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Decision No. 81661

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CALIFORNIA WATER SERVICE COMPANY, a)
corporation, (successor by merger)
to PALOS VERDES WATER COMPANY, a)
corporation), for an order)
authorizing it to increase rates)
charged for water service in its)
Palos Verdes district.)

Application No. 53563
(Filed September 1, 1972;
amended February 23, 1973)

McCutchen, Doyle, Brown & Enersen,
by A. Crawford Green, Jr.,
Attorney at Law, for California
Water Service Company, applicant.
Walter H. Kessenick, Attorney at Law,
and John E. Brown, for the
Commission staff.

O P I N I O N

California Water Service Company (CWSC) seeks authority to effect step rates for its Palos Verdes District designed to produce revenues sufficient to yield a rate of return for that district of 8.25 percent through the year 1975. It is estimated that these proposed rates will increase water rates to approximately 18,500 metered customers in CWSC's Palos Verdes District \$742,500 (21.04%) for the year 1973, an additional \$248,800 (5.19%) for the year 1974, and an additional \$108,600 (1.74%) for the year 1975 to provide full year net operating revenues of \$992,400 for 1973, \$1,074,900 for 1974, and \$1,122,800 for 1975.

CWSC, a California corporation, owns and operates water systems in 22 operating districts, all of which are in California. Each system is termed a district and is operated separately. The Palos Verdes District is located in the Palos Verdes Hills in the county of Los Angeles and includes the cities of Lomita,

Palos Verdes Estates, Rolling Hills, and Rolling Hills Estates, as well as a part of the unincorporated area of Los Angeles County.

After notice, public hearing was held before Examiner Johnson on May 1 and 2, 1973 at Rolling Hills, California, and the matter was submitted on May 14, 1973 upon receipt of late filed Exhibit 1.

Rates

The rates presently in effect in the Palos Verdes District were authorized by Decision No. 80282 dated July 25, 1972 in Application No. 53304. The following tabulation sets forth the proposed step rates for general metered service. No increases are proposed for private fire protection or public fire hydrant service.

General Metered Service

Quantity Rates

		Per Meter Per Month				
		Pres. Rates	Proposed 1972	Proposed 1973	Proposed 1974	Proposed 1975
First	400 cu.ft., or less	\$3.11	\$3.67	\$3.77	\$3.97	\$4.04
Next	1,600 cu.ft., per 100 cu.ft.	.616	.728	.748	.787	.801
Next	3,000 cu.ft., per 100 cu.ft.	.508	.600	.616	.649	.660
Next	5,000 cu.ft., per 100 cu.ft.	.421	.497	.511	.537	.547
Next	40,000 cu.ft., per 100 cu.ft.	.356	.421	.432	.454	.462
Over	50,000 cu.ft., per 100 cu.ft.	.313	.370	.380	.400	.407

Minimum Charge

For	5/8 x 3/4-inch meter	\$3.11	\$3.67	\$3.77	\$3.97	\$4.04
For	3/4-inch meter	3.73	4.41	4.53	4.76	4.85
For	1-inch meter	5.08	6.00	6.16	6.49	6.60
For	1 1/2-inch meter	7.45	8.80	9.04	9.51	9.68
For	2-inch meter	12.63	14.92	15.32	16.13	16.41
For	3-inch meter	18.36	21.69	22.28	23.44	23.86
For	4-inch meter	31.05	36.69	37.67	39.65	40.35
For	6-inch meter	69.11	81.65	83.85	88.25	89.82
For	8-inch meter	91.79	108.45	111.37	117.22	119.29

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

Results of Operation

The following tabulation compares the estimated summary of earnings for the test year 1973, under present and proposed rates, prepared by CWSC and by the Commission staff, and the adopted summary of earnings at present rates for the test year 1973:

Summary of Earnings
(Estimated Year 1973)

	: CWSC Estimated		: Staff Estimated		:
	: Company		: Company		:
	: Present	: Proposed	: Present	: Proposed	: Adopted
	: Rates	: Rates	: Rates	: Rates	: Results
Item					
(Dollars in Thousands)					
Operating Revenues	\$3,529.3	\$4,271.8	\$3,584.0	\$4,338.1	\$3,550.3
<u>Operating Expenses</u>					
Operations and Maintenance	1,739.4	1,739.4	1,752.1	1,752.1	1,739.1
Admin. and General	117.0	117.0	95.9	95.9	95.9
Miscellaneous	13.6	13.6	13.6	13.6	13.6
Taxes Other Than Income	450.7	458.7	449.6	457.8	450.9
Depreciation	382.1	382.1	382.1	382.1	382.1
Allocated Expenses	211.0	211.0	230.0	230.0	230.0
Subtotal	2,913.8	2,921.8	2,923.3	2,931.5	2,911.6
Income Taxes	(29.3)	357.6	(3.8)	389.2	(15.8)
Total Expenses	2,884.5	3,279.4	2,919.5	3,320.7	2,895.8
Net Operating Revenues	644.8	992.4	664.5	1,017.4	654.5
Depreciated Rate Base	12,025.9	12,025.9	11,991.3	11,991.3	12,023.1
Rate of Return	5.36%	8.25%	5.54%	8.48%	5.44%
Average Commercial Customers	18,534	18,534	18,483	18,483	18,483
(Negative)					

1/ At present rates. Bases for adopted results are discussed in the following paragraphs.

Operating Revenue

The staff estimate of metered commercial revenues exceeds CWSC's by \$67.4 thousand or 2.13 percent for the estimated year 1973. Both staff and CWSC utilized the Modified Bean Method of adjusting recorded consumption per customer to average rainfall and temperature conditions. CWSC's vice president testified that the U. S. Weather Bureau used as normal the average of 30 years recorded data, updated every 10 years. The period currently used is 1931-1960 with the expectation that the averages will be recomputed for the period 1941-1970 in the near future. CWSC's vice president further testified that consistent with past staff practices adopted by Commission decision CWSC used the average temperature and rainfall at the Torrance weather station for the 30-year period 1931-1960 as a basis for normalizing water consumption.

The staff witness testified that he utilized recorded data for the 20-year period 1953-1972. He further testified that he would have preferred using the latest 30 years of recorded data but was unable to do so because temperature data was unavailable at the Torrance weather station for the period 1943-1949.

CWSC's vice president also testified that the average rainfall at Torrance for the period 1931-1960 was 10.91 inches, for the period 1953-1972 was 9.46 inches, for the period 1952-1971 was 9.84 inches, and for the period 1951-1970 was 10.07 inches. In his opinion the wide variance between average rainfall for three consecutive 20-year periods invalidated the staff study arbitrarily based on one of these three 20-year periods.

With two-thirds of the 30-year period 1941-1970 averaging 10.07 inches of rainfall per year, it is obvious that forthcoming normal or average rainfall for this 30-year period will be less than the 10.91 inches used by CWSC and more than the 9.47 inches used by the staff. Consequently, estimated revenues for commercial customers midway between the staff's and CWSC's

estimates will be adopted for the test year 1973. For the other classes. the staff's estimates based on later data will be adopted.

Operation and Maintenance Expenses

The staff's estimate of purchased water and power expenses exceeded CWSC's estimate by \$19,800, reflecting the staff's higher sales estimate. We will adopt a purchased water and power expense \$13,100 less than the staff estimate to be commensurate with adopted sales and revenues.

The staff adjusted recorded other operation and maintenance expenses upward \$45,200 for the year 1971 and downward \$36,500 for the year 1972 to average the effect of maintenance work and meter-part write offs improperly charged to the year 1972. Trending this adjusted data resulted in the staff estimate of other operation and maintenance expense being \$7,100 less than CWSC's estimate for the test year 1973. The staff estimate of other operation and maintenance expense will be adopted.

Administrative and General Expense

After review, the staff accepted as reasonable CWSC's estimate of administrative and general expenses. The staff estimate for Account 795, Employees' Pensions and Benefits, is \$21,100 less than CWSC for the Palos Verdes District and \$213,100 more than CWSC for general office expenses to reflect a change in accounting procedure wherein charges formerly made to the district are now included in general expenses.

Taxes Other Than Income

The staff adopted CWSC's payroll tax for the test year 1973. The staff's estimate of street franchise tax, computed as a percentage of gross revenues, exceeds CWSC's estimate because of its higher estimated revenues. Staff's estimate of ad valorem taxes is slightly lower than CWSC's estimate reflecting a lesser amount of taxable materials and supplies. The staff revised its summary of earnings (Exhibit 7) to reflect the latest known general office ad valorem tax rates. The staff revised general office ad valorem tax estimates and staff Franchise Tax

estimates adjusted to reflect the adopted revenue previously discussed will be adopted. CWSC's Palos Verdes District ad valorem tax estimates and payroll tax estimates will be adopted as reasonable.

Allocated Common Expenses

The staff's review of CWSC's allocation factors to each operating district indicated they were computed in a manner similar to staff practices. The staff accepted CWSC's operation and maintenance expenses for the year 1973 but excluded \$16,900 from Account 791, Administrative and General Salaries, to correct an overstatement of this amount in this account. In addition the staff estimate of Account 795, Employees Pensions and Benefits, is \$213,100 higher than that of CWSC to reflect accounting changes previously discussed. Also, consistent with Commission decisions, the staff made an adjustment of \$1,600 dues and donations which CWSC did not include in its report. The staff estimates will be adopted as reasonable.

Allocated Common Rate Base

The staff adopted the four-factor allocation percentages as set forth in Table 6-H of Exhibit 3. The staff estimate of allocated common plant rate base exceeds that of CWSC due to higher known costs caused by expansion and construction delays of the general office headquarters building. The staff's estimate will be adopted as reasonable.

District Rate Base

After review the staff adopted as reasonable CWSC's Palos Verdes District plant estimates and depreciation calculations. Staff's estimate of materials and supplies for the test year 1973 is \$31,800 less than CWSC's estimate due to the exclusion by the staff of materials and supplies used for construction rather than operation and maintenance. CWSC's vice president testified that some materials for construction are delivered to the job site whereas hard-to-get materials are placed in materials and supplies until installed as plant. Irrespective of whether the materials and

supplies are stocked for construction or operations and maintenance they represent monies expended for utility purposes and are, therefore, properly includable in rate base. CWSC's estimate for materials and supplies will be adopted.

Rate of Return

CWSC is requesting step rates designed to allow it to earn an 8.25 percent rate of return for the full years 1973, 1974, and 1975. CWSC's president testified such rates would provide a times interest coverage of approximately 2.75 for the first 12 months that the new rates are in effect, and a return on equity of 12.38 percent for the full year 1973, and 12.19 percent for the year 1974. He further testified that approximately \$21 million of the total \$58 million of first mortgage bonds will mature in 1975 and require refinancing which it is estimated will raise the required rate of return one full percentage point and will require additional rate relief at that time.

The staff financial witness testified that he recommends a 7.85 rate of return which he considers to be the minimum rate of return needed to attract capital at reasonable costs and sufficient not to impair the credit of the public utility. Such a rate of return is estimated to provide a return on common equity of 11.42 percent.

CWSC's vice president testified that for the test years 1973 through 1975 the three-year average decline in rate of return amounts to .37 percent. The staff estimates a decline in rate of return of 0.11 percent at present rates and 0.34 percent at proposed rates based on its normalization of revenues and expenses. This indicated operational slippage in the rate of return is sufficient to justify the authorization of a stepped progression of rates. We find to be reasonable a rate of return of 7.85 percent for the future, which will produce a return on equity of approximately 11.4 percent.

The order that follows will, however, require that CWSC file additional earnings statements for the Palos Verdes District to permit review of future changes in rate of return and initiation of appropriate action if a reduction in rates is indicated.

Service

A field representative of Congressman Alphonso Bell stated that his office had received 45 phone calls in the past month complaining about low water pressure. CWSC was requested to investigate these 45 complaints and submit the results of its investigation as late-filed Exhibit 1. These parties, however, would not permit their names to be released for the record so CWSC was unable to pursue the matter further.

Another customer stated that her water pressure was unsatisfactory but that she had not complained to CWSC because her water pressure, although low, was generally better than that of other residents in her area. CWSC was instructed to install a 24-hour recording meter and include the results in late-filed Exhibit 1. These charts showed that the water pressure varied between 100 and 120 psi indicating that the pressure problem was caused by inadequate house piping and service pipe.

A staff witness stated that he made random static pressure checks and found the pressures to range between 60 and 130 psi. Furthermore, one of CWSC's vice presidents testified that in the Palos Verdes District there are 12 pressure zones and 23 irregular zones where charts are set for compliance with this Commission's General Order 103 and that the lowest pressures found at these representative points was between 35 and 40 psi.

Exhibit 6 states that 24 informal complaints were filed with the Commission staff from January 1, 1971 to the present, of which only two were related to service.

The City Manager of Rolling Hills stated that the City Council and staff of Rolling Hills believe that CWSC's expertise

in technical problems of a water company far exceeds that of the former owners. She further stated that it is believed that there has been an increase in fire protection and that service complaints appear to be satisfactorily handled. She expressed concern about the number of maintenance personnel being retained and suggested the Commission staff question the validity of present maintenance programs.

Findings

1. California Water Service Company is in need of additional revenue, 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 1973, reasonably indicate the results of CWSC's operations in its Palos Verdes District for the near future.

3. A rate of return of 7.85 percent on the adopted rate base is reasonable. Such rate of return will provide a return on equity of approximately 11.4 percent.

4. An operational slippage of approximately 0.11 percent at present rates and 0.34 percent at proposed rates is forecast and justifies the authorization of a stepped progression of rates.

5. The increases in 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.

6. CWSC's earnings under "Present Rates" from its operations during the 1973 test year produce a rate of return of 5.44 percent on a rate base of \$12,023,100 based on adopted results of operation.

7. The authorized increase in rates would provide increased revenues of \$619,000 (17.4%) for the full year 1973, an additional \$87,300 (2.1%) for the year 1974, and an additional \$87,300 (2.0%) for the year 1975.

8. The authorized increase is consistent with Rule 23.1 effective August 2, 1972 of the Commission's Rules of Procedure.

- a. The increase is cost-justified and does not reflect future inflationary expectations.
- b. The increase is the minimum required to assure continued, adequate, and safe service and to provide for necessary expansion to meet future requirements.
- c. The increase will not achieve in excess of the minimum rate of return needed to attract capital at reasonable cost and not to impair the credit of CWSC.
- d. The increase does not take into account productivity gains as none are expected.

9. Water pressures throughout the Palos Verdes District distribution system conform to the requirements of this Commission's General Order 103.

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

C 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 rate 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, 1974 CWSC shall file with the Commission an earnings statement by the Palos Verdes District for 1973 normalized and adjusted to the rate levels, authorized herein

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for 1973, together with an estimate of earnings for 1974 under similar normalized conditions. On or before April 1, 1975 CWSC shall file similar normalized and estimated earnings statements for 1974 and 1975.

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

Dated at San Francisco, California, this
31st day of MAY, 1973.

William J. Quinn President

[Signature]
Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. PV-1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Palos Verdes Estates, Rolling Hills, Rolling Hills Estates, Lomita, and vicinity, Los Angeles County.

RATES

		Per Meter Per Month		
		Before 1/1/74	1/1/74 Through 12/31/74	After 12/31/74
Quantity Rates:				
First	400 cu.ft., or less	\$ 3.66	\$ 3.74	\$ 3.81 (I)
Next	1,600 cu.ft., per 100 cu.ft. ..	.726	.741	.756
Next	3,000 cu.ft., per 100 cu.ft. ..	.600	.611	.624
Next	5,000 cu.ft., per 100 cu.ft. ..	.495	.507	.517
Next	40,000 cu.ft., per 100 cu.ft. ..	.419	.428	.437
Over	50,000 cu.ft., per 100 cu.ft. ..	.368	.377	.386
Minimum Charge:				
For	5/8 x 3/4-inch meter	3.66	3.74	3.81
For	3/4-inch meter	4.39	4.48	4.57
For	1-inch meter	5.98	6.10	6.23
For	1-1/2-inch meter	8.77	8.95	9.13
For	2-inch meter	14.86	15.17	15.48
For	3-inch meter	21.61	22.06	22.51
For	4-inch meter	36.54	37.30	38.06
For	6-inch meter	81.34	83.02	84.72
For	8-inch meter	108.03	110.27	112.52 (I)

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