

Decision No. 86249

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American  
Water Company, a corporation, for  
authority to raise rates in its  
Coronado, Sweetwater, Baldwin Hills,  
Duarte, San Marino, Monterey, and  
Village Districts.

Application No. 54942  
(Filed June 7, 1974;  
amended December 26, 1974)

Eugene L. Freeland, Attorney at Law, for California-  
American Water Company, applicant.

Wilsey & Ham, by Frederick Bolte, for City of Duarte;  
and Warren Benson, for City of Coronado;  
protestants.

Chickering & Gregory, by David R. Pigott, for Del  
Monte Properties Company; L. W. McIntyre, for  
City of Monterey; John H. Whitney, Attorney  
at Law, Wilsey & Ham, by Frederick Bolte, and  
Touche Ross & Company, by Kenneth M. Stevens,  
for Sweetwater Authority South Bay Irrigation  
District - City of National City; and John Witt,  
City Attorney, by Manley W. Edwards, for City  
of San Diego; interested parties.

Lionel B. Wilson, Attorney at Law, and John D.  
Quinley and Thomas Lew, for the Commission staff.

### O P I N I O N

California-American Water Company (Cal-Am) seeks a  
general rate increase amounting to \$2,663,000, which is  
designed to produce a rate of return for each of Cal-Am's seven  
districts of 10.09 percent. By petition filed December 26, 1974  
Cal-Am sought interim relief pending final determination of the issues  
raised herein. That petition is denied.

Duly noticed hearing was held before Examiner Carol T. Coffey at locations in each of Cal-Am's operating districts. Twenty days of hearing were held in the period May 19 through October 23, 1975, during which testimony was received from seven witnesses of Cal-Am, eight staff witnesses, and 35 members of the public. One hundred sixty-two exhibits were received. The matter was submitted on December 8, 1975 upon receipt of closing briefs. During the hearing Cal-Am's original estimates of revenues, expenses, and rate base were amended. Based on a 10.09 percent rate of return, the present revenue requirement is estimated to be \$2,354,000.

Nature of Applicant

Cal-Am is one of the 45 operating water utility subsidiaries of American Water Works Company, Inc. (American). The latter owns 100 percent of the voting securities of Cal-Am. American is the largest water utility holding company in the United States. American also owns several subsidiary holding companies and American Water Works Service Company, Inc. That service company provides Cal-Am with most of the services it needs to operate as a water utility.

Cal-Am was formed for the purpose of acquiring all of the water properties of the California Water and Telephone Company. That acquisition was accomplished on April 1, 1966, pursuant to Decision No. 70418 dated March 8, 1966. (65 CPUC 281.) The districts so acquired are Coronado, Sweetwater, Baldwin Hills, Duarte, San Marino, and Monterey. Subsequently, on December 31, 1969, the Village Water Company in Ventura County and the Pollock Water Service, Inc. in Monterey County were merged into Cal-Am. Village is operated as a separate district; Pollock is operated as part of the Monterey Peninsula district.

Decision No. 70418, supra, indicated that the purchase price of the water systems acquired by Cal-Am exceeded the book value of the system which resulted in a utility plant acquisition adjustment of \$12,285,371. Decision No. 70418 (65 CPUC 281 at page 286) states as follows:

"It is essential however, that there be no misunderstanding of this Commission's policy as regards the treatment of any excess purchase price in a rate proceeding, and for this reason it is herein stated that it is the policy of this Commission to fix rates on the basis of an original cost rate base and that the plant acquisition adjustment is not included as an element of such a rate base. The purchaser's president testified under cross-examination that he understood such rate-making treatment to represent Commission policy and that he would not urge a treatment inconsistent with such policy. Moreover, the witness for the California-American Water Company stated that it was his understanding that the low return to common shareholders of California-American Water Company resulting from the purchase at a price substantially in excess of the original cost less depreciation of the properties being acquired would not be used or claimed as a basis for the filing of a rate increase application."

Decision No. 70418 permitted the company to amortize the acquisition adjustment through income tax accruals. The unamortized portion remaining is approximately \$9,000,000.

Cal-Am is presently involved in a condemnation proceeding involving its Sweetwater district. As of December 31, 1974 Cal-Am had expended about \$4,472,925 on that court case for a district in which total net plant investment is \$13 million based on original costs. Cal-Am contends in the law suit that the condemnation award should be approximately \$42 million, based on reproduction costs new, less depreciation and going-concern methods of valuation.

#### Service

The record shows that with the exception of Monterey, Cal-Am's service in each of its districts is satisfactory. Cal-Am has, however, reduced its maintenance level in each of its districts due to what Cal-Am deems as insufficient earnings. The record reveals that at this time, Cal-Am's cutbacks in maintenance have not adversely affected service. If these cutbacks were to continue for an extended period of time, however, they would necessarily cause a decrease in the level of service Cal-Am is presently providing. The rate increases accorded herein will enable Cal-Am to restore its maintenance programs to their normal levels.

Cal-Am is experiencing serious service problems in its Monterey district. Case No. 9530 is an investigation into the operations, practices, services, equipment, facilities, and water supply of Cal-Am's Monterey Peninsula district. Decision No. 84527 issued June 10, 1975 in that proceeding found, in part, as follows:

- "8. The presently existing water supplies of Cal-Am's Monterey District are inadequate to meet the normal continuing growth within its service area.
- "9. Cal-Am's Monterey District has reached the limit of its capacity to supply water and, except as provided in the order that follows, no further consumers can be supplied from the system of such utility without injuriously withdrawing the supply wholly or in part from those who have heretofore been supplied by the corporation." (Decision No. 84527, page 69 of mimeographed version.)

There is presently before the Commission a short-term plan to meet the water crisis in the Monterey district. That plan involves the building of an iron removal plant and pipeline that would transmit water from the Carmel Valley into Seaside. (Begonia Iron Removal Plant and the Canada de la Segunda Pipeline.) The cost of this project is estimated to be about \$3,700,000. Representatives of several of the cities in Cal-Am's Monterey district, the Zone 11 Water Advisory Committee, and individual consumers stated that additional water supply is essential and urged that the Begonia Treatment Plant and the Canada de la Segunda Pipeline projects be initiated promptly. The record in Case No. 9530 indicates that the restriction on new connections has caused a severe hardship in the building industry on the Monterey Peninsula and on many individuals.

Cal-Am presented evidence to show that it is unable to finance the projects, but that it would be able to acquire long-term financing through bank loans if the full amount of the increase sought herein is granted.<sup>1/</sup>

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1/ The following resolution was adopted by Cal-Am's Board of Directors on October 24, 1975:

"RESOLVED, that California-American Water Company hereby assures the California Public Utilities Commission that the Company will proceed with the financing and construction of both the Canada de la Segunda transmission facilities and the Begonia Iron Removal Plant project to accomplish improvement of service in its Monterey District if it is granted the rates or rate of return it has proposed for its system-wide operations in the rate increase proceedings now pending before the Commission identified as Application No. 54942."

Rate of Return

Cal-Am seeks a rate of return of 10.09 percent in each of its seven districts, which is related to its capital structure after giving effect to the unamortized portion of the acquisition adjustment ordered in Decision No. 70418, supra. With the exception of the rate of return of 10.5 percent authorized in Decision No. 85299, in January of this year, the proposed rate of return of 10.09 percent exceeds any rate of return heretofore approved for a Class A water utility.

Applicant urges that it should be treated similar in manner to every other independent water company operating in California, in that its actual capital structure rather than an imputed capital structure should be used in determining an adequate return on common equity. Cal-Am also urges that the level of earnings sought herein is the minimum required to attract additional debt financing necessary to provide capital for the improvements required in its Monterey district.

Evidence was introduced by applicant showing that, in response to directives in Decision No. 84527, supra, its primary lender (Bank of America) had recently refused additional loans on the basis that present earnings were insufficient to provide adequate interest coverage. Testimony was also presented to the effect that American will not provide additional equity capital to Cal-Am under its present or proposed level of earnings. We note at this juncture that American, rather than furnishing additional capital to Cal-Am, has depleted Cal-Am's existing capital by charging to Cal-Am the entire cost of opposing the Sweetwater condemnation proceeding. On this point, the Commission stated in Decision No. 84527, supra:

"Since the Sweetwater suit is for the ultimate benefit of American Water Works, as sole stockholder, the holding company has to date caused a net of \$2,408,599.63 to flow out of the utility."

The Commission staff proposes that a rate of return in the range of 8.60 to 8.90 percent be applied to the reasonable rate base determined herein for each district. The staff study indicates that such range of rates of return would provide an allowance for common equity in the range of 16.29 percent to 17.77 percent based on the estimated capital structure of the parent, American Water Works Company, Inc., as of December 31, 1975. The rates of return recommended by the staff assertedly are within the range authorized to comparable water companies in recent periods, and give effect to current trends in interest rates, the size of new capital requirements, interest coverage, and other relevant financial criteria.

The staff witness recommended that if the capital improvements required in Cal-Am's Monterey district are promptly undertaken and long-term financing therefor is acquired, the highest rate of return in his recommended range should be authorized. As provided in the order herein, Cal-Am will be directed to complete all preliminary requirements and begin construction of the Begonia and Canada de la Segunda projects within a 120-day period following a final order concerning the environmental impact of those projects. That period of time, estimated to be nine months after the date of this order, should provide ample time to secure adequate financing for the projects. A rate of return of 8.90 percent therefore is the staff recommendation herein.

The staff witness proposed that the capital structure and debt cost of applicant's parent company be used to test return on common equity for the following reasons:

1. That capital structure and debt cost was adopted in recent rate increase proceedings involving applicant's village, Baldwin Hills, Coronado, and Sweetwater districts.2/

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2/ Decision No. 80164 dated June 13, 1972 in A.52344 (unreported) involving the Village District stated as follows:

"The staff showing in this proceeding utilized the consolidated capital structure and debt cost of AWWC and its subsidiaries, including CAWC. Applicant objected that this is the only instance in seven cases involving subsidiaries of AWWC a capital structure or a debt cost other than those of the applicant were utilized by the staff. Applicant argued that CAWC was a separate corporate entity, duly certified as a public utility by this Commission with over \$21,500,000 of bonds outstanding in the hands of investors who have no affiliation with the AWWC and thus had a definitive capital structure.

"The staff utilized the consolidated capital structure and debt cost of AWWC in this proceeding since CAWC was considered not to have a definitive capital structure of its own and since the Village acquisition was not related to the CW&TC acquisition which gave rise to the original acquisition adjustment.

"We can only conclude that the staff position is reasonable after considering the acquisition of viable operating public utility properties in California by AWWC without Commission authorization, the manipulation of debt by AWWC so that low cost debt of said acquired utilities and of AWWC itself is largely replaced by high cost debt, the presentation to the Commission of requests for authorization of mergers of wholly owned subsidiaries with common management installed by AWWC, the recent contract between AWWC and CAWC by which corporate officers and other employees of CAWC are now employees of American Water Works Service Company, another subsidiary of AWWC, and the contract with said service company for CAWC to receive from it administrative, accountancy, payroll purchasing, insurance, engineering, legal and general services.

(Continued)



2. Secondary leverage will cause American's yield on common equity to be greater than applicant's yield on common equity.
3. The use of American's capital structure negates the downward adjustment of Cal-Am's interest rate on original long-term debt (which resulted from refinancing the original short-term debt of applicant) adopted by the Commission in rate increase applications prior to the Village proceeding (Decision No. 80164).<sup>2/</sup>

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2/ (Continued)

CAWC not only is without independence and not only does not have a definitive capital structure of its own, but it is in effect merely an operating district of AWWC and for purposes of a rate proceeding can properly be so considered. Under such circumstances we cannot accept as reasonable the position of applicant's witness that a potential investor is not particularly interested in the financial condition or the consolidated position of AWWC and looks only at the financial condition of CAWC."

3/ Decision No. 76279 (1969) 70 CPUC 243 found as follows:

"3.a. . . .

- "b. When applicant was organized to acquire the Water Department of CW&IC, AWWC borrowed \$45,000,000 from six banks, two on the West Coast and four in the East, of which \$20,000,000 was loaned to applicant on a 3-year note bearing interest at 5-1/4 percent. Said note expired on March 31, 1969, and applicant has been required to refinance said note with notes bearing interest at 7-1/2 percent from March 31, 1969 to June 9, 1969 and at 8-1/2 percent from said latter date to December 31, 1969, and has sought authority to issue long-term debt at 8-3/4 percent.

(Continued)

4. The use of American's capital structure and debt cost blunts the effect of the acquisition adjustment ordered in Decision No. 70418, supra.

As stated in Decision No. 80164, supra:

"We take note that the extensive hearings on applicant's requests for increases in rates have in large degree resulted from the issue of rate of return. It is not appropriate that applicant's customers be burdened in the future with costs of lengthy and repetitive relitigation of issues stemming from the financial and acquisition manipulations of applicant's parent."

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3/ (Continued)

- "c. Applicant's parents, and their bankers and investment counsellors, failed to refinance AWWC's short-term notes at lower interest rates before it was too late and the prime rate had risen, radically. They were laggard in their efforts to obtain for applicant, and its customers, the benefits of low-cost financing. The public interest would be adversely affected if applicant's and its parents' laggardness were permitted to flow through to the customers in the form of higher rates for water service.
- "d. Applicant's predecessor, CW&TC, had a long financial history with capabilities of borrowing large sums of money at low interest rates.
- "e. Secondary leverage mathematically will cause AWWC's yield on common equity to increase somewhat more than the 8-3/4 percent yield on applicant's common equity, which will be realized from the rates for water service based upon the staff's recommended rate of return of 7.25 percent; tertiary leverage mathematically will cause UUC's yield on common equity to increase substantially more than applicant's yield. The magnitude of such increased yields has not been disclosed on the record of these proceedings.

(Continued)

That same comment is appropriate herein. All of the rate of return issues considered and disposed of in prior rate increase applications of Cal-Am were relitigated in this proceeding. We have carefully considered all of the evidence and argument again advanced by applicant and the staff on those issues. The evidence and argument on those issues need not be repeated herein and again discussed. No new factors were developed which would cause us to adopt a different approach than found reasonable in the Village proceeding (Decision No. 80164) and followed in subsequent proceedings involving Baldwin Hills, Coronado, and Sweetwater.

It appears that the staff rate of return has left little margin for any increases in the cost of construction, interest costs, or operating expenses as a result of inflation, or for other reasons. Because of the essential nature of the Monterey construction projects and to make certain that adequate funds will be available for construction projects in other districts, we shall grant applicant a 9.2 percent rate of return (0.3 percent above the staff recommendation) related to the capital structure and debt costs of applicant's parent. This will provide applicant with annual gross revenues of about \$250,000 more than would be derived under the staff recommended rate of return; more importantly it will increase applicant's bondable capacity by more than \$1 million. Applicant also shall be required to maintain its present recorded capital structure in which long-term

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2/ (Continued)

- "f. After consideration of the full record in the proceeding and the above-mentioned findings regarding rate of return, an average future rate of return of 7.25 percent is reasonable. This will provide applicant with a yield of approximately 8.75 percent on common equity assuming 43.6 percent of long-term debt at an interest rate of 5.25 percent." (70 CPUC at pages 263 and 264.)

borrowings from nonaffiliates do not represent more than 50 percent of its total capitalization until the permanent financing of the near-term portion of the Monterey projects has been completed. That is, we will require that the balance of the cost of financing plant additions be obtained from some combination of internally generated funds, additional common stock sales, and/or advances from affiliates. Applicant will be authorized to establish increased revenues designed to produce that rate of return in consideration of its assurance that immediate steps will be taken to obtain financing for and begin construction of the Begonia and Canada de la Segunda projects. That rate of return and corresponding return on common equity should provide adequate interest coverage and applicant should be able to attract needed new debt financing.

Applicant will be required to show good faith attempts to secure the necessary financing and to take all of the preliminary steps necessary to begin those construction projects within 120 days after the effective date of a final order concerning the environmental impact of those projects. At the end of the 120-day period the rates authorized herein will revert to a lower level based on a rate of return of 8.60 percent for all districts other than Monterey and to the present level of rates for the Monterey District. Rates will be adjusted upward from those levels in this or any subsequent proceeding only upon a showing that applicant has acquired or its parent has supplied adequate financing for those projects and construction thereon has commenced.

Adjustment of rates in the foregoing manner is consistent with actions taken by regulatory agencies in other jurisdictions with respect to American subsidiaries. Long-term debt financing is the criterion used herein inasmuch as American is not willing to supply additional equity capital to Cal-Am, although it plans to add \$20 million to the common equity of other subsidiaries.<sup>4/</sup>

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<sup>4/</sup> American Water Works Company, Inc. 1975 Stockholder's Annual Report (of which official notice is taken) states in part, as follows:

"Financing

"In our inflationary economy, the timing for the sale of securities by our operating companies is almost always contingent upon the receipt of rate increase authorizations allowing revenues in amounts which will provide adequate earnings and coverages to meet indenture and charter requirements, to be competitive in the existing money market, and to attract prospective investors. At this time last year several System operating companies were awaiting final rate increase authorizations before formulating definitive financing programs.

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Results of Operations

Applicant and the staff presented estimated results of operations for a 1975 test year under present and proposed rates for each of applicant's seven districts. The final exhibits presented

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4/ (Continued)

" . . . Monmouth Consolidated Water Company accepted in September an interim rate increase authorization, a condition of which required the parent company to purchase \$5,000,000 of additional common stock of the company as proposed in the rate increase application.

" . . . California-American Water Company borrowed \$1,000,000 under a term loan agreement with a bank. The terms provide for a fluctuating prime interest rate plus a maximum 1/2% and equal annual repayments over the five-year term of the borrowing.

" . . . An essential element in the sale of capital securities by System operating companies is an adequate common equity ratio. Although retention of earnings by the subsidiaries assists in the maintenance of minimum equity ratios, additional common equity is required when substantial amounts of other securities are being offered for sale. The Company proposes to add \$20,000,000 to the common equity of subsidiaries through the purchase of common stock. . . .

"Utilizing the proceeds from the bank borrowings and other available funds, the Company increased its investments in securities of subsidiaries [in 1975] by purchasing common stocks in the aggregate amount of \$6,000,000 from four operating companies."

by applicant and the staff revised earlier estimates and eliminated many differences between their presentations.<sup>5/</sup> In general, the staff estimates present a more favorable picture of test year operations than the estimates of applicant. In its closing brief, the staff recommends the adoption of its estimates of revenue and income taxes for each district. The brief further states that the staff believes that, with the exception of Coronado and Sweetwater districts, the Commission could accept applicant's lower total expense estimates inasmuch as they benefit the customer. However, the staff recommends that its results of operations for the Sweetwater and Coronado districts should be adopted as purportedly they are fair to both the utility and its customers. In the Coronado and Sweetwater districts the staff estimates of operating expenses and administrative and general expenses are less than those of applicant. The staff estimates of average test-year rate base are generally less than those of applicant.

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<sup>5/</sup> The final exhibits showing test year estimates of operating results are the following:

<u>District</u>	<u>Exhibit No.</u>	
	<u>Applicant</u>	<u>Staff</u>
Monterey	140	156
Baldwin Hills	80	133
Village	87	157
San Marino	90	158
Duarte	94	159
Coronado	68	160
Sweetwater	74	161

The following table depicts the composite test-year results of operations for the seven districts as estimated by applicant and the staff:

TABLE 1

California-American Water Company  
Composite Operating Results  
For an Estimated 1975 Year  
Under Present and Proposed Rates  
(+000)

	<u>Applicant</u>		<u>Staff</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$14,383.1	\$16,737.2	\$14,476.5	\$16,918.6
Total Expenses	11,178.7	12,422.7	11,494.6	12,787.1
Net Operating Revenue	3,204.4	4,314.5	2,981.9	4,131.5
Average Rate Base	40,102.9	40,102.9	39,714.1	39,714.1
Rate of Return	7.99%	10.76%	7.51%	10.40%

Operating Revenues

In each district, applicant's and the staff's estimates of water consumption are almost identical. Revenue estimates are different, however, because of the more detailed pricing method employed by the staff. Applicant applied an average rate to water consumption estimate, whereas the staff priced out the water consumption according to type of customer and amount used. The staff method is the more accurate and will be adopted for the purposes of this proceeding.

In the Monterey district, the staff has imputed revenues for services to Del Monte Properties Company as if its long-standing contract rate did not exist. The Commission has adopted that procedure in each prior rate proceeding involving the Monterey district and that procedure also will be adopted herein.



Operating Expenses

In the five districts where operating expense estimates of the staff exceed those of applicant, applicant has placed into effect short-term operating efficiencies which were not concurred in by the staff nor used in developing its estimates. However, in its closing brief, the staff states that the Commission should adopt, for the purposes of this proceeding only, applicant's estimates for each of those districts on the basis that if applicant believes that it can achieve the efficiencies inherent in its operating expense estimates, adoption of those estimates is in the best interest of applicant's ratepayers. For the Baldwin Hills, San Marino, Village, and Duarte districts, we will adopt applicant's estimates of test-year operating expenses (except water cost, power, and income taxes) for the purposes of this proceeding.

In the Sweetwater district, the major differences between applicant and the staff are the estimates of payroll, purchased water, and purchased power expenses. In the Coronado district, the basic difference is in estimates for payroll costs. During 1974, Cal-Am fired two work crews employed jointly in the Sweetwater and Coronado districts. At the close of the hearing those crews had not been replaced, although both applicant and the staff included payroll for the unfilled positions in their operating expense estimates. It is staff's belief that in order for the company to adequately and properly maintain its water properties in these two districts, the company needs to fill these two work crew positions. The reason for the differing payroll estimate for both districts is because Cal-Am adopted the 1973 man hours devoted to operations and maintenance and applied thereto 1975 rates of pay. On the other hand, the staff started with the 1974 work hours (including overtime) charged to expense and added the additional normal expensed hours for the two

work crews deleted in 1974, and then applied the latest 1975 contracted salary levels to these total hours. Staff believes its estimates are more accurate because applicant's 1974 work hours reflect necessary improvements in efficiency due to the absence of the two work crews. Cal-Am has indicated that the work crews will be replaced. The higher estimates developed by the staff will be adopted. Cal-Am will be directed in the order which follows to replace the work crews, in order that adequate service will be provided to its customers.

In the Sweetwater district, Cal-Am's estimate adopts a 1,012.7 acre-foot greater quantity of required purchased water to recognize the loss from evaporation which applies to purchased water stored in the Sweetwater reservoir for peak-load withdrawals. The staff asserts that this is the first Sweetwater district rate proceeding that applicant has made this claim. The staff's showing of the average safe yield of the reservoir system includes this evaporation loss. Staff submits that applicant has failed to meet its burden of proving the reasonableness of its estimate. Adoption of the staff estimate of purchased water expense for the Sweetwater district will be consistent with past decisions involving that district and will be reasonable for the purposes of this proceeding.

Exhibit 141 is a letter dated October 10, 1975 in which Cal-Am requests Commission authority to amortize over a five-year period beginning October 1, 1975, \$101,484.77, which represents the remainder after federal income tax deductions of the aggregate expense of \$195,161.77 assertedly incurred by Cal-Am in connection with Case No. 9530, supra, involving Monterey Peninsula water supply problems. Included in Cal-Am's Monterey district test year regulatory commission expenses is \$20,100 for amortization of the net expenses assertedly incurred in connection with Case No. 9530. The Commission had not acted on Cal-Am's request at the close of the hearing. Resolution No. FA-562 adopted by the Commission on March 9, 1976 reads as follows:

"California-American Water Company has requested authorization by letter dated October 10, 1975, to amortize \$195,161.77 in expenses pertaining to Case No. 9530 over a five-year period.

"The Commission has considered the matter and is of the opinion that the request should be granted subject to the condition that of the allowable expenses of \$187,980.38 be further reduced by American Water Works Service Company's charges of \$122,517.81 leaving a balance of \$65,462.57 allowable expenses before estimated realized tax savings of \$31,365.57.

"BE IT RESOLVED that California-American Water Company be, and hereby is, authorized for accounting purposes to amortize \$65,462.57 less the estimated realizable tax savings of \$31,356.57 over a five-year period retroactive to January 1, 1976. The Commission reserves the right to review this matter further if it should become an issue in any proceeding."

As indicated in the above resolution the amount authorized for amortization has been reduced to \$65,462.57, less the estimated realized tax savings of \$31,356.57. We will allow amortization of the net annual amount of \$6,821 to be included in operating expenses for this proceeding. In all other respects applicant's estimates of operating expenses for its Monterey district will be adopted.

Operating expenses adopted herein reflect purchased electric power rates in effect in May 1976.

Income Taxes

Applicant and the staff differ in computing income taxes. Applicant uses Cal-Am's actual interest expense as a deduction from gross revenues; whereas the staff, to be consistent with the capital structure proposed by it in connection with its rate base recommendations, used the interest rate of the parent company and applied that interest rate to Cal-Am's debt.

The hypothetical interest rate used by the staff is less than the anticipated interest rate used by Cal-Am, thus resulting in a lower interest deduction and a greater income tax allocation by the staff. Cal-Am did not specifically oppose the use of income tax expense computed on the staff method, but it strongly opposed the use of its parent's capital structure in rate of return determinations.

Hereinbefore we adopt the staff's recommendations that the appropriate capital structure to be used in establishing a reasonable rate of return and in evaluating return on equity is the consolidated capital structure of the parent company and its affiliates. To be consistent, we should use the same cost of debt in estimating income tax expense as we find reasonable for other purposes. That method is similar to that adopted in Citizens Utilities Company of California (1963) 61 CPUC 37, 41, 42.

Amortization of Abnormal Losses or Expenses

In the Village district Cal-Am was required to retire 13 wells prematurely. Water produced from several of the wells exceeded the maximum limit for total dissolved solids established by both the State Department of Public Health and the Ventura County Health Department. At two other wells the iron content was excessive. Poor and uneconomical production due to well draw down and pumps breaking suction caused the ceasing of production at four additional wells.

Applicant has requested that for ratemaking purposes it be allowed to amortize as an expense, the unrealized depreciable investment in these wells reduced by tax savings and estimated salvage value, over the remaining life of the property. Staff supports this request. The Commission adopted a similar procedure in a case involving the Rodeo Water Co. (Rodeo Improvement Club v Rodeo Water Co. (1926) 28 CRC 677). The request is reasonable for the purposes of this proceeding.

Rate Base Adjustment

The principal differences in the test year average rate base involve exclusion of wells which the staff believes are nonproductive or too costly to operate, and the manner in which staff treats advances for construction.

In the Monterey district, applicant's estimate of rate base exceeds staff's estimate by about \$30,000. One of the reasons for this difference is staff's exclusion of the Plumas Well No. 1. This well collapsed during its initial testing period. When a new well is nonproductive, the Uniform System of Accounts recommends that the cost of digging that well should be charged to operating expenses. (Account 315, Uniform System of Accounts - Water Utilities). Staff submits that its application of this rule is correct, and that unless the Commission authorizes applicant to charge these costs to Account 141, Extraordinary Property Losses, the Commission should adopt staff's recommendation. That recommendation is adopted.

Another reason for differing rate base estimates for the Monterey district is that the staff has excluded certain plant from the Luxton well. Although this well is nonproductive, applicant argues that it should remain in the plant accounts because it is used to test the water level of the Seaside aquifer for salt water

intrusion. Staff concurs in this recommendation. However, staff believes that certain items included in the plant accounts for this well are not needed in its operation as a test well, and therefore should be excluded from plant in service. The items not required for operation of Luxton well as a test well will be excluded from rate base.

The remaining difference in rate base for the Monterey district is attributed to staff's treatment of advances for construction and contributions in aid of construction. Staff's December 31, 1974 estimate for these two accounts was adjusted to reflect the recommendation made by the staff accountant in Exhibit 40. The staff witness testified that Accounts Nos. 241 and 265 were understated in the amount of \$20,070 and \$3,980, respectively. Staff's estimate for these two accounts included these amounts in deriving its average rate base for the test year. For ratemaking purposes, however, applicant has excluded from recording in these two accounts monies not actually expended on plant. Staff submits that such rate base treatment is erroneous. The Commission has previously addressed this issue and has upheld the staff's position.

(Southern California Edison (1954) 53 CPUC 385, 410; Southern Counties Gas (1952) 51 CPUC 419, 425; and Rossmoor Sanitation Utility, Decision No. 84040 (1975).) Staff's recommendation is consistent with Accounts Nos. 241 and 265 of the Uniform System of Accounts for Water Utilities and is adopted.

In the Sweetwater and Coronado districts, the major difference between applicant's and staff's rate base estimate is due to applicant's argument that for ratemaking purposes advances and contributions not expended on plant should not be included in deriving the average rate base for the test year. In Sweetwater applicant's estimate for these two accounts would seem to be understated by about \$165,000, and in the Coronado district the understated amount is about \$30,000.

Applicant's estimate of rate base in the Village district exceeds the staff's estimate due to applicant's failure to carry forward to 1975, theoretical advances from mutuals, \$58,000. Staff

made this adjustment to remain consistent with adjustments made in prior Village rate case decisions (see Decision No. 80164). Staff is unable to account for the remaining \$18,164 difference in rate base estimates for the test year.

Rate base estimates for the Baldwin Hills district differ due to staff's exclusion from rate base of the Mt. Vernon Well No. 1 (\$14,295). The staff witness testified that this well had not been used since 1970 and properly belongs in Other Physical Property on the basis that it is not serving any utility purpose at this time.

In the San Marino district applicant's rate base estimate is \$3,870,100, and staff's estimate is \$3,819,900. Part of the reasons for this difference is staff's exclusion of the Mission View well (\$38,169) and certain Gidley well equipment (\$1,723). The staff accountant recommended the exclusion of the Mission View well from plant accounts because this well is a low producer and is expensive to operate since it sands up on operations and because it has not been used since 1971. Applicant argued that this well is a stand-by well. Staff urged that inasmuch as the well has not been used since 1971, it is an expensive stand-by plant, and should be transferred to Other Physical Property.

Finally, there is a \$30,000 difference in rate base estimates for the Duarte district. Although not a part of the record, the staff brief states that the major part of this difference is caused by staff's original reserve estimate being understated by about \$25,000. The figures staff used in Exhibit 64 was an estimate, and when recorded figures were given to staff as shown in Exhibit 95, staff realized that its original estimate had been understated.

The rate base estimates of the staff for Sweetwater, Coronado, Village, Baldwin Hills, and San Marino districts appear reasonable and consistent with past decisions, and will be adopted. The staff estimates for Duarte apparently are in error; applicant's estimate of average test-year rate base will be adopted for Duarte.

Tables 2 through 8, which follow, show for each district, the summary of earnings for that district as estimated by applicant and by the staff under present and proposed rates, and the summary of earnings for that district adopted herein based on a rate of return of 9.2 percent.

TABLE 2

California-American Water Company  
Monterey District

SUMMARY OF EARNINGS  
(Year 1975 Estimated)

Item	Applicant		Staff		Adopted
	Present	Proposed	Present	Proposed	
	Rates	Rates	Rates	Rates	
(Dollars in Thousands)					
Operating Revenues	\$ 3,422.0	\$ 4,066.8	\$ 3,442.9	\$ 4,097.0	\$ 3,627.4
Operating Expenses					
<u>Oper. &amp; Maint. Exp.</u>					
Payroll	448.6	448.6	434.4	434.4	448.6
Purchased Water	-	-	-	-	-
Water Assessments	-	-	-	-	-
Purchased Power	327.9	327.9	329.3	329.3	329.3
Uncollectibles	11.3	13.4	11.3	13.4	12.0
Other O&M Expenses	317.6	317.6	324.0	324.0	317.6
Total O&M Exps.	1,105.4	1,107.5	1,099.0	1,101.1	1,107.5
<u>Admin. &amp; Gen. Exp.</u>					
A&G Salaries	112.1	112.1	112.3	112.3	112.1
Off. Sup. & Other Exps.	45.0	45.0	56.2	56.2	45.0
Property Insurance	12.0	12.0	16.6	16.6	12.0
Injuries & Damages	9.4	9.4	10.5	10.5	9.4
Empl. Pensions & Ben.	92.5	92.5	91.0	91.0	92.5
Regulatory Comm. Exp.	25.2	25.2	5.1	5.1	11.7
Outside Serv. Empl.	88.8	88.8	114.1	114.1	88.8
Misc. Gen. Expenses	1.7	1.7	2.6	2.6	1.7
Maint. of Gen. Plant	-	-	1.9	1.9	-
Rents	28.8	28.8	29.4	29.4	28.8
Total A&G Exps.	415.5	415.5	439.7	439.7	402.0
Depreciation Expense	365.6	365.6	358.9	358.9	358.9
Amortization (Cement Lining)	1.5	1.5	-	-	1.5
Taxes - Except Income	344.6	346.2	345.7	347.0	344.5
Income Taxes	178.6	516.3	251.0	593.8	363.4
Total Expenses	2,411.2	2,752.6	2,494.3	2,840.5	2,577.8
Net Operating Revenues	1,010.8	1,314.2	948.6	1,256.5	1,049.6
Average Rate Base	11,422.5	11,422.5	11,408.2	11,408.2	11,408.2
Rate of Return	8.85%	11.51%	8.32%	11.01%	9.2%



TABLE 3

California-American Water Company  
Baldwin Hills District

SUMMARY OF EARNINGS  
(Year 1975 Estimated)

Item	Applicant		Staff		Adopted
	Present	Proposed	Present	Proposed	
	Rates	Rates	Rates	Rates	
(Dollars in Thousands)					
Operating Revenues	\$ 717.4	\$ 863.6	\$ 728.9	\$ 880.9	\$ 880.9
<u>Operating Expenses</u>					
<u>Oper. &amp; Maint. Exp.</u>					
Payroll	81.1	81.1	82.2	82.2	81.1
Purchased Water	168.1	168.1	176.4	176.4	176.4
Water Assessments	28.9	28.9	43.4	43.4	43.4
Purchased Power	61.3	61.3	65.5	65.5	80.0
Uncollectibles	2.2	2.2	2.1	2.1	2.1
Other O&M Exps.	83.9	83.9	91.7	91.7	83.9
Total O&M Exps.	425.5	425.5	461.3	461.3	466.9
<u>Admin. &amp; Gen. Exp.</u>					
A&G Salaries	20.1	20.1	19.2	19.2	20.1
Off. Sup. & Other Exps.	8.8	8.8	10.8	10.8	8.8
Property Insurance	3.0	3.0	3.7	3.7	3.0
Injuries & Damages	1.4	1.4	2.6	2.6	1.4
Empl. Pensions & Ben.	16.7	16.7	13.9	13.9	16.7
Regulatory Comm. Exp.	1.0	1.0	1.1	1.1	1.0
Outside Serv. Empl.	20.3	20.3	21.5	21.5	20.3
Misc. Gen. Expenses	.6	.6	.8	.8	.6
Maint. of Gen. Plant	-	-	5.0	5.0	-
Rents	5.2	5.2	5.8	5.8	5.2
Total A&G Exps.	77.1	77.1	84.4	84.4	77.1
Depreciation Expense	55.2	55.2	60.9	60.9	60.9
Taxes - Except Income	68.1	68.1	66.5	66.9	66.8
Income Taxes	(20.0)	57.0	(23.7)	56.2	57.1
Total Expenses	605.9	682.9	649.4	729.7	728.8
Net Operating Revenues	111.5	180.7	79.5	151.2	152.1
Average Rate Base	1,822.8	1,822.8	1,809.4	1,809.4	1,809.4
Rate of Return	6.12%	9.91%	4.39%	8.36%	8.41%
(Red Figure)					

TABLE 4

California-American Water Company  
Village District

SUMMARY OF EARNINGS  
(Year 1975 Estimated)

Item	Applicant		Staff		Adopted
	Present	Proposed	Present	Proposed	
	Rates	Rates	Rates	Rates	
(Dollars in Thousands)					
Operating Revenues	\$1,723.1	\$2,060.6	\$1,773.7	\$2,133.6	\$2,061.8
<u>Operating Expenses</u>					
<u>Oper. &amp; Maint. Exp.</u>					
Payroll	96.1	96.1	105.4	105.4	96.1
Purchased Water	744.2	744.2	754.8	754.8	746.2
Water Assessments	-	-	-	-	-
Purchased Power	30.0	30.0	29.6	29.6	31.0
Uncollectibles	2.6	2.6	4.4	5.3	5.2
Other O&M Exps.	71.8	71.8	79.0	79.0	71.8
Total O&M Exps.	944.7	944.7	973.2	974.1	950.3
<u>Admin. &amp; Gen. Exp.</u>					
A&G Salaries	34.6	34.6	24.5	24.5	34.6
Off. Sup. & Other Exps.	20.1	20.1	21.7	21.7	20.1
Property Insurance	6.7	6.7	7.6	7.6	6.7
Injuries & Damages	1.5	1.5	1.8	1.8	1.5
Empl. Pensions & Ben.	21.6	21.6	20.9	20.9	21.6
Regulatory Comm. Exp.	2.9	2.9	1.7	1.7	2.9
Outside Serv. Empl.	32.1	32.1	42.1	42.1	32.1
Misc. Gen. Expenses	.8	.8	1.6	1.6	.8
Maint. of Gen. Plant	-	-	1.5	1.5	-
Rents	22.2	22.2	22.2	22.2	22.2
Total A&G Exps.	142.5	142.5	145.6	145.6	142.5
Depreciation Expense	156.6	156.6	147.0	147.0	147.0
Amortization of Prop. Losses	9.9	9.9	9.9	9.9	9.9
Taxes - Except Income	183.7	183.7	188.8	188.8	188.8
Income Taxes	57.7	235.5	77.5	266.6	242.9
Total Expenses	1,495.1	1,672.9	1,542.0	1,732.0	1,681.4
Net Operating Revenues	228.0	387.7	231.7	401.6	380.4
Average Rate Base	4,210.7	4,210.7	4,134.5	4,134.5	4,134.5
Rate of Return	5.41%	9.21%	5.60%	9.71%	9.2%

TABLE 5

California-American Water Company  
San Marino District

SUMMARY OF EARNINGS  
(Year 1975 Estimated)

Item	Applicant		Staff		Adopted
	Present	Proposed	Present	Proposed	
	Rates	Rates	Rates	Rates	
(Dollars in Thousands)					
Operating Revenues	\$1,312.3	\$1,578.1	\$1,311.5	\$1,615.9	\$1,601.6
Operating Expenses					
<u>Oper. &amp; Maint. Exp.</u>					
Payroll	133.1	133.1	137.8	137.8	133.1
Purchased Water	3.8	3.8	3.6	3.6	3.6
Water Assessments	115.1	115.1	125.8	125.8	125.8
Purchased Power	253.5	253.5	279.4	279.4	298.7
Uncollectibles	1.8	1.8	1.8	1.8	2.1
Other O&M Exps.	130.1	130.1	134.9	134.9	130.1
Total O&M Exps.	637.4	637.4	683.3	683.3	693.4
<u>Admin. &amp; Gen. Exp.</u>					
A&G Salaries	40.7	40.7	40.3	40.3	40.7
Off. Sup. & Other Exps.	18.0	18.0	20.7	20.7	18.0
Property Insurance	4.9	4.9	6.6	6.6	4.9
Injuries & Damages	3.2	3.2	5.1	5.1	3.2
Empl. Pensions & Ben.	28.7	28.7	31.8	31.8	28.7
Regulatory Comm. Exp.	2.1	2.1	2.4	2.4	2.1
Outside Serv. Empl.	35.9	35.9	39.1	39.1	35.9
Misc. Gen. Expenses	1.1	1.1	1.2	1.2	1.1
Maint. of Gen. Plant	-	-	5.5	5.5	-
Rents	10.0	10.0	10.8	10.8	10.0
Total A&G Exps.	144.6	144.6	163.5	163.5	144.6
Depreciation Expense	136.5	136.5	126.4	126.4	126.4
Taxes - Except Income	156.4	156.4	146.7	149.4	149.3
Income Taxes	(16.5)	123.5	(19.6)	139.4	136.5
Total Expenses	1,058.4	1,198.4	1,100.3	1,262.0	1,250.2
Net Operating Revenues	253.9	379.7	211.2	353.9	351.4
Average Rate Base	3,870.1	3,870.1	3,819.9	3,819.9	3,819.9
Rate of Return	6.56%	9.81%	5.53%	9.26%	9.2%
(Red Figure)					

(Red Figure)

TABLE 6

California-American Water Company  
Duarte District

SUMMARY OF EARNINGS  
(Year 1975 Estimated)

Item	Applicant		Staff		Adopted
	Present	Proposed	Present	Proposed	
	Rates	Rates	Rates	Rates	
(Dollars in Thousands)					
Operating Revenues	\$ 649.5	\$ 726.6	\$ 660.7	\$ 749.7	\$ 734.3
<u>Operating Expenses</u>					
<u>Oper. &amp; Maint. Exp.</u>					
Payroll	80.5	80.5	82.2	82.2	80.5
Purchased Water	-	-	-	-	-
Water Assessments	2.1	2.1	1.1	1.1	2.1
Purchased Power	110.3	110.3	105.9	105.9	112.2
Uncollectibles	5.2	5.2	5.2	5.2	5.2
Other O&M Exps.	74.7	74.7	77.7	77.7	74.7
Total O&M Exps.	272.8	272.8	272.1	272.1	274.7
<u>Admin. &amp; Gen. Exp.</u>					
A&G Salaries	17.5	17.5	17.3	17.3	17.5
Off. Sup. & Other Exps.	8.8	8.8	11.2	11.2	8.8
Property Insurance	2.8	2.8	3.4	3.4	2.8
Injuries & Damages	1.5	1.5	2.4	2.4	1.5
Empl. Pensions & Ben.	16.2	16.2	13.6	13.6	16.2
Regulatory Comm. Exp.	1.0	1.0	1.0	1.0	1.0
Outside Serv. Empl.	20.1	20.1	21.7	21.7	20.1
Misc. Gen. Expenses	.6	.6	.3	.3	.6
Maint. of Gen. Plant	-	-	3.5	3.5	-
Rents	5.2	5.2	5.3	5.3	5.2
Total A&G Exps.	73.7	73.7	79.7	79.7	73.7
Depreciation Expense	66.2	66.2	67.6	67.6	66.2
Taxes - Except Income	67.5	67.5	66.4	66.4	67.5
Income Taxes	21.6	62.3	37.9	84.7	77.9
Total Expenses	501.8	542.5	523.7	570.5	560.0
Net Operating Revenues	147.7	184.1	137.0	179.2	174.3
Average Rate Base	1,893.0	1,893.0	1,863.1	1,863.1	1,893.0
Rate of Return	7.80%	9.73%	7.35%	9.62%	9.2%

TABLE 7

California-American Water Company  
Coronado District

SUMMARY OF EARNINGS  
(Year 1975 Estimated)

Item	Applicant		Staff		Adopted
	Present	Proposed	Present	Proposed	
	Rates	Rates	Rates	Rates	
(Dollars in Thousands)					
Operating Revenues	\$2,044.7	\$2,221.7	\$2,044.7	\$2,221.7	\$2,111.7
<u>Operating Expenses</u>					
<u>Oper. &amp; Maint. Exp.</u>					
Payroll	146.1	146.1	136.6	136.6	136.6
Purchased Water	875.0	875.0	875.0	875.0	875.0
Water Assessments	-	-	-	-	-
Purchased Power	3.2	3.2	2.9	2.9	3.1
Uncollectibles	10.2	11.1	12.5	13.6	13.1
Other O&M Exps.	90.7	90.7	93.0	93.0	93.0
Total O&M Exps.	1,125.2	1,126.1	1,120.0	1,121.1	1,120.8
<u>Admin. &amp; Gen. Exp.</u>					
A&G Salaries	44.5	44.5	41.3	41.3	41.3
Off. Sup. & Other Exps.	19.5	19.5	15.8	15.8	15.8
Property Insurance	6.8	6.8	8.4	8.4	8.4
Injuries & Damages	2.3	2.3	2.3	2.3	2.3
Empl. Pensions & Ben.	31.4	31.4	24.6	24.6	24.6
Regulatory Comm. Exp.	3.9	3.9	2.6	2.6	2.6
Outside Serv. Empl.	46.1	46.1	46.7	46.7	46.7
Misc. Gen. Expenses	1.5	1.5	1.1	1.1	1.1
Maint. of Gen. Plant	-	-	2.0	2.0	2.0
Rents	6.0	6.0	6.0	6.0	6.0
Total A&G Exps.	162.0	162.0	150.8	150.8	150.8
Depreciation Expense	159.6	159.6	156.9	156.9	156.9
Taxes - Except Income	178.4	178.4	178.3	178.3	178.3
Income Taxes	57.2	150.0	94.6	187.3	145.3
Total Expenses	1,682.4	1,776.1	1,700.6	1,794.4	1,752.1
Net Operating Revenues	362.3	445.6	344.1	427.3	389.6
Average Rate Base	4,270.0	4,270.0	4,234.7	4,234.7	4,234.7
Rate of Return	8.48%	10.44%	8.13%	10.09%	9.2%

TABLE 8

California-American Water Company  
Sweetwater District

SUMMARY OF EARNINGS  
(Year 1975 Estimated)

Item	Applicant		Staff		Adopted
	Present	Proposed	Present	Proposed	
	Rates	Rates	Rates	Rates	
(Dollars in Thousands)					
Operating Revenues	\$4,514.1	\$ 5,219.8	\$ 4,514.1	\$ 5,219.8	\$ 4,812.9
<u>Operating Expenses</u>					
<u>Oper. &amp; Maint. Exp.</u>					
Payroll	481.6	481.6	460.5	460.5	460.5
Purchased Water	835.5	835.5	762.0	762.0	762.0
Water Assessments	421.0	421.0	421.0	421.0	421.0
Purchased Power	105.8	105.8	118.0	118.0	172.5
Uncollectibles	22.6	26.1	23.9	27.8	25.2
Other O&M Exps.	275.5	275.5	294.6	294.6	294.6
Total O&M Exps.	2,142.0	2,145.5	2,080.0	2,083.9	2,135.8
<u>Admin. &amp; Gen. Exp.</u>					
A&G Salaries	95.7	95.7	100.1	100.1	100.1
Off. Sup. & Other Exps.	39.7	39.7	37.7	37.7	37.7
Property Insurance	13.8	13.8	18.4	18.4	18.4
Injuries & Damages	7.3	7.3	8.1	8.1	8.1
Empl. Pensions & Ben.	95.3	95.3	107.9	107.9	107.9
Regulatory Comm. Exp.	8.4	8.4	5.0	5.0	5.0
Outside Serv. Empl.	111.2	111.2	112.8	112.8	112.8
Misc. Gen. Expenses	2.4	2.4	3.1	3.1	3.1
Maint. of Gen. Plant	-	-	8.6	8.6	8.6
Rents	8.5	8.5	8.5	8.5	8.5
Total A&G Exps.	382.3	382.3	410.2	410.2	410.2
Depreciation Expense	299.3	299.3	297.8	297.8	297.8
Taxes - Except Income	556.7	556.7	551.4	551.4	551.4
Income Taxes	43.6	413.5	144.9	514.7	272.9
Total Expenses	3,423.9	3,797.3	3,484.3	3,858.0	3,668.1
Net Operating Revenues	1,090.2	1,422.5	1,029.8	1,361.8	1,144.8
Average Rate Base	12,613.8	12,613.8	12,444.3	12,444.3	12,444.3
Rate of Return	8.64%	11.28%	8.28%	10.94%	9.2%

Findings

1. Applicant is a public utility supplying water to customers located in seven districts in California. Applicant is a wholly owned subsidiary of American Water Works Company.

2. Applicant seeks an increase in revenues of approximately \$2,354,000 which is designed to produce a rate of return of 10.09 percent in each of its operating districts.

3. Decision No. 84527 dated June 10, 1975 in Case No. 9530 found, inter alia, that existing water supplies of Cal-Am's Monterey district are inadequate to meet the normal continuing growth within its service area, and that no further consumers can be supplied without injuriously withdrawing the supply wholly or in part from existing customers. A ban was placed on new connections. A short-term plan to increase the water supply included construction of the Begonia Treatment Plant and the Canada de la Segunda pipeline at an estimated cost of \$3.7 million and a maximum construction period of three years for the pipeline.

4. The cities and individual residents within Cal-Am's Monterey service area urge the Commission to order immediate construction of the Begonia and Canada de la Segunda projects.

5. In response to directives in Decision No. 84527, Cal-Am has sought long-term financing for the Begonia and Canada de la Segunda projects and has been refused by its primary lender (Bank of America) on the basis of inadequate earnings. Applicant's parent company has refused to supply additional equity capital or to arrange or guarantee additional debt financing for Cal-Am.

6. The Board of Directors of Cal-Am has passed a resolution indicating that those projects will be constructed if the full amount of the rate increase sought herein is granted.

7. Based on their financial analyses, witnesses for applicant made recommendations concerning reasonable rates of return for applicant's operations. Applicant asserts that its proposed rate of return of 10.09 percent is necessary to provide the interest coverage required by lenders in order to provide new long-term debt financing of the necessary capital improvements for its Monterey district.

8. The staff witness, analysing the same data as applicant, recommended a rate of return in the range of 8.6 to 8.9 percent on 1975 estimated rate base; the higher end of the range was recommended if applicant increases its investment by constructing the necessary projects in its Monterey district; if not, the lower end of the range was recommended.

9. In prior rate increase proceedings involving applicant, capital structure and debt cost of applicant's parent were used for determining the reasonable return on common equity for the reasons outlined in the findings in those decisions. (Such decisions include Decision No. 70418 (1966) 65 CPUC 280; Decision No. 78923 (1971) 72 CPUC 409; and Decision No. 80164 (1972) unreported.) The factors which supported those findings remain relevant and material to the issues in this proceeding, such factors are still true and correct, and the findings in the cited prior decisions are adopted herein.

10. A rate of return in the range of 8.6 to 8.9 percent will result in an allowance for common equity in the range of 16.29 percent to 17.77 percent based on the estimated consolidated capital structure and cost of debt of applicant's parent, American Water Works Company, Inc., as of December 31, 1975.



11. A maximum rate of return of 9.2 percent related to the estimated 1975 mid-year rate base adopted herein is reasonable for the purposes of this proceeding. The maximum level of 9.2 percent is reasonable only if substantial progress on the Monterey district's construction projects is indicated within 120 days after a final order concerning the environmental impact of those projects. In the event that such construction has not progressed to that extent, the lower level of 8.6 percent is reasonable for all districts except Monterey Peninsula district and the present rate levels for the Monterey Peninsula district will be reasonable until it is indicated that a water supply adequate for future needs will be available to customers in the Monterey service area.

12. Cal-Am is in need of additional revenues but not to the extent sought in the application herein.

13. The adopted estimates of operating revenues, operating expenses, and rate base for the test year 1975, as discussed in this opinion and set forth in Tables 2 through 8 reasonably indicate the results of operation for each of applicant's districts for the near future under the maximum rate of return of 9.2 percent adopted herein.

14. The total amount of the increase in annual revenues authorized is \$1,384,100 for all districts. The related return on common equity under that rate of return and the capital structure adopted herein is 19.26 percent. On Cal-Am's recorded capital structure and cost of debt (revised for the historical acquisition adjustment) the estimated return on equity is 9.87 percent. ✓

15. Decision No. 84527 in Case No. 9530, supra, ordered as follows (with respect to Monterey):

"California-American Water Company shall research conservation programs of other water purveyors, draft a vigorous and effective water conservation program and, on or before October 31, 1975, submit such program for our consideration and approval. Approval will be by means of a letter from our Secretary."

A program was filed by Cal-Am pursuant to the above, but that program has not been approved by this Commission. As a part of a conservation program for the Monterey Peninsula district rates should be designed which will discourage excessive water usage.

16. As an initial step toward establishing conservation rates in the Monterey Peninsula district, the number of blocks in the present declining block system of rates should be reduced from six to four blocks, pending further consideration. Additional evidence should be addressed in Case No. 9530 concerning alternative rate schedules, including those employing a single block system of rates.

17. The increases in rates and charges authorized by this decision are justified and reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

18. Two work crews formerly jointly employed in Cal-Am's Sweetwater and Coronado districts are required to provide reasonable and adequate service to Cal-Am's customers in those districts, and the equivalent number of men should be reemployed.

19. The net cost of opposing the Sweetwater condemnation suit has been charged to Cal-Am. The ultimate benefit from a higher award in that suit will accrue to applicant's sole stockholder and parent, American Water Works Company. Such outflow of funds from applicant resulted in a depletion of capital required for public utility operations in California, particularly in view of Cal-Am's urgent need to expend funds to begin immediate construction of the Begonia and Canada de la Segunda projects.

Conclusions

1. Interim relief should be denied.
2. Cal-Am should be authorized to increase rates as indicated in the above findings.
3. Work crews should be rehired in the Coronado and Sweetwater districts, and the rate increases authorized herein should be made contingent upon the rehiring of such crews.
4. Applicant should be required to maintain its present ratio of equity to debt in its present capital structure.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, California-American Water Company is authorized to file the revised rate schedules attached to this order as Appendix A. Rate schedules (except Schedules Nos. BH-1, MO-7, V-9FL, and V-9MC) containing the higher level rates shall be published to expire May 30, 1977, approximately nine months after the effective date of this order. Such date will be extended, if necessary, so that the rates will not expire until one hundred twenty days after the effective date of a final order of this Commission concerning the environmental impact of the construction projects. The schedules containing the lower level of rates shall become effective on the expiration date of the higher rate schedules set forth in Appendix A, except that rates for the Monterey Peninsula district shall revert to present rates now in effect (or such other rates subsequently ordered by the Commission).
2. The effective date of the revised schedules in Appendix A shall be five days after filing. Such filings shall comply with General Order No. 96-A. The revised schedules shall apply only to service rendered on or after the effective date thereof.

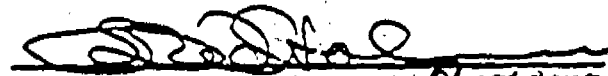
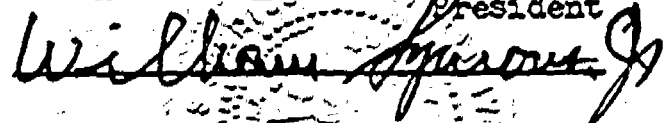
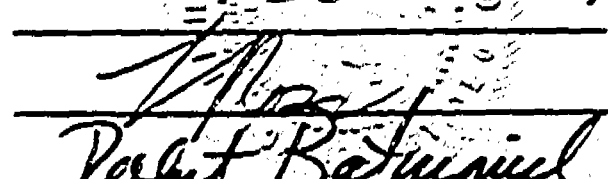
3. California-American Water Company shall rehire the equivalent number of men for work crews in its Coronado and Sweetwater districts that were fired for economy reasons in 1973 as a condition to the establishment of the increased rates authorized herein.

4. Until further order of the Commission, California-American Water Company shall maintain a capital structure in which long-term borrowings from non-affiliates shall not represent more than 50 percent of its total capital structure.

5. All motions not heretofore ruled upon and the request for interim relief are denied.

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

Dated at San Francisco, California, this 17th  
day of AUGUST, 1976.

  
\_\_\_\_\_  
President  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A  
Page 1 of 16

## Schedule No. MO-1

MONTEREY PENINSULA TARIFF AREAGENERAL METERED SERVICEAPPLICABILITY

Applicable to all water furnished on a metered basis.

TERRITORY

Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, Sand City, and a portion of Seaside, and vicinity, Monterey County.

RATES

		Per Meter Per Month		
		1st	2nd	
		Gravity	Elevation	Elevation
		Zone	Zone	Zone
Quantity Rates:				
First	300 cu.ft. or less.....	\$ 2.50	\$ 2.65	\$ 2.85 (I)
Next	1,700 cu.ft., per 100 cu.ft.	.470	.530	.570
Next	18,000 cu.ft., per 100 cu.ft.	.397	.471	.541
Over	20,000 cu.ft., per 100 cu.ft.	.369	.449	.519
Minimum Charge:				
For	5/8 x 3/4-inch meter .....	\$ 2.50	\$ 2.65	\$ 2.85
For	3/4-inch meter .....	3.20	3.40	3.60
For	1-inch meter .....	4.50	4.70	4.90
For	1-1/2-inch meter .....	8.00	8.50	9.00
For	2-inch meter .....	13.50	14.00	14.50
For	3-inch meter .....	24.00	25.00	26.00
For	4-inch meter .....	38.00	40.00	42.00
For	6-inch meter .....	75.00	80.00	85.00
For	8-inch meter .....	120.00	125.00	130.00 (I)

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

(Continued)

APPENDIX A  
Page 2 of 16

Schedule No. MO-1

MONTEREY PENINSULA TARIFF AREA

GENERAL METERED SERVICE  
(Continued)

SPECIAL CONDITION

The boundaries of the three zones in which the above rates apply are as set forth in the Preliminary Statement and delineated on the Tariff Service Area Maps filed as part of these tariff schedules.

APPENDIX A  
Page 3 of 16

Schedule No. BH-1

Baldwin Hills District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Baldwin Hills, Windsor Hills, View Park, Ladera Heights, and vicinity,  
Los Angeles County.

RATES

Per Meter Per Month

Quantity Rates:

First	500 cu.-ft. or less.....	\$ 3.25	(I)
Next	1,500 cu.-ft., per 100 cu.-ft.....	.533	
Next	3,000 cu.-ft., per 100 cu.-ft.....	.384	
Over	5,000 cu.-ft., per 100 cu.-ft.....	.334	

Minimum Charge:

For	5/8 x 3/4-inch meter .....	\$ 3.25	
For	3/4-inch meter .....	4.80	
For	1-inch meter .....	8.25	
For	1-1/2-inch meter .....	16.00	
For	2-inch meter .....	23.00	
For	3-inch meter .....	41.00	
For	4-inch meter .....	65.00	
For	6-inch meter .....	116.00	
For	8-inch meter .....	180.00	
For	10-inch meter .....	270.00	(I)

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

APPENDIX A  
Page 4 of 16

## Schedule No. V-1

Village DistrictGENERAL METERED SERVICEAPPLICABILITY

Applicable to general metered water service.

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

RATESPer Meter Per Month

Before After  
6/1/77 5/30/77

## Quantity Rates:

First	500 cu.-ft. or less.....	\$ 5.60	\$ 5.44	(I)
Next	2,500 cu.-ft., per 100 cu.-ft.....	.461	.453	
Next	2,000 cu.-ft., per 100 cu.-ft.....	.427	.420	
Next	5,000 cu.-ft., per 100 cu.-ft.....	.390	.375	
Over	10,000 cu.-ft., per 100 cu.-ft.....	.370	.352	

## Minimum Charge:

For	5/8 x 3/4-inch meter .....	\$ 5.60	\$ 5.44	
For	3/4-inch meter .....	6.75	6.75	
For	1-inch meter .....	9.30	9.30	
For	1-1/2-inch meter .....	15.70	15.70	
For	2-inch meter .....	22.75	22.75	
For	3-inch meter .....	38.50	38.50	
For	4-inch meter .....	60.00	60.00	
For	6-inch meter .....	113.00	113.00	
For	8-inch meter .....	177.00	177.00	(I)

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



APPENDIX A  
Page 5 of 16

## Schedule No. SM-1

San Marino District Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORYSan Marino, Rosemead, portions of San Gabriel, Temple City, and vicinity,  
Los Angeles County.

<u>RATES</u>	<u>Per Meter Per Month</u>			
	<u>Lower System</u>		<u>Upper System</u>	
	<u>Before</u> <u>6/1/77</u>	<u>After</u> <u>5/30/77</u>	<u>Before</u> <u>6/1/77</u>	<u>After</u> <u>5/30/77</u>
Quantity Rates:				
First 800 cu.ft. or less.....	\$ 2.95	\$ 2.76	\$ 2.95	\$ 2.76 (I)
Next 1,700 cu.ft., per 100 cu.ft.	.269	.264	.306	.295
Next 7,500 cu.ft., per 100 cu.ft.	.229	.225	.264	.259
Over 10,000 cu.ft., per 100 cu.ft.	.188	.185	.202	.199
Minimum Charge:				
For 5/8 x 3/4-inch meter .....	\$ 2.95	\$ 2.76	\$ 2.95	\$ 2.76
For 3/4-inch meter .....	4.00	4.00	4.00	4.00
For 1-inch meter .....	6.20	6.20	6.20	6.20
For 1-1/2-inch meter .....	11.00	11.00	11.00	11.00
For 2-inch meter .....	16.00	16.00	16.00	16.00
For 3-inch meter .....	32.00	32.00	32.00	32.00
For 4-inch meter .....	49.00	49.00	49.00	49.00
For 6-inch meter .....	88.00	88.00	88.00	88.00
For 8-inch meter .....	135.00	135.00	135.00	135.00
For 10-inch meter .....	175.00	175.00	175.00	175.00
For 12-inch meter .....	236.00	236.00	236.00	236.00 (I)

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

APPENDIX A  
Page 6 of 16

## Schedule No. DU-3M

Duarte District Tariff AreaMEASURED IRRIGATION SERVICEAPPLICABILITY

Applicable to all measured service for irrigation purposes are defined in the special conditions below. Applicable only to premises serviced under Schedule No. DU-3M on a continuous basis on and after January 1, 1969.

TERRITORY

Bradbury, Duarte, portions of Irwindale, Monrovia, and vicinity, Los Angeles, County.

RATES

	<u>Per Meter Per Month</u>		
	<u>Before</u> <u>6/1/77</u>	<u>After</u> <u>5/30/77</u>	
Quantity Charge:			
A. Pressure service all water, per 100 cu.ft.	\$ .122	\$ .122	(I)
B. Gravity service all water, per 100 cu.ft.	.072	.070	
Service Charge:			
For 5/8 x 3/4-inch meter .....	\$ 4.45	\$ 4.30	
For 3/4-inch meter .....	5.55	5.40	
For 1-inch meter .....	8.90	8.60	
For 1-1/2-inch meter .....	13.50	13.00	
For 2-inch meter .....	18.00	17.25	
For 3-inch meter .....	25.00	24.00	
For 4-inch meter .....	40.00	38.00	
For 6-inch meter .....	55.00	55.00	
For 8-inch meter .....	85.00	85.00	(I)

The Service Charge is a readiness-to-serve charge applicable to this service and to which is to be added the monthly usage charge computed at the Quantity Rate.

APPENDIX A  
Page 7 of 16

## Schedule No. DU-1

Duarte District Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all general metered water service.

TERRITORY

Bradbury, Duarte, portions of Irwindale, Monrovia, and vicinity, Los Angeles County.

RATES

		<u>Per Meter Per Month</u>	
		<u>Before</u>	<u>After</u>
		<u>6/1/77</u>	<u>5/30/77</u>
Quantity Rates:			
First	500 cu.ft. or less.....	\$ 3.15	\$ 3.05 (I)
Next	2,000 cu.ft.; per 100 cu.ft.....	.370	.355
Next	7,500 cu.ft.; per 100 cu.ft.....	.255	.245
Over	10,000 cu.ft.; per 100 cu.ft.....	.205	.200
Minimum Charge:			
For	5/8 x 3/4-inch meter .....	\$ 3.15	\$ 3.05
For	3/4-inch meter .....	4.00	4.00
For	1-inch meter .....	6.30	6.30
For	1-1/2-inch meter .....	9.60	9.60
For	2-inch meter .....	12.80	12.80
For	3-inch meter .....	17.00	17.00
For	4-inch meter .....	28.00	28.00
For	6-inch meter .....	40.00	40.00
For	8-inch meter .....	61.00	61.00 (I)

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

APPENDIX A  
Page 8 of 16

Schedule No. CO-1

Coronado District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Coronado, Imperial Beach, and portions of San Diego, and vicinity,  
San Diego County.

RATES

		<u>Per Meter Per Month</u>	
		<u>Before</u>	<u>After</u>
		<u>6/1/77</u>	<u>5/30/77</u>
Quantity Rates:			
First 500 cu.ft. or less.....	\$ 2.90	\$ 2.75 (I)	
Next 2,500 cu.ft., per 100 cu.ft.....	.449	.440	
Over 3,000 cu.ft., per 100 cu.ft.....	.416	.409	
Minimum Charge:			
For 5/8 x 3/4-inch meter .....	\$ 2.90	\$ 2.75	
For 3/4-inch meter .....	4.25	4.25	
For 1-inch meter .....	5.45	5.45	
For 1-1/2-inch meter .....	9.25	9.25	
For 2-inch meter .....	14.70	14.70	
For 3-inch meter .....	27.25	27.25	
For 4-inch meter .....	46.50	46.50	
For 6-inch meter .....	92.50	92.50	
For 8-inch meter .....	147.00	147.00 (I)	

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

(Continued)

APPENDIX A  
Page 9 of 16

Schedule No. CO-1

Coronado District Tariff Area

GENERAL METERED SERVICE  
(Continued)

SPECIAL CONDITION

When meters are read bimonthly, the charge will be computed by doubling the monthly minimum charge and the number of cubic feet to which each block rate is applicable on a monthly basis.

APPENDIX A  
Page 10 of 16

Schedule No. SW-3M  
Sweetwater District Tariff Area  
MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service.

TERRITORY

Chula Vista, National City and vicinity, San Diego County.

RATES

Per Meter Per Month  
Before      After  
6/1/77      5/30/77

## Quantity Rates:

First	500 cu.-ft. or less .....	\$ 3.60	\$ 3.45 (I)
Next	1,500 cu.-ft., per 100 cu.-ft.....	.610	.589
Next	13,000 cu.-ft., per 100 cu.-ft.....	.343	.331
Over	15,000 cu.-ft., per 100 cu.-ft.....	.192	.186

## Minimum Charge:

For	5/8 x 3/4-inch meter .....	\$ 3.60	\$ 3.45
For	3/4-inch meter .....	5.10	5.10
For	1-inch meter .....	7.30	7.30
For	1-1/2-inch meter .....	10.50	10.50
For	2-inch meter .....	15.00	15.00
For	3-inch meter .....	26.00	26.00
For	4-inch meter .....	41.00	41.00
For	6-inch meter .....	75.00	75.00
For	8-inch meter .....	93.00	93.00
For	10-inch meter .....	120.00	120.00
For	12-inch meter .....	175.00	175.00 (I)

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

APPENDIX A  
Page 11 of 16

## Schedule No. SW-1

Sweetwater District Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Chula Vista, National City and vicinity, San Diego County.

RATES

<u>Per Meter Per Month</u>	
<u>Before</u>	<u>After</u>
<u>6/1/77</u>	<u>5/30/77</u>

## Quantity Rates:

First 500 cu.ft. or less.....	\$ 3.60	\$ 3.45	(I)
Next 1,500 cu.ft., per 100 cu.ft.....	.622	.594	
Next 23,000 cu.ft., per 100 cu.ft.....	.448	.427	
Next 475,000 cu.ft., per 100 cu.ft.....	.372	.354	
Over 500,000 cu.ft., per 100 cu.ft.....	.337	.337	

## Minimum Charge:

For 5/8 x 3/4-inch meter .....	\$ 3.60	\$ 3.45	
For 3/4-inch meter .....	5.10	5.10	
For 1-inch meter .....	7.30	7.30	
For 1-1/2-inch meter .....	10.50	10.50	
For 2-inch meter .....	15.00	15.00	
For 3-inch meter .....	26.00	26.00	
For 4-inch meter .....	41.00	41.00	
For 6-inch meter .....	75.00	75.00	
For 8-inch meter .....	93.00	93.00	
For 10-inch meter .....	120.00	120.00	
For 12-inch meter .....	175.00	175.00	(I)

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

APPENDIX A  
Page 12 of 16

Schedule No. MO-7

Monterey Peninsula Tariff Area

STREET SPRINKLING SERVICE

APPLICABILITY

Applicable to water service furnished to municipalities on a metered basis for street sprinkling.

TERRITORY

The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, and a portion of Seaside, and vicinity, Monterey County.

RATE

Per Month

For all water used, per 100 cu.-ft. .... \$0.42 (I)



APPENDIX A  
Page 13 of 16

Schedule No. SM-9

San Marino District Tariff AreaCONSTRUCTION AND OTHER TEMPORARY SERVICEAPPLICABILITY

Applicable to temporary water service provided on a flat rate basis for street paving, curb and sidewalk construction, and for water delivered to tank wagons or trucks from fire hydrants or other outlets provided for such purposes.

TERRITORY

The cities of San Marino and Rosemead and portions of the cities of San Gabriel, El Monte, Temple City, and certain contiguous unincorporated areas in Los Angeles County.

RATES

For Flooding Ditches:

0 to 4' deep .....	\$ .015	per lineal foot	(I)
Over 4' to 6' deep .....	.02	" " "	
Over 6' to 8' deep .....	.025	" " "	
Over 8' to 10' deep .....	.03	" " "	
Over 10' to 12' deep .....	.04	" " "	
Over 12' deep .....	.07	" " "	

For Water Delivered in Tank Wagons ..... \$ .07 per 100 gallons (I)

(Continued)

APPENDIX A  
Page 14 of 16

Schedule No. SM-9

San Marino District Tariff Area

CONSTRUCTION AND OTHER TEMPORARY SERVICE  
(Continued)

SPECIAL CONDITIONS

1. For other temporary uses the quantity of water used shall be estimated or metered by the utility. Charges for such water shall be at the quantity rate for General Metered Service.
2. Applicant for temporary service shall be required to pay the utility in advance the net cost of installing and removing any facilities necessary in connection with furnishing such service by the utility.
3. Applicant for temporary service may be required to deposit with the utility a sum of money equal to the estimated amount of the utility's bill for such service.

APPENDIX A  
Page 15 of 16

Schedule No. V-9FL

Village District Tariff Area

FLAT RATE SCHEDULE

APPLICABILITY

This rate is available only to a subdivider building a minimum of fifteen (15) homes within a tract approved by the County of Ventura or City of Thousand Oaks in area served by the Village District.

(T)

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

RATES

Monthly Charge per Water Connection ..... \$3.65

(I)

SPECIAL CONDITIONS

1. Service shall be furnished under the above charge at a flat rate per lot as soon as connection has been made to the water system by means of a service pipe or a jumper. Upon occupancy, service will be furnished only in accordance with filed Rules & Regulations and billed at General Metered Service rates.

2. Charges under this rate schedule shall be billed to subdividers only. The subdivider shall be liable for the charge until such time as the new owner or occupant signs an application for metered service, or until the subdivider requests the removal of the service connection or jumper.

3. Where the water usage, in the opinion of the utility, exceeds the amount which would be allowable for the sum of \$3.65 under its General Metered Service Quantity Rates, the utility may install a meter. In such a case, the General Metered Service Schedule minimum and quantity rates will apply.

(I)

APPENDIX A  
Page 16 of 16

Schedule No. V-9MC

Village District Tariff Area

METERED CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all water service furnished for construction purposes.

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

RATES

	Per Meter Per Month	
Quantity Rate:		
For all water delivered, per 100 cu.ft. ....	\$ .67	(I)
Minimum Charge:		
For all sizes of meters .....	\$12.00	(I)
The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.		

SPECIAL CONDITIONS

1. Construction water service under this schedule will be furnished only when surplus water is available over the requirements for domestic service and under conditions which will not adversely affect domestic service. The utility will be the sole judge as to the availability of such surplus water.
2. Applicants for metered construction service will be required to apply for the service at least 48 hours in advance of the time of delivery of water is requested and to pay the costs and charges as provided in Rule 13, Temporary Service.