

Decision 89 07 061

JUL 19 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of CALIFORNIA-AMERICAN WATER COMPANY)
(U 210 W) for an order authorizing)
it to increase its rates for water)
service in its BALDWIN HILLS DISTRICT.)

Application 88-09-040
(Filed September 21, 1988)

Steefel, Levitt & Weiss, by Lenard G. Weiss, Attorney at Law, for California-American Water Company, applicant.
Edward Duncan, for himself, intervenor.
Lawrence O. Garcia, Attorney at Law, and
Willem R. Van Lier, for the Water Utilities Branch.

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O P I N I O N

The California-American Water Company (applicant or Cal-Am) seeks authority to increase water rates for its Baldwin Hills District (District).

The applicant's proposed rates are designed to produce increased revenues in 1989, 1990, and 1991, as follows:

<u>Year</u>	<u>Annual</u>		<u>Cumulative</u>	
	<u>Increase</u>	<u>(000) Percent</u>	<u>Increase</u>	<u>(000) Percent</u>
1989	\$174.9	7.01%	\$174.9	7.01%
1990	97.6	3.64	272.5	10.91
1991	112.3	4.04	384.8	15.39

At present rates, the monthly charge for 18.36 hundred cubic feet (Ccf), the amount consumed by the average domestic consumer, is \$27.39. For such a consumer, applicant's proposed rates would result in higher bills, as follows:

<u>Year</u>	<u>Amount</u>	<u>Increase</u>	<u>% Increase</u>
1989	\$28.04	\$.65	2.38%
1990	29.01	1.62	5.92
1991	30.17	2.77	10.12

A. New Rates

We have considered the evidence presented by applicant, by the Water Utilities Branch (Branch) of the Commission Advisory and Compliance Division (CACD), and by the Division of Ratepayer Advocates (DRA). Based on that evidence, we will grant a rate increase and establish new rates for water service. The domestic customer who now pays \$27.39 for 1,836 cubic feet will pay: \$28.33 per month for the remainder of 1989; \$28.96 per month for 1990; and \$29.63 per month for 1991. Appendix F-BH sets forth the impact on other consumption patterns. The dollar amount of the increases we are granting are \$88,200 or 3.49% for 1989 on an annualized basis, \$65,800 or 2.51% for 1990, and \$69,000 or 2.57% for 1991.

B. History

California-American Water Company acquired all of the water properties of the California Water and Telephone Company (Decision (D.) 70416, dated March 8, 1966, and June 8, 1966. The acquisition was accomplished on April 1, 1966.

The last rate proceeding affecting the District was Application (A.) 85-05-092. General metered rates currently in effect are at the third level authorized by D.86-03-011. They became effective on January 1, 1988.

Applicant's Los Angeles Basin offices and operations centers are maintained at the following locations.

Baldwin Hills	Field Office	4634 W. Slauson Avenue, Los Angeles
Duarte	Field & Customer Service Office	1101 S. Oak Avenue, Duarte
San Marino	General Office	2020 Huntington Dr., San Marino
	Operations Center	8657 E. Grand Avenue, Rosemead

Local management, engineering, accounting, and commercial functions are provided from the General Offices for each District, or multi-district, operation. The operations centers consist of warehouses, yard facilities, meter testing facilities, garages, etc. required for operation and maintenance of the systems.

1. Legal services are provided as required by various firms for both corporate purposes and local district matters.
2. Price Waterhouse and Co. is retained for the annual independent audit of Cal-Am's records.
3. Computerized processing of Cal-Am's general and subsidiary ledgers is done by the data processing center of the American Water Works Service Company, Inc., in Voorhees, New Jersey.

4. On January 1, 1971, an agreement was executed by and between American Water Works Service Company, Inc. and California-American Water Company whereby Cal-Am contracted for management services to be provided at cost by the Service Company in the areas of administration, engineering, customer, public and employee relations, accounting, corporate secretarial, treasury, insurance, data processing, and customer billing.

C. Service Area

The service area is composed of the unincorporated area of Baldwin Hills (in Los Angeles County) and a very small portion of the City of Inglewood. In 1987, the District served slightly more than 6,000 customers.

D. Source of Supply

The water supply for the District is obtained from five company-owned wells and from two connections to the Culver City Feeder of the Metropolitan Water District of Southern California, through its member agency, West Basin Municipal Water District. The District is limited to pumping 2,067 acre feet annually from the Central Basin.

Approximately 50% of the water requirement is purchased from West Basin Municipal Water District and is already filtered and softened. The remaining water, produced from company-owned wells in the Central Basin, is of excellent quality and requires no treatment other than chlorination.

E. Proceedings

A properly noticed informal meeting was held in Inglewood on November 7, 1988. One customer attended. He asked how the Commission determines rates of return. The customer was also concerned about the independence of the staff evaluation. The Branch representative responded to these inquiries. A utility representative explained the factors which the company believes justify an increase.

The Branch conducted a field investigation and found the district's plant and service are generally satisfactory. At the public participation hearing in Inglewood on January 24, 1988, no members of the public (other than intervenor) asked to be heard.

Public evidentiary hearings were held on a common record with A.88-09-041 and A.88-09-042 in the Los Angeles area on January 23 through 27 before Administrative Law Judge (ALJ) Gilman. The matter was taken under submission after filing of a joint late-filed exhibit and briefs from all three appearances on March 3, 1988.

The ALJ's proposed decision was issued on May 25, 1989. Comments were filed by Branch, applicant, and intervenor Duncan.

We have corrected for certain miscalculations pointed out by applicant and added clarifications requested by applicant. We have not adopted any of Duncan's comments. As noted below, we have adopted different conclusions on financing for construction work, in response to Branch's comments.

F. Discussion

The tables which appear in Appendix A-BH compare applicant's and Branch's initial positions with the adopted figures. The rationale for the adopted figures is discussed in the text below. (The discussion relies on decisions reached in D.86-03-011 in A.85-05-092, the last rate case for Cal-Am's Baldwin Hills, San Marino and Duarte Districts. It also relies on the most recent Monterey District rate case, D. 89-02-047. Finally, we have referred to our Regulatory Lag Plan (RLP) for water utilities, adopted by Resolution M-4705 in 1979).

The text below covers those issues which still remain in dispute between Branch or DRA and applicant. Our analysis and resolution of those issues is explained.

G. Summary of Disposition of
of Major Issues

According to Branch the following points are no longer in issue.

1. Consumption

a. Average Services

- (1) Baldwin Hills
 - (a) Residential
 - (b) Bus. Normal
- (2) Duarte
 - (a) Residential

b. Consumption Per Customer

- (1) Baldwin Hills
 - (a) Residential
 - (b) Bus. Normal
 - (c) Bus. Large
 - (d) PA Normal
- (2) Duarte
 - (a) Bus. Large
 - (b) PA Large
- (3) San Marino
 - (a) Residential
 - (b) Bus. Normal
 - (c) PA Large

c. Unaccounted for Water

- (1) Baldwin Hills
- (2) Duarte
- (3) San Marino
- (4) Duarte
 - (a) Residential

2. O & M Expense

- a. Other - All Districts

3. A & G Expenses

- a. Liability Ins. Premium
 - (1) All Districts

- b. Regulatory Commission Expense
 - (1) Attorneys' Fees
 - (2) Employee Per Diem
- c. Outside Services Expense
 - (1) San Marino
- d. Misc. General Expenses
 - (1) All Districts
(AWWA, Rotary, Kiwanis)
- e. Maintenance of General Plant
 - (1) Baldwin Hills
 - (2) Duarte

8. Rate Base

- a. Working Cash - Lag Days
 - (1) Purchased Water
 - (a) San Marino
 - (2) Goods and Services
 - (3) Calif. Corp. Franchise
Tax (CCFT)
 - (4) FICA

We have adopted Cal-Am's recommended number of employee positions, 56 in 1989 and 57 thereafter. This includes an additional employee to perform additional testing, a cross-connection supervisor and a management trainee in both test years. We have rejected Branch's cost estimate for this item which assumed that the historical number of vacancies would continue during the test years. We have instead adopted an arbitrary 2% reduction for vacancies as proposed by applicant.

In all Districts, our utility plant estimates are based on:

- 1. A rate base which includes Construction Work in Progress (CWIP), rejecting applicant's proposal to instead allow it an Allowance for Funds Used During Construction (AFUDC).
- 2. Service lives of 4 years for autos and light trucks, as proposed by applicant.

3. An allowance for all utility-planned replacements of pumps and motors
4. Adoption of Branch-recommended adjustment to the estimate for furniture and carpets.

We have adopted (with the exception of the additional lab employee) the same level of expenses for the general office allowed in the Monterey decision, D.89-02-067 in A.88-03-047, California-American, Increase Rates, Monterey District. (This accepts a Branch recommendation.)

In calculating income tax, we have followed the methodology proposed by the applicant; this excludes interest charges on AFUDC; it also excludes the effect of interest on the unamortized portion of acquisition adjustment.

We have postponed considering the non-labor cost components of applicant's proposed new Los Angeles lab. This action is dictated by the Monterey decision, which held that examination of the costs should await the availability of actual costs.

We have included in applicant's rate base, an estimated \$117,000 for the construction of a 12-inch main in Fifth Avenue. Our findings adopt applicant's contention that the main is needed for current customer needs, rather than for expansion, as Branch contended. We have adopted staff's Materials and Supplies estimate.

We have adopted a rate of return of 12.25%. This is the top of DRA's range of recommended rates, and is the same rate of return adopted in the Monterey rate case, supra.

H. Summary of Disposition of Minor Issues

With the exception of the furniture issue, the parties did not brief the issues noted below. The furniture issue involves a very small sum.

In Baldwin Hills there are differences in estimated operating revenues. The Branch figures are more conservative and will be adopted.

In all Districts, there were differences in the allocation factors to be used to distribute certain labor-related costs between Districts. We have adopted the Branch factor as being less arbitrary than applicant's.

In all Districts, Branch recommended that we not escalate costs of liability insurance, as proposed by applicant. The Branch approach seems preferable pending final implementation of Proposition 103 insurance reform.

In calculating income taxes, Branch did not deduct non-deductible employee expenses. Since Branch did not explain, we will adopt the company position.

The Branch and applicant each used a different weighting factor in deriving weighted average rate base. We have adopted the Branch figure.

All "unexplained variances" shown on the tables have been resolved in applicants favor.

We have adopted the Branch recommendations on furniture, primarily based on an actual inspection. Cal-Am did not effectively refute the Branch conclusions that replacement was premature.

I. Expenses

1. Payroll

Three components produce the difference between Branch's and applicant's estimates for payroll. Applicant claims that allowance should be made for 56 employees in the 1989 test year and 57 in 1990. Branch claims that the Commission should allow for only 52 and 53 employees should be allowed. The position for water testing is discussed under "New Laboratory" below.

a. Vacancies

The first component is caused by differences in methodology. Applicant based its payroll estimates on the number of positions. Branch on the other hand, counted the number of persons actually employed on a certain date. On that date applicant had a number of vacant positions. There was also one individual whose name did not appear on the payroll, because she had been paid in advance that month.

Applicant does not expect to have any significant number of vacancies in the future, especially in the hard-to-fill technical category. Any vacancies which do occur are more likely to be in the laborer categories. Turnover in such categories is high; on the other hand, applicant can usually fill such positions quickly.

Applicant's showing satisfies us that it will continue to have a full roster, except for minor, sporadic turnover.

If we were engaged in retroactive ratemaking, the salary savings realized during the period when vacancies existed should perhaps be flowed through to customers. However, we are charged with estimating what expenses will be incurred in future test years. We could not adopt Branch's position without a showing that the past vacancy rate will likely recur in the test years. None was offered.

Applicant is willing to accept a 2% reduction in its original estimate to allow for future vacancies. There is no support in the record for any greater reduction.

We have therefore allowed for compensation for all current positions, less the 2% reduction in total payroll for the vacancy factor.

b. Cross-Connection Supervisor

Branch concedes that a cross-connection supervisor is mandated by California law. However, it did not allow any salary for this position until 1990. The utility confronted the Branch

witness with evidence that it was required to have a person in place during calendar 1988. Even so, the Branch did not concede that its disallowance was in error. Instead, the Branch retracted its recommendation to allow for a management trainee in both test years. It now claims that the trainee's 1989 salary should be disallowed on the theory the he was "hired...without Commission approval." The Commission does not require a utility to obtain authorization before filling a new employee position.

There is no basis in the record for denying applicant compensation in both test years for both a cross connection supervisor and a management trainee.

We find that rates should be based on applicant's estimates with a 2% reduction for future vacancies.

2. Health Insurance

Applicant estimates an increase in group health costs of 35% in 1989 with an additional 5% in 1990. The estimate is based on actual 1988 billings and advice from its insurance carrier. This is the same evidence which convinced the Branch to accept the same projection in the Monterey case, supra. Applicant also points to a recorded increase of more than 20%. It further contends that its costs for this expense element are lower than the costs of comparable Class A water utilities.

Branch would allow only a 10% premium increase in 1989 and another 5.4% in 1990. Its estimate is based on a summary of rate increases of some 36 health insurance providers and HMO's serving the employees of the State of California.

Applicant criticizes Branch's estimating procedure. Applicant's insurance rate is effective for an October-to-October year; Branch based its allowance on the premium paid on January 1, 1988 and used that figure for the full test year 1989. This criticism is valid. Clearly, Branch should have adjusted its figure to convert October-to-October experience for use in January-to-January test years.

Applicant also argues that Branch is comparing the wrong years. Its own estimate is based on experience current as of October 1, 1988. We do not know which periods were used to set rates by the insurance carriers chosen by Branch. We believe that, more likely than not, the data was taken from an earlier period. At very least, this failure to adjust for or consider this mismatch weakens the comparison relied on by Branch.

It also should be noted that applicant is effectively self-insured. Its policy provides that premiums are based solely on claims from Cal-Am's own employees. Thus, there is no sharing of risk with other insureds. Moreover, the premium is retroactively set to cover actual claims from those employees. Thus, neither insured or insurer have any risk of misestimation. This offers another material distinction between the group costs relied on by Branch and applicant's estimates.

Branch unfortunately focused on the rate of increase rather than on the actual cost per employee. Consequently, it apparently did not check applicant's claim that its costs are lower than other major water companies.

Branch has failed to convince us that the comparison it did make is significant; on the other hand, it failed to compare applicant's cost with other utilities, a comparison which would have been of great interest to the Commission. We have, therefore, adopted the applicant's projected health costs.

3. General Office

Branch's position is that a multi-district company should not be able to relitigate the level of general office expense when there is a recent decision in another district on the merits. It therefore argues that the Commission should, (with the exception of the Monterey lab issue) adopt the costs allowed in the Monterey decision, *supra*.

Applicant argues strongly that it is entitled to a fresh look at general office expenses every time it files a new district rate case, regardless of the vintage of the last finding.

Branch claims that its position is justified by the three-year rate case cycle which is the foundation of the current, experimental RLP, (supra).

Applicant claims that Branch has recommended a radical new concept. It asserts that the Commission has traditionally treated each district as a stand-alone entity, and set a new general office allowance in each proceeding. Branch does not challenge this claim. Applicant also argues that, in most instances, each successive set of district proceedings involves different test years. Furthermore, it asserts that uncontrollable delays in the Monterey proceeding caused the use of 1989 and 1990 test years in that decision.

Applicant also argues that it is unfair to deny it the right to continuously update its general office allowance. It asserts that general office expenses will change over even relatively short periods. Sometimes, it claims, there are changes that reduce costs. It points out that such a change is present here. (The company has sold its office furniture to a subsidiary which will lease it back to Cal-Am with a net savings of \$62,692; some \$10,000 of this would be allocated to these three Districts).

Neither party has provided adequate citations to allow us to decide whether applicant's position is in fact the traditional way of dealing with multi-district ratemaking. However, the mere fact that a position is novel is not always justification for rejecting it.

We have instead rejected applicant's claim of unfairness. We find no grounds to believe that general office expenses are more volatile than other expense categories. As with other classes of expense, use of escalation factors can protect a utility from inflation through the three-year cycle. Specific allowances can

deal with predictable changes, such as the change from leasing to ownership. We also note that under Branch's proposal, applicant would retain some of the savings if it can find ways to economize during the extended period between reviews.

On the other hand, we cannot accept Branch's argument that its proposal is simply a direct application of the RLP. Resolution M-4705 merely provides that rate cases are to be heard on a three-year cycle. There is no attempt to deal with the special problems of a utility with several Districts.

Branch's position, even though novel, shows commendable ingenuity. It seeks to achieve the objective of reducing lag, not merely by requiring all parties to litigate faster, but by reducing the amount of repetitious litigation.

On the other hand, we do not totally reject applicant's argument that it is rare for two successive district cases to share the same test years. Branch's approach in its present form will only work where that is the case. A significantly more sophisticated approach will be needed if it should seek to adapt the once-every-three-year principle to situations where successive rate cases overlap for only one test year. This general problem should be addressed in the current rulemaking proceeding, Order Instituting Rulemaking 88-03-003, which was issued to update the current RLP. Cal-Am's argument is not on point in these proceedings, where circumstances make it possible to apply the Monterey District's findings without adjustment.

Branch's suggestion is feasible in these proceedings, and reflects sound regulatory policy. For the purposes of setting rates for these Districts, we will consequently adopt the General Office expenses allowed in the Monterey case.

We find that:

- 1- The findings on general office expenses from the Monterey decision are recent enough to be adopted here.

2. It is not unfair to limit an applicant to one opportunity every three years for a review of general office expenses.
3. Such a limitation, when practicable, will further the objective of a rate case plan schedule.

4. New Laboratory

Applicant currently does all of its in-house testing for all Districts in a lab located in Monterey. It proposes to open a new subsidiary lab in the Los Angeles area to do testing for these three Districts. Branch opposes the proposal as wasteful, and contends that all capital and operating costs should be disallowed.

This issue was raised and discussed in D.89-02-067 regarding applicant's recent Monterey District. In D.89-02-067, the Commission anticipated that the proposed new facility would be operating prior to the hearings in these applications. It concluded that these hearings would provide an opportunity to examine actual operations of both facilities and to base a final decision on a review of recorded operational statistics. Ordering Paragraph No. 6b allowed applicant to ask for an offset rate increase for the Monterey District, if the Commission adopted its position in this proceeding.

In this proceeding, applicant exhaustively analyzed recent changes in requirements for water testing imposed by state and federal regulations. Especially significant is the federal Environmental Protection Agency's nearly final rule for coliform testing. This rule mandates an increase in retesting for this one item from the current 50 per year to 700 per year per District. Applicant projects that the new facility will be needed to permit it to comply with these and other testing requirements. It projects that opening the new facility will be a more economical way to meet these new needs. It seeks approval of its projected costs.

Branch complains that the information needed to support applicant's costs and projections of new testing requirements was not provided to it until the time of the hearing. It is especially concerned with the company evidence which shows that coliform samples should be analyzed very quickly. It contends that company tactics left it without a fair opportunity to verify these claims.

Branch is apparently willing to concede that the new regulations will require a major increase in the number of tests which must be performed; it is not, however, persuaded that the added tests could not be performed more cost-effectively by contracting out or by increasing the capacity of the existing lab in Monterey.

Neither party has challenged Finding 21 of the Monterey decision which states a preference for actual costs. Full compliance with that finding would require that applicant absorb all costs, including labor costs, of new tests until the lab has been in normal operation for a substantial period. However, the Monterey decision plainly did not anticipate that actual costs would not be available until Cal-Am's next District case.

On the other hand, it appears to be conceded that new regulations will cause a major increase in the number of analyses which must be performed. There appears to be no dispute that applicant will be performing all of the new tests by the time this decision becomes effective. There is seemingly no question that the company would need an extra full-time employee whether or not the added work is done at the existing Monterey lab or at new facility in the Los Angeles area. Even if applicant were to contract out the added work, it would be unrealistic to assume that a third party could perform the labor needed for a total price less than the wages and benefits for a Cal-Am employee. ✓

We will allow the full wages and benefits (approximately \$47,000 per year) for the added employee for both test years. All of the other cost questions will be deferred as provided in the

Monterey Decision until we have actual costs, and until the Branch can verify or challenge the time constraints on coliform testing.

We will use information on these points to decide whether to allow applicant the actual cost of the new lab, as opposed to either constructive costs of contracting out or of doing the work in Monterey. A comparison of actual lab costs with updated constructive costs for the other alternatives, may be submitted by advice letter rate increase covering the three Los Angeles Districts and for Monterey. Branch may use this submission to decide whether applicant's position should be adopted on an ex parte basis or whether to request a reopening of this proceeding.

We find that, under any alternative mode of performing newly required testing, applicant will have to pay at least the cost of one full-time employee. We conclude that the cost differential between alternative modes should be resolved after applicant has sufficient recorded information on the operation of the new lab.

In its comments, applicant suggests that the remainder of the L.A. lab expenses be considered in the upcoming Coronado and Village rate cases now tentatively scheduled for late October. This appears appropriate.

5. Income Tax

a. Interest Deduction-Acquisition Adjustment

When considering an allowance for income tax expense, the parties' usual positions are reversed; the utility will seek to minimize deductible expenses, since this will increase the allowed tax expense and therefore the revenue requirement. Branch or intervenors, on the other hand, will seek to maximize the expenses deducted in order to reduce revenue requirement.

Branch's tax calculation would increase the interest deduction by including interest on unamortized acquisition

adjustment. Applicant claims that this is a novel approach; it asserts that all previous Cal-Am rate cases excluded this interest as a deduction. It contends that the Branch theory creates a mismatch between the interest expense for taxes and that considered in analyzing applicant's capital needs.

Branch's brief acknowledges that D.86-03-011 rejected a Branch proposal to include acquisition adjustment interest as an element in the income tax calculation. D.86-03-011 characterized the disregard of such interest as "reasonable."

That characterization should be followed here. This outcome is consistent with the Commission's traditional preference that interest considered in calculating total return should match the interest used in income tax calculation.

b. Interest on AFUDC

Since we have decided to allow applicant CWIP in rate base as a result of a Branch comment, this issue is moot.

J. Plant

1. Compensation for Funds
Used During Construction

Traditional ratemaking recognizes that utilities must make expenditures in new plant well before the plant is ready to be placed in service and hence before it is included in rate base. Regulatory agencies normally select one of two methods to compensate the utility for the use of such funds. One form of compensation allows "Construction Work in Progress" (CWIP) as part of rate base; this allows the utility to cover its construction financing costs during the construction period.

AFUDC, in contrast, provides deferred compensation; an allowance for construction financing is added to the other costs of construction and capitalized. The utility does not begin to recover for the use of the funds until the plant is placed in service. Once the plant is in service, the utility will earn a return on the amount allowed for construction financing, and will

recover depreciation just as with other costs of construction. The basic law is explained in Goodman v District of Columbia PSC (1974) 497 Fed. 2d 661 at 668, "[t]he utility must be compensated, either by including rate base interest during construction or by including in rate base the value of funds invested in the plant during construction."

The Proposed Decision recommended a conclusion that applicant was entitled to some form of compensation for the time value of funds used during construction. We have adopted that conclusion.

The Proposed Decision rejected Branch's theory that rate base included an allowance for contingencies, which would supply the needed compensation. It reasoned that it would be improper to include any contingency allowance in any rate base item, and that therefore, the utility could not look to such an allowance to compensate it for the use of funds. We have also adopted this determination.

The Proposed Decision also assumed that the only form of compensation which could be considered under this record was AFUDC. After considering Branch's comments, we now recognize that allowing CWIP in rate base is a possible alternative.

Branch argues that there is a Commission policy that water utilities should be allowed CWIP in rate base rather than AFUDC as with energy and telecommunications companies. It asserts that this policy was affirmed by the Commission when it considered Resolution RR-2 on June 2, 1982. Branch is correct. Such a policy exists.

The primary justification for this policy is the short construction period for most such projects, usually less than a year. This means that customers will be asked to pay only small amount over a short period. Even so, customers might object on theoretical grounds to paying even small amounts to finance plant before they receive any benefit from it. However, allowing CWIP in

rate base means that, in the long run, they will pay less for the plant than if AFUDC were allowed. Moreover, allowing CWIP has other benefits to consumers; it increases cash flow, thus reducing the need for outside financing. Even when outside financing is needed, the increase in actual cash earnings may allow the utility to bargain for lower interest costs. These advantages are real enough and significant enough to override the theoretical objections.

We see no reason to grant applicant an exemption from an established policy. To the extent that it has committed itself to AFUDC, it has done so unilaterally and with at least constructive knowledge of the Commission policy.

We will not require applicant to correct its books of account in this Order. Nor will we make any adjustment to the rate base used to calculate revenue requirement. However, we will expect this to be done on a district-by-district basis in future rate cases.

2. Autos - Depreciation and Purchases

The utility plans to renew its auto fleet and light truck fleet every three years. (In Baldwin Hills only, the light truck estimates are based on a five-year cycle; applicant has not explained the difference.) It proposes that depreciation rates be set accordingly. In addition, it seeks recognition of plant additions to replace cars which are more than three years old. Branch recommends a 10-year life; it also would disallow fleet purchases to replace specific vehicles which are less than 10 years old.

The utility claims that a rapid turnover in its auto fleet is economically justified. While depreciation lives are short, the added cost is offset, it claims, by the higher salvage value it receives by trading in a relatively new car. It also contends that the added reliability of newer cars is especially important for a utility with widespread districts. It also notes

that there is a trade-off between depreciation and repair costs. It further points to a commendable safety record. Branch has not pointed out any specific flaw in applicant's methodology or the data it used.

Branch's brief claims that this is an area where most adults have some expertise, since they must make similar judgments in managing their own "fleets." It argues that "common sense" should justify a rejection of applicant's three-year life. We also note that three-year life are outside of the range commonly permitted by U-4. We know of no other company which has adopted a similar program.

We share Branch counsel's skepticism that a three-year replacement cycle is the most cost-effective choice possible. Applicant's counsel, possibly anticipating our skepticism, has suggested a fall-back position, based on the four-year allowance for automotive equipment accepted in the Monterey Decision, *supra*. We believe that the fall-back position should be adopted for this proceeding alone.

We have not adopted the Branch's recommended ten-year life. Its witness proposed a 10-year life, based on a uniquely limited depreciation study¹.

Should the issue arise again, we will expect showings which carefully quantify the trade-offs between repair and replacement, and between salvage values and depreciation costs. We would also prefer to have some basis for comparing applicant's

2 The Branch depreciation witness based his recommendation for automobile service lives on his experience with a single person automobile. He claims that he bought this vehicle new for \$3,000 and that he could sell it today for \$2,000. Applicant asks that we officially notice that according to the Kelley Blue Book, list price for his 1979 Chrysler Cordoba was at least \$6,587 when new; today's resale value is between \$525 and \$1,050.

experience with that of other utility or non-utility fleet operators which have adopted a more conventional strategy. Our objective would be to find a least-cost strategy which does not degrade safety or reliability.

We find that:

1. Applicant's plan to replace autos on a three-year cycle and light trucks on a five-year cycle is not adequately justified by its evidence. We are not persuaded that its plan is not unnecessarily costly.
2. Branch has not supported its recommendation with an adequate study.

We have concluded that:

1. In evaluating an automotive replacement cycle, consideration should be given to safety and reliability.
2. The life and the salvage values from the Monterey Decision are the most recent allowances available. Even though not discussed, they were acceptable to both applicant and Branch assigned to that case.
3. The life and salvage values for light trucks and passenger cars from the Monterey Decision should be adopted here.

3. Well Pumps and Motors

Branch recommended that various projects to replace pumps and motors be disallowed. Generally, it concluded that the pump/motor combinations did not need replacement if energy efficiency remained high. Branch also noted that it had allowed funds for contingencies in case of breakdowns.

The utility responds that older pumps frequently break down without exhibiting declining efficiencies. While efficiency may be a sign that an installation is not wasting energy, it does not necessarily indicate very much about reliability.

The utility asserts that Branch fails to recognize that breakdowns should be avoided if the utility is to avoid complaints about service. It argues that it is not truly economical to wait for a breakdown and react, rather than adopting a replacement program to achieve reliability. It points to one incident where a breakdown contaminated a well, generating very high costs to place the well back in service; at the same time, the company was obliged to purchase substantial amounts of water at very high cost. The utility notes that actual costs of breakdowns regularly exceeded the amount of contingency funds allowed for that purpose.

Applicant argues that its aggressive plan of replacing pumps and motors was specifically approved in D.86-03-011. Branch responds that the decision stated that the program "is reasonable for test years 1986 and 1987." It concludes that the reasonableness was limited to those test years and that the language invites relitigation.

Branch places too much reliance on the phrase "for test years 1986 and 1987." This phrase appears in the discussion; there is nothing in the discussion or findings to indicate that conditions would change after 1987. There was nothing in the conclusions or order to indicate that the company was required to rejustify the program in the next rate case.

We will therefore adopt a finding for this proceeding which finds the program generally reasonable. This does not mean that the utility's program is "de-regulated" as Branch's brief suggests. The utility still has the burden of showing that its expenses for each district are reasonable. It does mean that in any Cal-Am rate case, the Branch estimate can no longer be written on a clean slate. Branch is free to criticize implementation or recommend new approaches; but whatever it recommends must start with the finding made here.

We also reject Branch's opinion that high efficiency alone is a reliable sign of pump reliability. At the very least,

such a conclusion needs more empirical data to support it. Finally, we find that it is not imprudent to base decisions on pump replacement on age. Rather, it appears from the evidence that age, usage patterns, and experience with various types of equipment need to be considered.

4. Fifth Avenue Main Project

This project will add 1,500 feet of 12-inch transmission main between the 48th Street well and the Arlington transmission main. It is expected to cost \$117,000. Branch believes that this project is designed to provide additional piping capacity for future system needs, rather than to serve the needs of current customers. Branch also claimed that developers should be expected to advance the cost of the project under the Main Extension Rule.

Utility testimony explained that the added capacity was needed to solve low pressure problems and to provide a two-way feed and an alternative transmission route. The utility witness also pointed out that the nearby service territory is nearly built out, making it unlikely that it would be able to compel any subdivider to fund the project.

Branch's criticism of the project does not address the real question--is the improvement in flow worth the costs generated by the added investment? While the Branch witness did not discover what the issue was until the hearing, he nevertheless had adequate time to prepare rebuttal. The Branch did not offer any corrected testimony, or request additional time to prepare and or present such testimony.

After submission Branch's brief recommended that this issue be deferred. The brief has not suggested what issues Branch would be able to raise if consideration were postponed.

An immediate finding in favor of the applicant is warranted. Our finding will mean that the anticipated capital expenditures will appear in adopted plant and that the depreciation

costs will be accepted as expenses in calculating the rates adopted in this decision.

We find that:

1. The Fifth Avenue Main project is needed to improve flow for better service to existing customers.
2. The improvement in service is worth the added cost.
3. There is little likelihood that it could be funded by Main Extension contract or subdivider contribution.

K. Rate Base

1. Material and Supplies

Branch's estimates for this item are substantially lower than applicant's estimates.

<u>District</u>	<u>1989</u>		<u>1990</u>	
	<u>Branch</u>	<u>Utility</u>	<u>Branch</u>	<u>Utility</u>
Baldwin Hills	\$ 7.5	\$16.2	\$ 7.9	\$17.0
Duarte	8.5	16.2	9.0	17.0
San Marino	<u>16.6</u>	<u>32.4</u>	<u>17.4</u>	<u>34.0</u>
Totals	\$32.6	\$64.8	\$34.3	\$68.0

Applicant's estimate was based on a five-year recorded average, escalated by 5% per year. Branch's estimate was derived from an inventory figure supplied by the applicant, escalated by the Branch's non-labor escalation factor and by customer growth.

Branch claims that it cannot reconcile the numbers used by applicant with its annual reports. It also argues that there is an inconsistency between the recorded figures and the figures used for the average. According to Branch's brief, these problems still existed at the close of hearing, and were so "glaring" that the utility's estimate must be disregarded.

Applicant's brief, on the other hand, claims that the Branch estimates are far below the recorded historical figures. It also contends that the Branch never adequately explained the derivation of its method. It accordingly recommends rejection of the Branch estimate.

This is the kind of dispute which should not arise when parties are adequately prepared for hearing, and when they effectively use hearing time. Parties cannot expect a reasoned decision when they themselves cannot explain the differences between their expert's recommendations.

We have adopted the Branch-recommended allowance despite the very real possibility that incorrect data was relied on. Nevertheless, the burden of persuasion is on applicant, not on staff. Since we are not persuaded that the data underlying applicant's estimate is any more reliable than that underlying Branch's estimate, we have adopted the recommendation of the party not having the burden of persuasion.

We have found that:

1. Applicant's and Branch's M&S estimates are equally unreliable.

We have concluded that:

1. Where applicant's and Branch's estimates are equally unreliable, we should adopt the estimate of the party not having the burden of persuasion.
2. Applicant has the burden of persuasion on allowance for Materials and Supplies.

L. Depreciation

1. Structures: Life Estimates

Standard Practice U-4 provides for a single life for various kinds of structures. This is a composite life which covers both the basic structure and other elements such as doors, windows, and roofs.

Applicant's witness developed two separate life estimates, one for the basic structure and a shorter one for all other components.

There is a substantial difference between the ultimate amount of depreciation allowed by the two witnesses for other structures. Branch has adopted, for example, a 1.37% depreciation accrual rate for Source of Supply Structures whereas applicant's witness recommended a rate of 4.58%. It is not clear how much of such differences is attributable to the dispute over the dual life methodology and how much is due to other factors.

We have considered and rejected the applicant's recommendations to adopt the new methodology. The principle advantage of the new method is that it allows separate study of two elements which concededly need replacement with differing frequencies. However, we are not convinced that the traditional method, properly applied, will distort results.

Cal-Am's proposed new two-life system will apparently work only for utilities which have meticulous records. Thus, it may not be practical for other utilities to follow Cal-Am's lead. On the other hand, adopting it for one utility would make intercompany comparisons difficult and limit the benefits which would otherwise flow from adopting and enforcing a uniform system of accounts.

Applicant has the burden of proof to justify the allowance it seeks. It should have provided a fall-back analysis applying the traditional methodology to the same facts and judgement factors. Since it chose not to do so, we will adopt the Branch's recommended figures for life and salvage on all Structures.

2. Other Depreciation

For all other accounts not specifically discussed, we have adopted the lives and salvage values proposed by applicant's witness. In general, he appears to have had more time to study and

analyze utility records. Furthermore, Branch's recommended salvage values and depreciation are based on the witness' apparently unsupported judgement. His treatment of the auto service life issue makes us reluctant to place much reliance on unsupported judgement for depreciation questions.

We also note that the Branch witness relied heavily on the Commission's Standard Practice U-4 for depreciation, last revised in the 60's. He did not attempt to determine which of its provisions might be outdated; rather he gave them all equal weight.

Consequently, we will find that applicant's depreciation figures for all plant items other than Structures are reasonable.

M. Return

Applicant's rate of return witness relied primarily on a Discounted Cash Flow analysis. In his opinion, the water business had become substantially more risky in recent years. He pointed to new requirements for water quality and the need for additional investment to meet current standards. He was also concerned about the impacts of TRA '86 which severely restricts water utilities' ability to finance growth using internally generated cash flow or money from subdividers. The witness also complained of regulatory lag, which averages more than 10.5 months for applicant's rate cases. He recommended a rate of return of 13.5% on equity. He also projected a capital structure of 57% debt in 1989, slightly less than 59% debt in 1990, and slightly more than 59% in 1991.

The Branch rate of return recommendations were presented by a DRA witness. He recommended a range of return on equity between 11.75% and 12.25% for all three years. The corresponding rate of return on all rate base would be between 10.59% to 10.81% for test year 1989, and 10.62% to 10.82% for 1990, and 1991. He predicted that equity would represent 42.83%, 40.39%, and 39.78% of total capitalization in the three years.

In D.89-02-067, (Monterey District), the Commission adopted the DRA's methodology for estimating cost of long-term

debt. While it updated the DRA's short-term debt costs, it also adopted the basic DRA methodology for that element as well. Overall debt costs were estimated to be 9.71% for 1989, 9.78% for 1990, and 9.83% for 1991.

For return on equity, the decision adopted the top of the DRA's recommended range, 12.25%. The adopted debt structure consisted of slightly less debt and more equity than recommended by the DRA witness in this proceeding.

The Commission also lifted a restriction on financing imposed by D.86249 in 1976. The restriction limited the utility to a capital structure in which long-term debt could not exceed 50%.

We see nothing in the evidence in this proceeding which would justify any adjustment in the projections or evaluations adopted in the Monterey proceeding. We have accordingly found reasonable the rate of return on equity, the projected cost of debt and the capital structure adopted for the Monterey District, as set forth in the table below. The adopted rate of return represents the top of the range recommended by DRA's witness in this proceeding.

Adopted Rate of Return

<u>Component</u>	<u>1989</u>		
	<u>Capital Ratios</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long- and Short-Term Debt	56.25%	9.71%	5.46%
Common Equity	<u>43.75</u>	12.25	<u>5.36</u>
Total	100.00%		10.82%
<u>1990</u>			
Long- and Short-Term Debt	58.00%	9.78%	5.67%
Common Equity	<u>42.00</u>	12.25	<u>5.15</u>
Total	100.00%		10.82%
<u>1991</u>			
Long- and Short-Term Debt	58.75%	9.83%	5.78%
Common Equity	<u>41.25</u>	12.25	<u>5.05</u>
Total	100.00%		10.83%

N. Use of Post-Submission Information

In its brief, Applicant argued that we should allow it a higher rate of return than authorized in the Monterey decision. It asserts that the interest rate projections, while only a few months old at the time of hearings in these cases, are now seriously out of date.

To use this data concerning changes in the financial markets in adjusting the rate of return, we would need the judgement and analysis of experts. The only acceptable way to make a record which includes input from experts would be to permit the exchange of testimony and possibly hearings. This kind of updating is prohibited by the current RLP for water utilities.

This prohibition imposes roughly equal risks on both consumer and ratepayer, depending on whether there is an up- or a downtrend in relevant markets. On the other hand, the risks of regulatory lag are almost exclusively on the stockholder. It should also be noted that applicant is not necessarily frozen into the allowed rate of return for a full three-year period. The standard ordering paragraphs adopted here will allow applicant to incorporate a higher rate of return into its 1990 or subsequent rate filings if one is adopted in a future district rate case.

We find that it is reasonable for applicant to earn 12.25% for each of the test years and the attrition year; rates should be set at a level estimated to earn that rate.

O. Rate Design

In Investigation 84-11-041, D.86-05-064, the Commission adopted a new rate design policy. Under this policy, the lifeline block was to be abolished; all consumption was to be charged for at a single rate, except that up to three quantity blocks were permissible if necessary to establish industrial rates. The service charge was to be set high enough to cover up to 50 percent of the utility's fixed charges.

Intervenor Duncan (Duncan) argues that D.86-05-064 is flawed, claiming that there was no representation for consumer interests in that proceeding. A review of the file shows, however, that Toward Utility Rate Normalization, California Public Interest Research Group, and Utility Consumer's Action Network were given notice and opportunity to participate. None of those organizations filed comments. Moreover, if Duncan wishes to challenge that decision, he should do so in that proceeding and not here, almost three years later.

We find that the rate design established in D.86-05-064 is fair to all classes of consumers, and should be applied here.

P. Intervenor's Other Arguments

1. Support by Tax-funded Activities

According to Duncan, Cal Am's business is supported by the facilities and operations of several public agencies, including the Metropolitan Water District, the Flood Control District of Los Angeles County, West Basin Water District. According to Duncan, the agencies' activities assertedly guarantee applicant an unlimited supply of water, and protection against salt water intrusion. Duncan argues that this support eliminates all risk for 50% of applicant's business. This reduced risk should, he claims, justify a rate of return on equity substantially lower than that allowed applicant in the Monterey decision.

There is no expert evidence which would support a finding that a portion of applicant's business is riskless. There is no evidence to indicate that the activities of public agencies would enable applicant to obtain financing at prices significantly below other utilities.

Therefore, we have not attempted to determine what, if any, impact publicly funded operations have on applicant's financing.

2. Consideration of Monterey Decision

Duncan complains that the Monterey District Proposed Decision was not released until late in the hearings on this application. He contends that this late release limited his ability to ask Cal-Am witnesses about "related matters." He argues that the situation in Monterey is distinguishable, since there is no present need for mandatory rationing in any of these Districts. He also notes that Cal-Am's utility operations in this area do not have to compete with the needs of steelhead or salmon fisheries. He argues "[t]here is no impact on the LA Region for reclaimed water."

We do not believe that any of these arguments would justify disregarding the Monterey decision; or imposing a lower rate of return for L.A. Basin operations, at least in the absence of expert testimony supporting such an outcome.

3. Working Cash

Duncan criticizes the utility for withdrawing its exhibit on working cash, thereby preventing him from cross-examining on the matter contained therein. He believes that the new rate design policy, by allowing for recovery of up to 50% of fixed charges in the base rate should reduce the need for working cash. He has not supported this novel approach by demonstrating that applicant will experience less revenue lag. He is also concerned that the adopted figures would not adequately reflect "expedited meter reading and enhanced billing system and oversight and overnight, one day mail delivery." He has not cited any evidence which would support recalculating the Branch figures.

He proposes to reduce the need for working cash by more frequent or advance billings to large users. Finally, he proposes that customers be informed that delays in payment increase the cost of service. He has not demonstrated that such questions were raised before submission and we will not consider them further. ✓

4. Procedural Problems

Duncan contends that the utility made it more difficult for him to cross-examine by including rebuttal to Branch exhibits in its case-in-chief. This contention has no merit. It is not clear why mixing rebuttal with case-in-chief evidence should hamper a cross-examiner.

Duncan claims that the ALJ "facetiously defined and misjudged my public comment and unfairly restricted my presentation..." We have examined the cited references and find only that the ALJ urged him to expedite and, finally, set a time limit on an opening statement which was longer than applicant's and Staff counsel's statements combined.

He complains that the ALJ did not offer him an opportunity to present direct testimony. We note, however, that this proceeding was novel in that a representative of the Public Advisor's office attended all of the public participation hearings. The ALJ repeatedly recommended that all members of the public consult her for advice on how to participate. Duncan apparently failed to heed this advice. Further, we note that he has had extensive experience in Commission proceedings in energy proceedings for the last 9 years. An experienced intervenor would recognize the need to identify the evidence to be offered as part of his opening statement. Finally, his brief has not shown that he had any relevant testimony to offer.

We have found that none of Duncan's proposals is adequately supported by evidence. We conclude that he had a full opportunity to participate in the hearings.

Findings of Fact

1. The Branch estimates for Baldwin Hills consumption are more conservative than applicant's.

2. Applicant's allocation factors are arbitrary, whereas Branch's are based on analysis.

3. Liability insurance costs are unpredictable, pending final implementation of Proposition 103.

4. Branch did not explain why it did not ignore non-deductible expenses in calculating income tax.

5. Branch's weighting factor for deriving weighted average rate base is more realistic than applicant's.

6. Applicant's payroll costs will include 56 employees in 1989 and 57 in 1990. These include both a management trainee and a cross-connection supervisor for both years; predictable costs of new water testing require an allowance of funds for either a new lab employee or for contracting out.

7. Applicant is willing to accept a 2% reduction in total payroll for the vacancy factor. There is no evidence to support a greater reduction for vacancies.

8. Group health insurance costs will increase by 35% in 1989 and an additional 5% in 1990.

9. The findings on general office expenses from the Monterey decision are recent enough to be adopted here.

10. It is not unfair to limit an applicant to one chance every three years for a revision of general office expenses.

11. Such a limitation when practicable, will further the objective of the RLP.

12. It is practicable to adopt Monterey General Office expenses for 1989 and 1990.

13. Applicant has not justified allowing it an exception to the general policy of allowing water utilities CWIP in rate base.

14. Under any alternative mode of performing newly required testing, applicant will have to pay at least the cost of one full-time employee. Allowing salary and benefits for such a position in both test years will partially compensate applicant for costs incurred.

15. Branch has not justified including interest on acquisition adjustment as a deduction in calculating applicant's income tax expense. ✓

16. Applicant's plan to replace autos on a three-year cycle and light trucks on a five-year cycle is not adequately justified by its evidence. We are not persuaded that its plan is not unnecessarily costly. ✓

17. Branch has not supported its recommendation with an adequate study. ✓

18. If adopted for one company alone, applicant's proposal for bifurcated service lives for Structures would render it more difficult to compare utility costs. ✓

19. The use of a single life for Structures has not been shown to distort depreciation. The only single life available on this record are those proposed by Branch which should be adopted. ✓

20. Applicant's two-life method requires accurate records. It may not be useful for other Class A utilities. ✓

21. Branch's salvage and removal values for Structures, conform to its study of lives. ✓

22. It is not practical to adopt a single life for Structures without also adopting Branch's recommended lives and salvage value for that account. ✓

23. For all other depreciation accounts, applicant's proposed service lives and salvage values are supported by more complete research and analysis. ✓

24. Applicant's projected costs for pump and motor replacement have been justified. Branch has not shown that applicant is performing premature replacements. Applicant's pump and motor replacement program is generally reasonable. ✓

25. Energy efficiency is not necessarily a reliable indicator that a pump is reliable. A prudent management will consider age, usage, and experience with similar equipment in deciding when to replace. ✓

26. The improvement in well reliability is worth the added cost of the well replacement program. ✓

27. The Fifth Avenue Main project is needed to improve flow for better service to existing customers. ✓

28. Applicant's and Branch's M&S estimates are equally unreliable. ✓

29. The rate of return on equity, the projected cost of debt and the capital structure adopted for the Monterey District are recent enough to be adopted here. Adopting the high point of the rate of return on equity recommended by DRA in these proceedings is supported by this record. ✓

30. There is insufficient evidence of record to support an updating of the findings to account for changes in financial markets occurring after submission in the Monterey proceeding. ✓

31. It is reasonable for applicant to earn 12.25% return on equity for each of the test years and the attrition year; rates should be set at a level estimated to earn that rate. ✓

32. None of intervenor's proposals for reduction in allowances or rate of return is adequately supported by evidence. ✓

33. In evaluating a replacement cycle for autos and light trucks, consideration should be given to safety and reliability. ✓

34. The rates set forth in Appendices B-BH, C-BH, and D-BH are just and reasonable and non-discriminatory for the periods specified. Applicant's existing rates insofar as they differ from the Appendix rates are unreasonable. ✓

35. The amounts set forth in Appendix E-BH, Adopted Quantities, are reliable and should be used to consider any request for offset relief. ✓

Conclusions of Law

1. The non-labor cost differential between alternative modes of providing additional testing should be considered after applicant has sufficient recorded information on the operation of the new lab.

2. The RLP now in effect does not determine whether or not a multi-district utility is entitled to relitigate general office expenses with every successive district rate case. However, adopting such a rule for the rare instance where two successive district cases share the same test years is not arbitrary. ✓

3. D.86-03-011 decided not to include acquisition adjustment interest in calculating income tax. That issue should not be relitigated here.

4. Applicant cannot deduct the interest allowed for funds used during construction. Our income tax calculations should not include this interest as a tax deduction.

5. Applicant is entitled to some compensation for investments in capital projects before they are allowed in rate base. The Commission has broad discretion to choose among CWIP, AFUDC, and other modes of compensation.

6. The Commission has a policy allowing water utilities to be compensated for use of funds during construction by CWIP in rate base. That policy should be applied to applicant. ↓

7. There is no justification for distinguishing between short-term and long-term construction projects in allowing compensation for funds used during construction. ✓

8. In evaluating an automotive replacement cycle, consideration should be given to safety and reliability. ✓

9. The life and the salvage values from automotive equipment from the Monterey Decision are the most recent allowances available. ✓

10. The life and salvage values for light trucks and passenger cars from the Monterey Decision should be adopted here. ✓

11. All Class A water utilities should use the same system for recording and estimating depreciation and salvage for structures. ✓

12. Where applicant's and Branch's estimates are equally unreliable, we should adopt the estimate of the party not having the burden of proof. ✓

13. Applicant has the burden of proof on allowances for Material and Supplies. ✓

14. It is not reasonable to adopt applicant's recommendation for dual lives for Structures. ✓

15. The RLP for water utilities adopted in 1979 prohibits updating of financial market data after the first round of exhibits. ✓

16. Duncan was not denied an opportunity to participate fully. ✓

17. Because of the rate case plan schedule, this order should be effective today. ✓

18. Applicant should be authorized to establish the Appendix rates on the dates specified. ✓

ORDER

IT IS ORDERED that:

1. California-American Water Company is authorized to file on or after the effective date of this order the revised rate schedules for 1989 shown in Appendix B-BH for its Baldwin Hills Division. This filing shall comply with General Order 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 5, 1989, California-American Water Company is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1990 shown in Appendix C-BH attached to this order, or to file a lesser increase in the event that the rate of return on rate base for its Baldwin Hills Division, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the months between the

effective date of this order and September 30, 1989, annualized, exceeds the later of (a) the rate of return found reasonable by the Commission for California-American Water Company for the corresponding period in the then most recent rate decision, or (b) 10.82%. This filing shall comply with General Order 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. Staff shall inform the Commission if it finds that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1990, or 40 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 5, 1990, California-American Water Company is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1991 shown in Appendix D-BH attached to this order, or to file a lesser increase in the event that the rate of return on rate base for its Baldwin Hills Division, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the months between the effective date of the increase ordered in the previous paragraph and September 30, 1990, annualized, exceeds the later of (a) the rate of return found reasonable by the Commission for California-American Water Company for the corresponding period in the then most recent rate decision, or (b) 10.82%. This filing shall comply with General Order 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. Staff shall inform the Commission if it finds that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1991, or 40

days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

This order is effective today.

Dated JUL 19 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
Commissioners

Commissioner Patrick M. Eckert,
being necessarily absent, did
not participate.

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.

Victor Weiss

Victor Weiss, Executive Director

APPENDIX A-BH
Page 1
CALIFORNIA-AMERICAN WATER CO.
(BALDWIN HILLS)
1989
SUMMARY OF EARNINGS
(\$000)

Items	Utility		Branch		Adopted	
	Present	Proposed	Present	Proposed	Present	Authorized
Oper. Revenues	\$2,493.1	\$2,668.0	\$2,559.3	\$2,726.7	\$2,528.7	\$2,616.9
Rev. from Contr.	<u>0.5</u>	<u>0.5</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>
Total Revenues	2,493.6	2,668.5	2,559.9	2,727.3	2,529.3	2,617.5
Expenses						
O & M Expenses	1,240.8	1,240.8	1,247.8	1,247.8	1,247.0	1,247.0
Uncollectibles	<u>7.6</u>	<u>8.2</u>	<u>7.8</u>	<u>8.3</u>	<u>7.7</u>	<u>8.0</u>
Subtotal O & M	1,248.4	1,249.0	1,255.6	1,256.1	1,254.7	1,255.0
A & G Expenses	356.3	356.3	334.1	334.1	352.4	352.4
Franchise	0.0	0.0	0.0	0.0	0.0	0.0
Gen. Off. (w/o Depr)	<u>143.0</u>	<u>143.0</u>	<u>141.0</u>	<u>141.0</u>	<u>146.1</u>	<u>146.1</u>
Subtotal A & G	499.3	499.3	475.1	475.1	498.5	498.5
Ad Valorem Taxes	40.1	40.1	37.3	37.3	39.5	39.5
Payroll Taxes	36.6	36.6	37.6	37.6	38.1	38.1
Depreciation (+ GO)	215.9	215.9	142.8	142.8	214.7	214.7
Ca. Income Tax	30.5	46.7	38.0	53.5	35.4	43.5
Federal Income Taxes	<u>92.0</u>	<u>145.8</u>	<u>118.3</u>	<u>169.7</u>	<u>109.6</u>	<u>136.7</u>
Total Expenses	2,162.8	2,233.4	2,104.7	2,172.2	2,190.5	2,226.1
Net Revenues	330.8	435.1	455.2	555.1	338.8	391.4
Rate Base	3,790.0	3,790.0	3,549.3	3,549.3	3,617.8	3,617.8
Rate of Return	8.73%	11.48%	12.83%	15.64%	9.37%	10.82%

(Negative)

APPENDIX A-EH
Page 2
CALIFORNIA-AMERICAN WATER CO.
(BALDWIN HILLS)
1990
SUMMARY OF EARNINGS
(\$000)

Items	Utility		Branch		Adopted	
	Present	Proposed	Present	Proposed	Present	Authorized
Oper. Revenues	\$2,498.0	\$2,770.5	\$2,570.4	\$2,836.1	\$2,535.4	\$2,689.6
Rev. from Contr.	<u>0.6</u>	<u>0.6</u>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>
Total Revenues	2,498.6	2,771.1	2,571.1	2,836.8	2,536.1	2,690.3
Expenses						
O & M Expenses	1,262.8	1,262.8	1,273.3	1,273.3	1,269.0	1,269.0
Uncollectibles	<u>7.6</u>	<u>8.5</u>	<u>7.9</u>	<u>8.7</u>	<u>7.8</u>	<u>8.2</u>
Subtotal O&M	1,270.4	1,271.3	1,281.2	1,282.0	1,276.8	1,277.2
A & G Expenses	374.1	374.1	348.7	348.7	370.0	370.0
Franchise	0.0	0.0	0.0	0.0	0.0	0.0
Gen. Off. (w/o Depr.)	<u>149.5</u>	<u>149.5</u>	<u>147.5</u>	<u>147.5</u>	<u>152.9</u>	<u>152.9</u>
Subtotal A & G	523.6	523.6	496.2	496.2	522.9	522.9
Ad Valorem Taxes	44.9	44.9	37.3	37.3	41.3	41.3
Payroll Taxes	39.6	39.6	37.6	37.6	39.7	39.7
Depreciation (+ GO)	229.1	229.1	142.8	142.8	227.7	227.7
Ca. Income Tax	21.1	46.3	31.9	56.5	27.4	41.7
Federal Income Taxes	<u>61.3</u>	<u>145.0</u>	<u>98.5</u>	<u>180.2</u>	<u>83.3</u>	<u>130.9</u>
Total Expenses	2,189.9	2,299.9	2,125.5	2,232.6	2,219.0	2,281.4
Net Revenues	308.7	471.2	445.6	604.2	317.1	408.9
Rate Base	4,074.7	4,074.7	3,692.1	3,692.1	3,780.0	3,780.0
Rate of Return	7.57%	11.56%	12.07%	16.36%	8.39%	10.82%

(Negative)

APPENDIX A-BH
Page 3
CALIFORNIA-AMERICAN WATER CO.
(BALDWIN HILLS)
1989
INCOME TAX
(\$000)

Items	Utility		Branch		Adopted	
	Present	Proposed	Present	Proposed	Present	Authorized
Total Revenues	\$2,493.1	\$2,668.0	\$2,559.3	\$2,726.7	\$2,528.7	\$2,616.9
Expenses						
Operations & Maint.	1,248.4	1,249.0	1,255.6	1,256.1	1,254.6	1,254.9
Admin. & General	356.3	356.3	334.1	334.1	352.4	352.4
Taxes O/T Income	76.7	76.7	74.9	74.9	77.6	77.6
Gen. Off.	143.0	143.0	141.0	141.0	146.1	146.1
Subtotal	1,824.4	1,825.0	1,805.6	1,806.1	1,830.7	1,831.0
Deductions						
CA Tax Depreciation	148.6	148.6	143.5	143.5	146.2	146.2
Interest	192.6	192.6	201.6	201.6	171.5	171.5
CA Taxable Income	327.5	501.8	408.6	575.5	380.3	468.2
OCFT	30.5	46.7	38.0	53.5	35.4	43.5
Deductions						
Fed. Tax Depreciat	166.4	166.4	157.7	157.7	160.2	160.2
Interest	192.6	192.6	201.6	201.6	171.5	171.5
FIT Taxable Income	279.2	437.3	356.4	507.8	330.9	410.7
FIT (Before Adjustment)	94.9	148.7	121.2	172.6	112.5	139.6
Prorated Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Investment Tax Credit	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)
Net Federal Income Tax	92.0	145.8	118.3	169.7	109.6	136.7

(Negative)

APPENDIX A-EH
Page 4
CALIFORNIA-AMERICAN WATER CO.
(BALDWIN HILLS)
1990
INCOME TAX
(\$000)

Items	Utility		Branch		Adopted	
	Present	Proposed	Present	Proposed	Present	Authorized
Total Revenues	\$2,498.0	\$2,770.5	\$2,570.4	\$2,836.1	\$2,535.4	\$2,690.3
Expenses						
Operations & Maint.	1,270.4	1,271.3	1,281.2	1,282.0	1,276.7	1,277.1
Admin. & General	374.1	374.1	348.7	348.7	370.0	370.0
Taxes O/T Income	84.5	84.5	74.9	74.9	81.0	81.0
Gen. Off.	149.5	149.5	147.5	147.5	152.9	152.9
Subtotal	1,878.5	1,879.4	1,852.3	1,853.1	1,880.6	1,881.0
Deductions						
CA Tax Depreciation	165.8	165.8	151.7	151.7	157.4	157.4
Interest	227.0	227.0	223.4	223.4	203.2	203.2
CA Taxable Income	226.7	498.3	343.0	607.9	294.2	448.7
OCFT	21.1	46.3	31.9	56.5	27.4	41.7
Deductions						
Fed. Tax Depreciation	182.7	182.7	164.5	164.5	170.8	170.8
Interest	227.0	227.0	223.4	223.4	203.2	203.2
FIT Taxable Income	188.7	435.1	298.3	538.6	253.4	393.6
FIT (Before Adjustment)	64.2	147.9	101.4	183.1	86.2	133.8
Prorated Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Investment Tax Credit	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)
Net Federal Income Tax	61.3	145.0	98.5	180.2	83.3	130.9

(Negative)

APPENDIX A-BH
Page 5
CALIFORNIA-AMERICAN WATER CO.
(BALDWIN HILLS)
1989
RATE BASE
(\$000)

Items	Utility	Branch	Adopted
Plant in Service	\$5,403.0	\$5,277.8	\$5,343.8
Work in Progress	0.0	0.0	0.0
Materials & Supplies	16.2	7.5	7.5
Working Cash	249.9	115.4	142.8
Method 5 Adj.	2.9	2.7	2.7
Cap. Int. Adj.	0.0	0.0	0.0
Subtotal	5,672.0	5,403.4	5,496.8
Less:			
Depreciation Reserve	1,587.7	1,561.3	1,585.2
Advances	73.2	73.2	73.2
Contributions	66.3	66.0	66.0
Unamortized ITC	0.0	0.0	0.0
Deferred Income Tax	198.2	194.4	195.4
Subtotal	1,925.4	1,894.9	1,919.8
Net District Rate Base	3,746.6	3,508.5	3,577.0
Main Office Allocation	43.4	40.8	40.8
Total Rate Base	\$3,790.0	\$3,549.3	\$3,617.8

APPENDIX A-BH
Page 6
CALIFORNIA-AMERICAN WATER CO.
(BALDWIN HILLS)
1990
RATE BASE
(\$000)

Items	Utility	Branch	Adopted
Plant in Service	\$5,880.3	\$5,537.9	\$5,685.5
Work in Progress	0.0	0.0	0.0
Materials & Supplies	17.0	7.9	7.9
Working Cash	259.1	120.0	149.3
Method 5 Adj.	4.4	4.0	4.0
Cap. Int. Adj.	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Subtotal	6,160.8	5,669.8	5,846.7
Less:			
Depreciation Reserve	1,741.4	1,652.4	1,738.9
Advances	70.7	70.7	70.7
Contributions	70.5	70.6	70.6
Unamortized ITC	0.0	0.0	0.0
Deferred Income Tax	<u>245.4</u>	<u>225.2</u>	<u>227.7</u>
Subtotal	2,128.0	2,018.9	2,107.9
Net District Rate Base	4,032.8	3,650.9	3,738.8
Main Office Allocation	<u>41.9</u>	<u>41.2</u>	<u>41.2</u>
Total Rate Base	\$4,074.7	\$3,692.1	\$3,780.0

(END OF APPENDIX A-BH)

APPENDIX B-BH
Page 1

Schedule No. BH-1

BALDWIN HILLS DISTRICT TARIFF AREAGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

<u>Service Charge:</u>		<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter		\$ 6.00	(I)
For 3/4-inch meter		10.00	
For 1-inch meter		13.00	
For 1-1/2-inch meter		18.00	
For 2-inch meter		25.00	
For 3-inch meter		45.00	
For 4-inch meter		60.00	
For 6-inch meter		102.00	
For 8-inch meter		143.00	
For 10-inch meter		177.00	
For 12-inch meter		210.00	(I)

Quantity Rates:

First 400,000 cu.ft., per 100 cu.ft.	\$ 1.216
Over 400,000 cu.ft., per 100 cu.ft.	1.500

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the quantity rates, for water used during the month.

APPENDIX B-BH
Page 2

Schedule No. BH-4

BALDWIN HILLS DISTRICT TARIFF AREA

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for privately owned fire protection systems.

TERRITORY

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

RATES

Per Month

For each inch of diameter of private
fire protection service \$3.14 ✓

The rates for private fire service are based upon the size of the service and no additional charges will be made for fire hydrants, sprinkler, hose connections or standpipe connected to and supplied by such private fire service.

SPECIAL CONDITIONS

1. The fire protection service and connection shall be installed by the utility or under the utility's direction. Cost of the entire fire protection installation excluding the connection at the main shall be paid for by the applicant. Such payment shall not be subject to refund.

2. The installation housing the detector type check valve and meter and appurtenances thereto shall be in a location mutually agreeable to the applicant and the utility. Normally such installation shall be located on the premises of applicant, adjacent to the property line. The expense of maintaining the fire protection facilities on the applicant's premises (including the vault, meter detector type check valves, backflow device, and appurtenances) shall be paid for by the applicant.

3. All facilities paid for by the applicant shall be the sole property of the applicant. The utility and its duly authorized agents shall have the right to ingress to and egress from the premises for all purposes relating to said facilities.

(END OF APPENDIX B-BH)

APPENDIX C-BH

CALIFORNIA AMERICAN WATER COMPANYBALDWIN HILLS DISTRICT

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rate which would otherwise be in effect on that date.

SCHEDULE BH-1

<u>Service Charge:</u>	<u>Effective</u> <u>1990</u>
For 5/8 x 3/4-inch meter	\$ 0.63
For 3/4-inch meter	0.70
For 1-inch meter	1.35
For 1-1/2-inch meter	3.00
For 2-inch meter	4.00
For 3-inch meter	5.00
For 4-inch meter	6.00
For 6-inch meter	8.00
For 8-inch meter	14.00
For 10-inch meter	18.00
For 12-inch meter	20.00

Quantity Rates:

First 400,000 cu.ft., per 100 cu.ft. ..	\$ 0.00
Over 400,000 cu.ft., per 100 cu.ft. ..	0.00

SCHEDULE BH-4Rates:

For each inch of diameter of private fire protection service	\$ 0.07
---	---------

✓

(END OF APPENDIX C-BH)

APPENDIX D-BH
CALIFORNIA AMERICAN WATER COMPANY
BALDWIN HILLS DISTRICT

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rate which would otherwise be in effect on that date.

SCHEDULE BH-1

<u>Service Charge:</u>	<u>Effective</u> <u>1991</u>
For 5/8 x 3/4-inch meter	\$ 0.67
For 3/4-inch meter	0.90
For 1-inch meter	1.25
For 1-1/2-inch meter	5.00
For 2-inch meter	6.00
For 3-inch meter	7.00
For 4-inch meter	7.00
For 6-inch meter	10.00
For 8-inch meter	18.00
For 10-inch meter	21.00
For 12-inch meter	25.00

Quantity Rates:

First 400,000 cu.ft., per 100 cu.ft. ..	\$ 0.00
Over 400,000 cu.ft., per 100 cu.ft. ..	0.00

SCHEDULE BH-4Rates:

For each inch of diameter of private fire protection service	\$ 0.08
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(END OF APPENDIX D-BH)

APPENDIX E-BH
Page 1

CALIFORNIA AMERICAN WATER COMPANYBALDWIN HILLS DISTRICTADOPTED QUANTITIES

Purchased Power

Boosters:

S.C.E. Effective 7-88	1989	1990
PA-1 (157.5 H.P.)	261,936	262,755
PA-2 (74 KW)	130,670	130,934
Power Consumption (KWH)	392,606	393,689
Power Cost	\$39,150	\$39,245

Wells:

LADWP Effective 4-84		
Power Consumption	1,605,340	1,605,340
City Utility Tax	12.5%	12.5%
Power Cost	\$146,750	\$146,750
Total Power Cost	\$185,900	\$185,995

Purchased Water Expenses

Central Basin MWD		
Total Production (AF)	1,925.2	1,934.2
\$ per AF (7-88)	231.0	231.0
Cost	\$444,721	\$446,800

Pump Tax:

Central & West Basin		
Acre-Feet	2,067.0	2,067.0
\$ per AF (7-88)	71.0	71.0
Cost	\$146,757	\$146,757
Watermaster cost	\$1,320	\$1,320
Total Purch. Water Cost	\$592,798	\$594,877

(Continued)

APPENDIX E-EH
Page 2CALIFORNIA AMERICAN WATER COMPANY
BALDWIN HILLS DISTRICT
ADOPTED QUANTITIES

NUMBER OF SERVICES - METER SIZE	1989	1990
5/8 x 3/4	4,096	4,105
3/4	0	0
1	1,885	1,889
1-1/2	63	63
2	47	47
3	1	1
4	1	1
Total	6,093	6,106

METERED WATER SALES
Range CcfUsage - Ccf

0-4,000	1,565,400	1,569,900	✓
Over 4,000	51,900	51,900	
Total	1,617,300	1,621,800	✓

NUMBER OF SERVICES

	<u>No. of Services</u>		<u>Usage-KCcf</u>		<u>Avg.-Usage Ccf/vr</u>	
	1989	1990	1989	1990	1989	1990
Residential	5,458	5,462	1,225.3	1,226.2	224.5	224.5
Business Norm. Users	608	617	232.9	236.5	396.2	396.2
Business Large Users	4	4	32.0	32.0	8,000.0	8,000.0
Industrial	2	2	100.5	100.5	50,256.0	50,256.0
Pub. Auth. Nor. Users	20	20	12.9	12.9	644.5	644.5
Pub. Auth. Ig. Users	1	1	12.2	12.2	12,200.0	12,200.0
Other	4	4	1.5	1.5		
Subtotal	6,097	6,110	1,617.3	1,621.8		
Pvte. Fire Protec.	28	29	-	-		
Total	6,125	6,139	1,617.3	1,621.8		
Unaccounted for (7.0%)			121.7	122.0		
Total Water Produced			1,739.0	1,743.8		
Wells			885.2	885.2		
Purchased			853.8	858.6		

APPENDIX E-BH
Page 3

CALIFORNIA AMERICAN WATER COMPANYBALDWIN HILLS DISTRICTADOPTED EXPENSES

	1989 Adopted (Thousands of Dollars)	1990 Adopted
Purchased Power	\$185.9	\$186.1
Purchased Water	592.8	594.9
Purchased Chem.	1.1	1.1
Payroll (O&M+A&G)	434.0	453.1
O&M Other	179.1	186.2
Emp. Pension & Ben.	84.8	89.1
A & G Other	121.7	128.6
Payroll Tax	38.1	39.7
Ad. Vol. Tax	39.5	41.3
Federal Tax Rate	34.0%	34.0%
State Tax Rate	9.3%	9.3%
Uncollectible Rate	0.306%	0.306%
Franchise	0.0%	0.0%

(END OF APPENDIX E-BH)

APPENDIX F-BH

CALIFORNIA AMERICAN WATER COMPANYBALDWIN HILLS DISTRICTAT PRESENT AND ADOPTED RATESFOR A 5/8 X 3/4 INCH METER1989

<u>Usage</u> <u>Ccf</u>	<u>Present</u> <u>Rates</u>	<u>Adopted</u> <u>Rates</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$ 5.20	\$ 6.00	\$ 0.80	15.38
3	7.43	9.65	2.22	29.85
5	10.03	12.08	2.05	20.44
8	13.93	15.73	1.80	12.91
10	16.53	18.16	1.63	9.86
15	23.03	24.24	1.21	5.25
18.36 Avg.	27.39	28.33	0.94	3.42
20	29.52	30.32	0.80	2.71
40	55.52	54.64	-0.88	-1.59
100	133.50	127.60	-5.90	-4.42

1990

0	\$ 6.00	\$ 6.63	\$0.63	10.50
3	9.65	10.28	0.63	6.53
5	12.08	12.71	0.63	5.22
8	15.73	16.36	0.63	4.01
10	18.16	18.79	0.63	3.47
15	24.24	24.87	0.63	2.60
18.36 Avg.	28.33	28.96	0.63	2.22
20	30.32	30.95	0.63	2.08
40	54.64	55.27	0.63	1.15
100	127.60	128.23	0.63	0.49

1991

0	\$ 6.63	\$ 7.30	\$0.67	10.11
3	10.28	10.95	0.67	6.52
5	12.71	13.38	0.67	5.27
8	16.36	17.03	0.67	4.10
10	18.79	19.46	0.67	3.57
15	24.87	25.54	0.67	2.69
18.36 Avg.	28.96	29.63	0.67	2.31
20	30.95	31.62	0.67	2.16
40	55.27	55.94	0.67	1.21
100	128.23	128.90	0.67	0.52

(END OF APPENDIX F-BH)

I N D E X

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O P I N I O N

The California-American Water Company (applicant or Cal-Am) seeks authority to increase water rates for its Baldwin Hills District (District).

The proposed rates are designed to produce increased revenues in 1989, 1990, and 1991, as follows:

<u>Year</u>	<u>Annual</u>		<u>Cumulative</u>	
	<u>Increase</u>	<u>(000) Percent</u>	<u>Increase</u>	<u>(000) Percent</u>
1989	\$174.9	7.01%	\$174.9	7.01%
1990	97.6	3.64	272.5	10.91
1991	112.3	4.04	384.8	15.39

At present rates, the monthly charge for 18.36 hundred cubic feet (Ccf), the amount consumed by the average domestic consumer, is \$27.39. For such a consumer, the proposed rates would result in higher bills, as follows:

<u>Year</u>	<u>Amount</u>	<u>Increase</u>	<u>% Increase</u>
1989	\$28.04	\$.65	2.38%
1990	29.01	1.62	5.92
1991	30.17	2.77	10.12

Appendix F-BH sets forth the impact on other classes of customer.

A. New Rates

We have considered the evidence presented by applicant, by the Water Utilities Branch (Branch) of the Commission Advisory and Compliance Division (CACD), and by the Division of Ratepayer Advocates (DRA). Based on that evidence, we will grant a rate increase and establish new rates for water service. The domestic customer who now pays \$27.39 for 1,836 cubic feet will pay: \$27.91 per month for the remainder of 1989; \$28.51 per month for 1990; and \$29.01 per month for 1991. The dollar amount of the increases we are granting are \$58,500 or 2.31% for 1989 on an annualized basis, \$58,300 or 2.25% for 1990, and \$56,500 or 2.13% for 1991.

OPINION

The California-American Water Company (applicant or Cal-Am) seeks authority to increase water rates for its Baldwin Hills District (District).

The applicant's proposed rates are designed to produce increased revenues in 1989, 1990, and 1991, as follows:

Year	Annual		Cumulative	
	Increase	(000) Percent	Increase	(000) Percent
1989	\$174.9	7.01%	\$174.9	7.01%
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A. New Rates

We have considered the evidence presented by applicant, by the Water Utilities Branch (Branch) of the Commission Advisory and Compliance Division (CACD), and by the Division of Ratepayer Advocates (DRA). Based on that evidence, we will grant a rate increase and establish new rates for water service. The domestic customer who now pays \$27.39 for 1,836 cubic feet will pay: \$28.33 per month for the remainder of 1989; \$28.96 per month for 1990; and \$29.63 per month for 1991. The dollar amount of the increases we are granting are \$88,200 or 3.49% for 1989 on an annualized basis, \$65,800 or 2.51% for 1990, and \$69,000 or 2.57% for 1991.

The Branch conducted a field investigation and found the district's plant and service are generally satisfactory. At the public participation hearing in Inglewood on January 24, 1988, no members of the public (other than intervenor) asked to be heard.

Public evidentiary hearings were held on a common record with A.88-09-041 and A.88-09-042 in the Los Angeles area on January 23 through 27 before Administrative Law Judge (ALJ) Gilman. The matter was taken under submission after filing of a joint late-filed exhibit and briefs from all three appearances on March 3, 1988.

F. Discussion

The tables which appear in Appendix A-BH compare applicant's and Branch's initial positions with the adopted figures. The rationale for the adopted figures is discussed in the text below. (The discussion relies on decisions reached in D.86-03-011 in A.85-05-092, the last rate case for Cal-Am's Baldwin Hills, San Marino and Duarte Districts. It also relies on the most recent Monterey District rate case, D. 89-02-047. Finally, we have referred to our Regulatory Lag Plan (RLP) for water utilities, adopted by Resolution M-4705 in 1979).

The text below covers those issues which still remain in dispute between Branch or DRA and applicant. Our analysis and resolution of those issues is explained.

G. Summary of Disposition of Major Issues

According to Branch the following points are no longer in issue.

1. Consumption

a. Average Services

- (1) Baldwin Hills
 - (a) Residential
 - (b) Bus. Normal
- (2) Duarte
 - (a) Residential

b. Consumption Per Customer

- (1) Baldwin Hills
 - (a) Residential
 - (b) Bus. Normal
 - (c) Bus. Large
 - (d) PA Normal
- (2) Duarte
 - (a) Bus. Large
 - (b) PA Large
- (3) San Marino
 - (a) Residential
 - (b) Bus. Normal
 - (c) PA Large

c. Unaccounted for Water

- (1) Baldwin Hills
- (2) Duarte
- (3) San Marino
- (4) Duarte
 - (a) Residential

2. O & M Expense

- a. Other - All Districts

3. A & G Expenses

- a. Liability Ins. Premium
 - (1) All Districts
- b. Regulatory Commission Expense
 - (1) Attorneys' Fees
 - (2) Employee Per Diem
- c. Outside Services Expense
 - (1) San Marino
- d. Misc. General Expenses
 - (1) All Districts
(AWWA, Rotary, Kiwanis)
- e. Maintenance of General Plant
 - (1) Baldwin Hills
 - (2) Duarte

8. Rate Base

- a. Working Cash - Lag Days
 - (1) Purchased Water
 - (a) San Marino
 - (2) Goods and Services
 - (3) Calif. Corp. Franchise Tax (CCFT)
 - (4) FICA

We have adopted Cal-Am's recommended number of employee positions, 56 in 1989 and 57 thereafter. This includes an additional employee to perform additional testing, a cross-connection supervisor and a management trainee in both test years. We have rejected Branch's cost estimate for this item which assumed that the historical number of vacancies would continue during the test years. We have instead adopted an arbitrary 2% reduction for vacancies as proposed by applicant.

In all Districts, our utility plant estimates are based on:

- 1. An Allowance for Funds Used During Construction (AFUDC) rejecting a Branch proposal to deny compensation for funds used while projects are under construction.
- 2. Service lives of 4 years for autos and light trucks, as proposed by applicant.
- 3. An allowance for all utility-planned replacements of pumps and motors
- 4. Adoption of Branch-recommended adjustment to the estimate for furniture and carpets.

We have adopted (with the exception of the additional lab employee) the same level of expenses for the general office allowed in the Monterey decision, D.89-02-067 in A.88-03-047, California-American. Increase Rates. Monterey District. (This accepts a Branch recommendation.)

In calculating income tax, we have followed the methodology proposed by the applicant; this excludes interest charges on AFUDC; it also excludes the effect of interest on the unamortized portion of acquisition adjustment.

We have postponed considering the non-labor cost components of applicant's proposed new Los Angeles lab. This action is dictated by the Monterey decision, which held that examination of the costs should await the availability of actual costs.

We have included in applicant's rate base, an estimated \$117,000 for the construction of a 12-inch main in Fifth Avenue. Our findings adopt applicant's contention that the main is needed for current customer needs, rather than for expansion, as Branch contended. We have adopted staff's Materials and Supplies estimate.

We have adopted a rate of return of 12.25%. This is the top of DRA's range of recommended rates, and is the same rate of return adopted in the Monterey rate case, supra.

H. Summary of Disposition of Minor Issues

With the exception of the furniture issue, the parties did not brief the issues noted below. The furniture issue involves a very small sum.

In Baldwin Hills there are differences in estimated operating revenues. The Branch figures are more conservative and will be adopted.

In all Districts, there were differences in the allocation factors to be used to distribute certain labor-related costs between Districts. We have adopted the Branch factor as being less arbitrary than applicant's.

In all Districts, Branch recommended that we not escalate costs of liability insurance, as proposed by applicant. The Branch

approach seems preferable pending implementation of the California Supreme Court decision on Proposition 103 insurance reform.

In calculating income taxes, Branch did not deduct non-deductible employee expenses. Since Branch did not explain, we will adopt the company position.

The Branch and applicant each used a different weighting factor in deriving weighted average rate base. We have adopted the Branch figure.

All "unexplained variances" shown on the tables have been resolved in applicants favor.

We have adopted the Branch recommendations on furniture, primarily based on an actual inspection. Cal-Am did not effectively refute the Branch conclusions that replacement was premature.

I. Expenses

1. Payroll

Three components produce the difference between Branch's and applicant's estimates for payroll. Applicant claims that allowance should be made for 56 employees in the 1989 test year and 57 in 1990. Branch claims that the Commission should allow for only 52 and 53 employees should be allowed. The position for water testing is discussed under "New Laboratory" below.

a. Vacancies

The first component is caused by differences in methodology. Applicant based its payroll estimates on the number of positions. Branch on the other hand, counted the number of persons actually employed on a certain date. On that date applicant had a number of vacant positions. There was also one individual whose name did not appear on the payroll, because she had been paid in advance that month.

Applicant does not expect to have any significant number of vacancies in the future, especially in the hard-to-fill technical category. Any vacancies which do occur are more likely

to be in the laborer categories. Turnover in such categories is high; on the other hand, applicant can usually fill such positions quickly.

Applicant's showing satisfies us that it will continue to have a full roster, except for minor, sporadic turnover.

If we were engaged in retroactive ratemaking, the salary savings realized during the period when vacancies existed should perhaps be flowed through to customers. However, we are charged with estimating what expenses will be incurred in future test years. We could not adopt Branch's position without a showing that the past vacancy rate will likely recur in the test years. None was offered.

Applicant is willing to accept a 2% reduction in its original estimate to allow for future vacancies. There is no support in the record for any greater reduction.

We have therefore allowed for compensation for all current positions, less the 2% reduction in total payroll for the vacancy factor.

b. Cross-Connection Supervisor

Branch concedes that a cross-connection supervisor is mandated by California law. However, it did not allow any salary for this position until 1990. The utility confronted the Branch with evidence that it was required to have a person in place during calendar 1988. Even so, the Branch did not concede that its disallowance was in error. Instead, the Branch retracted its recommendation to allow for a management trainee in both test years. It now claims that the trainee's 1989 salary should be disallowed on the theory that he was "hired...without Commission approval." The Commission does not require a utility to obtain authorization before filling a new employee position.

There is no basis in the record for denying applicant compensation in both test years for both a cross connection supervisor and a management trainee.

We find that rates should be based on applicant's estimates with a 2% reduction for future vacancies.

2. Health Insurance

Applicant estimates an increase in group health costs of 35% in 1989 with an additional 5% in 1990. The estimate is based on actual 1988 billings and advice from its insurance carrier. This is the same evidence which convinced the Branch to accept the same projection in the Monterey case, supra. Applicant also points to a recorded increase of more than 20%. It further contends that its costs for this expense element are lower than the costs of comparable Class A water utilities.

Branch would allow only a 10% premium increase in 1989 and another 5.4% in 1990. Its estimate is based on a summary of rate increases of some 36 health insurance providers and HMO's serving the employees of the State of California.

Applicant criticizes Branch's estimating procedure. Applicant's insurance rate is effective for an October-to-October year; Branch based its allowance on the premium paid on January 1, 1988 and used that figure for the full test year 1989. This criticism is valid. Clearly, Branch should have adjusted its figure to convert October-to-October experience for use in January-to-January test years.

Applicant also argues that Branch is comparing the wrong years. Its own estimate is based on experience current as of October 1, 1988. We do not know which periods were used to set rates by the insurance carriers chosen by Branch. We believe that, more likely than not, the data was taken from an earlier period. At very least, this failure to adjust for or consider this mismatch weakens the comparison relied on by Branch.

It also should be noted that applicant is effectively self-insured. Its policy provides that premiums are based solely on claims from Cal-Am's own employees. Thus, there is no sharing of risk with other insureds. Moreover, the premium is

retroactively set to cover actual claims from those employees. Thus, neither insured or insurer have any risk of misestimation. This offers another material distinction between the group costs relied on by Branch and applicant's estimates.

Branch unfortunately focused on the rate of increase rather than on the actual cost per employee. Consequently, it apparently did not check applicant's claim that its costs are lower than other major water companies.

Branch has failed to convince us that the comparison it did make is significant; on the other hand, it failed to compare applicant's cost with other utilities, a comparison which would have been of great interest to the Commission. We have, therefore, adopted the applicant's projected health costs.

3. General Office

Branch's position is that a multi-district company should not be able to relitigate the level of general office expense when there is a recent decision in another district on the merits. It therefore argues that the Commission should, (with the exception of the Monterey lab issue) adopt the costs allowed in the Monterey decision, *supra*.

Applicant argues strongly that it is entitled to a fresh look at general office expenses every time it files a new district rate case, regardless of the vintage of the last finding.

Branch claims that its position is justified by the three-year rate case cycle which is the foundation of the current, experimental RLP, (*supra*).

Applicant claims that Branch has recommended a radical new concept. It asserts that the Commission has traditionally treated each district as a stand-alone entity, and set a new general office allowance in each proceeding. Branch does not challenge this claim. Applicant also argues that, in most instances, each successive set of district proceedings involves different test years. Furthermore, it asserts that uncontrollable

delays in the Monterey proceeding caused the use of 1989 and 1990 test years in that decision.

Applicant also argues that it is unfair to deny it the right to continuously update its general office allowance. It asserts that general office expenses will change over even relatively short periods. Sometimes, it claims, there are changes that reduce costs. It points out that such a change is present here. (The company has sold its office furniture to a subsidiary which will lease it back to Cal-Am with a net savings of \$62,692; some \$10,000 of this would be allocated to these three Districts).

Neither party has provided adequate citations to allow us to decide whether applicant's position is in fact the traditional way of dealing with multi-district ratemaking. However, the mere fact that a position is novel is not always justification for rejecting it.

We have instead rejected applicant's claim of unfairness. We find no grounds to believe that general office expenses are more volatile than other expense categories. As with other classes of expense, use of escalation factors can protect a utility from inflation through the three-year cycle. Specific allowances can deal with predictable changes, such as the change from leasing to ownership. We also note that under Branch's proposal, applicant would retain some of the savings if it can find ways to economize during the extended period between reviews.

On the other hand, we cannot accept Branch's argument that its proposal is simply a direct application of the RLP. Resolution M-4705 merely provides that rate cases are to be heard on a three-year cycle. There is no attempt to deal with the special problems of a utility with several Districts.

Branch's position, even though novel, shows commendable ingenuity. It seeks to achieve the objective of reducing lag, not merely by requiring all parties to litigate faster, but by reducing the amount of repetitious litigation.

On the other hand, we do not totally reject applicant's argument that it is rare for two successive district cases to share the same test years. Branch's approach in its present form will only work where that is the case. A significantly more sophisticated approach will be needed if it should seek to adapt the once-every-three-year principle to situations where successive rate cases overlap for only one test year. This general problem should be addressed in the current rulemaking proceeding, Order Instituting Rulemaking 88-03-003, which was issued to update the current RLP. Cal-Am's argument is not on point in these proceedings, where circumstances make it possible to apply the Monterey District's findings without adjustment.

Branch's suggestion is feasible in these proceedings, and reflects sound regulatory policy. For the purposes of setting rates for these Districts, we will consequently adopt the General Office expenses allowed in the Monterey case.

We find that:

1. The findings on general office expenses from the Monterey decision are recent enough to be adopted here.
2. It is not unfair to limit an applicant to one opportunity every three years for a review of general office expenses.
3. Such a limitation, when practicable, will further the objective of a rate case plan schedule.

4. New Laboratory

Applicant currently does all of its in-house testing for all Districts in a lab located in Monterey. It proposes to open a new subsidiary lab in the Los Angeles area to do testing for these three Districts. Branch opposes the proposal as wasteful, and contends that all capital and operating costs should be disallowed.

This issue was raised and discussed in D.89-02-067 regarding applicant's recent Monterey District. In D.89-02-067,

the Commission anticipated that the proposed new facility would be operating prior to the hearings in these applications. It concluded that these hearings would provide an opportunity to examine actual operations of both facilities and to base a final decision on a review of recorded operational statistics. Ordering Paragraph No. 6b allowed applicant to ask for an offset rate increase for the Monterey District, if the Commission adopted its position in this proceeding.

In this proceeding, applicant exhaustively analyzed recent changes in requirements for water testing imposed by state and federal regulations. Especially significant is the federal Environmental Protection Agency's nearly final rule for coliform testing. This rule mandates an increase in retesting for this one item from the current 50 per year to 700 per year per District. Applicant projects that the new facility will be needed to permit it to comply with these and other testing requirements. It projects that opening the new facility will be a more economical way to meet these new needs. It seeks approval of its projected costs.

Branch complains that the information needed to support applicant's costs and projections of new testing requirements was not provided to it until the time of the hearing. It is especially concerned with the company evidence which shows that coliform samples should be analyzed very quickly. It contends that company tactics left it without a fair opportunity to verify these claims.

Branch is apparently willing to concede that the new regulations will require a major increase in the number of tests which must be performed; it is not, however, persuaded that the added tests could not be performed more cost-effectively by contracting out or by increasing the capacity of the existing lab in Monterey.

Neither party has challenged Finding 21 of the Monterey decision which states a preference for actual costs. Full

compliance with that finding would require that applicant absorb all costs, including labor costs, of new tests until the lab has been in normal operation for a substantial period. However, the Monterey decision plainly did not anticipate that actual costs would not be available until Cal-Am's next District case.

On the other hand, it appears to be conceded that new regulations will cause a major increase in the number of analyses which must be performed. There appears to be no dispute that applicant will be performing all of the new tests by the time this decision becomes effective. There is seemingly no question that the company would need an extra full-time employee whether or not the added work is done at the existing Monterey lab or at new facility in the Los Angeles area. Even if applicant were to contract out the added work, it would be unrealistic to assume that a third party could perform the labor needed for a total price less than the wages and benefits for a Cal-Am employee.

We will allow the full wages and benefits (approximately \$47,000 per year) for the added employee for both test years. All of the other cost questions will be deferred as provided in the Monterey Decision until we have actual costs, and until the Branch can verify or challenge the time constraints on coliform testing.

We will use information on these points to decide whether to allow applicant the actual cost of the new lab, as opposed to either constructive costs of contracting out or of doing the work in Monterey. A comparison of actual lab costs with updated constructive costs for the other alternatives, may be submitted by advice letter rate increase covering the three Los Angeles Districts and for Monterey. Branch may use this submission to decide whether applicant's position should be adopted on an ex parte basis or whether to request a reopening of this proceeding.

We find that, under any alternative mode of performing newly required testing, applicant will have to pay at least the

cost of one full-time employee. We conclude that the cost differential between alternative modes should be resolved after applicant has sufficient recorded information on the operation of the new lab.

5. Income Tax

a. Interest Deduction-Acquisition Adjustment

When considering an allowance for income tax expense, the parties' usual positions are reversed; the utility will seek to minimize deductible expenses, since this will increase the allowed tax expense and therefore the revenue requirement. Branch or intervenors, on the other hand, will seek to maximize the expenses deducted in order to reduce revenue requirement.

Branch's tax calculation would increase the interest deduction by including interest on unamortized acquisition adjustment. Applicant claims that this is a novel approach; it asserts that all previous Cal-Am rate cases excluded this interest as a deduction. It contends that the Branch theory creates a mismatch between the interest expense for taxes and that considered in analyzing applicant's capital needs.

Branch's brief acknowledges that D.86-03-011 rejected a Branch proposal to include acquisition adjustment interest as an element in the income tax calculation. D.86-03-011 characterized the disregard of such interest as "reasonable."

That characterization should be followed here. This outcome is consistent with the Commission's traditional preference that interest considered in calculating total return should match the interest used in income tax calculation.

6. Interest on AFUDC

As explained below in the section on Plant, we have rejected a Branch recommendation and allowed AFUDC in Plant. Under Federal law the interest capitalized under AFUDC cannot be used as a deduction. To the extent that the income tax calculation is an

attempt to forecast the actual taxes to be paid by a utility, that calculation should reflect non-deductibility. Part of the difference between Branch and applicant shown in the income tax tables above is traceable to this difference.

Branch's income tax calculation followed its recommendation for plant and consequently did not adjust the interest deduction for the amount of interest attributable to AFUDC. Branch explained that the treatment for Plant and for income tax should be consistent. This is, of course, correct. Since we have allowed AFUDC in Plant, there will be a corresponding reduction in the amount of interest deduction used to calculate income tax.

J. Plant

1. Allowance for Funds Used
During Construction

Traditional ratemaking recognizes that utilities must make expenditures in new plant well before the plant is ready to be placed in service and hence before it is included in rate base. Regulatory agencies normally select one of two methods to compensate the utility for the use of such funds. One form of compensation allows "Construction Work in Progress" (CWIP) as part of rate base; this allows the utility to collect a return on expenditures made before the plant is used and useful to consumers.

AFUDC, in contrast, provides deferred compensation; an allowance for return is added to the other costs of construction and capitalized. The utility does not begin to recover for the use of the funds until the plant is placed in service. Under AFUDC, the utility will, in effect, earn a return on return as well as on physical plant.

Applicant asserts that the Commission has traditionally allowed it AFUDC; it cites the Monterey case as the most recent example. Branch, on the other hand seems to contend that the

utility should not receive either CWIP or AFUDC;¹ it claims that the issue could not have arisen in the Monterey case. (Branch is at least partially correct; there was no finding or conclusion on the issue.) Neither party has cited any decision involving Cal-Am (or any other similarly situated water utility) where this question has been litigated and resolved by Commission findings or conclusions.

Branch contends that the utility should be satisfied with a 5% compensation for contingencies which appears in the estimated costs for most projects. This argument is clearly based on an incorrect premise. Estimates of the cost of constructing a new project necessarily include an arbitrary additive for contingencies, i.e. unforeseen cost overruns. Once a project is completed, however, and actual costs are known, it would be wholly improper for a utility to ask for a premium over actual cost as a contingency allowance. Therefore, the practice of including a contingency allowance in estimates does not compensate applicant for the use of funds during construction.

Branch also argues that most water utility projects are completed within one year and that therefore the utility does not need compensation during construction. This conclusion appears to be inconsistent with the basic legal principles which underly rate base ratemaking. As explained in Goodman v District of Columbia PSC (1974) 497 Fed. 2d 661 at 668, "[t]he utility must be compensated, either by including rate base interest during construction or by including in rate base the value of funds invested in the plant during construction."

1 It may be willing to allow compensation for the rare water utility project which takes more than one year to complete.

No legal authority has been cited for the proposition that this rule can be ignored when dealing with projects completed in less than twelve months. Since such a rule would be arbitrary and unreasonable without a sound economic justification, we will not adopt it as a matter of first impression.

There are decisions where the Commission has not allowed either AFUDC or CWIP. It appears, however, that in many instances such denial has been due to oversight or forbearance on the part of the utility concerned. (cf. e.g., Continental Telephone rates, 5 CPUC 677 (1981); in that case, the Decision rejected a proposal to include CWIP in rate base for short-term projects. The proposal was rejected on the basis that the customer might have to pay a return on imprudent expenditures. This, of course, is an argument for preferring AFUDC over CWIP, since prudence can be reviewed before the return is capitalized. It is not an argument for denying all compensation. The CWIP approach was also criticized as a disincentive to quick completion of projects. However, a rule which provides compensation for long-term but not for short-term projects would seem to encourage, not discourage, stalling.)

Branch has cited no instance where a utility has claimed some form of compensation as a matter of right and been turned down. (Continental, supra, did not consider whether the utility had a right to some other form of compensation. That utility chose to forgo its right to challenge staff recommendations in order to receive quick rate relief; thus, the decision is more an exposition of the staff position than the resolution of a dispute. We note that there were no findings or conclusions on this question.)

We conclude that:

1. Applicant is entitled to some form of compensation for the time value of funds used during construction.
2. The Commission has broad discretion to choose among CWIP, AFUDC, and other modes of compensation.

4. There has been no justification furnished for distinguishing between short-term and long-term construction projects.

We will base the allowed rates on AFUDC as proposed by applicant. We have not considered using CWIP or any other alternative simply because none of the parties has made such a recommendation.

2. Autos - Depreciation and Purchases

The utility plans to renew its auto fleet and light truck fleet every three years. (In Baldwin Hills only, the light truck estimates are based on a five-year cycle; applicant has not explained the difference.) It proposes that depreciation rates be set accordingly. In addition, it seeks recognition of plant additions to replace cars which are more than three years old. Branch recommends a 10-year life; it also would disallow fleet purchases to replace specific vehicles which are less than 10 years old.

The utility claims that a rapid turnover in its auto fleet is economically justified. While depreciation lives are short, the added cost is offset, it claims, by the higher salvage value it receives by trading in a relatively new car. It also contends that the added reliability of newer cars is especially important for a utility with widespread districts. It also notes that there is a trade-off between depreciation and repair costs. It further points to a commendable safety record. Branch has not pointed out any specific flaw in applicant's methodology or the data it used.

Branch's brief claims that this is an area where most adults have some expertise, since they must make similar judgements in managing their own "fleets." It argues that "common sense" should justify a rejection of applicant's three-year life. We also note that three-year life are outside of the range commonly

permitted by U-4. We know of no other company which has adopted a similar program.

We share Branch counsel's skepticism that a three-year replacement cycle is the most cost-effective choice possible. Applicant's counsel, possibly anticipating our skepticism, has suggested a fall-back position, based on the four-year allowance for automotive equipment accepted in the Monterey Decision, supra. We believe that the fall-back position should be adopted for this proceeding alone.

We have not adopted the Branch's recommended ten-year life. Its witness proposed a 10-year life, based on a uniquely limited depreciation study².

Should the issue arise again, we will expect showings which carefully quantify the trade-offs between repair and replacement, and between salvage values and depreciation costs. We would also prefer to have some basis for comparing applicant's experience with that of other utility or non-utility fleet operators which have adopted a more conventional strategy. Our objective would be to find a least-cost strategy which does not degrade safety or reliability.

We find that:

1. Applicant's plan to replace autos on a three-year cycle and light trucks on a five-year cycle is not adequately justified by its evidence. We are not persuaded that its plan is not unnecessarily costly.

2 The Branch depreciation witness based his recommendation for automobile service lives on his experience with a single person automobile. He claims that he bought this vehicle new for \$3,000 and that he could sell it today for \$2,000. Applicant asks that we officially notice that according to the Kelley Blue Book, list price for his 1979 Chrysler Cordoba was at least \$6,587 when new; today's resale value is between \$525 and \$1,050.

2. Branch has not supported its recommendation with an adequate study.

We have concluded that:

1. In evaluating an automotive replacement cycle, consideration should be given to safety and reliability.
2. The life and the salvage values from the Monterey Decision are the most recent allowances available. Even though not discussed, they were acceptable to both applicant and Branch assigned to that case.
3. The life and salvage values for light trucks and passenger cars from the Monterey Decision should be adopted here.

3. Well Pumps and Motors

Branch recommended that various projects to replace pumps and motors be disallowed. Generally, it concluded that the pump/motor combinations did not need replacement if energy efficiency remained high. Branch also noted that it had allowed funds for contingencies in case of breakdowns.

The utility responds that older pumps frequently break down without exhibiting declining efficiencies. While efficiency may be a sign that an installation is not wasting energy, it does not necessarily indicate very much about reliability.

The utility asserts that Branch fails to recognize that breakdowns should be avoided if the utility is to avoid complaints about service. It argues that it is not truly economical to wait for a breakdown and react, rather than adopting a replacement program to achieve reliability. It points to one incident where a breakdown contaminated a well, generating very high costs to place the well back in service; at the same time, the company was obliged to purchase substantial amounts of water at very high cost. The utility notes that actual costs of breakdowns regularly exceeded the amount of contingency funds allowed for that purpose.

Applicant argues that its aggressive plan of replacing pumps and motors was specifically approved in D.86-03-011. Branch responds that the decision stated that the program "is reasonable for test years 1986 and 1987." It concludes that the reasonableness was limited to those test years and that the language invites relitigation.

Branch places too much reliance on the phrase "for test years 1986 and 1987." This phrase appears in the discussion; there is nothing in the discussion or findings to indicate that conditions would change after 1987. There was nothing in the conclusions or order to indicate that the company was required to rejustify the program in the next rate case.

We will therefore adopt a finding for this proceeding which finds the program generally reasonable. This does not mean that the utility's program is "de-regulated" as Branch's brief suggests. The utility still has the burden of showing that its expenses for each district are reasonable. It does mean that in any Cal-Am rate case, the Branch estimate can no longer be written on a clean slate. Branch is free to criticize implementation or recommend new approaches, but whatever it recommends must start with the finding made here.

We also reject Branch's opinion that high efficiency alone is a reliable sign of pump reliability. At the very least, such a conclusion needs more empirical data to support it. Finally, we find that it is not imprudent to base decisions on pump replacement on age. Rather, it appears from the evidence that age, usage patterns, and experience with various types of equipment need to be considered.

4. Fifth Avenue Main Project

This project will add 1,500 feet of 12-inch transmission main between the 48th Street well and the Arlington transmission main. It is expected to cost \$117,000. Branch believes that this project is designed to provide additional piping capacity for

future system needs, rather than to serve the needs of current customers. Branch also claimed that developers should be expected to advance the cost of the project under the Main Extension Rule.

Utility testimony explained that the added capacity was needed to solve low pressure problems and to provide a two-way feed and an alternative transmission route. The utility witness also pointed out that the nearby service territory is nearly built out, making it unlikely that it would be able to compel any subdivider to fund the project.

Branch's criticism of the project does not address the real question--is the improvement in flow worth the costs generated by the added investment? While the Branch witness did not discover what the issue was until the hearing, he nevertheless had adequate time to prepare rebuttal. The Branch did not offer any corrected testimony, or request additional time to prepare and or present such testimony.

After submission Branch's brief recommended that this issue be deferred. The brief has not suggested what issues Branch would be able to raise if consideration were postponed.

An immediate finding in favor of the applicant is warranted. Our finding will mean that the anticipated capital expenditures will appear in adopted plant and that the depreciation costs will be accepted as expenses in calculating the rates adopted in this decision.

We find that:

1. The Fifth Avenue Main project is needed to improve flow for better service to existing customers.
2. The improvement in service is worth the added cost.
3. There is little likelihood that it could be funded by Main Extension contract or subdivider contribution.

K. Rate Base**1. Material and Supplies**

Branch's estimates for this item are substantially lower than applicant's estimates.

<u>District</u>	<u>1989</u>		<u>1990</u>	
	<u>Branch</u>	<u>Utility</u>	<u>Branch</u>	<u>Utility</u>
Baldwin Hills	\$ 7.5	\$16.2	\$ 7.9	\$17.0
Duarte	8.5	16.2	9.0	17.0
San Marino	<u>16.6</u>	<u>32.4</u>	<u>17.4</u>	<u>34.0</u>
Totals	\$32.6	\$64.8	\$34.3	\$68.0

Applicant's estimate was based on a five-year recorded average, escalated by 5% per year. Branch's estimate was derived from an inventory figure supplied by the applicant, escalated by the Branch's non-labor escalation factor and by customer growth.

Branch claims that it cannot reconcile the numbers used by applicant with its annual reports. It also argues that there is an inconsistency between the recorded figures and the figures used for the average. According to Branch's brief, these problems still existed at the close of hearing, and were so "glaring" that the utility's estimate must be disregarded.

Applicant's brief, on the other hand, claims that the Branch estimates are far below the recorded historical figures. It also contends that the Branch never adequately explained the derivation of its method. It accordingly recommends rejection of the Branch estimate.

This is the kind of dispute which should not arise when parties are adequately prepared for hearing, and when they effectively use hearing time. Parties cannot expect a reasoned decision when they themselves cannot explain the differences between their expert's recommendations.

We have adopted the Branch-recommended allowance despite the very real possibility that incorrect data was relied on.

Nevertheless, the burden of persuasion is on applicant, not on staff. Since we are not persuaded that the data underlying applicant's estimate is any more reliable than that underlying Branch's estimate, we have adopted the recommendation of the party not having the burden of persuasion.

We have found that:

1. Applicant's and Branch's M&S estimates are equally unreliable.

We have concluded that:

1. Where applicant's and Branch's estimates are equally unreliable, we should adopt the estimate of the party not having the burden of persuasion.
2. Applicant has the burden of persuasion on allowance for Materials and Supplies.

L. Depreciation

1. Structures: Life Estimates

Standard Practice U-4 provides for a single life for various kinds of structures. This is a composite life which covers both the basic structure and other elements such as doors, windows, and roofs.

Applicant's witness developed two separate life estimates, one for the basic structure and a shorter one for all other components.

There is a substantial difference between the ultimate amount of depreciation allowed by the two witnesses for other structures. Branch has adopted, for example, a 1.37% depreciation accrual rate for Source of Supply Structures whereas applicant's witness recommended a rate of 4.58%. It is not clear how much of such differences is attributable to the dispute over the dual life methodology and how much is due to other factors.

We have considered and rejected the applicant's recommendations to adopt the new methodology. The principle

advantage of the new method is that it allows separate study of two elements which concededly need replacement with differing frequencies. However, we are not convinced that the traditional method, properly applied, will distort results.

Cal-Am's proposed new two-life system will apparently work only for utilities which have meticulous records. Thus, it may not be practical for other utilities to follow Cal-Am's lead. On the other hand, adopting it for one utility would make intercompany comparisons difficult and limit the benefits which would otherwise flow from adopting and enforcing a uniform system of accounts.

Applicant has the burden of proof to justify the allowance it seeks. It should have provided a fall-back analysis applying the traditional methodology to the same facts and judgement factors. Since it chose not to do so, we will adopt the Branch's recommended figures for life and salvage on all Structures.

2. Other Depreciation

For all other accounts not specifically discussed, we have adopted the lives and salvage values proposed by applicant's witness. In general, he appears to have had more time to study and analyze utility records. Furthermore, Branch's recommended salvage values and depreciation are based on the witness' apparently unsupported judgement. His treatment of the auto service life issue makes us reluctant to place much reliance on unsupported judgement for depreciation questions.

We also note that the Branch witness relied heavily on the Commission's Standard Practice U-4 for depreciation, last revised in the 60's. He did not attempt to determine which of its provisions might be outdated; rather he gave them all equal weight.

Consequently, we will find that applicant's depreciation figures for all plant items other than Structures are reasonable.

M. Return

The rate of return recommendations were presented by a DRA witness. He recommended a range of return on equity between 11.75% and 12.25% for all three years. The corresponding rate of return on all rate base would be between 10.59% to 10.81% for test year 1989, and 10.62% to 10.82% for 1990, and 1991. He predicted that equity would represent 42.83%, 40.39%, and 39.78% of total capitalization in the three years.

In D.89-02-067, (Monterey District), the Commission adopted the DRA's methodology for estimating cost of long-term debt. While it updated the DRA's short-term debt costs, it also adopted the basic DRA methodology for that element as well. Overall debt costs were estimated to be 9.71% for 1989, 9.78% for 1990, and 9.83% for 1991.

For return on equity, the decision adopted the top of the DRA's recommended range, 12.25%. The adopted debt structure was slightly debt heavier than that recommended by the DRA witness in this proceeding.

The Commission also lifted a restriction on financing imposed by D.86249 in 1976. The restriction limited the utility to a capital structure in which long-term debt could not exceed 50%.

We see nothing in the evidence in this proceeding which would justify any adjustment in the projections or evaluations adopted in the Monterey proceeding. We have accordingly found reasonable the rate of return on equity, the projected cost of debt and the capital structure adopted for the Monterey District, as set forth in the table below.

Adopted Rate of Return

<u>Component</u>	<u>1989</u>		
	<u>Capital Ratios</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long- and Short-Term Debt	56.25%	9.71%	5.46%
Common Equity	<u>43.75</u>	12.25	<u>5.36</u>
Total	100.00%		10.82%
<u>1990</u>			
Long- and Short-Term Debt	58.00%	9.78%	5.67%
Common Equity	<u>42.00</u>	12.25	<u>5.15</u>
Total	100.00%		10.82%
<u>1991</u>			
Long- and Short-Term Debt	58.75%	9.83%	5.78%
Common Equity	<u>41.25</u>	12.25	<u>5.05</u>
Total	100.00%		10.83%

N. Use of Post-Submission Information

In its brief, Applicant argued that we should allow it a higher rate of return than authorized in the Monterey decision. It asserts that the interest rate projections, while only a few months old at the time of hearings in these cases, are now seriously out of date.

To use this data concerning changes in the financial markets in adjusting the rate of return, we would need the judgement and analysis of experts. The only acceptable way to make a record which includes input from experts would be to permit the exchange of testimony and possibly hearings. This kind of updating is prohibited by the current RLP for water utilities.

This prohibition imposes roughly equal risks on both consumer and ratepayer, depending on whether there is an up- or a downtrend in relevant markets. On the other hand, the risks of regulatory lag are almost exclusively on the stockholder. It should also be noted that applicant is not necessarily frozen into the allowed rate of return for a full three-year period. The

standard ordering paragraphs adopted here will allow applicant to incorporate a higher rate of return into its 1990 or subsequent rate filings if one is adopted in a future district rate case.

We find that it is reasonable for applicant to earn 12.25% for each of the test years and the attrition year; rates should be set at a level estimated to earn that rate.

O. Rate Design

In Investigation 84-11-041, D.86-05-064, the Commission adopted a new rate design policy. Under this policy, the lifeline block was to be abolished; all consumption was to be charged for at a single rate, except that up to three quantity blocks were permissible if necessary to establish industrial rates. The service charge was to be set high enough to cover up to 50 percent of the utility's fixed charges.

Intervenor Duncan (Duncan) argues that D.86-05-064 is flawed, claiming that there was no representation for consumer interests in that proceeding. A review of the file shows, however, that Toward Utility Rate Normalization, California Public Interest Research Group, and Utility Consumer's Action Network were given notice and opportunity to participate. None of those organizations filed comments. Moreover, if Duncan wishes to challenge that decision, he should do so in that proceeding and not here, almost three years later.

We find that the rate design established in D.86-05-064 is fair to all classes of consumers, and should be applied here.

P. Intervenor's Other Arguments

1. Support by Tax-funded Activities

According to Duncan, Cal Am's business is supported by the facilities and operations of several public agencies, including the Metropolitan Water District, the Flood Control District of Los Angeles County, West Basin Water District. According to Duncan, the agencies' activities assertedly guarantee applicant an unlimited supply of water, and protection against salt water

intrusion. Duncan argues that this support eliminates all risk for 50% of applicant's business. This reduced risk should, he claims, justify a rate of return on equity substantially lower than that allowed applicant in the Monterey decision.

There is no expert evidence which would support a finding that a portion of applicant's business is riskless. There is no evidence to indicate that the activities of public agencies would enable applicant to obtain financing at prices significantly below other utilities.

Therefore, we have not attempted to determine what, if any, impact publicly funded operations have on applicant's financing.

2. Consideration of Monterey Decision

Duncan complains that the Monterey District Proposed Decision was not released until late in the hearings on this application. He contends that this late release limited his ability to ask Cal-Am witnesses about "related matters." He argues that the situation in Monterey is distinguishable, since there is no present need for mandatory rationing in any of these Districts. He also notes that Cal-Am's utility operations in this area do not have to compete with the needs of steelhead or salmon fisheries. He argues "[t]here is no impact on the LA Region for reclaimed water."

We do not believe that any of these arguments would justify disregarding the Monterey decision, or imposing a lower rate of return for L.A. Basin operations, at least in the absence of expert testimony supporting such an outcome.

3. Working Cash

Duncan criticizes the utility for withdrawing its exhibit on working cash, thereby preventing him from cross-examining on the matter contained therein. He believes that the new rate design policy, by allowing for recovery of up to 50% of fixed charges in the base rate should reduce the need for working cash. He has not

supported this novel approach by demonstrating that applicant will experience less revenue lag. He is also concerned that the adopted figures would not adequately reflect "expedited meter reading and enhanced billing system and oversight and overnight, one day mail delivery." He has not cited any evidence which would support recalculating the Branch figures.

He proposes to reduce the need for working cash by more frequent or advance billings to large users. Finally, he proposes that customers be informed that delays in payment increase the cost of service. He has not demonstrated that such questions were raised before submission and we will consider them further.

4. Procedural Problems

Duncan contends that the utility made it more difficult for him to cross-examine by including rebuttal to Branch exhibits in its case-in-chief. This contention has no merit. It is not clear why mixing rebuttal with case-in-chief evidence should hamper a cross-examiner.

Duncan claims that the ALJ "facetiously defined and misjudged my public comment and unfairly restricted my presentation..." We have examined the cited references and find only that the ALJ urged him to expedite and, finally, set a time limit on an opening statement which was longer than applicant's and Staff counsel's statements combined.

He complains that the ALJ did not offer him an opportunity to present direct testimony. We note, however, that this proceeding was novel in that a representative of the Public Advisor's office attended all of the public participation hearings. The ALJ repeatedly recommended that all members of the public consult her for advice on how to participate. Duncan apparently failed to heed this advice. Further, we note that he has had extensive experience in Commission proceedings in energy proceedings for the last 9 years. An experienced intervenor would recognize the need to identify the evidence to be offered as part

of his opening statement. Finally, his brief has not shown that he had any relevant testimony to offer.

We have found that none of Duncan's proposals is adequately supported by evidence. We conclude that he had a full opportunity to participate in the hearings.

Findings of Fact

1. The Branch estimates for Baldwin Hills consumption are more conservative than applicants.
2. Applicant's allocation factors are arbitrary, whereas Branch's are based on analysis.
3. Liability insurance costs are unpredictable pending action by the California Supreme Court.
4. Branch did not explain why it did not ignore non-deductible expenses in calculating income tax.
5. Branch's weighting factor for deriving weighted average rate base is more realistic than applicant's.
6. Applicant's payroll costs will include 56 employees in 1989 and 57 in 1990. These include both a management trainee and a cross-connection supervisor for both years; predictable costs of new water testing require an allowance of funds for either a new lab employee or for contracting out.
7. Applicant is willing to accept a 2% reduction in total payroll for the vacancy factor. There is no evidence to support a greater reduction for vacancies.
8. Group health insurance costs will increase by 35% in 1989 and an additional 5% in 1990.
9. The findings on general office expenses from the Monterey decision are recent enough to be adopted here.
10. It is not unfair to limit an applicant to one chance every three years for a revision of general office expenses.
11. Such a limitation when practicable, will further the objective of the RLP.

12. It is practicable to adopt Monterey General Office expenses for 1989 and 1990.

13. Under any alternative mode of performing newly required testing, applicant will have to pay at least the cost of one full-time employee. Allowing salary and benefits for such a position in both test years will partially compensate applicant for costs incurred.

14. Branch has not justified including interest on acquisition adjustment as a deduction in calculating applicant's income tax expense.

15. Applicant's plan to replace autos on a three-year cycle and light trucks on a five-year cycle is not adequately justified by its evidence. We are not persuaded that its plan is not unnecessarily costly.

16. Branch has not supported its recommendation with an adequate study.

17. If adopted for one company alone, applicant's proposal for bifurcated service lives for Structures would render it more difficult to compare utility costs.

18. The use of a single life for Structures has not been shown to distort depreciation. The only single life available on this record are those proposed by Branch which should be adopted.

19. Applicant's two-life method requires accurate records. It may not be useful for other Class A utilities.

20. Branch's salvage and removal values for Structures, conform to its study of lives.

21. It is not practical to adopt a single life for Structures without also adopting Branch's recommended lives and salvage value for that account.

22. For all other depreciation accounts, applicant's proposed service lives and salvage values are supported by more complete research and analysis.

23. Applicant's projected costs for pump and motor replacement have been justified. Branch has not shown that applicant is performing premature replacements. Applicant's pump and motor replacement program is generally reasonable.

24. Energy efficiency is not necessarily a reliable indicator that a pump is reliable. A prudent management will consider age, usage, and experience with similar equipment in deciding when to replace.

25. The improvement in well reliability is worth the added cost of the well replacement program.

26. The Fifth Avenue Main project is needed to improve flow for better service to existing customers.

27. Applicant's and Branch's M&S estimates are equally unreliable.

28. The rate of return on equity, the projected cost of debt and the capital structure adopted for the Monterey District are recent enough to be adopted here. Adopting the high point of the rate of return on equity recommended by DRA in these proceedings is supported by this record.

29. There is insufficient evidence of record to support an updating of the findings to account for changes in financial markets occurring after submission in the Monterey proceeding.

30. It is reasonable for applicant to earn 12.25% return on equity for each of the test years and the attrition year; rates should be set at a level estimated to earn that rate.

31. None of intervenor's proposals for reduction in allowances or rate of return is adequately supported by evidence.

32. In evaluating a replacement cycle for autos and light trucks, consideration should be given to safety and reliability.

33. The rates set forth in Appendices B-BH, C-BH, and D-BH are just and reasonable and non-discriminatory for the periods specified. Applicant's existing rates insofar as they differ from the Appendix rates are unreasonable.

34. The amounts set forth in Appendix E-BH, Adopted Quantities, are reliable and should be used to consider any request for offset relief.

Conclusions of Law

1. The non-labor cost differential between alternative modes of providing additional testing should be considered after applicant has sufficient recorded information on the operation of the new lab.

2. The RLP now in effect does not determine whether or not a multi-district utility is entitled to relitigate general office expenses with every successive district rate case. However, adopting such a rule for the rare instance where two successive district cases share the same test years is not arbitrary.

3. D.86-03-011 decided not to include acquisition adjustment interest in calculating income tax. That issue should not be relitigated here.

4. Applicant cannot deduct the interest allowed for funds used during construction. Our income tax calculations should not include this interest as a tax deduction.

5. Applicant is entitled to some compensation for investments in capital projects before they are allowed in rate base. The Commission has broad discretion to choose among CWIP, AFUDC, and other modes of compensation.

6. There is no justification for distinguishing between short-term and long-term construction projects in allowing compensation for funds used during construction.

7. In evaluating an automotive replacement cycle, consideration should be given to safety and reliability.

8. The life and the salvage values from automotive equipment from the Monterey Decision are the most recent allowances available.

9. The life and salvage values for light trucks and passenger cars from the Monterey Decision should be adopted here.

10. All Class A water utilities should use the same system for recording and estimating depreciation and salvage for structures.

11. Where applicant's and Branch's estimates are equally unreliable, we should adopt the estimate of the party not having the burden of proof.

12. Applicant has the burden of proof on allowances for Material and Supplies.

13. It is not reasonable to adopt applicant's recommendation for dual lives for Structures.

14. The RLP for water utilities adopted in 1979 prohibits updating of financial market data after the first round of exhibits.

15. Duncan was not denied an opportunity to participate fully.

16. Because of the rate case plan schedule, this order should be effective today.

17. Applicant should be authorized to establish the Appendix rates on the dates specified.

ORDER

IT IS ORDERED that:

1. California-American Water Company is authorized to file on or after the effective date of this order the revised rate schedules for 1989 shown in Appendix B-BH for its Baldwin Hills Division. This filing shall comply with General Order 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 5, 1989, California-American Water Company is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1990 shown in Appendix C-BH attached to this order, or to file a lesser

increase in the event that the rate of return on rate base for its Baldwin Hills Division, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the months between the effective date of this order and September 30, 1989, annualized, exceeds the later of (a) the rate of return found reasonable by the Commission for California-American Water Company for the corresponding period in the then most recent rate decision, or (b) 10.82%. This filing shall comply with General Order 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. Staff shall inform the Commission if it finds that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1990, or 40 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 5, 1990, California-American Water Company is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1991 shown in Appendix D-BH attached to this order, or to file a lesser increase in the event that the rate of return on rate base for its Baldwin Hills Division, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the months between the effective date of the increase ordered in the previous paragraph and September 30, 1990, annualized, exceeds the later of (a) the rate of return found reasonable by the Commission for California-American Water Company for the corresponding period in the then most recent rate decision, or (b) 10.82%. This filing shall comply with General Order 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. Staff shall inform the Commission if it finds that the

APPENDIX A-BH
Page 1
CALIFORNIA-AMERICAN WATER CO.
(BALDWIN HILLS)
1989
SUMMARY OF EARNINGS
(\$000)

Items	Utility		Branch		Adopted	
	Present	Proposed	Present	Proposed	Present	Authorized
Oper. Revenues	\$2,493.1	\$2,668.0	\$2,559.3	\$2,726.7	\$2,528.7	\$2,587.2
Rev. from Contr.	<u>0.5</u>	<u>0.5</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>
Total Revenues	2,493.6	2,668.5	2,559.9	2,727.3	2,529.3	2,587.8
Expenses						
O & M Expenses	1,240.8	1,240.8	1,247.8	1,247.8	1,232.7	1,232.7
Uncollectibles	<u>7.6</u>	<u>8.2</u>	<u>7.8</u>	<u>8.3</u>	<u>7.7</u>	<u>7.9</u>
Subtotal O & M	1,248.4	1,249.0	1,255.6	1,256.1	1,240.4	1,240.6
A & G Expenses	356.3	356.3	334.1	334.1	352.4	352.4
Franchise	0.0	0.0	0.0	0.0	0.0	0.0
Gen. Off. (w/o Depr)	<u>143.0</u>	<u>143.0</u>	<u>141.0</u>	<u>141.0</u>	<u>141.0</u>	<u>141.0</u>
Subtotal A & G	499.3	499.3	475.1	475.1	493.4	493.4
Ad Valorem Taxes	40.1	40.1	37.3	37.3	37.4	37.4
Payroll Taxes	36.6	36.6	37.6	37.6	38.1	38.1
Depreciation (+ GO)	215.9	215.9	142.8	142.8	221.7	221.7
Ca. Income Tax	30.3	46.5	38.0	53.5	35.4	40.8
Federal Income Taxes	<u>91.5</u>	<u>145.3</u>	<u>118.2</u>	<u>169.7</u>	<u>109.6</u>	<u>127.6</u>
Total Expenses	2,162.1	2,232.7	2,104.6	2,172.2	2,176.1	2,199.7
Net Revenues	331.5	435.8	455.2	555.1	353.2	388.1
Rate Base	3,789.9	3,789.9	3,549.3	3,549.3	3,587.3	3,587.3
Rate of Return	8.75%	11.50%	12.83%	15.64%	9.85%	10.82%

(Negative)

APPENDIX A-EH
Page 2
CALIFORNIA-AMERICAN WATER CO.
(BALDWIN HILLS)
1990
SUMMARY OF EARNINGS
(\$000)

Items	Utility		Branch		Adopted	
	Present	Proposed	Present	Proposed	Present	Authorized
Oper. Revenues	\$2,498.0	\$2,770.5	\$2,570.4	\$2,836.1	\$2,535.4	\$2,652.4
Rev. from Contr.	<u>0.6</u>	<u>0.6</u>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>
Total Revenues	2,498.6	2,771.1	2,571.1	2,836.8	2,536.1	2,653.1
Expenses						
O & M Expenses	1,262.8	1,262.8	1,273.3	1,273.3	1,254.7	1,254.7
Uncollectibles	<u>7.6</u>	<u>8.5</u>	<u>7.9</u>	<u>8.7</u>	<u>7.8</u>	<u>8.1</u>
Subtotal O&M	1,270.4	1,271.3	1,281.2	1,282.0	1,262.5	1,262.8
A & G Expenses	374.1	374.1	348.7	348.7	370.0	370.0
Franchise	0.0	0.0	0.0	0.0	0.0	0.0
Gen. Off. (w/o Depr.)	<u>149.5</u>	<u>149.5</u>	<u>147.5</u>	<u>147.5</u>	<u>147.5</u>	<u>147.5</u>
Subtotal A & G	523.6	523.6	496.2	496.2	517.5	517.5
Ad Valorem Taxes	44.9	44.9	39.1	39.1	39.4	39.4
Payroll Taxes	39.6	39.6	39.0	39.0	39.7	39.7
Depreciation (+ GO)	229.1	229.1	149.8	149.8	231.7	231.7
Ca. Income Tax	21.0	46.2	31.6	56.2	27.1	38.0
Federal Income Taxes	<u>60.8</u>	<u>144.6</u>	<u>97.6</u>	<u>179.2</u>	<u>82.5</u>	<u>118.5</u>
Total Expenses	2,189.4	2,299.3	2,134.4	2,214.5	2,200.4	2,247.5
Net Revenues	309.2	471.8	436.7	595.2	335.7	405.5
Rate Base	4,074.6	4,074.6	3,692.1	3,692.1	3,748.0	3,748.0
Rate of Return	7.59%	11.58%	11.83%	16.12%	8.96%	10.82%

(Negative)

APPENDIX A-EH
Page 3
CALIFORNIA-AMERICAN WATER CO.
(BALDWIN HILLS)
1989
INCOME TAX
(\$000)

Items	Utility		Branch		Adopted	
	Present	Proposed	Present	Proposed	Present	Authorized
Total Revenues	\$2,493.1	\$2,668.0	\$2,559.3	\$2,726.7	\$2,528.7	\$2,587.2
Expenses						
Operations & Maint.	1,248.4	1,249.0	1,255.6	1,256.1	1,240.4	1,240.6
Admin. & General	356.3	356.3	334.1	334.1	352.4	352.4
Taxes O/T Income	76.7	76.7	74.9	74.9	75.6	75.6
Gen. Off.	143.0	143.0	141.0	141.0	141.0	141.0
Subtotal	1,824.4	1,825.0	1,805.6	1,806.1	1,809.4	1,809.6
Deductions						
CA Tax Depreciation	148.6	148.6	143.5	143.5	146.3	146.3
Interest	192.6	192.6	201.6	201.6	192.6	192.6
CA Taxable Income	325.8	500.2	408.5	575.4	380.4	438.7
OCFT	30.3	46.5	38.0	53.0	35.4	40.8
Deductions						
Fed. Tax Depreciat	166.4	166.4	157.7	157.7	160.3	160.3
Interest	192.6	192.6	201.6	201.6	192.6	192.6
FIT Taxable Income	277.7	435.8	356.3	507.7	331.0	383.9
FIT (Before Adjustment)	94.4	148.2	121.1	172.6	112.5	130.5
Prorated Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Investment Tax Credit	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)
Net Federal Income Tax	91.5	145.3	118.2	169.7	109.6	127.6

(Negative)

APPENDIX A-BH
Page 4
CALIFORNIA-AMERICAN WATER CO.
(BALDWIN HILLS)
1990
INCOME TAX
(\$000)

Items	Utility		Branch		Adopted	
	Present	Proposed	Present	Proposed	Present	Authorized
Total Revenues	\$2,498.0	\$2,770.5	\$2,570.4	\$2,836.1	\$2,535.4	\$2,632.4
Expenses						
Operations & Maint.	1,270.4	1,271.3	1,281.2	1,282.0	1,262.5	1,262.8
Admin. & General	374.1	374.1	348.7	348.7	370.0	370.0
Taxes O/T Income	84.5	84.5	78.1	78.1	79.1	79.1
Gen. Off.	149.5	149.5	147.5	147.5	147.5	147.5
Subtotal	1,878.5	1,879.4	1,855.5	1,856.1	1,859.1	1,859.4
Deductions						
CA Tax Depreciation	165.8	165.8	151.7	151.7	157.6	157.6
Interest	227.0	227.0	223.4	223.4	227.0	227.0
CA Taxable Income	225.3	497.0	339.9	604.7	291.8	408.4
OCFT	21.0	46.2	31.6	56.2	27.1	38.0
Deductions						
Fed. Tax Depreciation	182.7	182.7	164.5	223.4	171.0	171.0
Interest	227.0	227.0	223.4	223.4	227.0	227.0
FIT Taxable Income	187.4	433.8	295.5	535.7	251.2	357.0
FIT (Before Adjustment)	63.7	147.5	100.5	182.1	85.4	121.4
Prorated Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Investment Tax Credit	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)
Net Federal Income Tax	60.8	144.6	97.6	179.2	82.5	118.5

(Negative)

APPENDIX A-BH
Page 5
CALIFORNIA-AMERICAN WATER CO.
(BALDWIN HILLS)
1989
RATE BASE
(\$000)

Items	Utility	Branch	Adopted
Plant in Service	\$5,403.0	\$5,277.8	\$5,324.4
Work in Progress	0.0	0.0	0.0
Materials & Supplies	16.2	7.5	7.5
Working Cash	249.9	115.4	142.8
Method 5 Adj.	2.9	2.7	2.7
Cap. Int. Adj.	0.0	0.0	0.0
Subtotal	5,672.0	5,403.4	5,477.4
Less:			
Depreciation Reserve	1,587.7	1,561.3	1,596.3
Advances	73.2	73.2	73.2
Contributions	66.3	66.0	66.0
Unamortized ITC	0.0	0.0	0.0
Deferred Income Tax	198.2	194.4	195.4
Subtotal	1,925.4	1,894.9	1,930.9
Net District Rate Base	3,746.6	3,508.5	3,546.5
Main Office Allocation	43.4	40.8	40.8
Total Rate Base	\$3,790.0	\$3,549.3	\$3,587.3

APPENDIX A-EH
Page 6
CALIFORNIA-AMERICAN WATER CO.
(BALDWIN HILLS)
1990
RATE BASE
(\$000)

Items	Utility	Branch	Adopted
Plant in Service	\$5,880.3	\$5,537.9	\$5,673.0
Work in Progress	0.0	0.0	0.0
Materials & Supplies	17.0	7.9	7.9
Working Cash	259.1	120.0	149.3
Method 5 Adj.	4.4	4.0	4.0
Cap. Int. Adj.	0.0	0.0	0.0
Subtotal	6,160.8	5,669.8	5,834.2
Less:			
Depreciation Reserve	1,741.4	1,652.4	1,758.3
Advances	70.7	70.7	70.7
Contributions	70.5	70.6	70.6
Unamortized ITC	0.0	0.0	0.0
Deferred Income Tax	245.4	225.2	227.7
Subtotal	2,128.0	2,018.9	2,127.3
Net District Rate Base	4,032.8	3,650.9	3,706.8
Main Office Allocation	41.9	41.2	41.2
Total Rate Base	\$4,074.7	\$3,692.1	\$3,748.0

(END OF APPENDIX A-EH)

APPENDIX B-BH
Page 1

Schedule No. BH-1

BALDWIN HILLS DISTRICT TARIFF AREAGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

<u>Service Charge:</u>		<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter		\$ 5.75	(I)
For 3/4-inch meter		9.10	
For 1-inch meter		12.80	
For 1-1/2-inch meter		16.95	
For 2-inch meter		23.40	
For 3-inch meter		43.00	
For 4-inch meter		57.00	
For 6-inch meter		98.00	
For 8-inch meter		143.00	
For 10-inch meter		177.00	
For 12-inch meter		210.00	(I)

Quantity Rates:

First 400,000 cu.ft., per 100 cu.ft.	\$ 1.207
Over 400,000 cu.ft., per 100 cu.ft.	1.500

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the quantity rates, for water used during the month.

APPENDIX B-BH
Page 2

Schedule No. BH-4

BALDWIN HILLS DISTRICT TARIFF AREA
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for privately owned fire protection systems.

TERRITORY

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

RATES

Per Month

For each inch of diameter of private
fire protection service \$3.04

The rates for private fire service are based upon the size of the service and no additional charges will be made for fire hydrants, sprinkler, hose connections or standpipe connected to and supplied by such private fire service.

SPECIAL CONDITIONS

1. The fire protection service and connection shall be installed by the utility or under the utility's direction. Cost of the entire fire protection installation excluding the connection at the main shall be paid for by the applicant. Such payment shall not be subject to refund.

2. The installation housing the detector type check valve and meter and appurtenances thereto shall be in a location mutually agreeable to the applicant and the utility. Normally such installation shall be located on the premises of applicant, adjacent to the property line. The expense of maintaining the fire protection facilities on the applicant's premises (including the vault, meter detector type check valves, backflow device, and appurtenances) shall be paid for by the applicant.

3. All facilities paid for by the applicant shall be the sole property of the applicant. The utility and its duly authorized agents shall have the right to ingress to and egress from the premises for all purposes relating to said facilities.

(END OF APPENDIX B-BH)

APPENDIX C-BH

CALIFORNIA AMERICAN WATER COMPANYBALDWIN HILLS DISTRICT

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rate which would otherwise be in effect on that date.

SCHEDULE BH-1Service Charge:

	<u>Effective</u> <u>1990</u>
For 5/8 x 3/4-inch meter	\$ 0.60
For 3/4-inch meter	0.90
For 1-inch meter	1.25
For 1-1/2-inch meter	1.65
For 2-inch meter	2.30
For 3-inch meter	4.40
For 4-inch meter	5.80
For 6-inch meter	10.00
For 8-inch meter	14.00
For 10-inch meter	18.00
For 12-inch meter	20.00

Quantity Rates:

First 400,000 cu.ft., per 100 cu.ft. ..	\$ 0.00
Over 400,000 cu.ft., per 100 cu.ft. ..	0.00

SCHEDULE BH-4Rates:

For each inch of diameter of private fire protection service	\$ 0.05
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(END OF APPENDIX C-BH)

APPENDIX D-BH
CALIFORNIA AMERICAN WATER COMPANY
BALDWIN HILLS DISTRICT

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rate which would otherwise be in effect on that date.

SCHEDULE BH-1Service Charge:

Effective
1991

For 5/8 x 3/4-inch meter	\$ 0.50
For 3/4-inch meter	0.85
For 1-inch meter	1.20
For 1-1/2-inch meter	1.60
For 2-inch meter	2.20
For 3-inch meter	4.00
For 4-inch meter	6.00
For 6-inch meter	9.00
For 8-inch meter	13.00
For 10-inch meter	17.00
For 12-inch meter	20.00

Quantity Rates:

First 400,000 cu.ft., per 100 cu.ft. ..	\$ 0.00
Over 400,000 cu.ft., per 100 cu.ft. ..	0.00

SCHEDULE BH-4Rates:

For each inch of diameter of private fire protection service	\$ 0.05
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(END OF APPENDIX D-BH)

APPENDIX E-BH
Page 1

CALIFORNIA AMERICAN WATER COMPANY
BALDWIN HILLS DISTRICT
ADOPTED QUANTITIES

Purchased Power

Boosters:

S.C.E. Effective 7-88	1989	1990
PA-1 (157.5 H.P.)	261,936	262,755
PA-2 (74 KW)	130,670	130,934
Power Consumption (KWH)	392,606	393,689
Power Cost	\$39,150	\$39,245

Wells:

LADWP Effective 4-84		
Power Consumption	1,605,340	1,605,340
City Utility Tax	12.5%	12.5%
Power Cost	\$146,750	\$146,750
Total Power Cost	\$185,900	\$185,995

Purchased Water Expenses

Central Basin MWD		
Total Production (AF)	1,925.2	1,934.2
\$ per AF (7-88)	231.0	231.0
Cost	\$444,721	\$446,800

Pump Tax:

Central & West Basin		
Acre-Feet/	2,067.0	2,067.0
\$ per AF (7-88)	71.0	71.0
Cost	\$146,757	\$146,757
Watermaster cost	\$1,320	\$1,320

Total Purch. Water Cost	\$592,798	\$594,877
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(Continued)

APPENDIX E-BH

Page 2

CALIFORNIA AMERICAN WATER COMPANY
BAUDWIN HILLS DISTRICT
ADOPTED QUANTITIES

NUMBER OF SERVICES - METER SIZE

	<u>1989</u>	<u>1990</u>
5/8 x 3/4	4,096	4,105
3/4	0	0
1	1,885	1,889
1-1/2	63	63
2	47	47
3	1	1
4	1	1
Total	6,093	6,106

METERED WATER SALES

Range CcfUsage - Ccf

0-4,000	1,573,400	1,577,900
Over 4,000	51,900	51,900
Total		

NUMBER OF SERVICES

	<u>No. of Services</u>		<u>Usage-KCcf</u>		<u>Avg.-Usage Ccf/vr</u>	
	<u>1989</u>	<u>1990</u>	<u>1989</u>	<u>1990</u>	<u>1989</u>	<u>1990</u>
Residential	5,458	5,462	1,225.3	1,226.2	224.5	224.5
Business Norm. Users	608	617	232.9	236.5	396.2	396.2
Business Large Users	4	4	32.0	32.0	8,000.0	8,000.0
Industrial	2	2	100.5	100.5	50,256.0	50,256.0
Pub. Auth. Nor. Users	20	20	12.9	12.9	644.5	644.5
Pub. Auth. Ig. Users	1	1	12.2	12.2	12,200.0	12,200.0
Other	4	4	1.5	1.5		
Subtotal	6,097	6,110	1,617.3	1,621.8		
Pvte. Fire Protec.	28	29	-	-		
Total	6,125	6,139	1,617.3	1,621.8		
Unaccounted for (7.0%)			121.7	122.0		
Total Water Produced			1,739.0	1,743.8		
Wells			885.2	885.2		
Purchased			853.8	858.6		

APPENDIX E-BH
Page 3CALIFORNIA AMERICAN WATER COMPANYBALDWIN HILLS DISTRICTADOPTED EXPENSES

	1989 <u>Adopted</u> (Thousands of Dollars)	1990 <u>Adopted</u>
Purchased Power	\$185.9	\$186.1
Purchased Water	592.8	594.9
Purchased Chem.	1.1	1.1
Payroll (O&M+A&G)	434.0	453.1
O&M Other	185.1	195.5
Emp. Pension & Ben.	84.8	89.1
A & G Other	113.5	117.7
Payroll Tax	38.1	39.7
Ad. Vol. Tax	37.4	39.4
Federal Tax Rate	34.0%	34.0%
State Tax Rate	9.3%	9.3%
Uncollectible Rate	0.306%	0.306%
Franchise	0.0%	0.0%

(END OF APPENDIX E-BH)

APPENDIX F-BH
CALIFORNIA AMERICAN WATER COMPANY
BALDWIN HILLS DISTRICT
AT PRESENT AND ADOPTED RATES
FOR A 5/8 X 3/4 INCH METER

1989				
<u>Usage</u> <u>Ccf</u>	<u>Present</u> <u>Rates</u>	<u>Adopted</u> <u>Rates</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
0	\$ 5.20	\$ 5.75	\$ 0.55	10.58
3	7.43	9.37	1.94	26.12
5	10.03	11.79	1.76	17.50
8	13.93	15.41	1.48	10.61
10	16.53	17.82	1.29	7.82
15	23.03	23.86	0.83	3.60
18.36 Avg.	27.39	27.91	0.52	1.89
20	29.52	29.89	0.37	1.24
40	55.52	54.03	(1.49)	-2.68
100	133.50	126.45	(7.05)	-5.28
1990				
0	\$ 5.75	\$ 6.35	\$0.60	10.43
3	9.37	9.97	0.60	6.40
5	11.79	12.39	0.60	5.09
8	15.41	16.01	0.60	3.89
10	17.82	18.42	0.60	3.37
15	23.86	24.46	0.60	2.52
18.36 Avg.	27.91	28.51	0.60	2.15
20	29.89	30.49	0.60	2.01
40	54.03	54.63	0.60	1.11
100	126.45	127.05	0.60	0.47
1991				
0	\$ 6.35	\$ 6.85	\$0.50	7.87
3	9.97	10.47	0.50	5.01
5	12.39	12.89	0.50	4.04
8	16.01	15.51	0.50	3.12
10	18.42	18.92	0.50	2.71
15	24.46	24.96	0.50	2.04
18.36 Avg.	28.51	29.01	0.50	1.75
20	30.49	30.99	0.50	1.64
40	54.63	55.13	0.50	0.92
100	127.05	127.55	0.50	0.39

(END OF APPENDIX F-BH)

proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1991, or 40 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

This order is effective today.

Dated _____, at San Francisco, California.