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Decision No. 85460

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of METROPOLITAN WATER COMPANY, a California corporation, for Authority to Increase its Rates Charged for Water Service.	Application No. 55881 (Filed August 20, 1975)

O'Melveny & Myers, by Harold M. Messmer, Jr., Attorney at Law, for applicant.
Carolyn J. Benjamin, for Oak Park Civil Association, interested party.
Mary Carlos, Attorney at Law, and Andrew Tokmakoff, for the Commission staff.

O P I N I O N

By this application Metropolitan Water Company (Metropolitan) requests authority to increase its rates and charges in order to increase its gross annual revenues by 82.2 percent ($53,985) based on an estimated year 1975. Applicant's request is based on the rates and charges authorized by D.67845 dated September 15, 1964 in A.45981.

Public hearings were held on October 29 and 30, 1975 at Thousand Oaks, California, before Examiner Charles E. Mattson. The matter was submitted October 30, 1975 subject to filing of the staff's late-filed Exhibit 8. By letter dated November 19, 1975 applicant stated that since their information was basically the same as the staff's applicant would not file any further exhibits.

Rate Increase Requested

Applicant's initial request to increase annual revenues by $53,985 was based on the rate levels authorized by D.67845 dated September 15, 1964. However, applicant was granted a rate increase effective September 15, 1975 to offset increased costs of purchased water and property taxes. This offset rate increase was $21,418 (a 32.6 percent increase in gross annual revenues). This offset rate relief has reduced applicant's requested increase to $30,910 (a 35.4 percent gross revenue increase over present offset rates).

Applicant's Present Operations

Applicant is a wholly owned subsidiary of Metropolitan Development Corporation (Development Corporation). The applicant provides water service to an area known as Oak Park, approximately four miles easterly of Thousand Oaks, California, in Ventura County. Operations commenced in 1966, and the utility experienced steady growth, reaching approximately 600 customers in 1973. The revenue request is based on a test year 1975, and assumes no significant growth from 1973 through the 1975 test year.

The applicant contracts for meter reading, billing, and operating and maintenance service with ECS Corporation, 1443 Valinda Avenue, Valinda, California. Water is obtained by purchase from Calleguas Municipal Water District (Calleguas).

Calleguas transports water through the Lindero Canyon Feeder transmission line to terminal facilities at the service area. Purchased water is measured at the terminal facilities and then distributed into the system (under pressure developed in the Calleguas line) and into a one million-gallon reservoir capable of meeting system peak day demands.

Commission Staff Report

The Commission staff report on the requested revenue increase was received in evidence (Exhibit 5). Two staff members testified in support of the staff report.

The staff concluded that applicant's service is adequate. The staff is in substantial agreement with applicant's estimates of revenues, water sales, expenses, utility plant, and rate base. The staff considered the requested rate of return of 8.5 percent as reasonable, and concluded that the requested increase in gross operating revenues was reasonable.

The staff did not agree with applicant's proposed rate schedule. The present rate structure is a minimum charge type of structure with quantity rates which reduce with higher consumption. The applicant proposed a service charge with a single quantity rate. The staff reported that the proposed service charge rate would result in an increase of 60 percent (at 500 cubic feet per month) for the 5/8 x 3/4-inch meter compared to the overall increase of 35.4 percent. The staff recommended that any rate increase be spread more uniformly over a minimum charge type of rate structure.

Applicant's 1975 Operations

D.67845 granted applicant a certificate of public convenience and necessity to construct and operate the public utility water system involved here and set initial rates. That decision excluded certain anticipated costs from utility plant, finding that such costs should be borne by applicant's parent.

Applicant and the staff presented an estimated year 1975. Although no major areas of disagreement appeared between the applicant's and staff's estimates, several questions arose at hearing which were discussed in staff's late-filed Exhibit 8. Our adopted results incorporate our conclusions regarding construction work in progress (Exhibit 4, page VII-2, Rate Base), Pumping Equipment Retirement (Exhibit 4, page VI-3, Account 324, Col. 8) and the rate of return requirement.

Applicant included $49,840 of construction work in progress (CWIP) in rate base (Exhibit 4, page VII-2). However, CWIP of $49,840 appears to be carried forward as a constant amount from 1972 recorded data. Since applicant stated that growth experienced in the past is not expected to continue in the test year, the CWIP appears excessive. At hearing, the staff engineer reported that the $49,840 represented the cost of the turnout, including pressure reduction equipment and metering equipment on the Lindero Canyon Feeder. The plant involved is in fact in use. As set forth in Exhibit 8, such costs are properly included in applicant's rate base. However, the depreciation reserve should reflect past accrued depreciation. Since this plant should have been included in Account 311 the depreciation reserve account should reflect past depreciation accruals, estimated to be $3,300 at December 31, 1975. The test year depreciation expense is increased to reflect this additional plant.

Applicant's Exhibit 4 sets forth a retirement of pumping equipment in 1974 in the amount of $29,493. This pumping equipment was used on an interim basis, until a permanent water supply was established from Calleguas. The staff excluded pumping plant and other in-tract plant items (installed in temporary locations, to be used on an interim basis to accommodate early development) in its cost figures in the 1964 certificate proceedings (see D.67845, p. 8, mimeo). The staff estimated utility plant as $618,820 and added a working cash allowance of $3,000 (D.67845, p. 9). The applicant was authorized to issue capital stock and notes in the total amount of $621,820 (D.67845, p. 13, Para. 4). We conclude that temporary pumping plant was not to be included in rate base. The retirement should be reflected by removing the original cost from the plant account ($29,493) and reducing the depreciation reserve account ($4,310) to remove this plant from applicant's rate base. The net reduction in estimated 1975 rate base is $25,183. The depreciation reserve is increased by the accumulated depreciation the utility plant carried as construction work in progress (Exhibit 4, page VII-2). The estimated rate base, adjusted for these items, is $270,290.

At applicant's proposed rates the 1975 estimated results of operations are as follows:

SUMMARY OF EARNINGS

Comparison of Applicant's and Staff's Estimates

Estimated Year 1975

Item	Applicant Proposed Rates: Applicant	Applicant Proposed Rates: Staff	Adopted
Operating Revenues:			
Metered	$114,965	$114,960	$111,240
Unmetered	100	100	100
Fire Protection	4,560	4,560	4,560
Total	$119,625	$119,620	$115,900
Operating Expenses:			
Purchased Water	$ 39,897	$ 39,470	$ 39,470
Other Expenses	23,026	23,030	23,030
Depreciation	8,777	8,780	9,600
Property Taxes	10,196	10,200	10,200
Franchise Taxes	2,393	2,390	2,320
Subtotal	$ 84,289	$ 83,870	$ 84,620
State Income Tax	$ 2,897	$ 2,900	$ 2,530
Federal Income Tax	7,559	7,700	5,770
Total	$ 94,745	$ 94,470	$ 92,920
Net Revenue	$ 24,880	$ 25,150	$ 22,980
Rate Base	$292,567	$299,980	$270,290
Rate of Return	8.50%	8.38%	8.50%

Rate of Return

Applicant requests an 8.5 percent rate of return. The staff considers an 8.5 percent rate of return reasonable for this utility.

Applicant is a wholly owned subsidiary of its parent Development Corporation. The initial capital investment by the parent was to be equal amounts of common stock and seven year, seven percent convertible notes. Debt has been converted to common stock, and equity has been consumed by past operating losses. The applicant's capital structure is now approximately 75 percent equity and 25 percent debt, on a total capital investment of approximately $301,900. The 1975 rate base is approximately $270,290.

Under the circumstances, a lengthy analysis of an appropriate return would be pointless. The applicant's actual capital structure is the result of the investment required of its parent in order to develop the Oak Park property. That investment appears to be overstated by amounts we have excluded from utility plant in rate base. As the parent converts debt to common stock the capital structure approaches pure equity. We assume the parent is not interested in continuing to hold seven percent debt. The staff recommendation that applicant should be allowed 8.5 percent return on dedicated utility plant will be adopted.

Rate Spread

We have concluded that applicant's revenue requirement, based on our adopted 1975 test year results of operations and rate base is $115,900. The required revenue increase is $28,670, an increase of 33 percent in 1975 estimated, gross revenues.

The applicant proposes to change its minimum-type rate structure to service charge structure. The proposed rates increase the fixed monthly charge and delete the present minimum quantities included in the present monthly charge. The result is that the percentage increase is greater to small users. The impact on an above average domestic user is approximately the system average (Exhibit 1, final page). The impact on larger non-domestic users is greater, largely because they lose the advantage of the present declining rate block structure.

We will retain the basic allowance of 500 cubic feet per month under the monthly service charge. This retains a minimum quantity fixed rate. We will not continue the present number of declining rate blocks. To abolish all block rates for a uniform quantity charge would be a sharp departure from the existing rate structure. Applicant has over 600 domestic customers and five public authority customers. Domestic customers consume approximately 90 percent of the water used. (Exhibit 4, p. III-5, Table 3). Obviously, applicant's domestic customers will carry the major burden of increased rates.

Rates authorized will include a change in the presently sharply declining rate blocks. We will establish two rate blocks after the initial quantity of 500 cubic feet per month. This will create a flatter rate structure, and larger users will receive a greater increase.

Service

At public hearing the applicant presented evidence to explain a service outage (Exhibit 3). In June, 1975 an equipment malfunction at a Calleguas metering station caused an outage. The exhibit states that Calleguas restored service within an hour after receiving notice.

After the record was closed the Commission received a report of service problems attributed to high pressure surges in the water lines. The report, by letter dated November 10, 1975 from the Oak Park Civic Association, has been referred to the staff for investigation. The applicant is advised to make any improvements the staff may find necessary.

Findings

1. The adopted 1975 estimates of operating revenues, operating expenses, and rate base set forth in our opinion are reasonable for test year 1975.

2. Metropolitan's present offset rate levels would yield operating revenues of $87,230 in the estimated year 1975. The rates authorized by Appendix A should yield operating revenues of $115,900 and a rate of return of 8.5 percent on the adopted rate base of $270,290.

3. A rate of return of 8.5 percent on an estimated 1975 rate base is reasonable for Metropolitan.

4. The rates authorized by Appendix A attached should increase total 1975 estimated revenues by $28,670 annually, an increase of 33 percent in operating revenues.

5. The rates and charges authorized by Appendix A are just and 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. Metropolitan's books of account should reflect the adopted treatment of construction work in progress and retirement of pumping plant. Metropolitan's capital structure should not include amounts expended for pumping plant not includible in utility plant.

7. Applicant should determine the limitations imposed by its main extension rule (Rule 15) after correction of its books of account in accordance with Finding 6.

Conclusion

The application should be granted to the extent set forth in our order, and in all other respects denied.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant, Metropolitan Water Company, a California corporation, 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 an after the effective date of the revised schedules.

2. Within ninety days after the effective date of this order applicant shall file proposed accounting entries to reflect on its book of account the adjustments to plant and depreciation reserve consistent with the determinations in our decision.

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

Dated at San Francisco, California, this 18th day of FEBRUARY, 1976.

President

William Symons Jr.

Vernon L. Sturgeon

Commissioners

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Oak Park, and vicinity, located approximately four miles east of Thousand Oaks, Ventura County. (T)

RATES

	Per Meter Per Month	
Quantity Rates:		
First 500 cu.ft. or less	$ 6.50	(I)
Next 1,500 cu.ft., per 100 cu.ft.	0.48	
Over 2,000 cu.ft., per 100 cu.ft.	0.40	
Minimum Charge:		
For 5/8 x 3/4-inch meter	$ 6.50	
For 3/4-inch meter	7.75	
For 1-inch meter	10.50	
For 1½-inch meter	18.00	(I)
For 2-inch meter	25.00	
For 3-inch meter	50.00	
For 4-inch meter	80.00	

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