by the Commission in Decisions Nos. 78789, 78807, 78826 and 78827.

Allocated Common Expenses

The difference between the applicant and staff estimates of total common expense for the test years is mainly due to the staff's more selective use of cost indices. In connection with prior Applications Nos. 52052-52055, the staff reviewed applicant's allocation factors to each district and found that it had used staff methods and that the factors were reasonable. Staff and applicant's estimates, and the allocations thereof to the East Los Angeles District, are summarized as follows, wherein base amounts to be allocated are the same as used in prior seven of applicant's general rate increase proceedings:

Allocated Common Expense

Item	Estimated 1970		Estimated 1971	
	Applicant	Staff	Applicant	Staff
(Dollars in Thousands)				
Administrative, General & Misc. Exp.	\$1,118.9	\$1,084.2	\$1,207.8	\$1,156.7
Operation and Maintenance Expenses	499.6	489.4	545.6	523.2
Taxes, Depreciation & Amortization	102.2	101.2	110.0	109.0
Total	1,720.7	1,674.8	1,863.4	1,788.9
Allocation to the East Los Angeles District at 12.12%	208.5	203.0	225.8	216.8

Applicant estimated that regulatory Commission expense for this proceeding would total \$6,600, while the staff estimated total expenses of \$6,900.

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The following tabulations show a comparison of staff and applicant's estimated plant and rate bases:

Item	1970		1971 Estimated	
	Appl. Est.	Staff Adj.	Applicant	Staff

(Dollars in Thousands)

<u>Average Utility Plant</u>				
Beginning-of-Year Balance	\$12,845.4	\$12,845.4	\$13,630.6	\$13,648.7
Gross Additions	906.0	915.5	986.5	992.2
Retirements & Adjustments	120.8	112.2	120.8	126.3
Net Additions	785.2	803.3	865.7	865.9
Weighted Average Amount	13,271.0	13,280.8	14,099.8	14,189.5

<u>Average Rate Bases</u>				
Utility Plant	13,271.0	13,280.8	14,099.8	14,189.5
Less Adjustments to Plant	1,112.2	1,107.7	1,125.1	1,122.2
Materials & Supplies	80.0	80.0	78.7	79.1
Working Cash	263.8	263.8	272.1	272.1
Undepreciated Rate Base	12,502.6	12,516.9	13,325.5	13,418.5
Less Depreciation Reserve	2,650.6	2,652.8	2,835.8	2,837.2
Depreciated Rate Base	9,852.0	9,864.1	10,489.7	10,581.3
Allocated Common Rate Base	193.7	192.0	196.1	192.0
Total Depreciated Rate Base	10,045.7	10,056.1	10,685.8	10,773.3

The principal differences in rate base between applicant and staff for the two test years result from the staff's use of 1970 recorded rate base items for 1970 and applicant estimated 1971 construction budget as representing reasonable district annual plant additions for 1971. Applicant trended several past years' additions

after adjustment to year 1965 cost levels by means of its developed "cost indices".^{1/} The staff estimated 1971 actual additions while applicant's figures represent a trending of past years' construction levels.

The staff has a greater rate base for both 1970 and 1971 years than applicant. For the year 1970 the recorded additions were greater by \$9,500 than applicant's estimate. The 1971 staff rate base is greater than applicant's by \$87,500. This is due primarily to a \$180,200 "carryover" of plant projects from previous years that were not in construction work in progress as no work had been started. The staff weighted in the 1971 additions on an expected in-service date which resulted in greater weighting than applicant used on its estimated additions.

According to the staff, the staff computation of working capital differs from applicant's only to the extent of incorporating higher estimated levels of materials and supplies. Applicant's working cash was adopted by the staff even though slight differences could result at staff revenue and expense estimates. The staff's depreciation reserves reflect recorded 1970 accruals, retirements and adjustments. With the exception of the minor staff adjustments in Applications Nos. 52052-52055, the staff has accepted applicant's allocation of common utility rate base for its development of the district rate base.

^{1/} In Decision No. 79488, dated December 21, 1971, in Application No. 52323, a request for a rate increase in applicant's Oroville District, we specially rejected this method of developing rate base.

According to Exhibit 23 the staff in essence adopted applicant's calculation of 1970 depreciation accrual as shown on Table 9-B2 of applicant's Exhibit 12. This accrual was developed using a "% of gross plant" rate for each individual depreciable plant account. In its determination of its 1971 depreciation accrual the staff used the 1970 composite rate applied to beginning 1971 total depreciable plant.

Rate of Return

In its application filed on March 15, 1971, applicant proposed a schedule of step-rates designed to produce a rate of return of approximately 7.5 percent if in effect during the full year 1971, approximately 7.6 percent during 1972, 7.7 percent during 1973 and 7.8 percent during 1974. Applicant sought annual increases in the rate of return because, as stated in paragraph 10 of the application:

"Financing costs of Applicant for new capital requirements during the past 10 years have increased very substantially and, while interest rates have decreased over the past few months from their recent 100-year peak, so long as the effective cost to Applicant of new bond financing exceeds 5%, any such financing will result in an overall increase in the Company's effective bond interest rate. Consequently the requested rates are necessary in order to meet the present financial costs of Applicant and enable Applicant to finance the required system replacements and improvements."

For the same reasons set forth in the quotation in the preceding paragraph, applicant sought a similar annual increase in the rate of return in its application for increase in rates in its Livermore district Application No. 52052. However, by reason of Decision No. 78789, dated June 15, 1971, relating to that application, which found a rate of return of 7.55 percent to be reasonable but which did not approve applicant's proposed annual increase in rate of return to offset the so-called financial decline in rate of return, applicant has concluded that there should be eliminated from its proposed rate schedules in this proceeding the annual increase in rate of return attributable to such financial decline. Accordingly, applicant on August 25, 1971 proposed that the amended schedule of step-rates attached to its amended application as Exhibit A be adopted to supersede the general metered service rate schedule now on file in the East Los Angeles district. The amended schedule gives effect to the operational decline in rate of return while disregarding any financial decline; in addition, the amended schedule reflects an increase of approximately 13 percent in electric power rates which became effective after the application was filed.

Applicant estimates that the amended schedule would have yielded a rate of return of approximately 7.55 percent if it had been in effect for all of 1971 and would have resulted in an increase in revenues of approximately 16 percent for 1971. Under the amended schedule further increases to offset the estimated operational decline in rate of return in the years subsequent to 1971 would be: 1972 - 5.39 percent; 1973 - 6.03 percent; and 1974 - 6.52 percent. If the amended proposed rate schedule were effective over the years 1972-1974, applicant estimates that it would realize a rate of return in each of those years of approximately 7.55 percent.

The staff recommends a range of return between 7.30 and 7.60 percent on rate base and a rate of return on common equity ranging from 10.52 percent to 11.20 percent.

We do find reasonable a rate of return of 7.55 percent for the future which will produce a return of approximately 11 percent on common equity. In authorizing a rate of return of 7.55 percent, we recognize that there will be operational slippage of .6 percent over the years. The step rates shown in Appendix A attached are designed such that the average rate of return for the future will result in adequate earnings for the short term.

The order that follows will, however, require that applicant file additional earnings statements for the East Los Angeles district to permit review of future decline in rate of return, and the initiation of appropriate action if a reduction in rates is indicated.

Service

According to the staff, during year 1970 and first half of 1971, customer complaints received and resolved at the district office totalled 283, of which 159 related to quality, volume or pressure. Eight informal complaints were filed with the Commission from customers of the district during the past 2-1/2 years. All of these informal complaints were resolved to the satisfaction of the parties.^{2/} The complaints concerning quality were mainly the result of sand, etc., which were corrected to the satisfaction of the customer by company's flushing of hydrants and/or services, and the other complaints were localized, nonrecurring conditions partly resulting from customer-owned plumbing.

The staff's engineering witness testified that in his opinion, service provided by applicant in East Los Angeles is satisfactory. He contacted approximately 25 customers^{3/} during his field investigation and concluded that no significant dissatisfaction with service was evident.

^{2/} The staff witness testified that he came to this conclusion because the trouble reports bore the notation, placed there by the company employee who investigated the report, "CS". "CS" stands for "customer satisfied".

^{3/} None of these customers were among those filing informal complaints.

Public Presentation

Eight customers attended the hearing. Two customers testified that the water pressure is low. One customer testified that the pressure is terrible and that the taste of the water is terrible. In addition, this customer testified that it does not do any good to complain to the company. One customer testified that the water pressure was low and that in May 1971, his bills for 4 apartments doubled.

A petition bearing 85 signatures complaining of low water pressure was received as Exhibit 26.

As a result of the testimony regarding low pressures and because of the petition, the Examiner directed applicant to prepare four late-filed exhibits (Exhibits 1, 2, 3, and 27).

Exhibit 1 shows that the pressure of customer's house meets the requirements of General Order No. 103.

Exhibit 2 shows that the pressure of customer's house (front faucet) meets the requirements of General Order No. 103. The pressure problems of this customer are due to customer owned piping. This exhibit also shows that the water supplied is "perfectly safe and acceptable for human consumption."

Exhibit 3 shows that the pressure at the customer's house meets the requirements of General Order No. 103 and also shows that the meter is registering within allowable limits.

Exhibit 27, which is a 7-day pressure survey of the Bella Vista Area of Montebello, shows that the pressures in the distribution system supplying the area meet the requirements of General Order No. 103.

In response to Exhibit 27, the sponsors of Exhibit 26 stated that:

"Conclusions-- The charts do indicate that there is some drop in water pressure at peak periods, regardless of the weather. We know that during prolonged dry, warm spells, the drop in water pressure is greater, because there is even more use of water during the peak periods.

"Our conviction is that the water pressure in this area has significantly decreased since 1948 when we moved here (Berteas--1948, Hancocks--1950). We think that a true picture of the situation could be shown by being able to see water pressure recordings of the pressure at the various hydrants tested from 1950 to 1970. We know that the housing development in this tract has been completely developed during this period, since we have been here to see it; and naturally, much more water is needed and used now.

"We have not witnessed any increase in the size of water mains in this area during this period to take care of the added water used."

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 staff estimates, previously discussed herein, or operating revenues, operating expenses, and rate base for the test year 1971, and an annual decline of 0.6 percent in rate of return, reasonably indicate the results of applicant's operations in the near future.
 3. A rate of return of 7.55 percent for the future 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.
 5. Under existing federal guidelines the authorized increases would appear to be consistent with the Federal Government's economic stabilization program. Data for the Federal Price Commission are shown in Appendix B.
 6. Service meets the requirements of General Order No. 103.
- The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

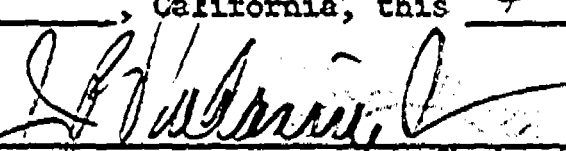
IT IS ORDERED that:

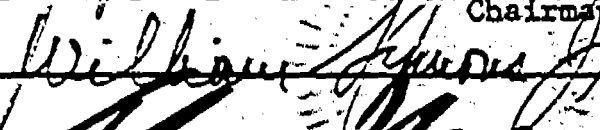
1. After the effective date of this order California Water Service Company is authorized to file the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.


2. On or before April 1, 1973 applicant shall file with the Commission an earnings statement for the East Los Angeles district for 1972 normalized and adjusted to the rate levels authorized herein for 1972 together with an estimate of earnings for 1973 under similar normalized conditions. On or before April 1, 1974 applicant shall file similar earnings statements for 1973 and 1974.


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

Dated at San Francisco, California, this 4th
day of April, 1972.



Chairman






Commissioners

A. 52500 ek

APPENDIX A
Page 1 of 2

Schedule No. EL-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

East Los Angeles, Commerce and vicinity, Los Angeles County.

RATES

		<u>Per Meter Per Month</u>		
		Before <u>1/1/73</u>	1/1/73 Through <u>12/31/73</u>	After <u>12/31/73</u>
Service Charge:				
For 5/8 x 3/4-inch meter		\$ 3.75	\$ 3.95	\$ 4.10 (I)
For 3/4-inch meter		4.15	4.30	4.45
For 1-inch meter		5.65	5.85	6.10
For 1 1/2-inch meter		7.90	8.20	8.50
For 2-inch meter		10.20	10.60	11.00
For 3-inch meter		18.90	19.60	20.35
For 4-inch meter		25.70	26.65	27.65
For 6-inch meter		42.70	44.30	45.95
For 8-inch meter		63.45	65.85	68.30
For 10-inch meter		78.55	81.50	84.55 (I)

(Continued)

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APPENDIX A
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Schedule No. EL-1

GENERAL METERED SERVICE

RATES - Contd.

	<u>Per Meter Per Month</u>		
	Before <u>1/1/73</u>	<u>1/1/73</u> Through <u>12/31/73</u>	After <u>12/31/73</u>
Quantity Rates:			
For the first 30,000 cu. ft. per 100 cu. ft.	\$.273	\$.280	\$.290 (I)
For all over 30,000 cu. ft. per 100 cu. ft.257	.267	.280 (I)

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 B

DATA REGARDING RATE INCREASE
AUTHORIZED FOR
CALIFORNIA WATER SERVICE COMPANY
EAST LOS ANGELES DISTRICT

Pursuant to provisions of Section 300.16 of the Economic Stabilization Act Amendments of 1971, the Public Utilities Commission of the State of California does hereby certify to the Federal Price Commission as follows:

1. The increased rates are expected to provide increased revenue of \$648,300 yearly. ✓
2. The rate of return is expected to average 7.55 percent as compared to 5.31 percent under present rates, an increase of 42.2 percent. ✓
3. Sufficient evidence was contained in the record to determine that the criteria set forth in paragraph (d), (1) through (4) of Title 6, Chapter III, Part 300, Sect. 300.16 of the Code of Federal Regulations, as amended effective January 17, 1972, were met by the rate increase.
4. The increase is cost-based, and does not reflect future inflationary expectations; the increase is the minimum required to assure continued, adequate and safe service and to provide for necessary expansion to meet future requirements; the increase will achieve the minimum rate of return needed to attract capital at reasonable costs and not to impair the credit of the public utility. This appendix to the rate decision constitutes the certification required by the Code of Federal Regulations.