

Decision No. 85020

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA WATER SERVICE COMPANY, a
corporation, for an order authorizing
it to increase rates charged for water
service in all districts.

} Application No. 55561
(Filed March 13, 1975)

Ed F. Catey and Ralph D. Lindberg, for applicant.
Don Steger, for the Commission staff.

O P I N I O N

Decision No. 84401, as modified by Decision No. 84522 in Application No. 55560, authorized applicant to issue and sell \$26,000,000 worth of first mortgage bonds, with terms and conditions to be negotiated. The bonds were offered for sale on June 18, 1975. They are to mature on November 1, 1983, at an interest rate of 8-3/4 percent, which has been increased to an effective rate of 9.1 percent by the expense of issue and sale. Short-term bonds were selected to reduce costs.

This application was filed on March 13, 1975 to request an increase in water rates by \$1,284,700 to offset the cost of the new issue of bonds. A public hearing was held on August 11, 1975 in San Francisco before Examiner Fraser. Testimony and exhibits were provided by applicant and the Commission staff. The former filed an affidavit to affirm that a notice of the filing of this application was mailed to all of its customers and that a separate notice of the filing was published in a local newspaper of general circulation in each of applicant's twenty-two water districts.

The record indicates that applicant was confronted with an unusual situation in which it had to refinance one-third of its bonded indebtedness having an average interest cost of 3.26 percent with new bonds bearing an effective interest rate of 9.1 percent. This raised applicant's embedded cost of debt from 5.64 percent to 7.70 percent and raised its rate of return requirement slightly over 1 percent if the same return on equity is to be maintained.

Applicant testified and the staff agreed that because of the sizeable impact this refinancing had on applicant's earnings it should be permitted to recover such increased cost of debt if applicant is to maintain its financial integrity. Since the required change in rate of return attributable to this unusual massive refunding is the same for all districts and since under current Commission practices it would not be possible for the Commission to process a rate case for all 22 districts at one time or in a timely fashion, all parties agreed that offset relief was reasonable in this case. We emphasize the unique factual situation presented in this application.

The parties agreed on the necessity for the new bond issue and on the justification for the offset requested. It was further agreed that applicant's total and district computations were reasonable; although staff totals were reduced to reflect the additional investment tax credit available under the 1975 Tax Reduction Act. The staff therefore reduced the requested district increases by the applicable additional district investment tax credit times the appropriate district net-to-gross multiplier. The rate increases computed by the staff vary in each water district from 0 to 3.79 percent, with the average shading 2.19 percent. The total rate increase recommended by the staff is \$859,900. Applicant disregarded the increase in investment tax credit and saving on federal income tax in all computations, on the theory that tax savings should be considered separately in general rate increase, or offset proceedings for increased operating expense.

Discussion

We favor the staff position on the increase to be authorized. The tax credit is in effect and should be reflected in the rates.

Findings

1. Applicant has issued \$26,000,000 worth of first mortgage bonds, at an effective interest rate of 9.1 percent, to mature on November 1, 1983 to refinance bonded indebtedness of an average interest cost of 3.26 percent; a massive refunding.

2. Applicant has applied to increase water rates in all 22 districts to offset the cost of financing the new bond issue. It is not possible to process a rate case for all districts at one time or in a timely fashion.

3. The estimates of relief required and percent of rate increase necessary for each of applicant's water districts as shown in the staff's exhibits are reasonable and will offset the expense of financing the bonds, but will not raise applicant's authorized return on common equity.

4. Applicant requires this rate increase to maintain its financial integrity.

5. 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.

6. Rates will be increased by \$859,900, or 2.19 percent.


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

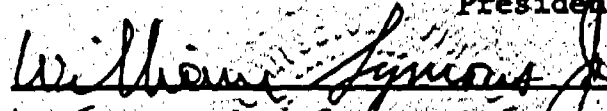
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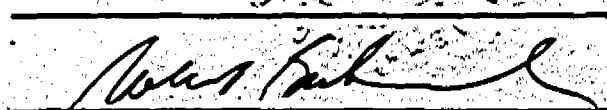
IT IS ORDERED that after the effective date of this order California Water Service Company, a corporation, is authorized to increase its rates in each district, by the percentage listed in Appendix A attached to this order and to file revised rate schedules to reflect the authorized increases. Such filing 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 is the date hereof.

Dated at San Francisco, California, this 21st
day of OCTOBER, 1975.



President


Vernon L. Sturgeon


Commissioners

Commissioner Leonard Ross, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

California Water Service Company
 REQUIRED RATE RELIEF IN ALL DISTRICTS
 DUE TO HIGHER INTEREST RATE REFINANCING

District	Gross Required:	Reduction : Due to	Net : Required	1975 Gross : Revenues Excl. : Fire Prot. & Misc. Revenues:	Required : % Incr. : In Rates:
		ITC at 10%	Rate Relief		
(Dollars in Thousands)					
Bakersfield	\$ 163.4	\$ NA	\$163.4	\$ 4,311.1	3.79%
Bear Gulch	.89.4	65.6	23.8	3,034.0	.78
Broadmoor	4.6	1.5	3.1	185.7	1.67
Chico	43.9	28.1	15.8	1,069.4	1.48
Dixon	5.6	4.0	1.6	148.9	1.07
East Los Angeles	129.5	NA	129.5	4,357.0	2.97
Hamilton City	1.1	1.7	(.6)	26.9	-
Hermosa-Redondo	97.8	NA	97.8	2,935.0	3.33
King City	5.6	3.6	2.0	150.3	1.33
Livermore	46.3	19.2	27.1	1,568.9	1.73
Los Altos-Suburban	77.6	33.6	44.0	2,589.7	1.70
Marysville	10.6	4.6	6.0	278.1	2.16
Oroville	18.6	6.8	11.8	498.1	2.37
Palos Verdes	149.4	NA	149.4	5,136.9	2.92
Salinas	59.2	31.4	27.8	1,485.3	1.87
San Carlos	35.0	19.5	15.5	1,226.2	1.26
San Mateo	90.9	55.4	35.5	3,200.1	1.11
Selma	8.4	3.2	5.2	273.7	1.90
South San Francisco	35.8	27.5	8.3	1,505.1	.55
Stockton	165.9	93.4	72.5	4,146.8	1.75
Visalia	38.4	21.8	16.6	999.0	1.66
Willows	7.7	3.9	3.8	201.6	1.88
Total	1,284.7	424.8	859.9	39,327.8	2.19

(Red Figure)

NA = Not applicable as investment tax credit savings already reflected in authorized or pending rate proceedings.