

ORIGINAL

Decision No. 82251

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American
Water Company, a corporation, for
authority to raise rates in its
Coronado District.

Application No. 53698
(Filed November 16, 1972)

Gray, Cary, Ames & Frye, by Eugene L. Freeland,
Attorney at Law, for California-American Water
Company, applicant.

Michael J. Burns, for himself, protestant.

John Witt, City Attorney, Robert Logan, Deputy
City Attorney, by Manley W. Edwards, for the
City of San Diego; Leland T. Savage, Attorney
at Law, for Hotel Del Coronado Corporation;
interested parties.

Elmer J. Sjostrom, Attorney at Law, J. D. Reader
and I. B. Nagao, for the Commission staff.

O P I N I O N

Applicant California-American Water Company seeks authority to increase rates for water service in its Coronado District. Rates for the Coronado District were last adjusted in February 1964.

Public hearing was held before Examiner Banks in Coronado on September 19, 1973. Copies of the application had been served and notices of filing the application and of the hearing had been published in accordance with this Commission's Rules of Procedure. The matter was submitted on September 19, 1973 subject to receipt of a late-filed exhibit by October 19, 1973. The exhibit has been received and the transcript has been filed.

Applicant presented testimony of its secretary-treasurer. The Commission's staff presentation was made through two accountants and three utility engineers.

Service Area

Applicant operates water systems in the counties of San Diego, Los Angeles, Monterey, and Ventura. The Coronado and Sweetwater Districts are referred to as the San Diego Bay Division.

The Coronado District serves the cities of Coronado and Imperial Beach, a portion of the city of San Diego lying south of San Diego Bay, and contiguous unincorporated areas in San Diego County.

Service

Staff Exhibit No. 7 states that the Commission received only five complaints in 1971, one in 1972, and one to date in 1973. All were related to billing rather than service problems. For a system serving over 14,000 customers this would indicate very satisfactory service.

A staff field investigation in April 1973 of applicant's operation and facilities revealed that facilities and equipment were in satisfactory condition and that service appeared adequate.

Rates

Applicant's present tariffs for the Coronado District include rates for general metered service, off-peak golf course irrigation, public fire hydrant service, private fire protection, and service to company employees.

Applicant proposes to increase its rates for general metered service by about 15 percent.

No changes are proposed in the other schedules. The following Table I presents a comparison of applicant's present general metered service rates, those requested by applicant, and those authorized herein:

TABLE I

Comparison of Metered Service Rates

<u>Quantity Rates</u>	<u>Per Meter Per Month</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
First 500 cu.ft.* or less	\$2.55	\$2.95	\$2.75
Next 2,500 cu.ft., per Ccf	.40	.46	.43
Over 3,000 cu.ft., per Ccf	.38	.44	.40

*Minimum charge for a 5/8 x 3/4-inch meter.

A graduated scale of increased minimum charges is provided for larger meters.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table II, from applicant's Exhibit No. 1 and from staff Exhibit No. 7, are the estimated results of operation for the test year 1973, under present rates and those proposed by applicant. For comparison, this table also shows the corresponding results of operation adopted in this decision, as discussed hereinafter, and the corresponding adopted results under the rates authorized herein.

From Table II it can be determined that applicant's requested rates would result in an increase of about 15 percent in operating revenues, whereas the rates authorized herein will produce a 6.5 percent increase. The percentage increase for individual bills will vary somewhat, depending upon type of service and level of use.

TABLE II
Estimated Results of Operation

Test Year 1973

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
<u>At Present Rates</u>			
Operating Revenues	\$1,649.2*	\$1,733.7	\$1,733.7
<u>Operating Expenses</u>			
Oper. & Maint.	953.3	992.6	992.6
Admin. & Gen.	146.6	137.2	137.2
Depr.	144.9	139.8	139.8
Taxes - Except Income	214.2	180.2	180.2
Income Taxes	(29.2)	3.3	3.3
Total Operating Expenses	1,429.8	1,453.1	1,453.1
Net Revenue	219.4	280.6	280.6
Rate Base	4,303.7	4,281.1	4,281.1
Rate of Return	5.10%	6.55%	6.55%
<u>At Applicant's Proposed Rates</u>			
Operating Revenues	\$1,893.4	\$1,994.2	\$1,846.3
<u>Operating Expenses</u>			
Oper. & Maint.	955.6	993.9	993.2
Admin. & Gen.	146.6	137.2	137.2
Depr.	144.9	139.8	139.8
Taxes - Except Income	214.2	180.2	180.2
Income Taxes	96.5	139.9	62.2
Total Operating Expenses	1,557.8	1,591.0	1,512.6
Net Revenue	335.6	403.2	333.7
Rate Base	4,303.7	4,281.1	4,281.1
Rate of Return	7.80%	9.42%	7.8%

* Revised to \$1,704,700 by Exhibit No. 3

Operating Revenues and Expenses

Based on data recorded subsequent to filing the application applicant revised its estimated gross operating revenues at present rates for test year 1973 to \$29,000 less than the staff. Applicant did not correspondingly revise its estimate of the revenue it would obtain in 1973 at the proposed rates.

The estimated revenue difference occurs primarily because applicant segregated the large water users from "normal" users in the residential-commercial and public authority categories.

The segregation of large users from normal users is based on the theory that large users do not reflect an increase in consumption to the same degree as does a normal user. The staff, by using P.U.C. Standard Practice U-25, determined that such a separation is not justified as it results in a substantial decrease in ability to develop a formula that closely fits the calculated with the observed data for overall consumption as a function of time over the period considered. In other words the increasing consumption by large users has a definite effect upon the overall estimate. We agree that the staff estimate is more realistic and will be adopted.

With respect to public authority consumption, applicant's estimate was based on the small user; the large user was ignored. The staff determined the average ratio of public authority to total residential-commercial consumption for the 1970-1972 period in making its 1973 estimate. We believe the staff approach to be more accurate.

The principal difference between applicant's and the staff's estimate for administrative and general expense is the amount for regulatory expense. Applicant estimated costs for the present rate case at \$11,000 amortized over a four-year period. The staff estimated the cost at \$8,000 amortized over a four-year period. The lesser amount is due to a reduced allowance for case preparation and three, rather than five, days of hearing. The staff's position is more realistic of the time necessary to prepare and hear a case and will be adopted.

Other differences of income and expense estimates are minor in nature and considering all circumstances the staff's position will be adopted.

The differences between applicant's and the staff's estimates of operating expenses result in differences in estimates of income taxes. The income taxes adopted in Table II are consistent with the revenues and expenses adopted in that table.

Rate of Return

Applicant requested a rate of return of 7.8 percent on rate base for this district. The staff witness testified that on the basis of his study a 7.8 percent rate of return would be proper. In reaching this conclusion the witness stated that he considered that a reasonable rate of return should provide the company with sufficient funds to service its debt and to increase its retained earnings to some degree. He also considered aspects of the changing economy, particularly interest rates, and cost of capital.

Other Matters

During the course of the proceeding the city of San Diego requested separate rates for applicant's customers residing in San Diego. The city of San Diego argues that applicant is not a member of San Diego County Water Authority and that it pays no Metropolitan Water District or San Diego County Water Authority taxes, and that since those customers residing in the city of San Diego are assessed and pay Metropolitan Water District and San Diego County Water Authority taxes, they are entitled to a rate reduction to reflect these taxes. We reject the city of San Diego's request and contentions because it is not reasonable or practicable to establish zone rates based on corporate city limits.

Late-filed Exhibit No. 9 was furnished by applicant to show the method(s) used to record the cost of cement-lining of cast iron distribution and transmission lines for the years 1961-1966. Exhibit No. 9 takes note of Exhibit No. 6 wherein it states that the predecessor company of applicant used the proper accounting for cement-lining of mains prior to 1961.

For the years 1961, 1962, and 1963 applicant followed a Commission letter directive wherein the costs of cleaning and cement-lining were capitalized while costs of excavation, back-filling, and paving were expensed. For the years 1964-1966 there was no cement-lining of any pipe in the Coronado District. Based on the information contained in Exhibit No. 9 it would appear that there was a correct allocation of costs for cement-lining of distribution and transmission mains for the years 1961-1966.

Findings and Conclusion

1. Applicant is in need of additional revenues, but the rates proposed by applicant are excessive.
2. The staff's estimates of operating revenues, expenses, including taxes and depreciation, and the rate base for the test year 1973 are reasonable.
3. A rate of return of 7.8 percent on the adopted rate base for the year 1973 is reasonable.
4. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

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

O R D E R

IT IS ORDERED that after the effective date of this order, applicant California-American Water Company is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be five days after the date of filing.

The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

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

Dated at San Francisco, California, this 18th
day of DECEMBER, 1973.

William J. Quinn President

[Signature]

[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
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Schedule No. CO-1

Coronado District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Coronado, Imperial Beach, and portion of San Diego, and vicinity,
San Diego County.

RATES

Quantity Rates:		Per Meter Per Month	
First 500 cu.ft. or less		\$ 2.75	(I)
Next 2,500 cu.ft., per 100 cu.ft.43	
Over 3,000 cu.ft., per 100 cu.ft.40	
Minimum Charge:			
For 5/8 x 3/4-inch meter		\$ 2.75	
For 3/4-inch meter		4.00	
For 1-inch meter		5.00	
For 1 1/2-inch meter		8.50	
For 2-inch meter		13.50	
For 3-inch meter		25.00	
For 4-inch meter		43.00	
For 6-inch meter		85.00	
For 8-inch meter		135.00	(I)

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

(Continued)

APPENDIX A
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Schedule No. CO-1

Coronado District Tariff Area

GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITION

When meters are read bimonthly, the charge will be computed by doubling the monthly minimum charge and the number of cubic feet to which each block rate is applicable on a monthly basis.