

ORIGINAL

Decision No. 82749

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
Sweetwater District.

Application No. 53748
(Filed December 11, 1972)

Eugene L. Freeland, Attorney at Law, for
California-American Water Company,
applicant.

Donald F. McLean, Jr., and Paul D. Engstrand,
Attorneys at Law, for Sweetwater Authority,
interested party.

Elmer Sjostrom, Attorney at Law, John Reader,
and John A. Bilci, 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 Sweetwater District. Rates for the Sweetwater District were last adjusted by Decision No. 66879 in 1964.

Public hearing was held before Examiner Banks in Chula Vista on October 30, 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 October 30, 1973 subject to receipt of a late-filed exhibit. The exhibit has been received and the transcript has been filed.

Applicant presented 5 exhibits and testimony of two witnesses in support of its request to increase rates. The Commission staff's presentation was made through two accountants and three utility engineers who sponsored a total of 5 exhibits. The Sweetwater Authority presented 6 exhibits through an independent consulting engineer. There were no public witnesses.

Service Area

Applicant operates water systems in the counties of San Diego, Los Angeles, Monterey, and Ventura. The Sweetwater and Coronado Districts are referred to as the San Diego Bay Division. The Sweetwater District service area is composed of the incorporated cities of Chula Vista and National City and adjacent unincorporated areas, all in the county of San Diego.

Service

The Commission staff made a field investigation of applicant's operation and facilities during April 1973. Staff Exhibit No. 7 states that the facilities and equipment were found in satisfactory condition and service adequate.

Informal complaints received and on file with the Commission are 2 billing complaints in 1971, 3 in 1972, and 3 for the first 10 months of 1973. In addition, in 1973 there was a petition complaint concerning low pressure in one part of applicant's service area.

The staff's investigation disclosed complaints on file in applicant's office as follows:

<u>Year</u>	<u>Billing</u>	<u>Service</u>	<u>Pressure</u>	<u>Total</u>
1972	755	138	146	1,039
1973 to April	137	21	30	188

The majority of these complaints were concerned with high bills and billing errors. For a system of this size this does not appear to be an excessive number.

Rates

Applicant provides service under six filed rate schedules. An increase of approximately 21 percent is proposed for the general metered service, Schedule No. SW-1, and for the measured irrigation service, Schedule No. SW-3M.

The following Table I presents a comparison of applicant's general metered service and measured irrigation service rates, the rates requested by applicant, and those authorized herein:

California-American Water Company
Sweetwater District

TABLE I

Comparison of General Metered Service Rates

<u>Quantity Rates</u>		<u>Present</u>	<u>Proposed</u>	<u>Adopted</u>
First	500 cu.ft., or less	\$3.00*	\$3.65*	\$3.45*
Next	1,500 cu.ft., per 100 cu.ft.	.50	.61	.57
Next	23,000 cu.ft., per 100 cu.ft.	.36	.43	.41
Next	475,000 cu.ft., per 100 cu.ft.	.30	.36	.34
Over	500,000 cu.ft., per 100 cu.ft.	.25	.31	.29

Comparison of Measured Irrigation Service Rates

First	500 cu.ft., or less	3.00*	3.65*	3.45*
Next	1,500 cu.ft., per 100 cu.ft.	.50	.61	.57
Next	13,000 cu.ft., per 100 cu.ft.	.28	.34	.32
Over	15,000 cu.ft., per 100 cu.ft.	.16	.19	.18

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

Results of Operation

Witnesses for applicant, the Commission staff, and the Sweetwater Authority each analyzed and estimated applicant's operational results. Summarized in Table II from applicant's Exhibit No. 1 and from the staff's Exhibit No. 7 are the estimated results of operation for 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 rates authorized herein. We have adopted the staff's estimates, rate base, and rate of return.

California-American Water Company
Sweetwater District

TABLE II

Estimated Results of Operation
Test Year 1973

(Dollars in Thousands)

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Adopted</u>
<u>At Present Rates</u>			
Operating Revenues	\$ 3,591.2	\$ 3,597.3	\$ 3,597.3
Operating Expenses			
Oper. & Maint.	1,894.5	1,667.4	1,667.4
Admin. & Gen.	366.5	355.5	355.5
Depreciation	285.4	275.1	275.1
Taxes - Except Income	602.6	573.7	573.7
Income Taxes	(217.7)	(44.1)	(44.1)
Total Operating Exp.	2,931.3	2,827.6	2,827.6
Net Revenue	659.9	769.7	769.7
Rate Base	12,942.8	12,641.8	12,641.8
Rate of Return	5.10%	6.09%	6.09%
<u>At Proposed and Adopted Rates</u>			
Operating Revenues	4,325.4	4,334.3	4,090.0
Operating Expenses			
Oper. & Maint.	1,902.2	1,671.8	1,670.1
Admin. & Gen.	366.5	355.5	355.5
Depreciation	285.4	275.1	275.1
Taxes - Except Income	602.6	573.7	573.7
Income Taxes	159.2	341.9	229.4
Total Operating Exp.	3,315.9	3,218.0	3,103.8
Net Revenue	1,009.5	1,116.3	986.2
Rate Base	12,942.8	12,641.8	12,641.8
Rate of Return	7.80%	8.83%	7.80%

(Red Figure)

Operating Revenues

The applicant's operating revenues are categorized and tabulated below for test year 1973:

Item	Applicant		Staff		Applicant Exceeds Staff	
	Present	Proposed	Present	Proposed	Present	Proposed
	Rates	Rates	Rates	Rates	Rates	Rates
(Dollars in Thousands)						
Residential-Commercial	\$3,186.4	\$3,861.6	\$3,195.0	\$3,873.6	\$(8.6)	\$(12.0)
Industrial	111.6	135.2	113.2	137.2	(1.6)	(2.0)
Public Authority	106.6	129.2	102.5	124.1	4.1	5.1
Irrigation	46.7	56.0	46.7	56.0	-	-
Other	139.9	143.4	139.9	143.4	-	-
Total	3,591.2	4,325.4	3,597.3	4,334.3	(6.1)	(8.9)

(Red Figure)

The major differences between the applicant's and staff's estimates occur in the residential-commercial and public authority categories.

With respect to the residential-commercial estimates, both applicant and staff used the "Modified Bean" method as recommended by CPUC Standard Practice No. 25. However, the applicant separated a major portion of the consumption expected from this category (referred to as "large users", i.e., those consuming more than 2,000 Ccf per year) and estimated it by an individual review of each of the 40 accounts involved. The staff is of the opinion that such a separation is not justified based on statistical principles, as explained in Decision No. 82251 and adopted for applicant's Coronado District. As a result there is a slight difference in estimated consumption in the residential-commercial category. In addition to that difference the staff also included recorded customer and consumption data from 1972

and omitted the reported data for 1966 as that information is apparently erroneous. The staff's 1973 estimate of residential and commercial annual usage and customers is 249.9 Ccf per customer and 27,427 customers. The applicant's corresponding estimates are 249.4 Ccf per customer and 27,234 customers.

In connection with the public authority estimate, the staff accepted the approach developed by the applicant but believes that an error was made in carrying through with the procedure. The applicant, for 1971, assumed that public authority consumption was a fraction of the total residential-commercial consumption (small and large users), but in estimating the consumption for 1972 and 1973, consumption was calculated on the basis of estimated "small user" consumption only, ignoring the effect of the large users. The staff estimated public authority consumption by determining an average ratio of public authority to total residential-commercial consumption for the 1970-1972 period and used it with the 1973 estimated residential-commercial consumption to estimate 1973 public authority use. We believe the staff's estimate to be more realistic and it will be adopted.

Operating and Maintenance Expenses

The differences in the operation and maintenance expenses are in the following expense categories:

<u>Item</u>	<u>Estimated 1973</u>		<u>Applicant Exceeds Staff</u>
	<u>Applicant</u>	<u>Staff</u>	
Payroll	\$ 370,200	\$ 351,530	\$ 18,670
Purchased Water	1,266,700	1,033,350	233,350
Purchased Power	48,690	66,620	(17,930)
Other Expenses	<u>208,910</u>	<u>215,890</u>	<u>(6,980)</u>
Total	1,894,500	1,667,390	227,110

(Red Figure)

The staff estimated payroll for the total division on the same basis as the applicant, but had the benefit of 1973 salary data. Applicant included in its estimates larger wage and salary increases than those actually granted. The differences are attributable to the staff using slightly lower salary levels, less overtime pay, and the replacement of high pay scale employees with employees lower on the pay scale.

The staff's estimates of purchased water expense are lower than the applicant's because the staff had the benefit of the recorded standby charge for 1972 and allowed for lower water purchases in accordance with its estimates of average runoff available. The applicant estimates runoff water available from the Sweetwater River watershed based on the last 10-year average to be 2,500 acre-feet annually. The staff took into account the abnormally long dry period experienced on this watershed and used a 47-year period, calculating an average yield after adjustment for evaporation and stream loss of 6,200 acre-feet annually.

The difference in purchased power is due to a recent increase in electric rates. There has been approximately a 15 percent increase in the connected load charge and a 10 percent increase in the energy charge, plus an added charge of .123 cents per kilowatt-hour for added fuel cost.

The difference in other expenses is attributable to charges that are based on payroll such as pensions, workmen's compensation insurance, and payroll taxes, etc., which flow through clearing to the operation and maintenance accounts.

The small increases in the total operation and maintenance expenses at the proposed rates are entirely due to increased uncollectible revenue estimates.

Administrative and General Expenses

The following tabulation compares applicant's and staff's estimates for this group of expenses for estimated year 1973:

<u>Item</u>	<u>Estimated 1973</u>		
	<u>Applicant</u>	<u>Staff</u>	<u>Applicant Exceeds Staff</u>
	(Dollars in Thousands)		
Salaries	\$ 78.2	\$ 72.7	\$ 5.5
Office Supply & Expense	29.5	23.6	5.9
Employee Benefits	72.8	73.4	(.6)
Regulatory Comm. Exp.	4.5	3.3	1.2
Outside Services	126.9	125.3	1.6
All Other A&G Misc. Exp.	54.6	57.2	(2.6)
Total	366.5	355.5	11.0

(Red Figure)

Salaries

The difference in this item of expense has been explained in that portion of the opinion pertaining to payroll costs under operation and maintenance expense.

The major difference in office supply and expense is attributable to the staff's transfer of directors' fees recorded in this account for 1972 and the inclusion of this same amount for 1973 in Account 799, Miscellaneous General Expense, together with minor differences in estimated costs.

The major differences in employee benefits are attributable to the staff's different allocation of payroll within the San Diego Bay Division and between capital and expense together with the staff's treatment of pension accruals which recognizes the maturing work force and resulting attendant costs.

For regulatory expense the applicant estimated the total costs of the present rate case at \$18,000 and amortized this expense over a four-year period. The staff estimated the cost at \$13,200, also using a four-year period of amortization. The staff's reduced allowance is due to its estimate of less time for preparation and three rather than ten days of hearing.

The estimated dollars of expense for outside services as shown for both applicant and staff include such items as public relations, legal expense, and audit expense as well as charges from a service company for the general administration of the Sweetwater District. These service company charges have been distributed from a general office of the American Water Works Service Company, Inc., located at Wilmington, Delaware, and a Pacific Division of this service company, located in Los Angeles, since January 1, 1971. The Pacific Division provides the administration for water system operations in California and Arizona.

While applicant characterizes its method of spreading administrative charges as being direct charges based upon time card records maintained by all administrative personnel, analysis of these time cards for the Pacific Division for 1972 indicates that only about 40 percent of the charges are direct, the balance being allocated by means of several formulas. The staff has tested the reasonableness of the service company charges to the Pacific Division and Pacific Division charges to the Sweetwater District by applying the four-factor allocation method to 60 percent of the charges and finds the results to be very similar to those obtained by applicant.

The small differences for administrative and general expenses are attributable to later information available to the staff for the year 1972 adjusted together with lesser costs assignable to the San Diego Bay Division.

Applicant computes depreciation by the straight-line remaining life method. For purposes of this study, both applicant and staff have applied depreciation rates which resulted in a composite rate for 1972 of 2.01 percent. The differences in depreciation expense between applicant and the staff shown on the summary of earnings are principally due to the staff's lower plant additions.

Taxes Other Than Income

The following tabulation summarizes the difference between applicant's and staff's estimates of taxes other than income:

<u>Item</u>	<u>Estimated 1973</u>		<u>Applicant Exceeds Staff</u>
	<u>Applicant</u>	<u>Staff</u>	
	(Dollars in Thousands)		
Ad Valorem	\$575.5	\$548.4	\$27.1
Payroll Taxes	27.1	25.3	1.8
Total	602.6	573.7	28.9

The difference in ad valorem taxes is due to the fact that more information was available to the staff. Applicant based its estimate on an increasing ratio of the recorded ad valorem taxes for the years 1969 through 1971 to the plant in service at the beginning of each year. The staff was able to obtain the 1973-1974 tax assessments which indicate about a 1 percent reduction in assessed valuation from 1972-1973, to which it applied the 1972-1973 tax rate.

The difference in payroll taxes is due to the staff's use of the latest known tax rates and tax bases and its payroll estimates.

Income Taxes

Applicant computed income taxes for 1973 using 7.6 percent for the state corporation franchise tax and 48 percent for the federal income tax. The staff used the 9.0 percent rate for the state corporation tax effective July 1, 1973 and 48 percent for the federal income tax. The differences in taxes are mainly due to the different estimates of operating income and expenses. Applicant claims accelerated depreciation for income tax purposes and estimated such depreciation for 1973. Applicant's estimates of tax depreciation for the year 1973 are somewhat higher than the comparable staff's estimate due principally to the difference in depreciable plant additions.

Rate of Return

After considering previous decisions relating to other areas served by the applicant wherein a 7.8 percent rate of return recommended by the staff was found to be reasonable, the applicant presented for the purposes of this proceeding a rate of return request of 7.8 percent.^{1/} 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 a reasonable rate of return should provide for the servicing of a company's fixed charges and allow earnings for common stock equity sufficient to increase retained earnings moderately after payment of a suitable dividend.

Rate Base

The applicant took no substantial issue with the rate base developed by the staff. The principal difference is the staff's use of the recorded 1972 plant additions and retirements, adjusted for the "roll-back" of a major 1973 utility plant addition.

^{1/} Decision No. 78923 dated July 13, 1971 (Monterey Peninsula Division).
Decision No. 80164 dated June 13, 1972 (Village Division).
Decision No. 80544 dated September 26, 1972 (Baldwin Hills District).

The Sweetwater Authority, however, took issue with applicant and the staff arguing that applicant's rate base should be adjusted downward by \$824,000 to reflect Commission Decision No. 66879 which included earnings on applicant's Loveland Dam and Reservoir at a rate of return less than the rate allowed on the remaining part of the rate base. We disagree.

Commission decisions in rate proceedings for this water district have previously considered the problem of below normal rainfall on the Sweetwater watershed. In Decisions Nos. 43721 and 46377, in 1950 and 1951, respectively, the allowance for purchased water was based upon the net safe yield of the Sweetwater River. In Decision No. 51460 in 1955, the allowance for water purchases was based upon a seven-year average of the actual purchases, and in Decision No. 66879 in 1964, the allowance was also based upon the net safe yield of the Sweetwater River with a further adjustment to lower the rate of return for Loveland Dam and Reservoir.

In this proceeding, the staff has used its estimate of the net safe yield of the Sweetwater River. This procedure results in a sizable adjustment to the estimated actual purchased water expense for the year 1973. Applicant has estimated its purchased water costs at \$1,266,700 based upon the assumption that the short-term (last 10 years) yield from the Sweetwater River is 2,500 acre-feet. The staff's long-term yield of 6,200 acre-feet results in water purchase costs of \$1,033,350, a \$233,350 adjustment. Such a procedure appears to adequately adjust the operating expenses to average rainfall and runoff conditions for Loveland Dam and Reservoir. We believe this treatment is fair and reasonable and that no additional rate base or rate of return adjustment is warranted.

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 rate base for test year 1973 are reasonable.

3. A rate of return of 7.8 percent on 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.

5. The total amount of the increase in annual revenue authorized by this decision is \$492,700; the rate of return on rate base is 7.8 percent; the return on common equity on a consolidated basis is approximately 15 percent.

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 Appendices A and B. 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 16th
day of APRIL, 1974.

William J. Sturgeon, Jr. President
[Signature]
[Signature]
[Signature] Commissioners

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

APPENDIX A

Schedule No. SW-1

Sweetwater District Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Chula Vista, National City and vicinity, San Diego County.

RATES

		Per Meter Per Month	
Quantity Rates:			
First	500 cu.ft. or less	\$ 3.45	(I)
Next	1,500 cu.ft., per 100 cu.ft.57	
Next	23,000 cu.ft., per 100 cu.ft.41	
Next	475,000 cu.ft., per 100 cu.ft.34	
Over	500,000 cu.ft., per 100 cu.ft.29	(I)
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ 3.45	(I)
For	3/4-inch meter	5.00	
For	1-inch meter	6.30	
For	1 1/2-inch meter	9.00	
For	2-inch meter	13.00	
For	3-inch meter	22.00	
For	4-inch meter	35.00	
For	6-inch meter	64.00	
For	8-inch meter	80.00	
For	10-inch meter	103.00	
For	12-inch meter	150.00	(I)

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

APPENDIX B

Schedule No. SW-3M

Sweetwater District Tariff AreaMEASURED IRRIGATION SERVICEAPPLICABILITY

Applicable to all measured irrigation service.

TERRITORY

Chula Vista, National City and vicinity, San Diego County.

RATES

		Per Meter Per Month	
Quantity Rates:			
First	500 cu.ft. or less	\$ 3.45	(I)
Next	1,500 cu.ft., per 100 cu.ft.57	
Next	13,000 cu.ft., per 100 cu.ft.32	
Over	15,000 cu.ft., per 100 cu.ft.18	(I)
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ 3.45	(I)
For	3/4-inch meter	5.00	
For	1-inch meter	6.30	
For	1 1/2-inch meter	9.00	
For	2-inch meter	13.00	
For	3-inch meter	22.00	
For	4-inch meter	35.00	
For	6-inch meter	64.00	
For	8-inch meter	80.00	
For	10-inch meter	103.00	
For	12-inch meter	150.00	(I)

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