

Decision No. 84226

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)

CALIFORNIA CITIES WATER COMPANY,
a California corporation,

for authorization to increase rates
and charges for water service in its
Wrightwood District.

Application No. 54284
(Filed August 29, 1973)

Gibson, Dunn & Crutcher, by
Raymond L. Curran, Attorney
at Law, for applicant.
Susan Gates, for Wrightwood
Mountaineer, and Emmett Beman,
for Wrightwood Properties
Association, interested parties.
Elmer Sjostrom, Attorney at Law,
I. B. Nagao, and A. Tokmakoff,
for the Commission staff.

O P I N I O N

By this application, California Cities Water Company requested authority to increase rates for water service in its Wrightwood District by 43 percent, a gross revenue increase of \$51,688.

After due notice, public hearings were held before Examiner Mattson at San Bernardino, California, on May 14 and 15, 1974. Fifteen customers of applicant appeared and expressed their opposition generally to the amount of the increase and the proposed changes to service-charge rates. The applicant and staff presented testimony and exhibits in support of their respective recommendations. The matter is under submission.

The former California Cities Water Company acquired the Wrightwood system in 1966, as authorized by Decision No. 70435. The present applicant is the corporation formed by a merger approved by Decision No. 80264 dated July 18, 1972 in Application No. 53394 filed June 13, 1972. The applicant's present rates were authorized by Decision No. 75639 dated May 2, 1969 and were increased by approximately 2½ percent on April 26, 1974 pursuant to rate increases authorized to offset increased costs of electric power.

Operating Revenue

The applicant and staff both revised their estimated sales for 1974 at hearing. The applicant's revised estimate of 1974 revenues at present rates was \$124,480. The staff adopted the average 1974 customer figures of applicant and decreased its estimate of water sales for 1974 by 5,800 Ccf. The original 1974 revenue estimate of the staff was \$128,600.

Based upon a review of the estimated 1974 customers (1,684) and 1974 estimated water sales of 108,100 Ccf the 1974 operating revenues we adopt are \$129,670 at present rates, including the offset rate increase of April 26, 1974.

Operating Expenses

The applicant accepted the staff's estimated operating expenses at hearing. Differences between the applicant and staff remained in depreciation, ad valorem tax, and income tax estimates. The differences in depreciation and ad valorem taxes resulted from exclusion of a water main replacement from rate base by the staff. As we explain below, we will include the main replacement item in rate base. The effect on depreciation and non-income taxes is to increase the staff estimates by \$1,120.

Our adopted operating expenses reflect increased power costs as of November 13, 1974, less the reduced power costs from estimated lower water sales (a net power expense increase of \$550).

Rate Base

The applicant originally estimated 1974 rate base at \$552,015 (Exhibit 1, page 29, Table 10-1). The staff estimated 1974 net average rate base at \$473,040 (Exhibit 5, page 25). At hearing, the applicant revised its estimate of 1974 rate base to \$500,385. The difference between the staff and utility's revised estimate was due to the staff's exclusion of a water main replacement item (\$22,875) and applicant's inclusion of an allowance for working cash.

The staff witness testified that, based on the evidence presented at hearing, it would be appropriate to increase rate base by the amount of the main replacement item. The staff excluded the working cash allowance for the reason that applicant bills annual minimum charges in advance. The staff witness was of the opinion that prepaid revenue would not be much affected by authorizing prepayments on a quarterly basis.

We agree with the staff view. The 1974 adopted rate base is \$495,915.

Rate of Return

The applicant requests a rate of return of 9.59 percent. This request is based on an allowance for equity of 12 percent. The staff recommends a rate of return in a range of 7.95 to 8.25 percent. The staff recommendation is based on an equity allowance of 9.07 to 9.75 percent. The staff found common equity was 44.42 percent of total capital after elimination of acquisition adjustments. The applicant has charged excessive amounts to interest during construction. Water service appears to have been acceptable. Under the circumstances we shall authorize a rate of return of 8.1 percent.

Estimated 1974 Results of Operations

The initial estimated 1974 results of operations by applicant are set forth in Table 1. The table also sets forth the staff's initial estimates and our adopted results at present and authorized rates.

The present rates include the offset rate increases of April 26, 1974. The applicant will be authorized to increase rates in order to achieve the authorized rate of 8.1 percent. The rate increases will increase gross revenues by \$7,730, a gross revenue increase of approximately 6 percent.

Table I
SUMMARY OF EARNINGS
(Estimated Year 1974)

Item	Present Rates ^{1/}		Adopted Results	
	Applicant ^{2/}	Staff ^{3/}	Including ^{4/} Offset	Authorized Rates
(Dollars in Thousands)				
Operating Revenues	\$119,910	\$128,600	\$129,670	\$137,400
Operating Expenses				
Oper., Maint., A&G	53,150	51,420	51,970	51,970
Depreciation	23,543	20,110	20,630	20,630
Taxes, Except Inc.	18,708	17,270	17,870	17,870
Income Taxes	200	3,310	2,680	6,760
Total Expenses	95,601	92,110	93,150	97,230
Net Operating Revenue	24,309	36,490	36,520	40,170
Rate Base	552,015	473,040	495,915	495,915
Rate of Return	4.4%	7.72%	7.36%	8.1%

^{1/} Rates in effect before April 26, 1974.

^{2/} Exhibit 1, page 31, Table II-1.

^{3/} Exhibit 5, page 29.

^{4/} Rates in effect after April 26, 1974 per Commission Resolution No. W-1543 dated April 16, 1974. Includes power costs surcharges through November 13, 1974.

Rates

Applicant's present rates are based on annual minimum charges which entitle the customer to an annual quantity of water. A customer exceeding the annual quantity of water paid for by his annual minimum charge is billed quarterly for the excess quantity at block rates. The present rate schedule is:

Wrightwood Tariff Area

ANNUAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Wrightwood and vicinity, San Bernardino and Los Angeles Counties.

RATES

Per Meter
Per Year

Annual Quantity Rates:

First	5,000 cu.ft. or less	.....	\$ 54.00
Next	7,000 cu.ft. per 100 cu.ft.	.....	.85
Next	8,000 cu.ft. per 100 cu.ft.	.....	.55
Over	20,000 cu.ft. per 100 cu.ft.	.....	.35

Annual Minimum Charge:

For	5/8 x 3/4-inch meter	.....	\$ 54.00
For	3/4-inch meter	.....	70.00
For	1-inch meter	.....	100.00
For	1-1/2-inch meter	.....	130.00
For	2-inch meter	.....	175.00
For	3-inch meter	.....	250.00

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

The applicant proposes to change to service-charge rates. The annual service charge would not entitle the customer to any quantity of water. All water delivered would be billed at a single quantity rate. The proposed rates are:

ANNUAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Wrightwood and vicinity, San Bernardino and Los Angeles Counties.

QUANTITY RATE

Per 100 cu.ft.

All water used

\$.65

SERVICE CHARGES

Per Meter
Per Year

For 5/8 x 3/4-inch meter	\$ 60.00
For 3/4-inch meter	75.00
For 1-inch meter	110.00
For 1-1/2-inch meter	145.00
For 2-inch meter	195.00
For 3-inch meter	275.00

MINIMUM CHARGE

The annual minimum charge shall be the annual service charge.

SPECIAL CONDITIONS

The service charge is considered to be a readiness to serve charge and does not entitle the customer to any quantity of water. All water delivered will be billed for at the quantity rate.

The customers appearing at the hearing objected to the proposed 43 percent rate increase. (The applicant did reduce this request to approximately 25 percent at hearing.) In addition to the magnitude of the increase requested, the customers raised objections to the change to service-charge rates. As they pointed out, rates for a customer presently charged \$54 a year and using 50 Ccf of water annually would, under the proposed service charges, be increased 71 percent and not 43 percent. The laundromat operator at Wrightwood would sustain an increase of approximately 90 percent.

While we agree with the staff witness that the service-charge rates are easier to administer, we are concerned by the severe economic impact to certain customers by the proposed change to service-charge rates. Moreover, the customers appear to prefer and accept the present annual charges which include a minimum quantity of water. Under the circumstances, we shall continue the present minimum charge rate structure. Our authorized rates will increase the minimum annual charges and will change the allowed quantities and rates after the first 5,000 cubic feet annually. The customers will be authorized to pay the annual charge in quarterly payments after one year's service.

Staff Recommendations

The staff review of applicant's accounts disclosed certain errors in applicant's figures. Testing and development costs of \$3,557 incurred in 1972 should have been an expense item on Well No. 4 and not recorded as a capital improvement. The staff recommends that since Well No. 4 is not completed, the original cost be accounted for as Utility Plant held for future use. The staff found that amounts recorded as utility plant were duplicated as construction work in progress or recorded as plant of another district (Exhibit 5, page 4). The staff noted that revenues were erroneously recorded for the year ending December 31, 1973 (see Exhibit 5, page 8, paragraph 25). It is our understanding that applicant accepted these staff recommendations and will correct the errors.

In addition to the above, the staff recommends the following:

1. The applicant be ordered to make and submit a study to determine the proper amount of administrative and general expense to be capitalized.
2. The applicant be ordered to discontinue capitalizing interest during construction on landed capital.
3. Applicant be ordered to adjust its main extension contracts with its subdividers so that the obligations will reflect the actual cost for each main extension.
4. The applicant be ordered to reclassify the unrefunded balances on main extension contracts as contributions in aid of construction upon expiration dates of such contracts, provided that Section C.2.d. of Rule No. 15 does not apply.
5. The applicant, in the future, include fire hydrants as part of the refundable portion of the main extension contract where applicable.
6. Credit unamortized debt discount and expenses for the balance relating to the old long-term debt.
7. Applicant investigate and improve record keeping of revenues and associated data.

The staff recommendations are reasonable. Our Decision No. 82650 dated March 26, 1974, involving applicant's Clearlake District, afforded applicant an opportunity to comply with staff recommendations without specific orders in the decision. We expect applicant to voluntarily comply with the staff recommendations without the necessity of specific orders in this decision.

Findings

1. Applicant is in need of additional revenues, but the proposed rates requested by the application are unreasonable.
2. The adopted estimates of operating revenues, operating expenses and rate base for the test year 1974 set forth in Table 1 reasonably indicate applicant's operations in the near future.
3. A rate of return of 8.1 percent on the 1974 adopted rate base is reasonable.
4. The total amount of increased revenue authorized by this decision is \$7,730, an increase in gross revenue of approximately 6 percent.
5. The increases in rates and charges authorized by this decision are just and reasonable; and the present rates and charges, insofar as they differ from those authorized by this decision, are for the future unjust and unreasonable.

We conclude that the application should be granted to the extent set forth in our order.

O R D E R

IT IS ORDERED that after the effective date of this order, California Cities 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-Series. The effective date of the revised schedules shall be five days after the date of filing. The revised schedules shall apply to service rendered on and after the effective date thereof.

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

Dated at San Francisco, California, this 25th
day of MARCH, 1975.

Vernon L. Stevenson
President
William J. Lyons
Samuel J. Lyons
Leonard Ross
Commissioners

APPENDIX A
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Schedule No. WW-1

Wrightwood Tariff AreaANNUAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Wrightwood and vicinity, San Bernardino and Los Angeles Counties.

RATES

	Per Meter Per Year	
Annual Quantity Rates:		
First 5,000 cu.ft. or less	\$ 60.00	(I)
Next 10,000 cu.ft., per 100 cu.ft. ....	.83	
Over 15,000 cu.ft., per 100 cu.ft. ....	.45	(I)
Annual Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 60.00	(I)
For 3/4-inch meter	78.00	
For 1-inch meter	120.00	
For 1-1/2-inch meter	180.00	
For 2-inch meter	240.00	
For 3-inch meter	360.00	(I)

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

(Continued)

APPENDIX A
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Schedule No. WW-1

Wrightwood Tariff Area

ANNUAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing June 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 consecutive months, he may elect, on June 1 of each year, to pay prorated minimum charges in advance at quarterly intervals. (C)

2. The opening bill for metered service shall be the established annual minimum charge for the service. Where initial service is established after June 1 of any year, the portion of such annual charge applicable to the current 12-month period shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the current 12-month period. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer. (C)

3. Meters will normally be read during March, June, September, and December of each year with bills for water usage being rendered following each meter read. If it is not possible to read meters during winter months due to weather conditions, estimated bills may be rendered. (C)