

Decision No. 86123

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of EAST PASADENA WATER COMPANY, a)
California corporation, for)
Authority to Increase its Rates)
Charged for Water Service.)

Application No. 55823
(Filed July 21, 1975)

Donald R. Howard and Kenneth L. Deitz,
for applicant.
Leonard Bell, for City of Temple City,
interested party.
Lionel B. Wilson, Attorney at Law, and
Andrew Tokmakoff, for the Commission
staff.

O P I N I O N

East Pasadena Water Company (EPWC) seeks authority to increase its general service metered rates^{1/} and its private fire protection service approximately \$91,000 (39.3 percent) for the test year 1976 and an additional \$47,000 (14.5 percent) for the test year 1977 over its presently effective rates.

EPWC, a California corporation, renders public utility water service in and adjacent to the cities of Temple City and Arcadia and adjacent to the cities of Pasadena and San Marino in Los Angeles County, California.

EPWC obtains water for the majority of its customers from the Main San Gabriel Basin. The balance of EPWC's customers are served from the Raymond Basin. Water is obtained from three

^{1/} No increase is proposed for its public fire protection service.

wells in the Raymond Basin and one well in the Main San Gabriel Basin and is distributed throughout the system by eight booster pumps.

After notice, public hearing was held before Examiner Johnson on April 22, 23, and 26, 1976 at Los Angeles and the matter was submitted on May 10, 1976 upon receipt of transcript.

Testimony was presented on behalf of EPWC by its president, by its vice president and general manager, and by a consulting engineer, and on behalf of the Commission staff by a financial examiner and a utilities engineer. The city manager of Temple City made a statement on behalf of the city council requesting that no rate increase be granted unless some form of guarantee is made that will insure the replacement of the water main located on Oak Avenue between Garibaldi Avenue and Camino Real. Testimony and exhibits, as well as a petition signed by 36 residents of Oak Avenue, were presented by an Oak Avenue resident opposing the granting of any rate increase until the replacement of this main is accomplished.

Rates

The basic level of rates was established by Decision No. 81625 dated July 24, 1973 in Application No. 53605. Purchased power offset increases to these basic rates were authorized by Resolution No. 1542 dated April 16, 1974 in Advice Letter No. 15 and by Resolution No. 1668 dated January 7, 1975 in Advice Letter No. 16.

EPWC proposes to increase its rates for metered service and for private fire protection service by 39 percent in 1976 and by an additional 15 percent in 1977. The following tabulation sets forth the presently effective rates together with EPWC's proposed rates:

Metered Service Rates

Service Charge:	Present Per Meter Per Month	<u>EPWC Proposed Rates</u>	
		<u>Step 1^{1/}</u>	<u>Step 2^{1/}</u>
For 5/8 x 3/4-inch meter.....	\$1.65	\$ 3.35	\$ 4.20
For 3/4-inch meter.....	1.80	3.70	4.60
For 1-inch meter.....	2.50	5.05	6.30
For 1½-inch meter.....	3.30	6.75	8.40
For 2-inch meter.....	4.50	9.00	11.35
For 3-inch meter.....	8.25	16.85	21.00

Quantity Rate:

For all water delivered per 100 cu.ft.	\$0.214	\$ 0.250	\$ 0.270
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The service charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the quantity rates, for water used during the month.

Private Fire Protection Service

	<u>Present Rate</u>	<u>EPWC Proposed Rates</u>	
		<u>Step 1^{1/}</u>	<u>Step 2^{1/}</u>
For each inch of diameter of fire sprinkler service connection.....	\$2.00	\$2.80	\$3.20

^{1/} Step 1 rates were initially proposed to become effective August 1, 1975 and Step 2 rates to become effective on January 1, 1977.

EPWC's consulting engineer testified that the major portion of the proposed increase in metered rates was placed in the service charge rather than quantity charge portion of the rates to mitigate the effect of past purchased power offsets which reflected increases on a uniform cents-per-unit basis. The Commission's staff did not take issue with this proposed procedure and consequently, the authorized rates will essentially reflect EPWC's proposed rate form.

Results of Operation

Both EPWC and the Commission staff prepared summaries of earnings for estimated years 1976 and 1977. The staff had available 1975 recorded data as contrasted to EPWC who had to estimate 1975 results. The following tabulation compares the estimated summary of earnings for the test years 1976 and 1977 under present and proposed rates, prepared by EPWC and by the Commission staff, and the adopted summary of earnings at present rates for the test years 1976 and 1977:

Summary of Earnings
(Estimated Year 1976)

	: EPWC Estimated :	: Staff Estimated :			
	: :Company :	: :Company :			
	: Present:	: Proposed:	: Present:	: Proposed:	: Adopted ^{1/}
Item	: Rates :	: Rates :	: Rates :	: Rates :	: Results ^{1/}
	(Dollars in Thousands)				
Operating Revenues	\$232.4	\$323.6	\$236.4	\$328.1	\$236.4
<u>Operating Expenses</u>					
Operating & Maintenance	\$127.7	\$127.7	\$125.8	\$125.8	\$128.4
Administrative & General	93.6	93.6	83.3	83.3	83.2
Taxes Other Than Income	18.9	18.9	19.6	19.6	19.6
Depreciation ^{2/}	20.0	20.0	18.5	18.5	18.5
Subtotal	\$260.2	\$260.2	\$247.2	\$247.2	\$249.7
Income Taxes	0.2	3.6	0.2	33.6	0.2
Total Operating Expenses	\$260.4	\$263.8	\$247.4	\$280.8	\$249.9
Net Operating Revenue	\$(28.0)	\$ 59.8	\$(11.0)	\$ 47.3	\$(13.5)
Depreciated Rate Base ^{2/}	\$506.1	\$506.1	\$449.3	\$449.3	\$449.3
Rate of Return	Loss	11.8%	Loss	10.5%	Loss

(Red Figure)

^{1/} At present rates. Bases for adopted estimates are discussed in the following paragraphs.

^{2/} The staff's estimates exclude the effects of the contemplated major main and telemetry system replacements. Were these items included the depreciation expense would be \$21,600 and \$22,000 for 1976 and 1977, respectively, and the rate base for these two test years would be \$597,100 and \$597,400.

Summary of Earnings
(Estimated Year 1977)

	: EPWC Estimated		: Staff Estimated		
	: Company		: Company		
	: Present	: Proposed	: Present	: Proposed	: Adopted
Item	: Rates	: Rates	: Rates	: Rates	: Results
(Dollars in Thousands)					
Operating Revenues	\$232.8	\$370.9	\$237.1	\$329.0 ^{2/}	\$237.1
Operating Expenses					
Operating & Maintenance	\$130.9	\$130.9	\$128.5	\$128.5	\$131.4
Administrative & General	98.0	98.0	84.8	84.8	84.7
Taxes Other Than Income	18.9	18.9	19.9	19.9	19.9
Depreciation ^{3/}	22.2	22.2	18.9	18.9	18.9
Subtotal	\$270.0	\$270.0	\$252.1	\$252.1	\$254.9
Income Taxes	0.2	30.1	0.2	31.5	0.2
Total Operating Expenses	\$270.2	\$300.1	\$252.3	\$283.6	\$255.1
Net Operating Revenue	\$(37.4)	\$ 70.8	\$(15.2)	\$ 45.4	\$(18.0)
Depreciated Rate Base ^{3/}	\$593.6	\$593.6	\$453.1	\$453.1	\$453.1
Rate of Return	Loss	11.9%	Loss	10.0%	Loss

(Red Figure)

^{1/} At present rates. Bases for adopted estimates are discussed in the following paragraphs.

^{2/} At 1976 requested rates.

^{3/} The staff's estimates exclude the effects of the contemplated major main and telemetry system replacements. Were these items included the depreciation expense would be \$21,600 and \$22,000 for 1976 and 1977, respectively, and the rate base for these two test years would be \$597,100 and \$597,400.

Revenues

Both the staff and EPWC normalized recorded sales data as a basis for projecting test year sales. The staff's engineer used the San Gabriel Fire Department data for precipitation and temperature whereas EPWC's consulting engineer used the Los Angeles Flood Control Station No. 107 data for precipitation and the San Gabriel Fire Department data for temperature. The staff used the graphic modified Bean method to project unit sales from normalized data for the combined domestic, commercial, and public authority customer groups. It prepared the industrial customer group sales from an analysis of the recorded three-year average consumption. EPWC used the computerized mathematical equivalent of the modified Bean method for separately estimating domestic and public authorities customer group unit sales, first degree least squares projections for estimating the commercial group unit sales, and the average of historical usage to project the industrial group sales. The staff's estimates of revenues, sales, and number of customers, based on later recorded data, will be adopted.

Operating and Maintenance Expenses

For comparative purposes the staff's exhibit tabulated operating and maintenance expense estimates by four main categories: pumping assessment, purchased power, operating and maintenance payroll, and other operating and maintenance expenses.

The staff's estimate of pumping assessment expense for the test year 1977 was \$3,900 as compared to EPWC's estimate of \$1,700. The higher staff estimate reflects its higher sales estimates and increases, effective July 1, 1976, in the administrative assessment from \$0.33 to \$0.45 per acre-foot and in the makeup assessment from \$0.45 to \$2.30 per acre-foot. The staff's

estimate excluded a replacement assessment of \$43 per acre-foot for water pumped in excess of 1,424.54 acre-feet on the basis that EPWC has a carry-over credit of 503 acre-feet for past underpumpage during dry years. The exclusion of such an average-year expense is contrary to generally accepted normalizing procedures. We will, therefore, include a replacement assessment charge based on the staff's estimate of pumping requirements of \$2,595 for 1976 and \$2,875 for 1977, and adopt the previously discussed balance of the staff's pumping assessment estimates.

The staff's purchased power estimates reflect the staff's larger water sales estimates, the latest known fuel cost adjustment, and Edison's rates which became effective December 31, 1975, and will be adopted.

EPWC's estimates of payroll expense include a 3 percent increase for 1974 to normalize recorded 1974 data and a 6 percent increase for the estimated year 1975. For estimated years 1976 and 1977 the salaries were held at the 1975 level. The staff used the 1975 operating and maintenance payroll for the years 1976 and 1977 and included 9 percent of direct labor as overtime labor. The staff's estimate appears reasonable and will be adopted.

EPWC's estimates for the other operating and maintenance expenses in the various accounts were projected by increasing the recorded amounts for 1974 by 5 percent to obtain a 1975 normalized value and increasing those amounts an additional 10 percent each year to obtain the estimates for test years 1976 and 1977. The staff's engineer generally projected the operating and maintenance expenses by accounts from recorded data for the period 1971 through 1975 and then, based on historical percentages, backed out payroll expense to yield other operation and maintenance expense. The staff's method is consistent with past practices and its estimate will be adopted for test years 1976 and 1977.

Administrative and General Expenses

EPWC's estimate of administrative and general expenses is \$93,700 for 1976 and \$98,000 for 1977 as compared to the staff's estimate of \$83,300 for 1976 and \$84,800 for 1977. EPWC's higher 1977 test year estimate reflects differentials of \$3,400 for employee pensions and benefits, \$1,800 for regulatory commission expense, \$1,700 for outside services, \$4,000 for miscellaneous and general expense, and \$2,300 in other administrative and general expenses, a total differential of \$13,200.

The staff projected no increase in recorded 1975 payroll costs and, therefore, used the recorded 1975 pension expense of \$8,610 for estimated 1976 and 1977. EPWC, however, presented into evidence as Exhibit 6 an actuarial valuation report prepared for it by Pacific Mutual which indicated that a minimum contribution to the pension fund of \$9,310 was necessary to prevent disqualification from the pension program. We will, therefore, adopt this amount for ratemaking purposes together with the staff's 1976 and 1977 estimate of employees' benefits expense of \$4,600 to yield a combined amount of \$13,900.

The difference between EPWC's and the staff's estimates of regulatory commission expense derives from the amortization period utilized for this expense. EPWC amortized the estimated costs associated with this proceeding of \$12,000 over a three-year period and added a \$2,572 a year carry-over amortization of regulatory expense from the 1973 rate increase application matter. The staff used a five-year period to amortize the current estimated expense of \$12,000 plus the unamortized expense from the 1973 matter. Neither method is appropriate. To amortize the expense from two separate rate matters in one test year would be a duplication of expense and will not be permitted. It is obvious,

however, that the five-year amortization period for this expense adopted in the 1973 proceeding was inappropriate. Consequently, for this matter we will adopt a three-year period over which to amortize the estimated regulatory commission expense of \$12,000 for this matter.

The difference between EPWC's and the staff's estimate of outside services expense results from EPWC's larger allowance for attorneys' fees. The staff's estimate reflects a projection of recorded past fees increased to reflect anticipated conditions. The staff's estimate of outside services expense appears to more appropriately reflect anticipated conditions than does EPWC's estimate and will be adopted.

In estimating miscellaneous general expenses, the staff disallowed \$750 of director's fees included in EPWC's estimate; adjusted EPWC's estimate of convention expense downward \$1,900 to reflect a projection of past recorded expenses; reduced the California Water Association assessment by 20 percent; and eliminated a duplicate Main San Gabriel Valley Watermaster's administrative assessment already included in operating expenses. The staff's estimate of miscellaneous general expense appears appropriate and will be adopted.

The balance of administrative and general expenses was estimated by EPWC and the staff in the same general manner as the operating and maintenance expenses. For the same reasons previously described, we will adopt the staff's estimates for these expense items.

Taxes Other Than Income

The staff's estimates of taxes other than income exceed EPWC's estimates by \$700 for the test year 1976 and by \$1,000 for the test year 1977. The staff's estimates are based on later data than EPWC's and will be adopted.

Income Taxes

EPWC used the tax rates and investment tax credit of 10 percent for 1976 and 4 percent for 1977 as set forth in the 1975 Tax Reduction Act. The staff used a 4 percent investment tax credit and 1976 income tax rates for 1976 and 1977. Straight-line remaining life depreciation expense was used for tax purposes by both EPWC and the Commission staff. We will adopt the staff's methodology for this matter.

Depreciation Expense and Reserve

EPWC computed depreciation expense by the application of the depreciation rate for each plant account to the average plant balance in that account whereas the staff applied the composite depreciation rate to estimated average plant balance. Both methods are acceptable and provide reasonable results. The staff's basic estimate, as footnoted in the summary of earnings, excludes the contemplated major main and telemetering equipment replacements. It will be noted that EPWC's and the staff's estimates of depreciation expense and reserve are quite comparable when these two major items are included in the staff's computations. Consequently, we will adopt the staff's estimates of depreciation expense and reserve for our revenue requirement computations.

Rate Base

As indicated by the footnotes to the summary of earnings, EPWC's and the staff's estimates of rate base are quite comparable when the major main and telemetering equipment replacements are included in the staff's computations. As with depreciation expense and reserve, we will adopt the staff's estimates for our revenue requirement computations.

Rate of Return

EPWC's consultant testified that his determination of the minimum increase necessary to assure continued and adequate service was derived from cash flow considerations. These considerations translated to an indicated need for an increase of approximately \$91,200 for the year 1976 and an additional \$47,300 for the year 1977 to yield an estimated rate of return of 11.8 percent for 1976 and 11.9 percent for 1977.

The Commission staff's financial examiner recommended a rate of return of 9.25 percent on the staff rate base of \$453,100 for 1977 excluding the major main and telemetering equipment replacement and 9.75 percent rate of return on the staff's 1977 test year rate base of \$597,400 after these two projected plant improvements have been installed.

The staff's financial examiner testified that in arriving at his recommended rates of return, he considered the following factors:

- (a) EPWC's capital structure.
- (b) The additional debt that applicant will incur in financing the construction of the proposed plant improvements.^{2/}
- (c) Recent rates of return authorized by the Commission for water utilities.
- (d) EPWC's quality of service including improvements needed in the water system.
- (e) Total saturation of EPWC's service area.
- (f) Refund obligations due on advances for construction.

^{2/} By Application No. 56412, filed April 16, 1976, EPWC requested authority to borrow \$200,000 at an interest rate of 3 percent per annum in excess of the bank's prime rate to, among other things, complete the contemplated major main and telemetry system replacements.

The staff's recommended range of rate of return of 9.25 percent to 9.75 percent is estimated to provide a return on common equity from 9.40 percent to 10.0 percent after the elimination of certain water rights from common equity. The staff's recommended rates of return appear reasonable and will be adopted.

Service

Statements, testimony, and petitions were presented at the hearing on this matter describing the numerous and various service, erosion, and plumbing problems resulting from the inadequacies of the 70-year-old main located on Oak Avenue between Garibaldi Avenue and Camino Real. EPWC readily admits the necessity of replacing this main and the record supports its intention of so doing. The record also indicates that the service provided by EPWC, exclusive of the Oak Avenue problems, is adequate and satisfactory.

Findings

1. East Pasadena 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 years 1976 and 1977 reasonably indicate the results of East Pasadena Water Company's operations in the near future.

3. A rate of return of 9.25 percent on the adopted rate base of \$453,100 for the test year 1977, exclusive of contemplated major main and telemetry system replacements, is reasonable. Such a rate of return will provide a return on equity of approximately 9.40 percent after the elimination of certain water rights from common equity.

4. A rate of return of 9.75 percent on the adopted 1977 test year rate base of \$597,400, including the contemplated major main and telemetry system replacements, is reasonable. Such a rate of return will provide a return on equity of approximately 10 percent after the elimination of certain water rights from common equity.

5. 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.

6. The authorized increase in rates at the 9.25 percent rate of return for the test year 1977 is expected to provide increased revenues of approximately \$87,200 (36.8 percent) for EPWC's general service metered rates and private fire protection service as contrasted to the requested increase of \$91,000 (39.3 percent) and at the 9.75 percent rate of return for the test year 1977 is expected to provide increased revenues of approximately \$101,000 (42.6 percent) for these services as contrasted to the requested increase of \$138,000 (59.4 percent).

7. EPWC's service, exclusive of that provided on Oak Avenue between Garibaldi Street and Camino Real, 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

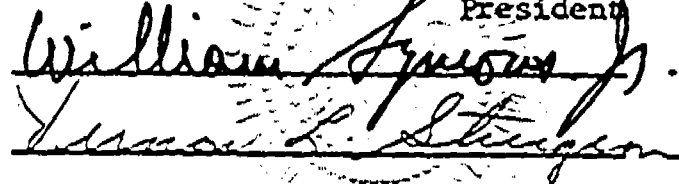
IT IS ORDERED that after the effective date of this order, East Pasadena Water Company is authorized to file the Step 1 revised rate schedules attached to this order as Appendix A and concurrently to cancel and withdraw presently effective schedules for the general metered services and private fire protection. When the major main and telemetry

system replacements are completed, East Pasadena Water Company will be authorized by supplemental order herein to file the Step 2 revised rate schedules attached to this order as Appendix A and concurrently to cancel and withdraw the then effective schedules for the general metered services and private fire protection. Such filings shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the dates of filing. The revised schedules shall apply only to service rendered on and after the effective dates thereof.

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

Dated at _____, California, this 19th day of JULY, 1976.



President


Commissioners

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

Commissioner Robert Batinovich, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
Page 1 of 6

STEP 1 RATES

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The territory within and adjacent to the Cities of Arcadia and Temple City, and adjacent to the Cities of Pasadena and San Marino as described on the service area map, Los Angeles County.

RATES

Service Charge:	Per Meter Per Month	
For 5/8 x 3/4-inch meter	\$ 3.10	(I)
For 3/4-inch meter	3.70	
For 1-inch meter	5.05	
For 1-1/2-inch meter	6.75	
For 2-inch meter	9.00	
For 3-inch meter	16.85	(I)

Quantity Rate:

For all water delivered, per 100 cu.ft.	\$ 0.250	(I)
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The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.

APPENDIX A
Page 2 of 6

STEP 1 RATES

Schedule No. 3

PRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

Applicable to all privately owned fire protection systems.

TERRITORY

Within the entire service area located within and adjacent to the Cities of Arcadia and Temple City, and adjacent to the Cities of Pasadena and San Marino as described on the service area map, Los Angeles County.

(T)
:
(T)

RATE

	<u>Per Service Per Month</u>	
For each inch of diameter of fire sprinkler service connection	\$2.80	(I)

SPECIAL CONDITIONS

1. The customer will pay, without refund, the entire cost of installing the fire sprinkler service, including a detector check meter or other suitable devices equal in size to service line requested. Complete fire sprinkler service will be the property of the utility.

2. The minimum diameter for the fire sprinkler service will be 3 inches, and the maximum diameter will be not more than the diameter of the main to which the service is connected.

(Continued)

APPENDIX A
Page 3 of 6

STEP 1 RATES

Schedule No. 3

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - Contd.

3. The customer's installation must be such as to effectively separate the fire sprinkler system from that of the customer's regular water service. As a part of the sprinkler service installation, there shall be a detector check, or other similar device acceptable to the Company which will indicate the use of water. Any unauthorized use will be charged for at the regular established rate for General Metered Service and/or may be grounds for the Company discontinuing the fire sprinkler service without liability to the Company.

APPENDIX A
Page 4 of 6

STEP 2 RATES

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The territory within and adjacent to the Cities of Arcadia and Temple City, and adjacent to the Cities of Pasadena and San Marino as described on the service area map, Los Angeles County.

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 3.25	(I)
For 3/4-inch meter	3.85	
For 1-inch meter	5.20	
For 1-1/2-inch meter	7.50	
For 2-inch meter	10.00	
For 3-inch meter	18.00	(I)
Quantity Rate:		
For all water delivered, per 100 cu.ft. .	\$ 0.260	(I)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.

APPENDIX A
Page 5 of 6

STEP 2 RATES

Schedule No. 3

PRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

Applicable to all privately owned fire protection systems.

TERRITORY

Within the entire service area located within and adjacent to the Cities of Arcadia and Temple City, and adjacent to the Cities of Pasadena and San Marino as described on the service area map, Los Angeles County.

(T)
:
(T)

RATE

	<u>Per Service Per Month</u>	
For each inch of diameter of fire sprinkler service connection	\$3.20	(I)

SPECIAL CONDITIONS

1. The customer will pay, without refund, the entire cost of installing the fire sprinkler service, including a detector check meter or other suitable devices equal in size to service line requested. Complete fire sprinkler service will be the property of the utility.

2. The minimum diameter for the fire sprinkler service will be 3 inches, and the maximum diameter will be not more than the diameter of the main to which the service is connected.

(Continued)

APPENDIX A
Page 6 of 6

STEP 2 RATES

Schedule No. 3

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - Contd.

3. The customer's installation must be such as to effectively separate the fire sprinkler system from that of the customer's regular water service. As a part of the sprinkler service installation, there shall be a detector check, or other similar device acceptable to the Company which will indicate the use of water. Any unauthorized use will be charged for at the regular established rate for General Metered Service and/or may be grounds for the Company discontinuing the fire sprinkler service without liability to the Company.