

Decision No. 80164**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
CALIFORNIA-AMERICAN WATER COMPANY,  
a corporation, for authority to  
increase its rates and charges for  
water service in its Village Division  
in Ventura County.

Application No. 52344  
(Filed December 7, 1970)

Bacigalupi, Elkus, Salinger & Rosenberg, by  
Claude N. Rosenberg and Eugene Morosoli,  
Attorneys at Law, for California-American  
Water Company, applicant.

K. D. Johnson, for himself and for Monte Vista  
Homeowners Association; George M. Eidy, for  
himself; George A. Bucholz, for California  
Lutheran College and Residents of Campus;  
and John R. Hart, for Purolator Corp.,  
protestants.

Otto H. W. Blume, for City of Thousand Oaks,  
interested party.

Elinore C. Morgan, Attorney at Law, Russell J.  
Leonard and Andrew Tokmakoff, for the  
Commission staff.

O P I N I O N

After due notice, public hearing in this matter was held before Examiner Coffey at Camarillo on July 8 and 9, 1971, and at San Francisco on August 18, 19 and 20, September 22 and 23 and on November 12, 1971. The matter was submitted on December 29, 1971, upon the receipt of the reporter's transcript of the hearing.

California-American Water Company (CAWC), a wholly owned subsidiary of the American Waterworks Company, Inc. (AWWC) of Wilmington, Delaware, is a California corporation operating public utility water systems in portions of the Counties of Los Angeles, San Diego, Ventura and Monterey. Until recently United Utilities Company (UUC) owned 56 percent of the common stock of AWWC. On August 18, 1971, stockholders of AWWC approved the exchange of the assets of UUC, including some small water companies, for AWWC common stock.

Applicant's Village Division presently provides public utility water service to consumers in an area of approximately 20 square miles, located in the Conejo Valley of Southern Ventura County:

1. In and adjacent to the unincorporated community of Newbury Park.
2. A portion of, and territory contiguous to, the City of Thousand Oaks.
3. A small area adjacent to the City of Camarillo known as "Country Club".

In addition to the Village Division, applicant's other divisions are designated as (1) San Gabriel Valley Division in Los Angeles County, (2) San Diego Bay Division in San Diego County, and (3) Monterey Peninsula Division in Monterey County.

In July 1967, AWWC acquired the Village Water Company through stock purchase, without Commission authorization. On February 3, 1969, the assets of the Orbis Water Company were acquired by cash purchase by the Village Water Company. On December 31, 1969, the Village Water Company, comprising the Village and Orbis Districts, was merged with and into California-American Water Company.

#### Rates

Applicant presently has on file different tariff rate schedules applicable to the Village and Orbis Districts. The rates proposed herein eliminate the differentials between the areas served.

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

<u>General Metered Service</u>			
<u>Present Quantity Rates - Village District</u>			
<u>Quantity Rates</u>			<u>Per Meter Per Month</u>
First	500 cu.ft. or less	.	\$ 3.50
Next	3,500 cu.ft., per 100 cu.ft.	.	.33
Next	6,000 cu.ft., per 100 cu.ft.	.	.30
Over	10,000 cu.ft., per 100 cu.ft.	.	.28

General Metered ServicePresent Quantity Rates - Orbis District

<u>Quantity Rates</u>		<u>Per Meter Per Month</u>
First	500 cu.ft. or less	\$ 5.25
Next	1,500 cu.ft., per 100 cu.ft.	.31
Next	3,000 cu.ft., per 100 cu.ft.	.25
Over	5,000 cu.ft., per 100 cu.ft.	.19

Proposed Quantity Rates - Village Division

<u>Quantity Rates</u>		<u>Per Meter Per Month</u>
First	500 cu.ft. or less	\$ 4.85
Next	2,500 cu.ft., per 100 cu.ft.	.40
Next	2,000 cu.ft., per 100 cu.ft.	.38
Next	5,000 cu.ft., per 100 cu.ft.	.35
Over	10,000 cu.ft., per 100 cu.ft.	.31

<u>Minimum Charges</u>	<u>Per Meter Per Month</u>		
	<u>Present Rates</u>		<u>Proposed Rates</u>
	<u>Village Dist.</u>	<u>Orbis Dist.</u>	<u>Village Div.</u>
For 5/8 x 3/4-inch meter	\$ 3.50	\$ 5.25	\$ 4.85
For 3/4-inch meter	4.25	6.50	6.00
For 1-inch meter	6.00	8.50	8.25
For 1-1/2-inch meter	11.00	12.50	14.00
For 2-inch meter	17.00	17.50	21.00
For 3-inch meter	30.00	26.00	35.00
For 4-inch meter	45.00	38.00	55.00
For 6-inch meter	90.00	65.00	100.00
For 8-inch meter	140.00	105.00	145.00

The minimum charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

The following table indicates the magnitude of customer monthly charges under present and proposed rates and the relative increase in charges:

COMPARISON OF MONTHLY CHARGES FOR GENERAL METERED  
WATER SERVICE AT PRESENT AND PROPOSED RATES

Cubic Feet Per Month	Village District				Orbis District			
	Monthly Charge		Proposed Increase		Monthly Charge		Proposed Increase	
	Present	Proposed	Amount	Percent	Present	Proposed	Amount	Percent
500	\$ 3.50	\$ 4.85	\$ 1.35	38.6	\$ 5.25	\$ 4.85	\$ (.40)	(7.6)
700	4.16	5.65	1.49	35.8	5.87	5.65	(.22)	(3.7)
900	4.82	6.45	1.63	33.8	6.49	6.45	(.04)	(.6)
1,100	5.48	7.25	1.77	32.3	7.11	7.25	.14	2.0
1,400	6.47	8.45	1.98	30.6	8.04	8.45	.41	5.1
1,600	7.13	9.25	2.12	29.7	8.66	9.25	.59	6.8
1,900	8.12	10.45	2.33	28.7	9.59	10.45	.86	9.0
2,000	8.45	10.85	2.40	28.4	9.90	10.85	.95	9.6
2,338	9.57	12.20	2.63	27.5	10.75	12.20	1.45	13.5
2,500	10.10	12.85	2.75	27.2	11.15	12.85	1.70	15.2
2,700	10.76	13.65	2.89	26.9	11.65	13.65	2.00	17.2
3,000	11.75	14.85	3.10	26.4	12.40	14.85	2.45	19.8
3,500	13.40	16.75	3.35	25.0	13.65	16.75	3.10	22.7
4,000	15.05	18.65	3.60	23.9	14.90	18.65	3.75	25.2
5,000	18.05	22.45	4.40	24.4	17.40	22.45	5.05	29.0
7,500	25.55	31.20	5.65	22.1	22.15	31.20	9.05	40.9
10,000	33.05	39.95	6.90	20.9	26.90	39.95	13.05	48.5
12,500	40.05	47.70	7.65	19.1	31.65	47.70	16.05	50.7
15,000	47.05	55.45	8.40	17.9	36.40	55.45	19.05	52.3
20,000	61.05	70.95	9.90	16.2	45.90	70.95	25.05	54.6

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

Quantity Rate	Per Meter Per Month		
	Present Rates		Proposed Rates
	Village Dist.	Orbis Dist.	Village Div.
For all water delivered, per 100 cu.ft. . . . .	\$0.45	\$0.30	\$ .55
Minimum Charge	Per Day		Proposed Rates
	Present Rates		Village Div.
	Village Dist.	Orbis Dist.	
For all sizes of meters . .	\$9.00	\$5.00	\$11.00

Applicant proposes to increase the following Village District private fire protection rates to \$3.00 per month for each inch in diameter of service connection:

<u>Rates</u>	<u>Per Month</u>
For each 4-inch service connection . .	\$ 6.00
For each 6-inch service connection . .	9.00
For each 8-inch service connection . .	12.00
For each 10-inch service connection . .	25.00
For each 12-inch service connection . .	35.00

Orbis District rates are presently the same as those proposed.

Applicant presently provides surplus metered irrigation service in its Orbis District at the above metered construction service. Applicant proposes to withdraw this service.

Applicant proposes a new off-peak irrigation service to golf courses at the general metered service monthly quantity rates, less 25 percent.

Applicant also proposes a new flat rate service to subdividers building a minimum of 15 homes for a monthly charge of \$3.00 per water connection.

#### Results of Operation

The following tabulation compares the estimated summary of earnings for the test years 1970 and 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 Years 1970 and 1971

Item	Applicant		Staff		Adopted Rates
	Present	Proposed	Present	Proposed	

Estimated Year 1970

Operating Revenues	\$1,120,400	\$1,371,700	\$1,148,800	\$1,393,800	\$
Operating Expenses					
Oper. & Maint.	510,500	511,500	529,500	529,500	
Admin. & Gen.	100,900	102,100	99,700	99,700	
Depreciation	138,100	138,100	127,800	127,800	
Amortization	2,800	2,800	2,800	2,800	
Taxes other than Income	141,200	144,300	142,500	145,600	
Taxes on Income	22,900	152,700	71,400	196,200	
Total Op. Exp.	916,400	1,051,500	973,700	1,101,600	
Net Oper. Revenue	204,000	320,200	175,100	292,200	
Deprec. Rate Base	3,824,000	3,824,000	3,348,000	3,348,000	
Rate of Return	5.33%	8.37%	5.23%	8.73%	

Estimated Year 1971

Operating Revenues	1,206,400	1,475,800	1,248,100	1,516,300	1,408,200
Operating Expenses					
Oper. & Maint.	558,600	559,700	576,000	576,000	577,200
Admin. & Gen.	106,000	107,100	103,200	103,200	115,800
Depreciation	145,300	145,300	137,000	137,000	137,000
Property Losses	2,800	2,800	2,800	2,800	2,800
Taxes other than Income	157,000	160,300	158,700	162,000	160,900
Taxes on Income	26,300	162,600	85,300	222,100	143,700
Total Op. Exp.	996,000	1,137,800	1,063,000	1,203,100	1,137,400
Net Oper. Revenue	210,400	338,000	185,100	313,200	270,800
Deprec. Rate Base	3,864,100	3,864,100	3,420,000	3,420,000	3,469,000
Rate of Return	5.44%	8.75%	5.41%	9.16%	7.8%

Applicant concedes that in the estimates of revenues, expenses and taxes there is little difference between those prepared by applicant and by the staff. Such differences in these areas as do exist are due primarily to the staff report being prepared when more current recorded data was available. However, the record indicates that since the preparation of the staff report a salary

increase became effective August 1, 1971, for Village Division employees and that on January 1, 1971, a pension plan became effective. These items would increase the staff estimate of expenses a total of \$13,200.

We find the staff estimates of present and proposed revenues, expenses, and taxes reasonable, but in our adopted results will include an allowance of \$13,200 for recent salary and pension cost increases.

There are substantial differences between applicant and the staff in the matters of rate base and rate of return.

#### Rate Base

Applicant disagrees with four adjustments made by the staff which decrease the rate base:

- (1) An adjustment of \$8,850 for that portion of the Pace Reservoir site land considered to be not used or not useful in current or near future operations.
- (2) A density or saturation adjustment of \$40,000.
- (3) The addition of \$195,000 for theoretical advances for construction from applicant's predecessor mutual water companies.
- (4) The addition of \$56,000 to the back depreciation reserve for past depreciation under-accruals.

Pace Reservoir is located on, and covers much of, the top of a hill. The staff considered the slope land around the hill, outside the reservoir fence and other than the access road, to be land not used or useful as public utility plant. The dimensions of the area within the reservoir fence is about 150 feet by 235 feet and the dimensions of the lot are 500 feet by 510 feet. The staff adjustment assumed the slope and hilltop lands to be of equal unit value.

Witness for applicant testified that when the slope land was acquired the utility considered it necessary to protect the integrity of the reservoir from further excavations in the future, that if only the top of the hill and easement on the slope land had been procured the price of the hilltop would have been increased to

compensate the developer for its investment and taxes on the land in perpetuity since the hillside land was considered not to be developable. The witness considered the slope lands to be of interest only to mountain climbers, not disposable to a park system and not suitable even for raising goats.

The necessity of protecting the integrity of the reservoir from future excavations is not contested by the staff. For the purposes of this proceeding we will include said slope lands in the rate base adopted herein. However, we will order that the utility not sell said slope lands without authorization of this Commission so that the amount of net capital gain resulting from the sale can be determined and consideration given to requiring the utility to record said gain in a contra plant account to be included in future rate base determinations.

The staff deducted \$40,000 as a saturation or customer density adjustment to applicant's plant to exclude a prorated portion of the cost of four connections to the Calleguas Municipal Water District and a length of associated main. The witness estimated that by mid 1975 less than 44 percent of the capacity of the turnouts would be necessary for customer service.

Exhibit C attached to Exhibit No. 29 in this proceeding sets forth the requirement of the Calleguas Municipal Water District that turnouts be sized and constructed with provision to adequately serve the maximum needs of the customers at a particular location. Calleguas, for initial service, permits part of the piping and metering equipment to be reduced below ultimate capacity in recognition of the smaller initial water demands.

This record does not contain any challenge of the reasonableness of the size of the turnouts required to serve the maximum future needs of the utility and its customers. The size and cost of the turnouts were determined by the district and does not appear to have been controllable by the management of the utility. For the purposes of this proceeding we will not include a turnout saturation adjustment in the rate base adopted herein.



The staff added \$195,000 to advances for construction to treat the acquisition of the water systems of the various mutual water companies as though applicant had not converted the refund agreements to common stock on a dollar-per-dollar basis. The staff relied on Decision No. 74200, dated June 5, 1968, Application No. 49463, which stated on this identical issue:

"... (1) the distribution system not only could have been, but was, financed by subdividers' funds which applicant was to have refunded, without interest, over a period of years; (2) the conversion of the future refund obligation to an immediate stock issue without discount, was a transaction between applicant and its affiliated subdividers. The customers should not be penalized for the conversion. . . . The hypothetical balance of advances relating to all refund agreements involved in applicant's acquisition of the water systems from the mutuals is included in advances for construction adopted in Table V."

The position of the applicant is:

"California-American Water Company should not be deprived of an earning on the investment in the facilities installed under the Mutual Company agreements when these obligations were fully paid by the issuance of common stock authorized by the Commission. The Village Water Company had endeavored to build up a sound financial capital structure, with the full knowledge and authority of the California Public Utilities Commission. The issuance of the securities has been relied upon by the bond holders and the stock holders as properly set forth on the balance sheet.

"This deduction from rate base unjustly denies the company an earning on plant in which it has an investment."

Applicant relies on Decision No. 62583 (dated September 19, 1961, Application No. 42911), Decision No. 67823 (dated September 15, 1964, Application No. 46869) and Decision No. 68313 (dated December 9, 1964, Applications Nos. 46976 and 47118) by which the Commission authorized the issuance of bonds and common stocks by the Village Water Company.

Over the strong objections of staff counsel to the re-opening of the issue decided in Decision No. 74200, applicant was afforded an opportunity to produce any available new evidence in support of its position for consideration by the Commission. Applicant in effect only directed the Commission's attention to its own decisions and reargued its position. Witness for applicant under cross-examination refused to acknowledge that each of the said financial decisions contained a clear warning that the financial authorization given therein was not to be construed as indicative of amounts of plant which would be included in the rate base used in a future rate proceeding to determine just and reasonable rates. Further, applicant, who through stock purchase without Commission authorization acquired the Village Water Company, has made no showing as to what, if any, loss it has experienced as a result of the staff adjustment other than the loss of an undeserved windfall. We will include in the rate base adopted herein \$195,000 for theoretical advances for construction from applicant's predecessor mutual water companies.

Again relying on Decision No. 74200, the staff recommends without further investigation that \$56,000 be added to the depreciation reserve and the rate base be decreased accordingly. On this issue Decision No. 74200 set forth the following:

"The principal difference between the estimates of average depreciation reserve presented by applicant and the staff are due to the staff's substitution of a computed reserve requirement for the recorded reserve. The staff study indicates that the reserve was considerably underaccrued in relation to the life expectancies currently assigned to existing plant. Much of the underaccrual appears to have developed from the early retirement of plant which had only been partly depreciated on applicant's books.

"Applicant contends that the staff's treatment of the depreciation reserve is inappropriate because (1) applicant is, and has been, accruing depreciation using remaining-life instead of total-life

depreciation accruals, and (2) one of the primary purposes of the remaining-life method is to avoid continual restatement of the book reserve. We might agree with applicant if its plant records had been maintained with reasonable accuracy. However, the errors and omissions amounting to literally hundreds of thousands of dollars of plant previously discussed herein, cast doubt upon the reasonableness of the depreciation accruals related to the recorded plant. During the period when applicant was affiliated with land developers in the area and was already sustaining large annual losses from the water operations, there was little incentive to increase those losses by increasing the depreciation accruals. Under the circumstances, the staff estimate of average depreciation reserve, modified to conform with the related plant adopted in rate base, is adopted in Table V."

Applicant made a detailed review of all book entries reflecting additions and retirement to the three accounts since the inception of the Village Water Company and the entries on the books of the company of utility plant and reserve in accordance with Decision No. 62583. Said decision granted the original certificate of public convenience and necessity to Village Water Company and authorized it to acquire various water systems. The decision states "...Janss Investment Corporation which said corporation is the organizer and principal of the applicant; is the owner, developer, and subdivider of most of the areas requested to be certificated and seeking water service; and is proposed to be one of the principal recipients of applicant's stock issue in exchange for water system properties."

The review of the Village Water Company books by applicant revealed only one instance of improper accounting, in 1964, and one large early retirement of plant, in 1966.

Applicant contends that the staff's adjustment for "depreciation underaccrual" is not justified in the amount of \$56,000 as there were no early retirements that affected the depreciation reserve adversely other than the one made in 1964, which would amount

to only \$19,582 excess charge against the reserve; that if an adjustment is to be made for underaccrual, it should not be in excess of \$19,582; and that if the \$19,582 amount is to be considered as underaccrual, this amount should be offset by an expense charge for amortization in the amount of \$1,305 annually.

We note that applicant did not review the books of account of the water systems prior to their acquisition by Village Water Company. Applicant has not demonstrated that the underaccruals of depreciation discussed in Decision No. 74200 are not related to the period prior to operation of the water systems by Village Water Company or to the reasonableness of the depreciation reserve when the systems were acquired by Village.

Applicant has not demonstrated in this proceeding that the staff treatment of the depreciation reserve is inappropriate.

Rate of Return

Applicant advocates a rate of return of 8.75 percent and the staff recommends a rate of return in the range of 7.5 percent to 7.8 percent. The rate of return to be allowed applicant on property used and useful in rendering public utility water service is again a major issue to be resolved as it was in applicant's request for increased water rates for service in its Monterey Peninsula Division, Decision No. 78923, dated July 13, 1971, Application No. 52039. The rates of return advocated and recommended in the instant proceeding are identical with those of the Monterey matter in which the Commission found a rate of return of 7.8 percent to be reasonable.

Because of the importance of the issue of rates of return herein, because of the relative magnitude of the instant rate of return request compared with recent rates of return authorized by the Commission for public utility water corporations in California as shown in Exhibit No. 23, because of the substantial difference between the rate of return requested by applicant and that recommended by the staff, and, finally, because of applicant's repetitive endeavors to cause the Commission to change or circumvent its often restated consistent position on substantial issues basic to the level of rate of

return found reasonable for applicant, it is appropriate to review herein the acquisitions by applicant of utility properties in California and the rate of return issues which arose from the manner of acquiring said acquisitions and the financing thereof.

Applicant, CAWC, was incorporated in California by its parent, AWWC, on December 7, 1965, for the purpose of acquiring the Water Department properties of California Water and Telephone Company (CW&TC). All of the outstanding shares of common stock of CAWC were and are held by AWWC, a Delaware corporation, owning 90 operating water companies.<sup>1/</sup>

CW&TC, a longtime operating public utility furnishing telephone and water service in California, was authorized on June 27, 1967 to merge into General Telephone Company of California (General) on July 1, 1967. General was authorized coincidentally to acquire from its parent company, General Telephone and Electronics Corp., all of the outstanding capital stock of CW&TC in exchange for 2,575,000 shares of its \$20 par value common stock in the aggregate par value of \$51,500,000.<sup>2/</sup> General Telephone and Electronics Corp., not being a public utility in California, was able to purchase the stock of CW&TC without the authorization required of California public utilities under Section 852 of the California Public Utilities Code.

Prior to the merger of CW&TC and General, CW&TC was authorized on March 8, 1966, to sell its water utility business to CAWC at a purchase price of \$41,734,768, some \$12,285,371 in excess of book value, and the latter to issue 250,000 shares of its capital stock without par value for a total cash consideration of \$25,000,000.<sup>3/</sup> AWWC had obtained a \$45,000,000 loan from six banks bearing 5-1/4 per cent interest for a term of three years with which it bought and used

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<sup>1/</sup> Decision No. 76279, Applications Nos. 50771, 50798 and 50842, 70 Cal. P.U.C. 243-266.

<sup>2/</sup> Decision No. 72665, 67 Cal. P.U.C. 341-345.

<sup>3/</sup> Decision No. 70418, 65 Cal. P.U.C. 281-289.

as collateral said 250,000 shares of CAWC. AWWC advanced CAWC \$20,000,000 at the same interest rate. The note from AWWC to the banks became due and payable March 31, 1969, and CAWC, on that date, reimbursed AWWC by borrowing from the same six banks \$20,000,000 payable December 31, 1969, at interest rates which vary from 7-1/2 percent in March, 1969, to 8-1/2 percent commencing on June 9, 1969. Contrary to the requirements of General Order No. 44, CAWC did not obtain authorization of this Commission to refund said \$20,000,000. By Decision No. 75598, dated April 29, 1969, Application No. 50891, CAWC was exempted from competitive bidding for the negotiation of the sale of \$20,000,000 of bonds at a coupon rate of 8.75 percent to refinance said \$20,000,000 of bank borrowings. Decision No. 76071, dated August 26, 1969, Application No. 51281, authorized CAWC to sell said bonds.

Consequently, in the first CAWC rate proceeding the issue of reasonableness of applicant's long-term debt interest was raised when the staff recommended an interest rate of 5.25 percent. Decision No. 76279 sets forth the evidence therein considered and made the following findings on the issue:

"3.a. . . .

"b. When applicant was organized to acquire the Water Department of CW&TC, AWWC borrowed \$45,000,000 from six banks, two on the West Coast and four in the East, of which \$20,000,000 was loaned to applicant on a 3-year note bearing interest at 5-1/4 percent. Said note expired on March 31, 1969, and applicant has been required to refinance said note with notes bearing interest at 7-1/2 percent from March 31, 1969 to June 9, 1969 and at 8-1/2 percent from said latter date to December 31, 1969, and has sought authority to issue long-term debt at 8-3/4 percent.

"c. Applicant's parents, and their bankers and investment counsellors, failed to refinance AWWC's short-term notes at lower interest rates before it was too late and the prime rate had risen, radically. They were laggard

in their efforts to obtain for applicant, and its customers, the benefits of low-cost financing. The public interest would be adversely affected if applicant's and its parents' laggardness were permitted to flow through to the customers in the form of higher rates for water service.

- "d. Applicant's predecessor, CW&TC, had a long financial history with capabilities of borrowing large sums of money at low interest rates.
- "e. Secondary leverage mathematically will cause AWWC's yield on common equity to increase somewhat more than the 8-3/4 percent yield on applicant's common equity, which will be realized from the rates for water service based upon the staff's recommended rate of return of 7.25 percent; tertiary leverage mathematically will cause UUC's yield on common equity to increase substantially more than applicant's yield. The magnitude of such increased yields has not been disclosed on the record of these proceedings.
- "f. After consideration of the full record in the proceeding and the above-mentioned findings regarding rate of return, an average future rate of return of 7.25 percent is reasonable. This will provide applicant with a yield of approximately 8.75 percent on common equity assuming 43.6 percent of long-term debt at an interest rate of 5.25 percent.<sup>4/</sup>

Again in Application No. 52039 for increased rates in applicant's Monterey Peninsula Division, the staff recommended a long term effective interest rate of 6.90 percent. Decision No. 78923, dated July 13, 1971, in the Monterey proceeding did not discuss in detail the long-term debt interest issue but in effect accepted the staff recommendation by finding reasonable a rate of return in the range recommended by the staff.

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<sup>4/</sup> 70 Cal. P.U.C. 263, 264.

Another perennial issue was generated when CAWC paid \$12,285,371 in excess of the book value for the properties purchased from CW&TC. Despite the clear statement in Decision No. 70418 when the transfer of properties was authorized that said plant acquisition adjustment would not be included as an element in future rate bases, the adjustment was an issue in the Monterey proceeding. Decision No. 78923 reiterated the policy by stating:

"Applicant has been clearly and repeatedly advised that if it chose to pay for the properties substantially more than the depreciated original cost, it could expect not to be allowed earnings on the acquisition cost adjustment. . . . Applicant is permitted to recoup its investment in excess of depreciated original cost because it creates no added burden on ratepayers. This is all applicant can reasonably expect. We find reasonable the deduction of the entire portion of the acquisition cost adjustment from common equity for the purpose of determining capital ratios and return on equity. To do otherwise is to circumvent the long standing policy of this Commission of fixing rates on the basis of original cost by the simple device of the sale of operating utilities for amounts in excess of depreciated original cost."

We will not permit circumvention of the acquisition cost adjustment by allowing an excessive rate of return or excessive earnings on equity.

Decision No. 74200, dated June 5, 1968, states that on July 10, 1967, all of the Village Water Company stock was acquired by AWWC and that CAWC officers manage and operate Village as a separate entity.<sup>5/</sup> The application in that proceeding was filed June 14, 1967.

By Application No. 50463, Village Water Company and Orbis Water Company requested authority for Orbis to sell its water utility assets to Village. Decision No. 74898, dated November 6, 1968, granted the request on condition of the receipt by the Commission of a satisfactory explanation of the method Village Water Company intends to utilize in financing the acquisition of Orbis Water Company.

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<sup>5/</sup> 68 Cal. P.U.C. 351.



Decision No. 75196, dated January 14, 1969, sets forth that Village agreed to assume the indebtedness of Orbis and to pay in cash the balance of the purchase price of between \$500,000 and \$550,000. Village reported a short-term bank loan would provide the cash for the purchase and indicated that AWWC, its parent, had given assurance that it would provide such assistance as might be necessary in refinancing a payment of said loan.

Decision No. 76601, dated December 23, 1969, in authorizing the merger of Pollock Water Service, Inc. and Village Water Company into CAWC noted that all three applicants were wholly owned subsidiaries of AWWC. When Village was merged in CAWC, AWWC transferred all shares of Village stock to CAWC.

The staff showing in this proceeding utilized the consolidated capital structure and debt cost of AWWC and its subsidiaries, including CAWC. Applicant objected that this is the only instance in seven cases involving subsidiaries of AWWC a capital structure or a debt cost other than those of the applicant were utilized by the staff. Applicant argued that CAWC was a separate corporate entity, duly certified as a public utility by this Commission with over \$21,500,000 of bonds outstanding in the hands of investors who have no affiliation with AWWC and thus had a definitive capital structure.

The staff utilized the consolidated capital structure and debt cost of AWWC in this proceeding since CAWC was considered not to have a definitive capital structure of its own and since the Village acquisition was not related to the CW&TC acquisition which gave rise to the original acquisition adjustment.

We can only conclude that the staff position is reasonable after considering the acquisition of viable operating public utility properties in California by AWWC without Commission authorization, the manipulation of debt by AWWC so that low cost debt of said acquired utilities and of AWWC itself is largely replaced by high

cost debt, the presentation to the Commission of requests for authorization of mergers of wholly owned subsidiaries with common management installed by AWWC, the recent contract between AWWC and CAWC by which corporate officers and other employees of CAWC are now employees of American Water Works Service Company, another subsidiary of AWWC, and the contract with said service company for CAWC to receive from it administrative, accountancy, payroll purchasing, insurance, engineering, legal and general services. CAWC not only is without independence and not only does not have a definitive capital structure of its own, but it is in effect merely an operating district of AWWC and for purposes of a rate proceeding can properly be so considered. Under such circumstances we cannot accept as reasonable the position of applicant's witness that a potential investor is not particularly interested in the financial condition or the consolidated position of AWWC and looks only at the financial condition of CAWC.

Applicant in the Monterey proceeding indicated that its indenture under which its long-term debt is issued requires that there be a coverage of 1.75 times interest payable on bonds outstanding, and because of this restriction it would not be able to issue long-term debt at the staff's recommended rate of return. Conceding that its position in that proceeding was in error since it had considered only actually realized revenues and had not considered revenue increases from pending applications, applicant now maintains it should have coverage between 2 and 2-1/4 times interest so that investors may be attracted at reasonable rates and under reasonable terms. Proceeding from the premise that applicant required 2 to 2-1/4 times coverage, witness developed the 8.75 percent rate of return requested on rate base as the average of the rates of return required to provide 2 times and 2-1/4 times coverage.

Factors considered by the staff witness on rate of return were:

- (1) The subsidiary-parent relationship with American Water Works.

- (2) The capital structure of American Water Works.
- (3) The growth in plant investment with resultant need for construction funds.
- (4) The portion of construction expenditures provided by advances for construction and contributions in aid of construction.
- (5) Comparative earnings of other water companies.
- (6) Trends in interest rates.
- (7) The fact that the effective interest rate for the company will continue to increase even though interest rates have been declining from their apparent peak.
- (8) The relationship of external vs. internal financing.
- (9) Utilities have been considered by courts and legislatures as businesses "affected with a public interest" and under a duty to offer adequate service at "just and reasonable" rates.
- (10) Such rates must give consideration to both consumer and investor interests.

Based on the capital structure of the AWWC, Exhibit 23, Table 13 indicates that at a rate of return of 7.5 percent the return on common equity would be 14.9 percent and at 7.8 percent would be 16.5 percent. In the Monterey proceeding, using a CAWC capital structure it was estimated that for a rate of return of 7.8 percent a return of approximately 9.21 percent would be realized on equity after deducting therefrom the unamortized acquisition adjustment.

Herein, we shall find reasonable a rate of return of 7.8 percent which will result in a return of 16.5 percent to equity based on the capital structure of AWWC. We cannot accept applicant's simplistic position that "the net revenue required by a particular utility is the controlling consideration and what that converts to as a rate of return is purely coincidental." (Tr. 632.) To do so would be to abdicate substantially to the management of utilities the Commission's duty and authority to regulate the rates to be charged for utility service.

We take note that the extensive hearings on applicant's requests for increases in rates have in large degree resulted from the issue of rate of return. It is not appropriate that applicant's customers be burdened in the future with costs of lengthy and repetitive relitigation of issues stemming from the financial and acquisition manipulations of applicant's parent.

Staff Exhibit No. 18 states that "The upward trend in rate of return of 0.18 percent and 0.43 percent is not considered to be indicative of the future trend". Despite upward trends in the rates of return estimated by both applicant and the staff, no adjustment of the adopted rate of return will be made herein to reflect the improved earnings projected by both the applicant and the staff in their estimates.

#### Public Presentation

Customers from the so-called "Country Club area" protested the proposed increase, complaining of poor water quality and the limitation of the water supply to only one well. This area is adjacent to the City of Camarillo, about 10 miles removed from the balance of the Village system. Applicant testified that its supply to the 460 customers in the Country Club area from the only source available at the present time does have high total dissolved solids. To bring different water into the area would require an additional connection to the Calleguas Municipal District at a cost of \$97,000. The average depreciated investment in plant less advances (rate base) per customer in the Village System is \$511, and in the Country Club area it presently is \$787. With the additional cost of a Calleguas connection the rate base of the total system per customer would be \$524 as compared to a rate base in the Country Club area of \$997. Applicant further testified that rates 15 to 20 percent higher than the balance of the system would be required if a special rate district for the Country Club area were formed.

The director of Public Works for the City of Camarillo testified that at a dear price the city recently acquired the CAWC system serving about 170 customers located within the city limits.

He protested the proposed 24 percent increase in his water bill which when added to the 67 percent increase in 1968 results in a 107 percent increase in a short period and requested the Country Club area be considered as a separate rate area.

We shall require applicant to make further studies and report to us on possible solutions to the problems of the Country Club area since this record is not adequate to make a final determination.

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 7.8 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 16.5 percent based on the capital structure of the AWWC.
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.

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-American Water Company is authorized to file the revised rate schedules.

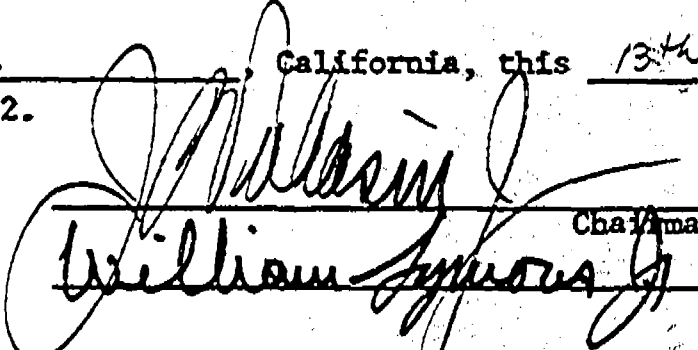


attached to this order as Appendix A, to withdraw and cancel Schedules Nos. V-1, V-1-0, V-2, V-2-0, V-3-0, V-4, V-4-0, V-5, V-5-0, V-9-MC, and V-10. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. On or before October 31, 1972, applicant shall file with the Commission a report on the costs of alternate means of improving water quality and removing present water source limitations of the Country Club area water system. If applicant is unable to propose economic solutions under its management, applicant shall advise the Commission of the possibilities of transferring said system to a public utility, customer owned mutual water system, municipality or public district.

3. Applicant shall not sell, trade, or otherwise dispose of any lands or land rights without prior authorization of this Commission.

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

Dated at San Francisco, California, this 13<sup>th</sup> day of JUNE, 1972.

  
\_\_\_\_\_  
Chairman  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
Commissioners

Commissioner Thomas Moren, being necessarily absent, did not participate in the disposition of this proceeding.

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## Schedule No. V-1

(N)

GENERAL METERED SERVICE

(T)

APPLICABILITY

Applicable to general metered water service.

(T)

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

(T)  
(T)RATES

## Quantity Rates:

Per Meter  
Per Month

First	500 cu.ft. or less	\$ 4.50	(C)
Next	2,500 cu.ft., per 100 cu.ft.	0.37	(I)
Next	2,000 cu.ft., per 100 cu.ft.	0.35	
Next	5,000 cu.ft., per 100 cu.ft.	0.31	
Over	10,000 cu.ft., per 100 cu.ft.	0.29	(I)

## Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 4.50	(C)
For	3/4-inch meter	5.50	
For	1-inch meter	7.50	(C)
For	1 1/2-inch meter	13.00	(I)
For	2-inch meter	19.00	
For	3-inch meter	32.00	
For	4-inch meter	50.00	
For	6-inch meter	95.00	
For	8-inch meter	145.00	(I)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

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Schedule No. V-3ML

(N)

OFF-PEAK GOLF COURSE IRRIGATION SERVICE

APPLICABILITY

Applicable to off-peak golf course irrigation service.

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

RATES

The charges will be made at the monthly quantity rates under Schedule No. V-1 General Metered Service, less 25%.

SPECIAL CONDITIONS

1. Service under this rate schedule will be furnished for golf course irrigation when water is used only during the hours between 9:00 P.M. and 5:00 A.M.
2. The utility may, at its option, install in the place of one meter, two or more meters, or meters at two or more service connections, for service to a golf course, and the readings of such meters will be combined for billing purposes.
3. The golf course irrigation service connection or connections, or such modifications or changes in service connections as may be required for the benefit of the customer, will be at the cost of the customer. Such cost shall not be subject to refund.

(N)

(Continued)



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Schedule No. V-3ML

(N)

OFF-PEAK GOLF COURSE IRRIGATION SERVICE

SPECIAL CONDITIONS - Contd.

4. If a distribution main of adequate size to serve the golf course irrigation 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 customer. Such cost shall not be subject to refund.

5. The utility may, at its option, require the installation of such facilities at the point or points of service at the cost of the customer, as will restrict the use of water to off-peak hours as set forth herein. Such cost shall not be subject to refund.

(N)

Schedule No. V-4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

(T)

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

(T)  
(T)

RATES

	Per Service Per Month
For each inch in diameter of service connection ....	\$3.00

(I)

SPECIAL CONDITIONS

1. The customer will pay without refund the entire cost of installing the service connection. All installations will be made in accordance with the utility's plans and specifications and will be maintained to the satisfaction of the utility.

(T)

2. The maximum diameter of the service connection will not be more than the diameter of the main to which the service is connected and the minimum diameter will be 4 inches.

3. 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.

(T)

(Continued)

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Schedule No. V-4

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - Contd.

4. The customer's installation must be such as to separate effectively the fire sprinkler system from that of the customer's regular water service. As a part of the sprinkler service installation there shall be a detector check or other similar device acceptable to the utility which will indicate the use of water. Any unauthorized use will be charged for at the regular established rate for general metered service, and/or may be grounds for the utility's discontinuing the fire sprinkler service without liability to the utility.

(T)

5. There shall be no cross-connection between the fire sprinkler system supplied by water through the utility's fire sprinkler service to any other source of supply without the specific approval of the utility. This specific approval will require, at the customer's expense, a special double check valve installation or other device acceptable to the utility. Any such unauthorized cross-connection may be the grounds for immediately discontinuing the sprinkler system without liability to the utility.

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

(T)

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## Schedule No. V-5

PUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, (T)  
organized fire districts and other political subdivisions of the State. (T)

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to (T)  
Camarillo, and vicinity, Ventura County. (T)

RATES

	Per Hydrant Per Month	
3-inch Wharf Type Hydrant, or smaller		
Attached to 4-inch main, or larger .....	\$1.50	(C)
4-inch Standard Type Hydrant, with one outlet		
Attached to 4-inch main .....	1.50	
Attached to 6-inch main .....	2.00	
Attached to 8-inch main .....	2.50	
4-inch Standard Type Hydrant, with two or more outlets		
Attached to 4-inch main .....	2.50	
Attached to 6-inch main .....	3.00	
Attached to 8-inch main, or larger .....	4.00	
6-inch Standard Type Hydrant, with two or more outlets		
Attached to 6-inch main, or larger .....	5.00	(C)

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, (T)  
charges will be made at the quantity rates under the general metered  
Schedule No. V-1. (T)

(Continued)

Schedule No. V-5

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS - Contd.

2. The cost of installation and maintenance of hydrants will be borne by the utility.

3. Relocation of any hydrant shall be at the expense of the party requesting relocation.

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

(T)  
|  
(T)

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Schedule No. V-9FL

(C)

FLAT RATE SCHEDULE

APPLICABILITY

This rate is available only to a subdivider building a minimum of fifteen (15) homes within a tract approved by the County of Ventura or City of Thousand Oaks in area served by the Village Division.

(T)

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

(T)

(T)

RATES

Monthly Charge per Water Connection ..... \$3.00

(I)

SPECIAL CONDITIONS

1. Service shall be furnished under the above charge at a flat rate per lot as soon as connection has been made to the water system by means of a service pipe or a jumper. Upon occupancy, service will be furnished only in accordance with filed Rules & Regulations and billed at General Metered Service rates.

(T)

2. Charges under this rate schedule shall be billed to subdividers only. The subdivider shall be liable for the charge until such time as the new owner or occupant signs an application for metered service, or until the subdivider requests the removal of the service connection or jumper.

3. Where the water usage, in the opinion of the Company, exceeds the amount which would be allowable for the sum of \$3.00 under its General Metered Service Quantity Rates, the Water Company may install a meter. In such a case, the General Metered Service Schedule minimum and quantity rates will apply.

Schedule No. V-9MC

METERED CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all water service furnished for construction purposes. (T)

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County. (T)  
(T)

RATES

	<u>Per Meter</u>	(T)
	<u>Per Month</u>	(T)
Quantity Rate:		
For all water delivered, per 100 cu.ft. ....	\$ .55	(I)
	<u>Per Day</u>	
Minimum Charge:		
For all sizes of meters .....	\$10.00	(I)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

SPECIAL CONDITIONS

1. Construction water service under this schedule will be furnished only when surplus water is available over the requirements for domestic service and under conditions which will not adversely affect domestic service. The utility will be the sole judge as to the availability of such surplus water.

(T)  
|  
(T)

(Continued)

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Schedule No. V-9 MC

METERED CONSTRUCTION SERVICE

SPECIAL CONDITIONS - Contd.

2. Applicants for metered construction service will be required to apply for the service at least 48 hours in advance of the time of delivery of water is requested and to pay the costs and charges as provided in Rule 13, Temporary Service. (T)  
|  
(T)



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Schedule No. V-10

(C)

SERVICE TO COMPANY EMPLOYEES

APPLICABILITY

Applicable to water service supplied to permanent employees for their own domestic use at single family dwellings or separately metered flats or apartments.

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

(T)  
(T)

RATES

The filed rate or rates applicable to the type of service in the territory and at the location where service is supplied, less 25%.

APPENDIX B

DATA REGARDING RATE INCREASE  
AUTHORIZED FOR  
CALIFORNIA-AMERICAN WATER COMPANY  
VILLAGE DIVISION

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 \$160,100 yearly.
2. The rate of return is expected to average 7.8 percent as compared to 5.41 percent under present rates, an increase of 44 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.