

ORIGINAL

Decision No. 84705

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
WESTLAKE WATER COMPANY, a California
Corporation, for authorization to
increase rates and charges for water
service.

Application No. 54939
(Filed June 5, 1974)

William A. Lucking, Jr., and Karl H.
Bertelsen, Attorneys at Law, for
Westlake Water Company, applicant.
Cyril M. Saroyan, Attorney at Law,
Ichiro Nagao, and Andrew Tokmakoff,
for the Commission staff.

O P I N I O N

Westlake Water Company (Westlake) seeks authority to increase its general service metered rates^{1/} and its public fire hydrant service rates approximately \$410,377 (72 percent) annually over the rates authorized by Decision No. 82639 dated March 26, 1974 in Application No. 54482.

Westlake, a California corporation, renders public utility water service in that portion of the community of Westlake Village, in the city of Thousand Oaks, that lies within Ventura County, California.

Westlake receives its entire water supply from Russell Valley Municipal Water District (RVMWD) through the facilities of Calleguas Municipal Water District (CMWD) from The Metropolitan Water District of Southern California (MWD). This water is 100 percent filtered State Project water and requires no further treatment.

As of December 31, 1973 Westlake served 1,866 metered customers and 331 public fire hydrants and private fire services.

1/ No increase is proposed for its private fire protection service.

All of the common stock of Westlake is owned by the American Hawaiian Steamship Company (Hawaiian) which was the original developer of the community of Westlake Village and which owns or controls the majority of advance refund contracts which have been issued by Westlake.

After notice, public hearing was held before Examiner Johnson on March 11 and 12, 1975 at Thousand Oaks and the matter was submitted on April 26, 1975 upon receipt of transcripts.

Testimony was presented on behalf of Westlake by a consulting engineer and on behalf of the Commission staff by a financial examiner and a utilities engineer. Testimony in opposition to the amount of the increases, the rate form of the proposed increases, and/or the distribution of the proposed increases was presented by eight public witnesses representing themselves, homeowners associations, and the Conejo Recreation and Park District.

Rates

The basic levels of rates were established for Zone 1 by Decision No. 75375 dated February 25, 1969 in Application No. 50070 and for Zone 2 by Decision No. 77287 dated June 3, 1970 in Application No. 51803 and were increased to their present levels by Decision No. 82639, dated March 26, 1974 in Application No. 54482 for an increase to offset increased costs of purchased water and power for pumping.

Westlake proposes to replace its present minimum charge rates with two-part rates consisting of a monthly service charge that varies with meter size, and an additive quantity charge which varies with the amount of water consumed, and to establish a special condition to provide for a charge for the installation and removal of temporary meter installations used for construction purposes. In addition, Westlake proposes to increase its public fire hydrant service charges an average of 93.54 percent.

The amount of the proposed increase for metered service varies with the amount of water consumed and the size of the customer's meter. The overall increase requested for metered service is 72.71 percent and for all services 72.50 percent. Westlake's consulting engineer testified that the water rates in the Westlake area are higher than in many other areas primarily because inadequate ground water necessitates the purchase of relatively costly MWD water. This witness also testified that the tail blocks of the quantity portion of the proposed rates approximate one and one-half times the incremental cost of water and, in his opinion, establish the minimum levels of the quantity portions of the rates. It is, therefore, his recommendation that should this Commission grant less than the requested amount of increase that the proposed tail blocks be retained and the decreases in the proposed rates be made in the service charge portion of the rates. This recommendation is reasonable and will be adopted. However, the tail blocks will be adjusted to reflect the July 1, 1975 increase in MWD charges.

The administrator of parks and planning for the Conejo Recreation and Park District (District) testified that District is one of the large, if not the largest, water consumers on Westlake's system. He stated that a neighboring utility has offered a 25 percent reduction to the city-owned Los Robles Golf Course provided the main is of adequate size and further provided that the golf course irrigates only between 9:00 p.m. and 5:00 a.m., utilizes conjunctive billing, pays for any modification to the system required because of its operations, and permits the installation of a device regulating the time of use of the facilities. According to this witness' testimony all these conditions could be met by District and, consequently, it is his belief that a similar 25 percent discount should be offered to District. Discounts for off-peak water pumping are somewhat of a rarity in Southern California and are normally granted only where well pumps are involved and the water supply is marginal. Under these circumstances, off-peak water use is beneficial to the utility and such

beneficial use of water could reasonably be expected to be reflected by appropriate rate discounts. Westlake, however, purchases all of its water and off-peak pumping would be of little, if any, benefit to it. Consequently, no off-peak pumping discount is warranted. District's witness further testified that tax limitation laws make it extremely difficult to obtain more funds for District's operations. He stated his belief that the reported requested increase of 75 percent is excessive. In this respect it should be noted that this testimony relates to the requested overall increase of approximately 72 percent rather than the increase specifically applicable for parks. The usage characteristics of the public authorities group (including parks) is such that the proposed increase for this group is 42 percent, substantially less than the amount of increase referred to by District's witness.

A public witness, appearing on his own behalf, testified that it appeared to him that the bulk of the proposed increase would fall on the average homeowner type user rather than on the large user and that most such small users cannot afford to pay such large increases. The basis for this allegation is the tabulation contained in Westlake's revenue requirement study (Exhibit 1) indicating a proposed increase of 83 percent for the commercial class (including the residential user) as compared to 63.65 percent for industrial customers, 42.01 percent for public authorities, 22.28 percent for construction customers, and 40.49 percent for golf course customers. However, the same proposed rates are applicable to all metered classes of service and the variations in the amounts of the proposed increases result from the relative usage of the individual customers and are independent of the customer class. In this respect, it will be noted, that the proposed rates are a two-part service charge rate replacing a minimum charge.

rate with the result that the low usage customers receive a relatively larger percent and smaller dollar increase than do the high usage customers. Where the tail block covers the incremental cost of water, the two-part service charge rate more accurately reflects the cost incurrence than does the minimum charge rate.

Westlake also proposes an additional charge to its proposed general service metered rate to provide for the installation and removal of temporary 3-inch meters for use where water is to be used for street paving, grading, trench flooding, or a delivery to tank trucks. The proposed additional charge is \$35.00 and includes two moves of the meter with a proposed additional charge of \$5.00 for each meter move in excess of two. This proposal appears reasonable and will be adopted.

Westlake also proposes to increase its public fire hydrant service rates from \$2.50 a month to \$4.50, \$5.00, or \$5.50 a month depending on the number and size of branches on the hydrant. In support of this essentially 100 percent increase proposal, Westlake's consulting engineer testified that the depreciation expense for the fire hydrants and back-up facilities would in and of itself justify a \$4.00 a month charge and that the inclusion of the other fire protection costs such as return on investment and maintenance of facilities would support a rate double the amount proposed but that the increase was limited to be consistent with the previously established rates. The authorized rates will maintain the same relationship between the percent increase for public fire hydrant service and the overall percent increase as proposed by Westlake.

Results of Operation

Both Westlake and the Commission staff prepared summaries of earnings for estimated years 1974 and 1975. Westlake's estimates were predicated on the assumption that the presently undeveloped north side of its service area would experience growth in the test year 1975 whereas, the staff's estimate, based on later

data, assumed no such growth. The staff, after thorough review and field checks, adopted Westlake's south side growth estimates as revised by Westlake in January, 1975.

The following tabulation compares the estimated summary of earnings for the test year 1975, under present and proposed rates, prepared by Westlake and by the Commission staff, and the adopted summary of earnings at present rates for the test year 1975.

SUMMARY OF EARNINGS
(Estimated Year 1975)

Item	Westlake Estimated		Staff Estimated		
	Company		Company		
	Present	Proposed	Present	Proposed	Adopted ^{1/}
	Rates	Rates	Rates	Rates	Results
(Dollars in Thousands)					
Operating Revenues	\$ 566.0	\$ 976.4	\$ 562.2	\$ 960.7	\$ 562.2
<u>Operating Expenses</u>					
Oper. & Maint.	430.6	430.6	399.5	399.5	413.1
Admin. & Gen.	83.8	91.6	77.8	86.1	77.8
Taxes Other Than					
Income	89.7	89.7	68.5	68.5	68.5
Depreciation	91.8	91.8	56.0	56.0	56.0
Subtotal	695.9	703.7	601.8	610.1	615.4
Income Taxes	0.2	113.2	0.2	168.6	0.2
Total Expenses	696.1	816.9	602.0	778.7	615.6
Net Oper. Revenue	(130.1)	159.5	(39.8)	182.0	(53.4)
Depreciated Rate					
Base	1,686.8	1,686.8	1,235.8	1,235.8	1,235.8
Rate of Return	Loss	9.46%	Loss	14.73%	Loss
(Negative Figure)					

^{1/} At present rates. Bases for adopting staff's estimates are discussed in the following paragraphs. Adopted results include \$13,900 increase in purchased water costs due to MWD increase effective July 1, 1975 and not included in staff's estimates.

Operating Revenues

Revenues are derived from the sale of water to metered commercial, industrial, public authorities, construction, and golf course customers, from water services provided for unmetered private and public fire protection, and from other water operations.

Sales to the commercial class of customer, including residential customers, provides the major portion of Westlake's revenues. Westlake utilized recorded monthly water sales and weather data for the period 1970 through 1973 to develop a multiple regression equation to adjust sales for this class to average year weather conditions. Average year weather data, developed from twenty years recorded weather data from the Canoga Park Weather Reporting Station, was applied to the regression equation thus developed to yield a normalized average annual usage of 396.1 Ccf per commercial customer for the test year 1975.

The Commission staff used later recorded rainfall, temperature, and usage data to develop an average annual usage of 428 Ccf per commercial customer by the graphical modified Beam method and verified the reasonableness of this estimate by a multiple regression analysis. The staff's usage per commercial customer will be adopted and applied to the staff's 1975 test year estimated number of customers to derive the adopted test year commercial sales.

The staff reviewed and accepted as reasonable Westlake's estimates for industrial and other sales. These estimated sales and revenues will be adopted.

Operation and Maintenance Expenses

Both the Commission staff and Westlake computed purchased water volumes by adding an unaccounted-for-percentage amount to estimated sales volumes. Westlake used two years' experienced losses of seven percent, whereas the staff used a five percent loss factor developed from later recorded data. Both Westlake and the staff used the currently effective rate of \$85.00 per acre-foot with an

additional surcharge of \$5.00 per acre-foot being applied to recover the cost of extra pumping for water delivered by CMWD from its Lindero feeder located in the northern portion of Westlake's service area. The staff's estimate of purchased water costs, based on later data, adjusted for the July 1, 1975 MWD increase, will be adopted.

The purchased power costs were based on Southern California Edison Company's electric rates which became effective October 10, 1973. Westlake utilized a fuel cost billing factor of 0.642 cents per kilowatt-hour which became effective February 1, 1974 whereas the staff used .969 cents per kilowatt-hour effective November 13, 1974 plus the Energy Resources Surcharge of 0.010 cents per kilowatt-hour which became effective January 1, 1975. The staff's estimate reflecting these later billing factors and the staff's estimated pumping requirements will be adopted.

Westlake's 1975 test year expensed payroll was estimated to be \$102,160 and included provision for adding one maintenance man to the existing staff of eight. Because the experienced system growth rate was less than anticipated by Westlake, the staff engineer concluded that the addition of a maintenance man in 1975 was premature and, based on an assumption that the crew size would not change, estimated the expensed payroll for the test year 1975 to be \$91,500. The staff's estimate will be adopted.

The staff's estimate of uncollectibles for the test year 1975 was \$310 as contrasted to Westlake's estimate of \$400. The staff used the average of the last three years' recorded data adjusted to reflect customer growth. The staff's estimate will be adopted.

The staff's estimate for other operating and maintenance expenses for the test year 1975 is \$69,260 as compared to Westlake's estimate of \$94,660.

Both Westlake's consulting engineer and the Commission staff's utilities engineer presented detailed testimony setting forth the bases for their estimates. For accounts Nos. 732 - maintenance of pump equipment, 760 - maintenance of reservoirs and tanks, 761 - maintenance of mains, and 763 - maintenance of other plant, Westlake bases its estimates on a percentage of beginning-of-year plant balances irrespective of whether or not any maintenance has been charged these accounts in recent years. The theory of this method of expense allowance is that the facilities presently providing service to existing customers are being subjected to wear and tear and are becoming in need of maintenance. If the customers receiving service from these facilities do not provide for this inevitable future maintenance, the future ratepayers will be saddled with these costs in the form of future rate increases. The implementation of this novel concept would be difficult because of the impossibility of accurately predicting and allowing for the amount of such future maintenance. In addition, the inclusion of currently nonexistent operating costs in the determination of present revenue requirements needlessly imposes an unreasonable burden on existing ratepayers. In contrast, the staff's estimate for these four accounts reflects recorded data adjusted for abnormal conditions and projected to reflect anticipated growth and foreseeable expenses anticipated during the next three to five years. The staff's estimate for these four accounts will be adopted. Other differences between the staff's and Westlake's estimates of test year expenses are generally attributable to the use by the staff of a lesser number of customers resulting, as previously discussed, from the use of later data. We will, therefore, adopt the staff's estimates.

Taxes Other Than Income

Taxes, other than income taxes, consist of ad valorem and payroll taxes. The staff's estimate of 1975 test year ad valorem taxes of \$62,904 reflect the deletion of all north side development, with the exception of the golf course, consistent with recently experienced growth rates, whereas Westlake's estimate of \$83,780 contemplates 1975 test year growth of the north side area.

The staff's estimate of 1975 test year payroll tax is \$5,580 as compared to Westlake's estimate of \$5,890 and reflects no increase in the size of the eight man maintenance crew as previously discussed.

The staff's estimate of taxes, other than income, will be adopted.

Depreciation Expense

Both the staff and Westlake used straight line remaining life depreciation rates approved by this Commission in January, 1974 for the computation of depreciation expense. The staff's estimate of \$55,983 reflects the elimination from Westlake's proposed construction budget of all north side plant addition except those required for the golf course. Westlake's estimate of \$91,841 is based on the originally anticipated growth of the north side. The staff's estimate will be adopted.

Income Taxes

Both the Commission staff and Westlake computed income taxes using straight line depreciation and ADR lives for the computation of federal tax depreciation.

The \$200 income tax shown for the test year 1975 at present rates by both Westlake and the staff represents the minimum California franchise tax. The revenue increase authorized herein will reflect the staff computed tax depreciation and interest calculated in accordance with Decision No. 54687 on the basis that main extension refunds due Westlake's parents be credited to capital surplus. Westlake does not use accelerated depreciation for income taxes.

Rate Base

The difference in the 1975 test year rate base estimates of \$1,235,800 for the Commission staff and \$1,686,798 for Westlake is due to the staff deletion of all north side development with the exception of the golf course and a staff downward adjustment, recommended by the staff's financial examiner, of \$99,100 to reflect the elimination of a 15 percent overhead cost applied to plant transferred from Hawaiian in exchange for common stock in 1969, and the reclassification of certain current liabilities to advances for construction. The recommendation for the elimination of the 15 percent overhead was made on the basis that the facilities were transferred to Hawaiian on a completed basis and, therefore, already included the overhead costs and contractor's profits. It is Westlake's practice to record money received in payment for specific plant additions as a current liability pending a determination of whether these plant additions will finally be accounted for as contributed plant or as a main extension advance. In either case, such monies are deducted from rate base for rate-making purposes. It is, therefore, the staff's financial examiner's recommendation that these funds be booked as advances for construction and if, at a later date it is determined they should be treated as contributions, an appropriate journal entry can be made. It is obvious that these amounts should be deducted from rate base for rate-making purposes, consequently, the staff's estimated 1975 rate base will be adopted.

Rate of Return

The record shows that as of year-end 1973, Westlake's capitalization consisted of 140 shares of common stock with a value of common equity of \$1,224,042, and long-term debt of \$30,616 consisting of advances on open account from Hawaiian. The 95.93 percent equity represented by this capitalization results in part from the crediting to surplus of refunds due on advance contracts with Hawaiian as required by Decision No. 79566 dated January 11, 1972. In Application No. 54687 Westlake requested authorization to

eliminate the deviations to extension Rule 15 granted by Decision No. 79566 and make extension advance contract refunds with funds advanced from Hawaiian. Such monies would be carried as debt in Account No. 212 - Advances From Associated Companies. Westlake assumed the requested authorization would be forthcoming and its exhibits, consequently, reflect a year-end 1974 capitalization of 27.48 percent debt and 72.52 percent equity. Since no decision on this matter had been issued by year-end 1974, Westlake, in conformance with Decision No. 79566, credited advance refunds to surplus with a resultant capital structure of 6.12 percent debt and 93.88 percent equity. Westlake's consultant assumed as reasonable a cost of debt of eight percent and a return on equity of ten percent. The application of these percents to the capital structures just discussed results in a rate of return on total capital of 9.45 and 9.88 percent, respectively, developed as follows:

	<u>Estimated 12-31-74</u>			<u>Actual 12-31-74</u>		
	<u>Bal.</u>	<u>Percent</u>	<u>Wt. Cost</u>	<u>Bal.</u>	<u>Percent</u>	<u>Wt. Cost</u>
Debt at 8%	\$ 420,676	27.48	2.20	\$ 81,607	6.12	.49
Equity at 10%	<u>1,110,304</u>	<u>72.52</u>	<u>9.45</u>	<u>1,250,139</u>	<u>93.88</u>	<u>9.39</u>
Total	\$1,530,980	100.00	9.45	\$1,331,746	100.00	9.88

Decision No. 84335 dated April 15, 1975 in Application No. 54687 authorized Westlake to enter into main extension contracts until its outstanding advance contract balances reach 70 percent of its total capital providing Hawaiian guarantees to supply all necessary funds to meet Westlake's cash deficiencies. Consequently, future refunds which become payable as a result of new main extension contracts will be made, when necessary, from funds advanced by Hawaiian which will be carried as debt in Account 212 - Advances From Associated Companies. However, for existing contracts the extension rule deviations and accounting procedures authorized by Decision No. 79566 will remain unchanged.

The staff's financial examiner recommended a rate of return of nine percent. The record shows that in arriving at this recommended rate of return this witness considered the capital structure of Westlake, recently authorized rates of return for other utilities, average investment per connection, the customers' average monthly water bills, and Westlake's affiliation with the land developer. When consideration is given to Westlake's future financing requirements and the relationship of Westlake to Hawaiian, the staff's recommended rate of return appears reasonable and will be adopted. Such a return applied to the capital structure recorded as of December 31, 1974 will produce a return on equity of 9.06 percent.

Service

The Commission staff's engineer presented testimony on the results of his field investigation of the quality of service found in Westlake's service area. He stated he found that all of Westlake's facilities to be in excellent condition, with respect to both maintenance and design; that the consensus of opinion of the customers contacted was that the water quality and service were good; and that only two informal complaints, both high bill complaints, which were satisfactorily resolved, had been filed with this Commission. He concluded that the service rendered by Westlake was satisfactory.

Findings

1. Westlake Water Company 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 1975 reasonably indicate the results of Westlake's operations in the near future.

3. A rate of return of 9.0 percent on the adopted rate base of \$1,235,800 is reasonable. Such rate of return will provide a return on equity of approximately 9.06 percent.

4. 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.

5. Off-peak usage of water would be of relatively minor benefit to Westlake, consequently, no off-peak discount rate is justifiable.

6. The authorized increase in rates is expected to provide increased revenues of approximately \$260,000 (46.2 percent) for Westlake's general service metered rates and public fire hydrant service rates as contrasted to the requested increase of \$410,377 (approximately 72 percent). The Commission staff recommended increase of \$111,200 in net revenues will be provided by the authorized increase.

7. Westlake's service is adequate.

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, Westlake Water Company is authorized to file the revised rate schedules attached to this order as Appendix A and concurrently to cancel and withdraw presently effective schedules for the general

metered services and public fire hydrants. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules 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.

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

Dated at San Francisco, California, this 29th day of JULY, 1975.

William J. Lyons President
Vernon L. Stinson
Leonard Ross
James Butler Commissioners

Commissioner D. W. Holmes, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Westlake Village, in the southern part of Ventura County, within the City of Thousand Oaks and vicinity. Zone 1 rate applicable to the service area generally lying below 1,050 feet in elevation and Zone 2 rate applicable to the service area generally lying above 1,050 feet in elevation and more particularly delineated by zone service area map.

RATES

Service Charge:	Zone 1	Zone 2	
	Per Meter Per Month	Per Meter Per Month	
For 5/8 x 3/4-inch meter	\$ 5.50	\$ 5.50	(I)
For 3/4-inch meter	6.00	6.00	
For 1-inch meter	10.00	10.00	
For 1-1/2-inch meter	18.00	18.00	
For 2-inch meter	27.00	27.00	
For 3-inch meter	53.00	53.00	
For 4-inch meter	88.00	88.00	
For 6-inch meter	175.00	175.00	
For 8-inch meter	265.00	265.00	
For 10-inch meter	375.00	375.00	(I)

Quantity Rates:

First 3,000 cu.-ft., per 100 cu.-ft.	\$ 0.47	\$ 0.50	(I)
Over 3,000 cu.-ft., per 100 cu.-ft.	0.36	0.39	(I)

The service charge is a readiness-to-serve charge to which is added the charge for water used during the month computed at the Quantity Rates.

(Continued)

(N)
(N)

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Schedule No. 1

METERED SERVICE
(Continued)

SPECIAL CONDITIONS

Water for street paving, grading, trench flooding, or delivery to tank trucks shall be provided through a 3-inch meter temporarily connected to a convenient fire hydrant. In addition to Schedule No. 1 metered service charges, there shall be a charge for each installation of \$35 which will provide for installation and removal of the meter and for a maximum of two moves of the meter. For additional moves, there shall be a charge of \$5 for each move.

(N)

(N)

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Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

Westlake Village, in the southern part of Ventura County, within the City of Thousand Oaks and vicinity and more particularly delineated by the service area map.

RATES

	<u>Per Month</u>	
For each 2 - 2-1/2-inch hydrant	\$4.50	(I)
For each 1 - 2-1/2-inch, 1 - 4-inch hydrant	5.00	
For each 2 - 2-1/2-inch, 1 - 4-inch hydrant	5.50	(I)

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. 1, Metered Service.

2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.

3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type, and size.

4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.