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Decision 91-05-024 May 8, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Park Water Company (U 314 W) for Authority to Increase Rates in its Central Basin Division as authorized by NOI 90-07-079.	Application 90-08-054 (Filed August 22, 1990)

ORIGINAL

Messrs. Fulbright & Jaworski, by David A. Ebershoff, and Kevin J. Keenan, Attorneys at Law, for Park Water Company, applicant.
Lawrence O. Garcia, Attorney at Law, and Willem Van Lier, for the Commission Advisory and Compliance Division.

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O P I N I O N

Summary of Decision

This decision authorizes Park Water Company (Park) to increase rates for water service provided in its Central Basin Division in test years 1991 and 1992, as well as attrition year 1993. The decision authorizes a constant return on equity of 12.0% during the three-year period, producing a rate of return of 11.80% in each year. Increases amount to $910,000 or 10.5% in 1991, $288,700 or 3.0% in 1992, and $286,600 or 2.9% in 1993.

By this application Park Water Company (Park) seeks authority to increase rates for water service provided in its Central Basin Division. Increases sought are $1,522,216, or 19.42% in 1991, $203,387, or 2.16% in 1992, and $204,846 or 2.13% in attrition year 1993. The increase for 1991 includes the impact of balancing account undercollection recovery. Without this recovery the sought increase is $1,376,916 or 17.56%.

Park estimates that the requested increases will produce a rate of return on equity (ROE) of 13.0%, and a return on rate base of 12.52% and 12.49%, respectively, during test years 1991 and 1992.

A duly noticed public participation hearing was held in Norwalk, a chief city located within Park's Central Basin Division on November 29 before Administrative Law Judge (ALJ) John Lemke. Evidentiary hearings were conducted in Los Angeles during the week of December 17, 1990. Evidence was presented by Park and by the Commission's Water Utilities Branch (Branch) and its Division of Ratepayer Advocates (DRA). The application was submitted subject to the filing of concurrent briefs on January 18, 1991.

Background

Park began operations in California in 1938, in four separate service areas, by the establishment of water service in new areas and through the acquisition of several small public

utilities and mutual water companies. Operations were expanded into San Bernardino County in 1950, and these service areas were known collectively as the Southern Division. In 1973, the Vandenberg Utilities Company and the Vandenberg Disposal Company were merged into Park. While growth continued in most of Park's service areas, customers have been lost through sale under threat of condemnation of service areas in San Bernardino County in 1965 and in Montebello in 1972. In 1977, also under threat of condemnation, Park sold facilities and service areas within the cities of Downey and Pico Rivera. Additional smaller systems were sold under threat of condemnation in 1978 and 1979 to the cities of Commerce, Paramount and South Gate and to Valley County Water District in Baldwin Park.

Following these sales, Park purchased the stock of Pomona Valley Water Company serving the Chino area in San Bernardino County, Santa Paula Water Works, Ltd. serving the city of Santa Paula in Ventura County, Uehling Water Company serving part of the city of Compton in Los Angeles County, and a company serving the city of Missoula in Montana. Each is operated as a subsidiary of Park. In 1980, several service areas were exchanged with Southern California Water Company, resulting in more compact service areas for both companies. In 1983, Park transferred its Chino service area in San Bernardino County to its subsidiary, Pomona Valley Water Company. The remaining service areas located in the Central Basin of Los Angeles County have since been identified as Park's Central Basin Division.

Uehling's service territory was geographically adjacent to a system of Park's Central Basin Division, and served with Central Basin Division equipment and personnel. By Decision (D.) 87-09-079 Park was authorized to merge Uehling into the Central Basin Division, and to cease maintenance of separate records in order to achieve more efficient and economical operations. Uehling has since been operated as a separate rate

area of the Central Basin Division in accordance with D.87-09-079. With the sale, under threat of condemnation, of Park's Vandenberg Water and Sewer Divisions in 1988, the Central Basin Division is currently Park's only operating division in California. At the end of 1989, the number of customers in the Central Basin Division was 27,875.

Park owns and controls the common stock of Apple Valley Ranchos Water Company, Mountain Water Company, and approximately 98% of the stock of Santa Paula Water Works, Ltd. Operations of these subsidiaries are independent of those in its Central Basin Division.

Source of Supply

Most of the water supply for Park's Central Basin Division is provided from 19 company wells and 6 connections with the Metropolitan Water District (MWD). The company also has interconnections with several other retail water agencies serving adjacent areas.

Distribution Mains, Storage, Water Treatment, and Pressure

Mains range in size from 1-1/2 inch to 24-inch diameter and total about 280 miles. About 90% of total main footage is cement lined cast iron and asbestos cement, with the balance welded steel and ductile cast iron. There are two 500,000 gallon ground level storage tanks and a 2,000,000 gallon concrete reservoir in service. In all service areas it is necessary to add chlorine to well water, applied by hypochlorinators. The service territory is generally flat; consequently, there are only small differences in static pressures. Pump controls have been set to maintain a minimum of 50 psi at pumps. There are no areas where pressures are maintained at less than 40 psi.

Public Relations

Informal complaints concerning high water bills during 1989 totaled 6. No informal complaints were filed regarding

discontinuance of service, deposits and reconnection charges. There no formal complaints filed by customers during 1989.

Conservation

Park's tariffs include a rule discouraging the wasteful use of water and promoting use of water saving devices. Water conservation kits are offered to customers at no cost. The company's ongoing program includes regular mailing of bill inserts and imprinting of bills with slogans promoting water conservation. Pamphlets on water conservation are furnished in the lobby of the company's office where customers pay their bills.

Park has increased efforts to reduce water waste by reducing its routine hydrant flushing program, has contracted to have all large meters tested every three years or less, reduced system pressures to 50 psi where possible, and repaired all leaks immediately regardless of size. Field employees have received special training in detection of leaks and signs of unauthorized water use, and are also instructed to notify customers observed wasting water.

Present Rates

Park's present service charge for a 5/8 x 3/4 meter in both the principal and Uehling service areas is $6.80. The single block per 100 cubic feet (Ccf) quantity rates are 95 cents and 85.2 cents, respectively, for the principal area and the Uehling service area.

Issues

During the proceeding, Park and Branch consulted regarding their respective test year estimates. As a result, Park has agreed with some of Branch's estimates. A comparison exhibit (Exhibit 25) was received into evidence on January 15, 1991. The issues addressed in the concurrent briefs are discussed as follows:

I. Cost of Capital and Rate of Return

Capital Structure

Evidence concerning Park's estimated cost of capital was presented through Leigh Jordan, the company's Vice President of Revenue Requirements, and through Thomas Zepp, Vice President of Utility Resources, Inc., a consultant. The staff's recommendations were presented through the testimony of DRA witness C. B. Brooker.

Park conducts its California operations through its Central Basin Division, the applicant herein, and through two wholly-owned California subsidiaries, Apple Valley Ranchos Water Company (Apple Valley) and Santa Paula Water Company (Santa Paula). Park borrows all funds for its subsidiaries and provides them with required capital through intercompany transactions. Thus, Park and its subsidiaries have, in effect, a single common capitalization. Park holds all debt; its subsidiaries incur and maintain no debt.

In Application (A.) 89-07-011 (In the Matter of Apple Valley Ranchos Water Company) the company proposed:

> "that the common California capitalization for the Company and its California subsidiaries that exist in fact should be reflected in ratemaking. The only other reasonable methodology would be to consider all the debt as the Company's debt and regard the subsidiaries as 100% equity companies. The Company does not propose this alternative, however, since it would not be an accurate reflection of the capitalization, and because it could raise the question of cross-subsidization between the Company's customers and the customers of the Company's subsidiaries."

In the Apple Valley proceeding, DRA accepted the use of a common capital structure for the company and its subsidiaries, stating that Apple Valley has no debt and that the most appropriate capital structure to use would be the capital structure of its parent, the company. While DRA accepted the use of a common

capital structure in that proceeding, it recommended that the company's actual capital structure be ignored, and recommended an imputed capital structure having equity percentages of 75% for 1990, 70% for 1991, and 65% for 1992 (D.90-02-045). But the Commission rejected DRA's recommendation and adopted an imputed capital structure having equity percentages of 76% for 1990, 72% for 1991, and 69% for 1992. While Park believes that its actual equity ratio is reasonable and appropriate for its specific circumstances, it has recommended that the capital structure for 1991 and 1992 adopted in the Apple Valley proceeding be used in this proceeding as well, in order to avoid relitigating this issue in this proceeding. However, DRA does wish to relitigate the issue, and recommends that a capital structure containing 65% equity be imputed to Park for each of test years 1991 and 1992, as well as for attrition year 1993.

Park believes that the Apple Valley capital structure was adopted with the understanding that it would be the Park California consolidated capital structure which would then be applicable to Park's other divisions and subsidiaries. However, DRA points out that Finding 32 of D.90-02-045 stated:

> "The capital structure imputed for Ranchos may not be appropriate for other Park subsidiaries or for Ranchos in future rate case proceedings." (Emphasis added.)

Park notes that the above language did not appear in the ALJ's proposed decision, only in the final decision, so that the company had no opportunity to file comments on that finding. Park did not file an application for rehearing of the decision.

DRA believes an imputed capital structure is necessary for ratemaking purposes to bring Park more in line with those structures of comparable water utilities regulated by this Commission, and that ratepayers benefit little from a high equity ratio, and should not have to pay for an unwarranted level of equity. DRA refers us to recent Commission decisions where imputed

capital structures were adopted - D.89-09-048 (San Gabriel Valley Water Company) and D.90-02-045 (Apple Valley Ranchos Water Co.). However, in a more recent decision - D.90-12-069 (Azusa Valley Water Company) - the Commission rejected imputation of a lower equity ratio because the rates of the utility were about the lowest of any of the Class A water utilities regulated by this Commission.

DRA also observes that in a competitive market, as equity rises, other factors being equal, financial risk is reduced and shareholders demand less return on equity. DRA also points out that its recommended imputed equity ratio is still much higher than the industry average. This analysis is shown in Table 4 of DRA witness Brooker's Exhibit 8, where the industry common equity average of 12 water companies is 45.4%. Of the 12 companies shown, four are California utilities.

Park believes that DRA wishes to relitigate this issue because it is not satisfied with the Commission's prior decision. The company notes that while acknowledging that DRA has accepted the use of a common capital structure for the Company and its subsidiaries in this proceeding, DRA states that "...it looked at the Company as if it were nothing more than just Central Basin Division for this particular rate case." At another point, however, DRA observed that the Company's subsidiaries should be regarded on a stand alone basis as 100% equity companies. Park submits that if this were the case, DRA should have advanced this position when the common capital structure was presented by the company in the Apple Valley rate case.

Table 1 of DRA Exhibit 8, set forth below, compares Park's requested capital ratios, cost factors, weighted costs, and total rate of return, with the recommendations of DRA. The comparison shows that Park requests debt and equity ratios of 28% and 72% in 1991, and 31% and 69% in 1992. DRA is urging adoption of constant 35% debt and 65% equity factors during test years 1991-1992, as well as attrition year 1993.

Table No. 1

PARK WATER COMPANY

Comparison of Park's Requested Rates of Return
to DRA's Recommended Rates of Return, 1991-1993

Park's Requested Rates of Return

	Capital Ratio (a)		Cost Factor (b)		Weighted Cost (c)
Test Year 1991:					
Long-Term Debt	28.00%	x	11.30%	=	3.16%
Common Equity	72.00	x	13.00	=	9.36
TOTAL	100.00%				12.52%
Test Year 1992:					
Long-Term Debt	31.00%	x	11.35%	=	3.52%
Common Equity	69.00	x	13.00	=	8.97
TOTAL	100.00%				12.49%

DRA's Recommended Rates of Return

	Capital Ratio (a)		Cost Factor (b)		Weighted Cost (c)
1991-1993 Test Period:					
Long-Term Debt	35.00%	x	11.30%	=	3.96%
Common Equity	65.00	x	11.70	=	7.61
TOTAL	100.00%				11.57%

The subject of capital ratio is intrinsically involved with equity considerations which will be discussed later. Park has utilized the imputed capital structure authorized in the Apple Valley Ranchos Water Company decision (D.90-02-045). DRA's recommendation includes a constant ROE factor of 11.70%, while the company requests an ROE of 13.00%. Park has chosen not to include an estimate of capital structure, cost of capital, or rate of return for 1993, stating that "...such estimates are not necessary for this proceeding since the attrition increase for 1993 is determined solely from the difference in results of operation between 1991 and 1992."

DRA's reason for its recommendations in this proceeding is to continue to signal Park that DRA would have the Commission bring its capital structure, for ratemaking purposes, closer to a typical water utility's capital structure. DRA witness Brooker testified that the reason for not using the capital structure authorized in D.90-02-045 is because the circumstances in that case are different from those found in this proceeding, i.e., Apple Valley requires a heavy construction program necessary to correct the numerous maintenance problems caused by the neglect of the prior owner, and that this situation is not true for the central Basin Division. Brooker states that his proposed capital structure "approximates Park's intentions to increase its debt financing."

DRA considers the company's business risk to be no greater than that of other water utilities, and less than that of other utilities. DRA states that business risk is associated with the dependability and reliability of its revenues. But Leigh Jordan testified that as of June 1990 Park's revenues were insufficient to provide the interest coverage required by its indenture (1.75 times) to allow the company to issue all of its proposed debt.

Park argues that it is reasonable for a small Class A water utility, such as Park, to have a larger equity ratio more

nearly resembling the capital structure of the smaller 100% equity Class B, C, and D utilities, rather than the capital structure of substantially larger Class A utilities. Park notes that the average equity ratio of the companies shown in DRA Table 4 (Exhibit 8) is 45.4%, substantially lower than Park's approximate 80%. However, the average 1989 operating revenues of the comparable group shown in Table 4 exceeds $100 million, compared with Park's approximate $8.6 million in its Central Basin Division, and $2.5 million in Apple Valley. Some of the comparable companies are publicly traded. DRA urges that all Class A water utilities, regardless of size, should have comparable capital structures for ratemaking purposes.

In Table 3 of Exhibit 8, DRA has shown three Standard & Poor's financial rating criteria to show that by these criteria, Park would be rated between "A" and "AAA" under DRA's imputed capital structure of 65% equity. DRA concludes that Park would be in a sound financial position at that equity ratio, and does not require the higher ratio requested. In Exhibit 23 Jordan has presented extracts from Standard & Poor's Credit Overview, showing the Rating Methodology Profile of the Utilities Criteria section. The document sets forth six non-financial and six financial criteria, then goes on to state:

> "In establishing a profile for a utility, Standard & Poor's first analyzes the long-term non-financial or qualitative credit factors and then addresses past and prospective financial results. This sequence is not chosen arbitrarily; qualitative aspects are likely to control the nature of financial results over the long term, providing an indication of possible future trends in financial developments. Observers who continue to dwell on measuring year-to-year changes in nominal financial protection alone are not using sound proxies for accurate long-term credit quality assessment."

Exhibit 23 also includes Standard & Poor's "Rating Aspects Applicable to Water Utilities," which states: "The water utility bond rating process is similar in most respects to the analytical process followed for other utilities, yet it differs in emphasis." The report further notes that "(a) primary distinguishing aspect is the importance placed on evaluating the long-term adequacy of supply..." and that "...doubts regarding the future adequacy and quality of the water supply may offset strong coverage and capitalization levels." In yet another section the report refers to "...satisfactory long-term water supplies based upon reasonable assumptions and including contingency planning."

Park asserts that DRA, by applying only three of Standard & Poor's financial rating criteria, cannot arrive at an accurate picture of Park's risk. Moreover, one can do more than estimate Park's bond rating, because the company would not qualify for a Standard & Poor's rating since its bonds are not publicly traded.

Jordan testified that if Standard & Poor's were to rate the company, the rating would be BBB or lower; for Park to then go out and increase its financial risk by reducing its equity ratio would put it in an even worse situation.

Practically all of Park's debt is in the form of first mortgage bonds secured by and issued under the provisions of Park's indenture. The terms of this indenture preclude Park from acquiring debt to an extent that debt exceeds 50% of the company's total capitalization. This condition functions as a perpetual ceiling on the amount of debt which Park may incur, and limits its borrowing capacity. Thus, Park's borrowing capacity is the difference between its equity and debt, or the amount of additional debt that would result should Park's outstanding debt equal its outstanding equity.

Since Park's stock is closely held and not publicly traded, it is unable to raise capital in the equity market, Jordan stated. Hence, the only two real sources of capital for Park are

debt and retained earnings. And even retained earnings can provide capital only to the extent retainable earnings are available. Based upon Park's recent annual reports and recent Commission decisions, the company asserts it is reasonable to assume that Park and its California subsidiaries combined would have earnings of about $1.5 million per year available to retain after debt service, assuming the authorized rate of return is achieved. Park maintains that this capital source is not adequate to respond to large capital requirements, especially if Park were to lessen its equity by not retaining those earnings as recommended by DRA, because it would leave only debt as a source of funds for large capital requirements.

Gary Lynch, Park's Director of Water Quality, sponsored Exhibit 16 and testified concerning situations resulting from Environmental Protection Agency (EPA) proposed Maximum Contaminant Levels (MCL) in connection with the reduction of radon and inorganic chemicals, for promulgation within one or two years, which may result in Park facing capital requirements of $10 million to $14.7 million. The amounts do not take into account other problems faced by Park where requirements or timing are more speculative; nor does it include large increases in operation and maintenance expenses which the company may experience.

In the following table which Park has presented in its brief, the company has illustrated the relationship between capital structure and borrowing capacity.

Borrowing capacity is equity less debt. Row A shows the company's actual California consolidated capital structure as of July 1, 1990, as set forth in A.90-09-038, Park's request for authority to issue debt.

Row B shows Park's approximate capital structure for the test years, including the impact of acquiring new debt, paying off the principal on existing debt, and retained earnings. Since Park will not acquire its new debt until after January 1, 1991, its

average capital structure for 1991 is about 78% equity. For purposes of illustration, an approximate $7.5 million average debt has been assumed for the test period, including effects of adding new debt and paying off existing debt. Also for illustration, the increase in retained earnings has been assumed to be that required to achieve the 72% equity adopted for Apple Valley, even though Park's actual capital equity ratio may well be higher.

Row C shows a capital structure resulting from DRA's recommendation that reduced equity be imputed to arrive at 65% equity.

Row D shows a capital structure with the equity increased to a level at which the borrowing capacity, measured by equity less debt, is sufficient to meet a $12.35 million capital requirement, the mid-point of the $10-$14.7 million range testified to by Lynch.

The table purports to demonstrate that DRA's recommended capital structure of 65% equity does not provide the company with adequate borrowing capacity; and that even the 72% equity ratio adopted in the Apple Valley decision and proposed here by Park does not quite provide that borrowing capacity.

PARK WATER COMPANY & CALIFORNIA SUBSIDIARIES
COMMON CAPITAL STRUCTURE

Borrowing Capacity Measured by Equity Less Debt (Millions of $)

	BORROWING CAPACITY	DEBT	COMMON EQUITY	TOTAL
A.	$14.21	$3,651,347 16.98%	$17,857,808 83.02%	$21,509,155
B.	$11.79	$7,500,000 28.00%	$19,285,714 72.00%	$26,785,714
C.	$ 6.43	$7,500,000 35.00%	$13,930,000 65.00%	$21,430,000
D.	$12.35	$7,500,000 27.42%	$19,850,000 72.58%	$27,350,000

A. Actual capital structure as of 7/1/90.
B. Approximate capital structure incorporating borrowing.
C. Staff recommended capital structure.
D. Capital structure necessary for adequate borrowing capacity.

Park contends that the situations outlined by Lynch in Exhibit 16 are the threats to water quality and long-term adequacy of supply which are mentioned by Standard & Poor's (Exhibit 23) as factors which can influence water company risk. The company emphasizes that it needs to maintain at least 72% equity in order to ensure the "long term water supplies based upon reasonable assumptions and contingency planning" mentioned by Standard & Poor's. It asserts that the maintenance of borrowing capacity is part of its contingency planning; that it needs the reduced financial risk of the higher equity ratio to offset the unacceptably high risk to water supply if it is not prepared to respond to these MCL problems.

Discussion

The issue of imputation of capital ratios has been before us several times recently, in proceedings involving utilities having a financial relationship with Park, and in other proceedings as well. In D.90-02-045, the Apple Valley request, we imputed a capital structure of 72% for 1991 and 69% for 1992, which the company has requested be also adopted for purposes of this proceeding. On the other hand, we rejected the DRA recommendation to impute a capital structure in the proceeding involving Azusa Valley Water Company (A.90-03-015, D.90-12-069) because the current and proposed rates of Azusa are among the lowest of all water utilities regulated by this Commission, and the use of an imputed capital structure would have made only a negligible difference in the resultant rates when compared with those resulting from adoption of the actual equity/debt ratio.

In this case, Park is requesting authorization of a quantity rate of about $1.07 and a service charge of $8.20 for a 5/8 x 3/4 inch meter. These rates are not high when compared with rates of other Class A water utilities, and would not be reduced significantly if the DRA 65% equity recommendation were to be adopted. In the Apple Valley decision we stated that the degree of

reduction in the company's common equity ratio recommended by DRA was too severe, and ordered that common equity be imputed at 76% in 1990, 72% in 1991, and 69% in 1992. We also stated that the authorized capital structure is based upon the circumstances of Apple Valley, and may not be appropriate for sister subsidiaries or for future Apple Valley test periods. We also found (Finding of Fact 20) that significant financing requirements and the need for new sources of supply due to more stringent water quality standards and testing requirements were speculative at that time. And, as stated, we also found that the capital structure imputed for Apple Valley may not be appropriate for other Park subsidiaries, or for Apple Valley in future rate case proceedings.

The expenses associated with the two significant MCLs confronting Park are speculative. Lynch testified at length concerning the two contaminants - radon and sulfates - and about the possible costs involved in order to meet EPA standards. His testimony is that EPA was expected to propose an MCL for radon in January 1991, and that the least expensive treatment plant currently known would cost about $250,000 per well site, with larger wells requiring up to another $100,000. The witness stated that all but three of the 16 wells operated in Apple Valley exceed the expected proposed MCL; all nine of the Santa Paula Water Works wells will fail to meet the proposed radon MCL. The potential costs involved in meeting the EPA proposals, when they are actually more than mere proposals, are indeed formidable. But there is nothing contained in the record of this proceeding, nor has any information come to our attention concerning the actual proposal or final disposition of an EPA proposal with respect to MCLs involving radon or sulfates. In our Apple Valley decision we were dealing with definite plant additions of between $2 and $3 million in each of test years 1989, 1990, and 1991; whereas in this proceeding we are concerned with definite plant additions of between $183,000 and

$188,00 in 1990, and additions of $230,000 in 1991, and $404,000 in 1992.

After consideration, we deem the imputed capital structure found proper in our Apple Valley decision, and sought here by Park, to be suitable for purposes of this proceeding. That structure is 72% equity for 1991, and 69% for 1992. The 1992 ratio is also appropriate for 1993. The MCLs proposed by EPA, while speculative, constitute the type of threats to water quality and long-term adequacy of supply mentioned by Standard & Poor's as factors which influence water company risk. The company and its subsidiaries have, in effect, a single common capitalization because the company holds all debt and its subsidiaries have none. The 69% equity factor is not significantly different from the 65% recommended by DRA. This is a fairly close judgment call, influenced by the fact that we are already adopting a reduced equity ratio so that ratepayers will not be unreasonably impacted. Moreover, Park is a small Class A water utility, considerably smaller than many of the Class A utilities regulated by this Commission. It is closer in size to many Class B water utilities. It is usual for Class B water utilities to be 100% equity financed.

We also take notice of A.90-10-031 in which Park has requested authority to sell part of its Central Basin Division to the City of Bell Gardens. The requested sale includes at least a portion of water production facilities for the Central Basin District. Such a sale would represent a significant reduction in the risk associated with water quality.

Park asserts that an additional problem associated with DRA's recommended capital structure of 65% equity for 1991-1993 is that it is not achievable. Jordan testified that the company is required to have 1.75 interest coverage. He said that Park could not, under the terms of its indenture, borrow enough debt to reduce its equity to 65 percent during 1991. The company's current projected borrowing during 1991 of $4.5 million will get it to a

position where its average capital structure during 1991 will be about the 72% imputed in the Apple Valley decision. In order to incur sufficient debt to get to 65 percent, Park would have to borrow at least an additional $4 million. Thus, the witness concluded, Park will not have sufficient interest coverage to borrow enough additional money to get to 65% equity during 1991. This latter unrefuted testimony, in particular, is persuasive that the capital structure imputed in the Apple Valley decision continues to be proper at this time for Park.

Order Instituting Investigation 90-11-033 was issued for the purpose of addressing the issues surrounding risk, both business and financial, of water utilities regulated by this Commission. We expect that the imputation of capital structure will, perforce, be considered during the conduct of that proceeding. Meanwhile, the imputed capital structure adopted in our Apple Valley decision will be reasonable and appropriate for purposes of this proceeding. The capital structure for 1992 will also be reasonable and fair for 1993.

Cost of Debt

Park's estimates of the cost of debt are 11.30% for 1991, and 11.35% for 1992. The company did not propose a 1993 debt cost, stating that it was not necessary to do so since the 1993 increase is based on the operational and financial differences occurring between 1991 and 1992. These estimates are based on the cost of interest and insurance expenses of the company's existing debt as described in Branch's cost of capital exhibit (Exhibit 8, page 5).

Park did not include its proposed 1991 new financing in its estimate since the effect was not known at the time. DRA notes this fact and also notes that, on review, it considers the impact of the new borrowing on the embedded cost of debt to be minimal. Accordingly, DRA also has not included the new financing in the development of its debt cost for the company. DRA states that "(DRA) and the company agree on the effective cost of debt for the

test years." (Exhibit 8, page 6.) Table 2 of DRA's Exhibit 8 shows an effective Cost of Debt Summary which agrees with Park, showing 11.30% for 1991, 11.35% for 1992, and 11.37% for 1993. However, DRA has recommended in Table 10 of Exhibit 8 a constant debt cost for the years 1991-1993 of 11.30%. The actual costs of 11.30%, 11.35%, and 11.37% are appropriate and should be used.

Return on Equity

Park has requested a ROE of 13.0%.

DRA (Brooker) has based his ROE recommendation of 11.7% on a discounted cash flow (DCF) analysis of 12 water utilities. Brooker concluded that through his DCF and risk premium (RP) analyses that, while a range of 11.75% to 12.25% ROE is reasonable and appropriate for a typical water utility, it would be excessive for Park due to its high equity ratio and the resulting lower financial risk associated with its actual capital structure.

Brooker was guided in his recommendation regarding a fair and reasonable ROE by two landmark decisions of the U. S. Supreme Court, the Bluefield case (Bluefield Water Works & Improvement Co. vs. Public Service Commission of West Virginia (1923) 262 U. S. 679), and the Hope case (Federal Power Commission vs. Hope Natural Gas Co. (1944) 320 U. S. 391). The pertinent wording from the Bluefield decision relating to this proceeding is:

> "A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments on other business undertakings which are attended by corresponding risks and uncertainties... the return should be reasonable, sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise money necessary for the proper discharge of its public duties."

The relevant wording from the Hope case is as follows:

> "From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital cost of the business. These include service on the debt and dividends on the stock.... By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risk. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital."

Brooker testified that the percentage of a company's debt to permanent capital (leverage) determines the level of financial risk. Thus, greater financial risk follows from higher debt ratios, because the larger the proportion of fixed obligations (debt) the greater the risk that residual earnings will fall short of investor expectations.

Debt financing is less expensive than equity financing because stockholders are residual claimants to earnings, after bondholders. Equity holders therefore face more risk and demand higher returns. Furthermore, debt interest is tax deductible, while returns on common equity are not. In unregulated industries these tax savings may be kept for shareholders, rather than being passed on to customers; while regulated utilities must pass such savings on to customers in the form of reduced rates.

Brooker testified that there is an inverse relationship between equity ratio and the return on equity. As equity increases, ROE should decrease because of the reduced risk resulting from the lessened debt ratio.

In his DCF analysis Brooker has attempted to estimate the return on common equity reasonably expected by Park's investors. A DCF model recognizes that the current market price of a share of common stock equals the present value of the expected future stream of dividends and the future sales price of the share of stock,

discounted at the investor's discount rate. This discount rate represents the investor's opportunity cost of capital, i.e., the ROE that could be earned on an alternate investment of comparable risk.

Brooker has calculated three-month dividend yields for a group of 12 comparable water utilities located throughout the country. Four of these companies are located in California. He calculated group average yields of 7.52% for three months, and 7.34% for six months. He next increased these yields by a growth rate, which ranges from 4.0% to 4.5%, relying upon historical ten-year average earnings per share, dividends per share, and sustainable growth rates to estimate an expected dividend growth rate. The results of Brooker's DCF analysis show returns on equity ranging from 11.63% (combining the current six-month expected yield of 7.63% and the 4.00% growth rate) to 12.36% (combining the three-month expected yield of 7.86% and the 4.50% growth rate).

Brooker also performed an RP analysis to determine a reasonable ROE. An RP analysis recognizes that there are differences in risk and return factors for investors holding common stocks as compared with utility bonds or government securities. Since equity returns are residual returns relative to bonds in the case of default, an equity investor requires a greater return to compensate for the additional risk. Risk differential between common stocks and bonds is expressed as a premium and is added to the estimated cost of a debt instrument to determine the required ROE.

The witness stated that there is a difficulty in applying an RP analysis, which results from the calculation of the premium. Measurements based on historical holding period returns can be different from investors' expected returns. Part of the problem can be eliminated, he stated, if one assumes the expected return on a bond, if held to maturity, will equate to its yield at the time of purchase. The expected return for the common equity investor is

more difficult to measure as stocks are considered perpetual instruments without a fixed maturity. One method which can be used to determine the investors' expected common equity return is to apply a DCF analysis. By backcasting recorded information over a historical period, Brooker was able to compare expected yields on utility bonds and U. S. government issues with expected returns on common equity.

In Table 8 of Exhibit 8, Brooker has shown the most recent ten-year average premiums over "AA" utility bond yields, along with 30-year government issues. The premiums were derived by comparing DCF estimated ROEs with "AA" utility bond yields and 30-year government issues for years 1980 through 1989. Estimated ROEs were determined by combining each company's annual dividend yield with its historical ten-year average dividend and earnings growth rates, and its sustainable growth rate. He then added Data Resources, Inc. (DRI)/McGraw Hill's November 1990 long range forecasted yields (Table 9) on "AA" utility bonds and 30-year government issues for the test period to the respective average equity risk premiums to derive a range of expected ROEs of 12.05% to 12.36%.

Brooker describes the range of average expected returns developed through utilization of his DCF and RP analyses to be quite narrow - between 11.63% and 12.36%. He asserts that a range of 11.75% to 12.25% for ROE would be reasonable and appropriate for a typical water utility, but, as stated, urges adoption of an ROE for Park of 11.70% because of its lesser risk, based upon its unusually high equity ratio.

Park argues in Exhibit 3, its Report on Cost of Capital, that water companies are as risky as other utilities, because of the ongoing drought, the lack of sales adjustment mechanisms, the threat of condemnation, and because water companies tend to have a smaller ratio of rate base to operating expenses than do energy

companies. Impending safe drinking water regulations pose further risks.

Park asserts that there are flaws in the DRA DCF analysis. The company's rebuttal testimony was presented through the testimony of Dr. Thomas Zepp. Zepp discovered that the data base used by DRA to prepare estimates of earnings per share growth contained errors for two of the companies included in its analysis.

The first company was Consumers Water. That company had a stock split in 1983 which requires a restatement of the earnings per share (EPS), Zepp maintains. This alleged error was undisputed by DRA. Once the error in Consumers Water data is corrected, the estimate of historical EPS for Consumers Water is 7.66%, not 0.54%, as was shown in DRA Exhibit 8, Table 6. Zepp stated that this single correction in data increases the average EPS growth rate computed by DRA in Table 6 from 3.83% to 4.43%.

Zepp also corrected an error in EPS data for a second company, United Water Resources. Zepp testified that data used by DRA does not match that reported in United Water's annual reports, or in Value Line. United Water has had several stock splits and recorded a substantial drop in earnings in 1981. He determined that correct data for United Water Resources indicates past EPS growth of 5.50%, not 2.27% as computed by DRA. When the errors in EPS data for both companies are corrected, average historical EPS growth for the DRA sample of 12 water companies increases from 3.83% to 4.70%.

Based upon the corrections in EPS growth, Zepp has revised the growth rate range selected by Brooker to make his DCF ROE estimates. Brooker had selected a range of 4.0% to 4.5% growth. In Exhibit 21, Zepp has shown that both average EPS growth of 4.70% and average dividends per share (DPS) growth of 6.94% are above the top of Brooker's range, and none of the growth rates is as low as 4.0%. Brooker's smallest estimate of average growth for the sample of water utilities is his estimate of sustainable growth

of 4.17%. Based upon this corrected data, Park insists, estimated growth, and thus equity cost estimates, must be increased.

Zepp emphasizes that the DCF model needs current dividend yields to compute Do/Po (dividend yield at time of purchase), and notes that DRA reported estimates of the cost of equity for Park in September 1990. But there was not evidence regarding stock price movements and changes in dividends paid during October and November 1990. Zepp updated the three-month dividend yield to base it on the most recent three-month period - September through November 1990. This update increases dividend yield, and therefore the DCF estimate of the cost of equity, by more than 36 basis points. The current dividend yield (Do/Po) increases from the 7.52% computed by Brooker to 7.88%, as shown in Exhibit 20, page 6. Furthermore, the DCF equity cost estimate would increase more because the 36 basis point increase in current dividend yield would be multiplied by the growth rate to estimate current dividend yield.

The company also notes that DRA has made certain subjective choices in performing its DCF analysis which are inconsistent with similar choices it made both in (i) its risk premium analysis in Table 8 of Exhibit 8, and (ii) estimating DCF equity costs for Azusa Valley Water Company several months ago. Park contends that if DRA's choices are modified to be consistent, its DCF equity cost estimates would increase and support the company's requested 13 percent equity return.

In support of the above contentions, Park argues as follows:

1. <u>The Method DRA Used To Estimate Growth Rates For Its Equity Risk Premium Analysis In Table 8 of Exhibit 8 Produces An Increase In DCF Equity Cost Estimates</u>.

In computing equity costs for his RP analysis, Park observes, Brooker gave weights of 25 percent to EPS growth, 25 percent to DPS growth, and 50 percent to his measure of sustainable growth. That weighting method would produce a growth rate in the

DCF analysis of 4.78%, which exceeds the 4.0% to 4.5% DCF growth rate range adopted by Brooker to compute Table 7. The 4.78% growth would indicate an equity cost of 12.66% (7.52 x 1.0478) plus 4.78, from Tables 5 and 7 in Exhibit 8. Thus, the single DCF estimate of the cost of equity (12.66%) would exceed the range of costs shown by Brooker in Table 7 (11.63% to 12.17%). Moreover, this 12.66% equity cost developed by Zepp does not include corrected EPS growth and updated dividend yields. If those were included, the equity cost would increase to 13.07%, as shown in Exhibit 20, page 10.

2. Brooker Chose To Use Growth Rates In The Company's Case Which Are 75 Basis Points Lower Than He Selected For Use In The Azusa Valley Water Company Case, When The Same Evidence On Growth For Each Utility Was Used In Both Cases.

During cross examination of Brooker, Park introduced Exhibit 18 which showed that Brooker relied upon the same data on growth in EPS, DPS and sustainable growth for utilities in both the Azusa Valley case and this proceeding. In both cases, Brooker determined that those measures of growth were appropriate to compute DCF equity cost estimate. In Azusa, Brooker determined that an appropriate growth rate range to use to make DCF equity cost estimates was 4.75% to 5.25%, while in this proceeding he chose to use a range of 4.0% to 4.5%.

Had DRA consistently used the 4.75% to 5.25% growth range, its conclusion with respect to DCF cost of equity for a typical water utility would fall in the range of 12.44% to 13.16%, which includes Park's request of 13.0%.

Park contends that the increase in equity cost estimates has occurred because increases in dividend yields indicate that the cost of equity has increased. Brooker's testimony, the company maintains, indicates that dividend yields increased by 76 basis points for three-month yields, and by 68 basis points for six-month yields between the periods he used to prepare his Azusa testimony and his testimony in this proceeding. The same growth rates

combined with higher dividend yields indicate that the cost of equity has increased; however, Brooker reported DCF equity cost ranges which were virtually identical in each case. In Azusa, he reported a range of 11.72% to 12.36%, while in this proceeding he reported a range of 11.63% to 12.36%.

Park concludes that DRA ignored objective changes in the cost of equity revealed in financial markets through changes in dividend yields; and it chose to maintain the same DCF equity cost range by selecting a different range of growth rates to compute the DCF estimate in each case.

The company also argues that investors expect sustainable growth from sales of stock as well as from retained earnings. Zepp alleged that DRA's method of estimating sustainable growth is incomplete, because it recognizes only growth from retained earnings. The other source of growth occurs, he contends, when a company sells new shares of common stock at prices above book value. This premium above book value per share increases the book value of shares; hence book value growth occurs. And to the extent that investors expect a utility to issue new shares of common stock to maintain a balanced capital structure, this source of sustainable growth is also expected. Because DRA has ignored this potential book value increase, Zepp states, it has biased downward the estimates of the cost of equity facing water utilities. Zepp computed this book value growth which investors can expect at this time to 0.55%. Combined with the DRA estimate of growth in retained earnings of 4.17%, he projected what he deems a more complete estimate of sustainable growth to be 4.68% for the sample of water utilities.

When the estimate of sustainable growth calculated by Zepp is included in the DCF analysis, the equity cost estimate increases. He demonstrated in Exhibit 20 that when combined with the corrected EPA growth, the updated dividend yields, and the method DRA uses to weight EPA, DPS and sustainable growth, the

revised sustainable growth indicates that a typical water utility faces an equity cost of 13.33%.

Brooker computed the growth component of his DCF equity cost estimates as a weighted average of three growth estimates: 25% to ten-year historical growth in EPS, 25% to ten-year historical growth in DPS, and 50% to a ten-year estimate of sustainable growth. This average growth rate is then added to annual dividend yield to get the respective annual equity cost estimates. Two risk premiums are computed - one the premium above T-bond rates, the other the premium above AA utility bond rates. Equity cost estimates are forecasted by combining the estimated premiums with forecasts of T-bond rates and AA utility bond rates for 1991-1993.

In Exhibit 19 the company has demonstrated the importance of the weights given to various growth rate estimates used to compute equity costs in the RP analysis. The exhibit shows that if equal weights were given to each measure of growth, i.e. 33% each to EPS, DPS, and growth from retained earnings, the ROE range would be 12.72% to 13.03%. If past dividend growth were given the greatest weight, the ROE range would be from 12.80% to 13.10%. If past EPS were given the most weight, the ROE range would be 13.32% to 13.62%. Thus, each of these weighting methods produces a range of ROEs which includes the 13% ROE requested. The weighting assigned by DRA arbitrarily produces the least possible estimates of the cost of equity, Park emphasizes.

Zepp also performed a measurement of the risk of water utilities based upon the capital asset pricing model (CAPM). The risk index is called "beta" and the CAPM is based upon finance theory. Through beta estimates for gas, electric, and water utilities, as demonstrated in Exhibit 20, Zepp has purported to show that investors view these utilities to be equally risky, and that the cost of equity facing a typical water utility exceeds 13%. He stated that Park expects to issue new debt at an effective cost

of 11.20%, which is very close to the cost of debt it incurred in 1987 when its last debt issue was priced. The witness noted that DRA's recommended equity return of 11.7% is only 50 basis points above the debt cost. He maintains that this meager difference is unrealistic. Finally, he noted that ROE's for water utilities in other sections of the country have averaged 13.1%, while those of Class A water utilities operating within California have been 12.25% in several instances.

Discussion

The company has presented through evidence a showing that water utilities are just as risky as energy companies, an independent risk premium analysis indicating that water utilities require an equity return in excess of 13 percent, evidence that water utilities in other parts of the United States are authorized equity returns averaging 13.1%, and several company-specific estimates indicating that Park has an equity cost above 13 percent.

Park has also noted that large energy utilities in California have requested ROEs for 1991 approaching 13.75%. But these companies have been authorized ROE's about the same as those allowed during 1990, approximately 13%. Market based risk measures presented by Zepp indicate that the risk faced by investors holding water utility common stocks is just as high as that of those holding energy company stocks. Indeed, by most quantifiable purely financial risk measures, such as DCF/RP analyses, Park's request for a 13% ROE appears justified. It is because of this Commission's perceived lesser business risk faced by water utilities operating within California that ROEs have been held below those authorized the energy utilities. Those have been recited by Brooker, i.e.,

a. Water a renewable resource;

b. Minimal threat of customer bypass;

c. Allowance of construction work in progress (CWIP);

d. Allowance of up to 50% of fixed costs through service charges;

e. Expected reduction in risk from the impact of droughts, based upon anticipated decision in I.90-11-033.

On the other hand, with respect to business risk, water utilities do not have sales adjustment mechanisms, and face the ever present threat of condemnation. If courts provide fair compensation in the event of condemnation, the utility is at risk when it reinvests the proceeds of a condemnation sale. Furthermore, water utilities generally have a smaller ratio of rate base to operating expenses than energy utilities, which means that the return on common equity is more leveraged for water utilities with respect to expenses than it is for energy utilities. Water utilities may have to make major investments to meet water quality standards under expected new EPA requirements, and these large investments can pose a major risk to small water utilities having limited access to financial markets. Thus, even in the area of business risk there are considerations which, while difficult to quantify, and perhaps not as definite as those cited by DRA witness Brooker, may be significant depending upon the circumstances surrounding the requirements facing a particular company.

We have often stated that we deem water utilities less risky than energy utilities. It would be inappropriate to alter that general observation based upon the record of a single proceeding. This is especially so at this time because of the impending conduct of hearings in I.90-11-033, the generic proceeding in which operational risk, both financial and business, of water utilities will be thoroughly considered by the Commission.

We are persuaded after consideration that an appropriate ROE for purposes of this proceeding will be 12.00%. This will balance the financial risk considerations discussed above with what

Park contends, it has established that its actual medical premium increase for 1990 was 34.9%, and not 17.4%.

In August 1990, Park increased from 50% to 65% the portion of its employees' dependent coverage premium paid by the company. Park had surveyed the benefits offered by five Class A investor owned utilities in southern California and found that at 50%, Park was well below average. Exhibit 15 contains this comparison. It shows the amounts paid by company and employee for four Class A water utilities regulated by this Commission. The amounts paid by Park compare favorably with those amounts paid by the other utilities. Of the four utilities, one pays 100% of a dependent's medical insurance, one pays 85%, one pays 60%, and the fourth pays a fixed amount per month. Park pays 65%. To reflect the impact of the change in coverage occurring in August 1990, Park's estimates of its medical insurance costs include an additional increase of $13,400.

Branch's witness testified that his estimate of 1991 medical insurance expense is $188,815, the total amount prior to recharges; hence the difference with the amount shown on Exhibit 25, Page 7 of $169,300. Thus, Park argues, Branch's estimates include only about $5,000 in 1991 and $10,000 in 1992 to account for the increased percentage of dependent premiums paid by Park.

Discussion

The evidence clearly shows that for policy year 1990-1991 Park's medical insurance expense increased by 34.9%, and will be further increased by $13,400 due to the policy change concerning dependent coverage. Moreover, the increased dependent coverage is reasonable when considered in light of coverages enjoyed by employees of other Class A water utilities. The company's estimates of medical insurance costs are fair and reasonable and should be adopted.

increasing medical costs and the fact that the company's claims experience had been very high (claims exceeded premiums during policy years 1987-1988 and 1988-1989).

Branch introduced Exhibit 10, purporting to show that Park's employees seldom use PPO facilities. The exhibit shows that during the rating period March 1, 1989 to March 1, 1990, employee claims at PPO hospitals amounted to $4,510 out of $145,000 in total hospital claims. However, the exhibit does not show whether these claims relate to the seven-month period when the PPO plan was in effect, or to the five-month period prior to institution of the PPO plan. Nor does the exhibit provide information concerning the use of physicians, dentists, pharmaceuticals, or any other non-hospital providers by Park's employees, nor does it show which of the listed non-PPO hospitals are in Montana, where Park's insurance company does not offer the PPO plan. The exhibit does not demonstrate what it purports to show.

Park believes it has taken every reasonable step to encourage its employees to use the PPO option. Meetings have been held with employees at all of the company's divisions to explain the plan and its benefits. Exhibit 13, "Highlights Of Your Travelers Preferred Employee Benefit Program" describes the various applicable benefits and co-payments, and clearly shows the financial incentives for using the PPO option. The document has been distributed to all employees.

Park argues that Branch's use of Exhibit 9, which shows that average annual medical insurance premiums increased by 17.4%, should be discredited for purposes of this proceeding because it relates only to increases from 1989 to 1990 for the California Public Employees Retirement System, which covers tens, perhaps hundreds of thousands, of state employees. Thus, Park suggests, the group plan can spread costs and average experience over a larger base, and it may be quite meaningless to compare the premium cost of this large group plan to Park's medical plan. Moreover,

Portions of employee benefits expense are recharged to other capital or expense accounts as is payroll. Both Park and Branch have used percentage recharges based on payroll expense. Although Park's and Branch's recharge percentages vary slightly due to the payroll difference, both have recharged about 10% of all employee benefits expenses. The following table portrays both medical insurance expenses, net of recharge.

	Park	Branch	Difference
1991	$198,600	$169,300	$29,300
1992	265,200	205,100	60,100

The primary reasons for the differences are that: 1) Park assumes a 30% increase in 1991 and 1992, while Branch assumes 20%; and 2) Park increased its 1990-1991 premiums by the amount of its increased premium cost resulting from paying 65% rather than 50% of its employees' dependent coverage premium, and carried that increase forward to 1991 and 1992. Branch assumed that its 20% increase included this increased cost.

Branch looked for a method of testing the reasonableness of Park's request. It collected in Exhibit 9 the percentage increases of 22 health insurance companies serving throughout California. The average increase was 17.4%. Branch allowed 20% to cover the premium increase, including dependent coverage. Based upon the Exhibit 9 data Branch concluded that the company's request is excessive. Branch also urges that more use be made of preferred provider provisions (PPO) of the company's medical insurance. Branch understands that Park's employees cannot be forced to use such PPO, but recommends that Park encourage its employees and dependents to participate therein in order to save money.

Park's current plan, introduced in August 1989, provides employees with the option to use PPO and facilities. Previously, Park had a straight 80/20 indemnity insurance plan. The company introduced the new optional PPO plan to moderate an expected large increase in its medical insurance costs due to the combination of

elected to request the 6.3% factor for 1991, and its 5% estimated COLA for 1992. Branch asserts that Park should be awarded figures based on Branch's inflation factors, because its request constitutes a rejection of Branch's offer.

Discussion

The 5% factor used by Branch is fair and reasonable in these circumstances, because it is the increase projected at the time the application was filed. While there is no evidence that the 6.3% granted by Park is not proper, it was not brought to the attention of the Commission or Branch until the hearing, and there was no opportunity by Branch to validate or verify the escalation factor used by Park.

VI. Medical Insurance Expense

The methodologies utilized by Park and Branch for estimating medical insurance costs are set forth in Exhibit 25, page 6.

Branch has used recorded 1989 expenses, divided by an average 1989 number of employees to get a cost per employee, increased that cost by 34.9% (the actual 1990-1991 policy year increase) for 1990 and 20% for each of 1991 and 1992, then used an average number of employees to arrive at its 1991 and 1992 expenses.

Park used the following method: it began with the monthly premiums in effect for the 1989-1990 policy year, reflected the 34.9% premium increase in August for the 1990-1991 policy year, added $13,400 to the 1990-1991 policy year premium to reflect Park's increase of the percentage of its employees dependent coverage premium it pays from 50% to 65%, estimated premium increases in August 1991 and 1992 of 30% for the next two policy years, and adjusted each year by the percentage change in average number of employees.

V. 1991 Labor Escalation

Both Branch and Park, in arriving at labor expenses for this proceeding, have made estimates of labor escalation, or cost-of-living (COLA) increases for 1991 and 1992. Branch had stipulated to Park's estimates; however, the company revised its 1991 labor escalation number because it has now established its actual labor COLA for 1991. Ordinarily, Park's general rate case proceedings occur prior to the availability of this information.

The COLA granted Park's employees each year, effective January 1, is based upon the annual increase in the regional Consumer Price Index measured through October of the prior year, as published by the United States Bureau of Labor Statistics. Based thereon, Park granted a 6.3% COLA to its employees during 1991. While Park is a non-union company, and not obliged to use the COLA formula by any union contract, it believes the formula used is equitable and prudent, and that it tends to reduce the amount of employee turnover.

A memorandum from the Economic Branch dated November 29, 1990 addressed to Energy and Telecommunications Branch Managers - DRA, contained escalation factors higher than those used by Water Branch staff a Commission Advisory and Compliance Division (CACD) branch, which in turn were extracted from a memorandum issued by the CACD dated September 19, 1990 based on August DRI forecasts. In most cases the labor and non-labor escalation factors contained in the November 29 memorandum are higher than either Branch's or Park's figures. The factors in the Energy and Telecommunications memorandum were subject to an adjustment mechanism.

Branch offered Park a choice: Park could elect to take its predicted 5% labor inflation factor, or it could elect to use the Economic Branch numbers subject to a true-up mechanism. That mechanism would review the yearly attrition filing and adjust inflation for the recorded inflation number. Thus, the company

Discussion

As stated, there is no dispute here regarding the accuracy of data in either the Branch or company developments. The issue is methodology. In this regard, we should, wherever possible, be concerned primarily with correctness of data and of the best estimates based upon that data. It is hardly arguable that specific data based upon actual circumstances provide a basis for estimating future test years that is more accurate and therefore better than can be achieved from merely escalating 1989 recorded payroll expense by a general labor escalation factor. Park's point is well taken that for purposes of estimating appropriate test year data, smaller utilities present a much different problem than do those of significantly greater size. This is so simply because of the much greater number of employees whose records must be taken into account when dealing, for instance, with a giant energy utility, or even with a very large Class A water utility with many districts.

Park's Central Division work force is a mere 40 employees. The company is able to ascertain and monitor the precise payroll expense incurred in connection with that force with little apparent difficulty. While Branch's methodology considers 1989 data per se, it does not give appropriate effect to payroll increases which occurred during the latter part of 1989. Thus, a merit increase granted at the middle of 1989 is included in the year-end 1989 analysis only to the extent increased earnings occurred after the middle of the year. But the more appropriate measure should consider the rate of earnings in existence at the end of the year, if increases are to be projected from that date. The company's methodology does this, and should be adopted.

Park maintains that its payroll expense estimates properly give full effect to merit increases occurring in 1989 and 1990, and will continue to occur in test years 1991 and 1992. It has done this by basing its estimates on personnel salaries and hourly wages as of January 1, 1990 and making adjustments for merit increases, employee retirements and their replacement by lower paid employees, and escalating these figures to test years 1991 and 1992.

The company maintains that since it grants merit increases to employees at various times throughout the year, including the latter half thereof, its recorded 1989 payroll expense does not reflect a full year's impact of increases granted in 1989; thus, Branch's method of merely escalating recorded 1989 payroll does not fully reflect 1989 increases.

Branch insists that by escalating Park's 1989 recorded payroll expense to the test years, it has properly accounted for merit increases occurring in 1990 and which will occur in 1991 and 1992. Park contends, however, that Branch's method ignores specific changes occurring during 1990, and which will occur in 1991 and 1992, and that Branch's method assumes that increases in payroll expenses resulting from merit increases in 1990, 1991, and 1992 will be offset exactly by decreases in payroll expenses resulting from retirements of employees and their replacement by lower-paid employees in these years.

Park notes that it employs only 40 persons in its Central Basin Division, and can therefore make detailed estimates of the timing and amount of projected merit increases and the exact retirements and replacements occurring.

Branch argues that its methodology, used in connection with all Class A water utilities, properly used employee salaries as of January 1, 1990, and estimated overtime, cost of living adjustments, merit increases, employee replacement, and the cost of an additional employee.

Branch concurs with the company that it is desirable to have a full sized automobile for use in company business, which will involve primarily travel within the Central Basin service area but will also entail trips to Park's other subsidiary service areas.

Discussion

After consideration, we believe that a cost allowance of $19,000 is reasonable for purposes of this proceeding. We base this decision upon the convincing testimony of the company witness that the Ford automobile will provide greater safety, as well as better fuel economy than the comparable Chevrolet, and upon the witness' more specific testimony concerning current prices.

IV. Payroll Expense

Park and Branch differ concerning respective estimates of Park's payroll expense in test years 1991 and 1992. Apart from the disagreement resulting from varying 1991 escalation factors (discussed in Section V below), this difference results from the use of dissimilar methodologies by branch and the company. Branch has used a general methodology not specific to Park, while Park has employed a methodology which incorporates the specific facts applicable to the company.

In arriving at its estimate of Park's payroll for 1991 and 1992, Branch has escalated the company's 1989 recorded payroll by its labor escalation factors. This results in lower estimates of Park's 1991 and 1992 payroll expenses, Park contends, because it does not give full effect to merit increases occurring throughout 1989, i.e., 1989 recorded payroll expense includes only a partial year's expense at the higher figure. Further, Park maintains that Branch's method does not properly take into account merit increases which have occurred in 1990, as well as those that will occur in 1991 and 1992.

involvement on the part of Commission personnel. The company has presented adequate evidence in support of its position that these routine expenditures will be accomplished in 1991 and 1992, and that costs will approximate $458,000 in 1991 and $404,000 in 1992.

III. Main Office - Automobile

Park had originally sought $25,000 in 1992 Main Office Plant Additions for a full-size replacement automobile it intends to purchase in that year. It subsequently reduced this amount to $21,000. Branch recommends that the company be allowed $16,000 in rate base for this purchase. Branch's recommendation is based on its opinion that Park can purchase a reasonably sized passenger car for $16,000, and its belief that full-size cars fail to meet certain federal gas mileage standards and are subject to gas-guzzler surtaxes. Park presented evidence that the American automobile it intends to purchase, a Ford Crown Victoria, currently meets the federal gas mileage standards in effect regarding gas-guzzler automobiles, and therefore is not subject to the gas-guzzler surtax.

As indicated by the testimony, Park's decision to purchase the full-size Ford Crown Victoria is based upon its desire to provide safe and reliable automobiles to its employees. The company witness also stated that numerous quality problems have been experienced with the Chevrolet Caprices presently provided its employees. Jordan testified that the Ford automobile has a heavier, stronger frame, but nevertheless provides better fuel economy than the Chevrolet Caprice.

Jordan testified that he had contacted the Chevrolet dealer with whom Park has been doing business, and was informed that the sticker price on a Caprice is about $18,000, i.e. "out the door" the price would be $17,000 to $19,000. He was told that an extremely basic, stripped down no frills model would cost $17,400.

construction of reservoirs, and an interconnection between the utility's system and one operated by a neighboring municipality. Park argues that both decisions required that the utility file applications or advice letters because they were major plant additions and of such substantial financial cost ($4.5 million) as to be considered extraordinary. Park asserts such is not the case with the backbone mains involved here. Evidence presented by Park indicates that these backbone mains are being constructed in the usual course of business; and they are part of an ongoing master plan prepared by the company to alleviate water pressure and flow problems and provide adequate fire flow. This ongoing plan has been done in various stages for several years, and will continue beyond 1992.

Branch also recommends against inclusion of the costs of the backbone mains because it is not satisfied that they will occur in 1991 and 1992 as scheduled. The Branch witness also stated that he expected it would take about nine months for Park to complete each of the 1991 and 1992 backbone mains. However, Park witness May testified it would take about three months for the 1991 project, and about five to six months for the two projects comprising the 1992 construction to be completed. He stated that the 1989 work on Studebaker, which just preceded the 1991 project, was completed in about seven weeks, and extended more than a mile, compared with the 1991 project which will extend 3,000 feet. May further testified that there is a proposed construction schedule for both the 1991 and 1992 projects, commencing in February 1991 and 1992, and that as far as he can recollect the company has never had any of its capital expenditures in CWIP.

After consideration, we will allow both projects in the company's Utility Plant as proposed by the company. This will avoid any unnecessary adverse financial impacts to Park due to delayed inclusion of the costs in rate base. It will also obviate the need for unnecessary administrative expense and staff

Our adopted capital ratios and cost factors, resulting in authorized rates of return of 11.80% during the two test years 1991/1992 as well as attrition year 1993, result in interest coverages of 3.73x during 1991 and 3.35x during 1992/1993.

In its brief the company included a presentation of the effects on gross revenues at proposed rate of return of the various amounts at issue. For differences in Operating Expenses, Taxes Other Then Income, Income Tax Deductions, and Depreciation, the effect is about equal to the amount at issue. For differences in rate base items, the effect is about 17% of the amount at issue. For differences in rate of return, 0.1% of difference in rate of return on rate base (e.g. 12.0% vs. 12.1%) results in about $16,000 difference in gross revenue. Park further points out that each $10,000 increase in gross revenues results in an increase in the average bi-monthly residential bill of about $0.03.

II. Utility Plant - Backbone Distribution Mains

Park has included a total of $458,000 in utility plant for test year 1991, and a total of $404,000 for test year 1992. Branch recommends that only $228,000 be included in plant for 1991, and nothing in plant for test year 1992. Branch's $230,000 reduction for 1991 is the cost of the Phase II extension of a 12-inch backbone distribution main (backbone main) in the Studebaker area in the City of Norwalk. The $404,000 difference in 1992 is the cost of the Phase III extension of this 12-inch backbone main, plus the extension of a backbone main of 12-inches and 8-inches in the West Compton area.

Branch recommends that Park file an application or advice letter in the future requesting inclusion of the two backbone mains in Park's Utility Plant. In support of his recommendation, the Branch witness cited D.87-03-090 and D.90-03-034 (both involving California American Water Company). These decisions involved the

we perceive to be the lesser business risk faced by Park and other class A water utilities.

There is always an element of judgment involved in our decisions concerning ROE allowances. We have recently allowed a ROE of 12.25% in connection with a general rate proceeding involving Azusa Valley Water Co. That same ROE has been recommended in a proposed decision involving several districts of California Water Service. But Park has an unusually high equity ratio, which traditionally has equated to a lesser ROE requirement than might be otherwise applicable. Nevertheless, Zepp's DCF and RP presentations, combined with his corrections to the DRA analysis concerning the two comparable water company's EPS and DPS data, clearly show that from a standpoint of financial risk, Park's investors should reasonably be expecting to receive about a 13.0% return. We find that, in light of the reduced business risks discussed above, as well as our recent allowances of 12.25% granted in the Azusa Valley and and other proceedings where much lower equity ratios were involved, an ROE of 12.0% should be authorized here. In summary, we will adopt for purposes of this proceeding the following capital structures, debt costs, and common equity allowances:

1991

Capital	Cost Ratio	Weighted Factor	Cost
Long-Term Debt	28.00%	11.30%	3.16
Common Equity	72.00%	12.00%	8.64
Total	100.00%		11.80%

1992 and 1993

Long-Term Debt	31.00%	11.35%/11.37%	3.52
Common Equity	69.00%	12.00%	8.28
Total	100.00%		11.80%

VII. Operations - Other Contract Outside Services Expenses - Laboratory Testing

In Chapter 4 of Park's Revenue Requirement Report (Exhibit 2) the company included in the line item entitled "Operations-Other Expense" an amount for Contract Outside Services Expense of $42,698 for 1991 and $44,619 for 1992 representing estimated laboratory water testing costs.

During the hearing, Park introduced Exhibit 5, entitled Revised Operations-Other Contract Outside Services Expense (Laboratory Testing), in support of budgeted laboratory costs for each of the years of $62,676. This represents additional amounts of about $20,000 in 1991 and $18,000 in 1992. The original estimates included in the company's report were based on 1989 recorded data, escalated to 1991 and 1992. Park asserts that the 1989 recorded data is no longer the best indicator of laboratory costs in 1991 and 1992 because Park has engaged a new laboratory subsequent to 1989, and additional testing procedures are now required which were not required in 1989.

A major factor in Park's decision to engage this new laboratory, Ecological Systems Lab, is its ability to better serve Park with respect to the performance of bacteriological analysis. Exhibit 5 indicates that this analysis is the most significant part of Park's budgeted laboratory costs for 1991 and 1992. Moreover, the company argues, a new federal rule effective January 1, 1991 requires additional bacteriological analysis. This additional analysis will result in the doubling of the cost of bacteriological analysis.

Park's witness testified that he has surveyed other laboratories and determined that none in the immediate area is able to provide the same quality services regarding bacteriological analysis at a lower price. Several of those surveyed perform the services at significantly higher costs, some as much as three times the cost charged by Ecological Systems Lab. Cross-examination of

Park witness Gary Lynch demonstrated that all of the water tests included in Exhibit 5 are required by governmental bodies; that while certain tests might be subject to discontinuation if there is a record of excellent testing results, that option is subject to the discretion of the Department of Health Services (DHS). It is equally possible that the frequency of tests could be increased by DHS if there is a record of poor test results.

Branch's problem with Park's approach is that the company increased its laboratory costs by about 50% over those it had submitted to Branch for the first time at the hearing. Hence, Branch has been unable to verify the cost increase. Lynch testified that some of the bacteriological testing performed by Ecological Systems is in excess of the amount required by governmental regulations, and acknowledged that there are provisions for discontinuing the sampling of certain constituents.

Discussion

In the circumstances we believe it would be unfair to the ratepayers to allow these fairly substantial increases over the amounts originally requested. Park should have presented the information it relies upon to the staff in sufficient time to allow for validation of the need for the increases, certainly prior to the hearing.

VIII. Utility Plant - Projects 3 and 4

In its Revenue Requirement Report - Exhibit 2 - Park included $183,561 in 1990 utility plant additions for the cost of replacing certain 4 inch steel lines located behind homes on White Street and Cockacre Street with new 6 inch mains located in front of homes (Projects 3 and 4). Branch did not originally include the cost of these two projects in utility plant additions because at the time it prepared its report (Exhibit 7) it was not satisfied that Projects 3 and 4 had been completed.

During the hearing Park provided Branch with documentation to support its contention that the projects had, in fact, been completed. The documentation (Exhibit 24) showed that Park's actual completed cost of the project was $188,415.20, about $5,000 over the $183,561 originally included in the company's Revenue Requirement Report. Park's witness testified that this $5,000 excess was due to the company incurring somewhat higher contractual costs than originally estimated.

Branch objects to inclusion of the extra amount because it understands that this extra cost was incurred in December 1990. Thus, if placed on the company's books, it will reflect a plant investment of six months commencing July 1990, and Park will get credit for several months during which it had not made the investment.

Discussion

Exhibit 24 is a comprehensive and detailed portrayal of inventory descriptions, journal entries, and payroll expenditures showing the entire financial record of these projects. We would have no problem with including the extra amount had Branch been able to verify the prudence of the extra costs. As Branch witness Van Lier acknowledged, Park uses a half-year convention with respect to plant additions, i.e. the utility assumes that all plant additions in a given year are placed in service half way through that year. Park has traditionally used this convention for all plant additions. We will disallow this amount because, while Park has provided abundant evidence of the extra cost, that information was not presented to Branch until the hearing. Unless such extra cost were to have a significant impact upon the utility if denied, we cannot allow its inclusion in Park's utility plant for purposes of this proceeding.

IX. Rate Design

By D.86-05-064, dated May 28, 1986, in I.84-11-041 (Rulemaking) the following aspects of rate design were addressed:

a. Service charges as a percentage of fixed costs
b. Number of commodity blocks
c. Phasing out lifeline
d. Seasonal rates
e. Addressing of water conservation

Commission policy requires that service charges be set to recover up to 50% of fixed costs. Park's present service charge revenue develops about 43% of fixed costs. Its present and proposed rates are composed of a meter service charge and a single commodity block in compliance with D.86-05-064. Branch believes that Park's proposed rate structure for 12-inch metered customers should not be the same as the that for 10-inch metered customers in the company's proposed Central Basin General metered Service Tariff PR-1. Branch's recommendation is to increase rates for different meter-sized customers proportionally in accordance with California Public Utilities Commission Standard Practice No. U-25. Park does not oppose this recommendation.

Park's Central Basin Division and Uehling were granted authority to merge by D.87-09-079. However, the area formerly served by Uehling Water Company has been operated as a separate rate area of Central Basin Division in accordance with that decision. Branch concurs with Park that with the merging of Uehling and the Central Basin a single set of tariffs will accommodate the combined area as requested in this proceeding. Branch therefore recommends that the Uehling and Park's non-applicable tariffs be canceled.

X. Attrition

An attrition allowance is needed when increases in revenues and productivity to offset increases in expenses (including the effects of cost of capital) are insufficient, thereby causing a decline in the rate of return for the following year. Attrition consists of two factors - financial and operational. Financial attrition occurs when there is a change in the company's cost of capital. Operational attrition is the result of changes in operating categories, e.g. revenues, expenses, and rate base.

The operational attrition is computed as follows:

Step 1. Determine the adopted rate of return (on rate base) for the first test year.

Step 2. Determine the rate of return (on rate base) for the second test year by constructing a summary of earnings using revenues based on the first test year adopted rates and second test year number of customers, and second test year expenses and rate base.

Step 3. The attrition year increase is the product of the rate of return difference between Step 1 and Step 2, the net-to-gross multiplier, and the second test year rate base.

The operational attrition is 1.71%.

XI. Summaries of Earnings

The tables shown in the attached appendixes depict the adopted results of operations at present and proposed rates. Adopted quantities, tax calculations, and rate schedules are also shown.

We will here take notice of our Order Instituting Investigation (I.) 91-03-046, involving the transfer by Park of certain of its pumping rights to the City of Bell Gardens, and which may result in the eventual need for a recalculation of rate base and operation and maintenance expenses, with resultant rate impacts. It will be appropriate to adopt the rates found reasonable in this proceeding subject to refund, depending upon the outcome of I.90-03-046.

Comments and Reply

In accordance with Public Utilities Code § 311, the ALJ's proposed decision was mailed to the parties on March 11, 1991. Comments were filed by DRA on April 1.

DRA objects to Park's "prolonged" rebuttal testimony which had not surfaced until the hearing, and asserts that it (DRA) was not afforded the necessary time for analysis of what was said or presented by Park witnesses. DRA refers us to D.90-08-045, dated August 8, 1990, issued in the Order Instituting Rulemaking to revise the schedule for processing rate case applications by water utilities. The decision addresses updates of applicant showings, allowing such updates until the 30th day before hearing. The decision, issued in OIR 89-03-003, has no effect except in connection with applications filed January 1, 1991 and later. Furthermore, DRA did not object to the evidence presented by Park during the hearing.

DRA refers to the wording on page 29 of the proposed decision stating that a 13% ROE appears justified, and classifies the statement as conspicuous obiter dictum having no place in the decision. The full statement is: "Indeed, by most quantifiable purely financial risk measures, such as DCF analyses, Park's request for a 13% ROE appears justified. It is because of this Commission's perceived lesser business risk faced by water utilities operating within California that ROEs have been held below those authorized the energy utilities." This statement is

merely discussion, not obiter dictum. DRA concedes that the 12% ROE set forth in the proposed decision is within the range recommended by DRA.

DRA also notes, in connection with the issue of capital structure, that the proposed decision, on page 18, states that the 69% equity ratio requested by Park for 1992 is not significantly different from the 65% recommended by DRA, but does not address the difference between the 72% requested by Park for 1991 and the 65% recommended by DRA for the same year. Further, DRA states, the proposed decision acknowledges at page 17 that in the Apple Valley decision we were dealing with definite plant additions of between $2 and $3 million, which was the reason for adopting a 72% equity ratio in 1991 and a 69% equity ratio in 1992 for that specific subsidiary; but that such reasoning does not support the same treatment in the Central Basin Division, where the additions are considerably lower.

Park filed its Reply to DRA's comments on April 8. Park replies that DRA apparently did not notice the reference in the proposed decision, pages 18 and 19, to the unrefuted testimony of Park that it would not be possible for Park to achieve a 65% equity ratio in 1991. Park also observes that the total plant additions discussed in the decision at pages 17 and 18 (between $183,000 and $188,000 in 1990, and additions of $230,000 in 1991, and $404,000 in 1992) are not the total plant additions for Central Basin, but only the amounts of plant additions at issue between Park and Branch. Furthermore, Park replies, a large portion of the $2 to $3 million of plant additions per year in the Apple Valley case were not company funded, but funded by advances or contributions.

In the circumstances, there is no reason to modify the proposed decision.

Findings of Fact

1. On August 22, 1990 Park filed its application requesting rate increases for water service provided during 1991, 1992, and 1993 in its Central Basin Division.

2. The quality of Park's water service is excellent, its rates reasonable, and there are no outstanding complaints against the company relating to water taste or water pressure.

3. Adoption of an imputed capital structure for purposes of this proceeding of 28% debt and 72% common equity during 1991, and of 31% debt and 69% common equity during 1992 and 1993 will afford proper consideration to, and balance the needs of Park's ratepayers and the company's capital requirements during this three-year period.

4. Adoption of Park's actual long term debt cost of 11.30% during 1991, 11.35% in 1992 and 11.37% is reasonable and appropriate for purposes of this proceeding.

5. Allowance of a ROE of 12.0% during the three-year period covered by this proceeding will balance the needs of Park's ratepayers and its common equity holders, and give appropriate consideration to the company's unusually high equity ratio, which is about 80% at this time.

6. Park has justified its request for inclusion of costs of backbone mains during 1991 and 1992. Allowance of these costs - $458,000 in 1991 and $404,000 in 1992 - without requiring the filing of additional advice letters or applications for rate base offset, will avoid unnecessary adverse financial impacts on the utility, and will obviate the need for administrative expense and staff involvement on the part of Commission personnel.

7. The company has justified an amount of $19,000 for the cost of a new full-sized automobile in 1992. This amount is adequate to purchase a Ford Crown Victoria, which the company has determined is safer, and more fuel efficient, than the comparable Chevrolet Caprice recommended by Branch.

8. Park has utilized, in connection with the development of its payroll expense, a methodology which incorporates specific facts applicable to its circumstances, rather than the general methodology utilized by Branch. The more specific approach is appropriate in these circumstances because it is more accurate.

9. With respect to labor escalation, while the 6.3% increase granted by Park to its employees during 1991 may be proper, there was no opportunity by Branch to verify its propriety because the increase was not brought to Branch's attention until the hearing. Therefore, the 5% labor increase recommended by Branch during both 1991 and 1992 is appropriate.

10. Evidence adduced by the company demonstrates that its recommended expenses of $198,600 in 1991 and $265,200 in 1992 for medical insurance have been and will be reasonably incurred.

11. The increases of about $20,000 in 1991 and $18,000 in 1992 for laboratory expenses requested by Park were not brought to the attention of Branch until the hearing. Since Branch had no opportunity to verify the need for these increases, it would be unreasonable to allow their inclusion for purposes of this proceeding.

12. The extra costs requested by Park for Projects 3 and 4, totaling about $5,000, were not included in the company's original request, and not brought to Branch's attention until the hearing; therefore it would be unreasonable to allow the inclusion of this additional cost in rate base.

13. Park has agreed with all of Branch's recommendations except those expressly contested.

14. Park has some filed tariffs that should be canceled.

15. I.91-03-046 involves the transfer by Park of certain pumping rights to the City of Bell Gardens, which may result in the need for a recalculation of rate base and operation and maintenance expenses, with resultant rate impacts.

Conclusions of Law

1. The adopted Summaries of Earnings set forth in Appendix A of this order correctly summarize our decisions on the contested issues, as well as those not contested, and indicate the resultant revenues and expenses which would be experienced by Park at its present and authorized rates during 1991 and 1992.

2. Based upon our adopted Summaries of Earnings, Park should be authorized to increase rates for water service rendered to levels necessary to earn a return on rate base of 11.80% during 1991, 1992, and 1993.

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

4. The application should be granted to the extent provided in the following order. Because an immediate need for rate relief has been shown, the effective date of this order should be today.

5. The rates found reasonable by this decision should be authorized subject to refund, depending upon the outcome of the Commission's investigation in I.91-03-046, involving the transfer by Park of certain of its pumping rights to the City of Bell Gardens.

O R D E R

IT IS ORDERED that:

1. Park Water Company (Park) is authorized to file on or after the effective date of this order the revised rate schedules for 1991 shown in Appendix B and concurrently to cancel the following tariff Schedules No. U-1, General Metered Service; PR-4FH, Private Fire Hydrant Service; U-4, Private Fire Protection Service; and U-6, Limited Metered Resale Service. This filing shall comply with General Order (GO) 96-A. The effective date of

the revised rate schedule shall be the date of filing, but no sooner than May 15, 1991. The revised rate schedules shall apply to service rendered on and after their effective date.

2. On or after November 5, 1991 Park is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1992 shown in Appendix C, attached to this order, or to file proportionate lesser increases than those rates in Appendix C in the event that Park's Central Basin Division's return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1991, annualized, exceeds the later of (a) the rate of return found reasonable by the Commission for Apple Valley Ranchos Water Company, or Santa Paula Water Works, Ltd., or 11.80%. This filing shall comply with GO 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, 1992. The revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 5, 1992, Park is authorized to file an advice letter, with appropriate supporting workpapers, requesting the increases for 1993 shown in Appendix C, or to file lesser increases in the event that the rate of return on rate base, 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, 1992, annualized, exceeds the later of (a) the rate of return found reasonable by the Commission for Apple Valley Ranchos Water Company, or Santa Paula Water Works, Ltd., or 11.80%. This filing shall comply with GO 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, 1993. The revised schedules shall apply only to service rendered on and after their effective date.

4. Rates authorized by this decision are granted subject to refund, depending upon the outcome of the Commission's investigation in I.91-03-046.

5. The application is granted to the extent set forth in this order.

This order is effective today.

Dated May 8, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

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

NEAL J. SHULMAN, Executive Director

APPENDIX A
(Page 1)
Park Water Company
Central Basin Division
1991
SUMMARY OF EARNINGS
($000)

A.90-08-054

Items	Utility Present	Utility Proposed	Branch Present	Branch Proposed	Present Rates	Adopted Rates
Oper. Revenues	$7,839.2	$9,361.4	$8,672.8	$10,169.6	$8,672.8	$9,563.9 1/
Def. Revenues	0.0	18.9	0.0	18.9	0.0	18.9
Total Revenues	7,839.2	9,380.3	8,672.8	10,188.4	8,672.8	9,582.8
Expenses						
O & M Expenses	4,528.3	4,528.3	5,021.2	5,021.2	5,077.8	5,077.8
Uncollectibles	40.6	48.6	44.9	52.7	44.9	49.6
Subtotal O & M	4,568.9	4,576.8	5,066.1	5,073.9	5,122.7	5,127.4
A & G Expenses	1,372.2	1,372.2	1,277.1	1,277.1	1,294.4	1,294.4
Franchise	20.1	24.0	22.2	26.0	22.2	24.5
G.O. Expense	790.6	790.6	790.6	790.6	790.6	790.6
Subtotal A & G	2,182.9	2,186.8	2,089.9	2,093.8	2,107.2	2,109.5
Ad Valorem Taxes	125.2	125.2	124.2	124.2	125.2	125.2
Payroll Taxes	124.2	124.2	120.7	120.7	125.3	125.3
Depreciation C.B.	367.1	367.1	362.6	362.6	367.1	367.1
Depreciation M.O.	77.0	77.0	77.0	77.0	77.0	77.0
Balancing Account	0.0	145.3	0.0	0.0	0.0	0.0
Ca. Income Tax	(1.0)	127.7	36.3	174.4	34.0	118.0
Federal Income Taxes	29.2	501.4	151.6	658.3	145.1	453.7
Total Expenses	7,473.3	8,231.4	8,028.5	8,684.9	873.7	1,266.3
Net Revenues	365.9	1,148.9	644.3	1,503.5	569.2	1,079.5
Rate Base	9,176.1	9,176.1	8,827.4	8,827.4	9,148.2	9,148.2
Rate of Return	3.99%	12.52%	7.30%	17.03%	6.22%	11.80%

(Negative)

1/ At 1991 authorized rates with 1991 adopted number of customers

APPENDIX A
(Page 2)
Park Water Company Company
Central Basin Division
1992
SUMMARY OF EARNINGS
($000)

A.90-08-054

Items	Utility Present	Utility Proposed	Branch Present	Branch Proposed	Adopted at 1991 Rates	Adopted at 1992 Rates
Oper. Revenues	$9,422.2	$9,625.6	$10,181.7	$10,390.4	$9,575.9 1/	$9,862.9
Def. Revenues	18.9	20.6	18.9	20.6	18.9	20.6
Total Revenues	9,441.1	9,646.2	10,200.6	10,411.0	9,594.8	9,883.5
Expenses						
O & M Expenses	4,728.24	4,728.2	5,098.4	5,098.4	5,167.4	5,167.4
Uncollectibles	48.9	50.0	52.7	53.8	49.7	51.2
Subtotal O & M	4,777.1	4,778.2	5,151.1	5,152.2	5,217.1	5,218.6
A & G Expenses	1,511.4	1,511.4	1,384.4	1,384.4	1,430.4	1,430.4
Franchise	24.2	24.7	26.1	26.6	24.6	25.3
G.O. Expense	826.2	826.2	823.3	823.3	822.9	822.9
Subtotal A & G	2,361.8	2,362.3	2,233.7	2,234.3	2,277.9	2,278.6
Ad Valorem Taxes	150.2	150.2	146.0	146.0	149.1	149.1
Payroll Taxes	131.3	131.3	125.6	125.6	132.5	132.5
Depreciation C.B.	392.3	392.3	382.9	382.9	392.2	392.2
Depreciation M.O.	80.4	80.4	79.2	79.2	79.2	79.2
Ca. Income Tax	103.7	122.7	152.5	171.8	87.4	114.0
Federal Income Taxes	372.2	441.7	527.0	597.7	310.0	408.9
Total Expenses	8,369.0	8,459.0	8,798.1	8,889.6	1,150.4	1,275.9
Net Revenues	1,072.0	1,187.2	1,402.5	1,521.4	949.4	1,110.4
Rate Base	9,504.7	9,504.7	8,861.0	8,861.0	9,409.8	9,409.8
Rate of Return	11.28%	12.49%	15.83%	17.17%	10.09%	11.80%

1/ At 1991 authorized rates with 1992 adopted number of customers

APPENDIX A
(Page 3)
Park Water Company
Central Basin Division
1991
INCOME TAX
($000)

Items	Utility Present	Utility Proposed	Branch Present	Branch Proposed	Present Rates	Adopted Rates
Total Revenues	$7,839.2	$9,380.3	$8,672.8	$10,169.6	$8,672.8	$9,582.8
Expenses						
Operations & Maint.	4,568.9	4,576.8	5,066.1	5,073.9	5,122.7	5,127.4
Admin. & General	2,182.8	2,186.8	2,089.9	2,093.8	2,107.2	2,109.5
Taxes O/T Income	249.4	249.4	244.9	249.9	250.5	250.5
Subtotal	7,001.1	7,013.0	7,401.0	7,412.6	7,480.4	7,487.4
Deductions						
CA Tax Depreciation	577.7	577.7	532.0	532.0	541.0	541.0
Interest	271.5	271.5	349.6	349.6	285.3	285.3
CA Taxable Income	(11.0)	1,372.8	390.3	1,875.5	366.1	1,269.0
CCFT @ 9.3%	(1.0)	127.7	36.3	174.4	34.0	118.0
Deductions						
Fed. Tax Depreciation	459.3	459.3	418.8	418.8	423.5	423.5
Interest	271.5	271.5	349.6	349.6	285.3	285.3
FIT Taxable Income	108.4	1,492.3	467.2	1,952.4	449.6	1,352.5
FIT (Before Adjustment) @ 34%	37.0	509.2	159.4	666.2	152.9	461.5
Prorated Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Investment Tax Credit	(7.8)	(7.8)	(7.8)	(7.8)	(7.8)	(7.8)
Net Federal Income Tax	29.2	501.4	151.6	658.3	145.1	453.7

(Negative)

A.90-08-054

APPENDIX A
(Page 4)
Park Water Company
Central Basin Division
1992
INCOME TAX
($000)

Items	Utility Present 3/	Utility Proposed	Branch Present 3/	Branch Proposed	Adopted at 1991 Rates	Adopted at 1992 Rates
Total Revenues	$9,441.1	$9,646.2	$10,181.7	$10,390.4	$9,594.8	$9,883.5
Expenses						
Operations & Maint.	4,777.1	4,778.2	5,151.1	5,152.2	5,217.1	5,218.6
Admin. & General	2,361.8	2,362.3	2,233.7	2,234.3	2,277.9	2,278.6
Taxes O/T Income	281.5	281.5	271.7	271.7	281.6	281.6
Subtotal	7,420.4	7,422.0	7,656.5	7,658.1	7,776.6	7,778.8
Deductions						
CA Tax Depreciation	593.9	593.9	533.5	533.5	552.0	552.0
Interest	311.4	311.4	351.8	351.8	326.5	326.5
CA Taxable Income	1,115.3	1,318.9	1,639.9	1,847.0	939.7	1,226.2
CCFT @ 9.3%	103.7	122.7	152.5	171.8	87.4	114.0
Deductions						
Fed. Tax Depreciation	467.8	467.8	431.5	431.5	438.9	438.9
Interest	311.4	311.4	351.8	351.8	326.5	326.5
FIT Taxable Income	1,113.8	1,317.3	1,567.5	1,774.4	934.8 1/	1,221.3 2/
FIT (Before Adjustment) @ 34%	380.0	449.5	534.8	605.5	317.8	416.7
Prorated Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Investment Tax Credit	(7.8)	(7.8)	(7.8)	(7.8)	(7.8)	(7.8)
Net Federal Income Tax	372.2	441.7	527.0 (Negative)	597.7	310.0	408.9

1/ $9,594.8 - 7,776.6 - 438.9 - 326.5 - 118.0 = $934.8 (FIT Taxable Income)
2/ $9,883.5 - 7,778.8 - 438.9 - 326.5 - 118.0 = $1,221.3 (FIT Taxable Income)
3/ @ 1991 Proposed Rates with 1992 customers

A.90-08-054

APPENDIX A
(Page 5)
Park Water Company
Central Basin Division
1991
RATE BASE
($000)

Items	Utility	Branch	Adopted
Utility Plant-in-Service	$18,785.1	$18,573.3	$18,780.1
CWIP	62.0	62.0	62.0
Total Utility Plant	18,847.1	18,635.3	18,842.1
Add:			
Working Capital			
Materials and Supplies	46.2	46.2	46.2
Working Cash	585.5	440.8	562.1
Total Working Capital	631.8	487.0	608.3
M.O. Allocation	489.6	489.6	489.6
Method 5 Adjustment	106.2	106.2	106.2
Less:			
Adjustments			
Customer Adv. for Contr.	775.8	775.8	775.8
Contribution	2,766.2	2,766.2	2,766.2
Deferred Fed. Tax Res.	650.5	647.4	650.5
Unamoratized ITC	217.5	217.5	217.5
Total Adjustments	4,410.0	4406.9	4,409.9
Less:			
Depreciation Reserve	6,488.4	6,483.9	6,488.1
Avg. Depreciated Rate Base	9,176.1	8,827.4	9,148.2

A.90-08-054

APPENDIX A
(Page 6)
Park Water Company
Central Basin Division
1992
RATE BASE
($000)

Items	Utility	Branch	Adopted
Utility Plant-in-Service	$19,705.2	$19,256.7	$19,688.7
CWIP	0.0	0.0	0.0
Total Utility Plant	19,705.2	19,256.7	19,688.7
Add:			
Working Capital			
Materials and Supplies	46.2	46.2	46.2
Working Cash	658.1	448.6	584.5
Total Working Capital	704.3	494.9	630.7
M. O. Allocation	445.0	437.9	437.9
Method 5 Adjustment	121.5	121.5	121.5
Less:			
Adjustments			
Customer Adv. for Contr.	790.1	790.1	790.1
Contribution	2,755.2	2,755.2	2,755.2
Deferred Fed. Tax Res.	744.4	735.5	743.5
Unauthorized ITC	210.2	210.2	210.2
Total Adjustments	4,499.9	4,491.0	4,499.0
Less:			
Depreciation Reserve	6,971.6	6,959.0	6,970.1
Avg. Depreciated Rate Base	9,504.7	8,861.0	9,409.8

(End of Appendix A)

A.90-08-054

A.20-08-024

APPENDIX B
(Page 1)

Park Water Company
Central Basin Division

Schedule No. PR-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to general metered water service.

TERRITORY

Within all service areas in Los Angeles County as delineated on the service area maps included in the tariff schedules. (D)

RATES

(D)
(D)

Quantity Rate:

For all water delivered, per 100 cu.ft. .... $ 1.003 (I)

Service Charge:

	Per Meter Per Month	
For 5/8 x 3/4-inch meter	$ 7.20	(I)
For 3/4-inch meter	10.80	|
For 1-inch meter	18.00	|
For 1-1/2-inch meter	36.00	|
For 2-inch meter	57.60	|
For 3-inch meter	108.00	|
For 4-inch meter	180.00	|
For 6-inch meter	360.00	|
For 8-inch meter	576.00	|
For 10-inch meter	828.00	(I)
For 12-inch meter	1,188.00	(N)

(N)
(N)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the charge for water use computed at Quantity Rates.

SPECIAL CONDITIONS

1. The above rates shall be increased by $0.023 per 100 cu.ft. for a period of 12 months from the effective date of this schedule to amortize an undercollection in the balancing account. (N)

2. All charges under this schedule to customers in the City of Norwalk are subject to surcharge of 2.04 percent.

3. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (T)

APPENDIX B
(Page 2)

Park Water Company

Schedule No. U-1

GENERAL METERED SERVICE

This schedule is cancelled.

APPENDIX B
(Page 3)

Park Water Company
Central Basin Division

Schedule No. PR-2L

LIMITED FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential and commercial water service.

TERRITORY

Portions of Norwalk, Los Angeles County.

RATES

	Per Service Connection Per Month	
For a single-family residential unit, or a commercial unit	$19.25	(I)

SPECIAL CONDITIONS

1. The above rates shall be increased by $0.36 per month for a period of twelve months from the effective date of this schedule to amortize an undercollection in the balancing account. (N)

2. The above flat rates apply to service connections not larger than one (1) inch in diameter.

3. All service not covered by the above classification shall be furnished only on a metered basis.

4. If either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. PR-1, General Metered Service.

5. All charges under this schedule to customers in the city of Norwalk subject to surcharge of 2.04%.

6. Service will be provided under this schedule only to those premises receiving flat rate service as of April 1, 1971.

7. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (T)

APPENDIX B
(Page 4)

Park Water Company
Central Basin Division

Schedule No. PR-4FH

PRIVATE FIRE HYDRANT SERVICE

This schedule is cancelled.

APPENDIX B
(Page 5)

Park Water Company
Central Basin Division

Schedule No. PR-4F

NON-METERED FIRE SERVICE

APPLICABILITY

Applicable only for water service to privately owned non-metered fire sprinkler systems and hydrants where water is to be used only in case of fire. (T)

TERRITORY

Within all service areas in Los Angeles County as delineated on the service area maps included in the tariff schedules.

RATES

Size of Service	Per Service Per Month	
2-inch	$ 6.10	(I)
3-inch	8.05	|
4-inch	12.05	|
6-inch	17.75	|
8-inch	26.20	|
10-inch	38.60	|
12-inch	56.10	(I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility at the cost paid by the applicant. Such payment shall not be subject to refund.

2. The minimum diameter for fire protection service shall be two (2) inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

(Continued)

Park Water Company
Central Basin Division

NON-METERED FIRE SERVICE

SPECIAL CONDITIONS (Continued)

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water, and the cost paid by the applicant. Such payment shall not be subject to refund.

5. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

6. Any unauthorized use of water, other than for fire extinguishing purposes, shall be charged for at the regular established rate as set forth under Schedule No. PR-1, and/or may be the ground for the immediate disconnection of the fire service without liability to the company.

7. The utility reserves the right to limit the installation of private fire hydrant service to such areas where public fire hydrant does not exist or where public fire hydrant service is limited in scope to the detriment of the applicant.

8. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (T)

APPENDIX B
(Page 8)

Park Water Company

Schedule No. U-6

LIMITED METERED RESALE SERVICE

This schedule is cancelled.

APPENDIX B
(Page 7)

Park Water Company

Schedule No. U-4

PRIVATE FIRE PROTECTION SERVICE

This schedule is cancelled.

Park Water Company
Central Basin Division

Schedule No. PR-9CM
CONSTRUCTION AND OTHER TEMPORARY METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished for construction and other temporary purposes.

TERRITORY

Within all service areas in Los Angeles County as delineated on the maps included in the tariff schedules.

RATES

Monthly quantity rates and service charge listed in Schedule No. PR-1, General Metered Service will apply to service furnished under this schedule. (T)

SPECIAL CONDITIONS

1. Where it is necessary to install or relocate a meter to furnish service under this schedule, and such meter may be connected to the utility's existing facilities, the following charges will apply:

   a. For installation and removal of the meter $25.00
   b. For each relocation of the meter within the same local area as the original installation .. $12.50

2. Where no suitable outlet exists at the point where service is desired, the necessary facilities will be installed under the provisions of Rule No. 13, Temporary Service.

3. In case a meter is installed or used under conditions which are considered by the utility to subject the meter to unusual hazards, the applicant will be required to deposit with the utility the amount, shown in the table below, which corresponds to the size and type of meter installed:

	Amount of Deposit	
5/8 x 3/4 or 3/4-inch	$ 30.00	
1-inch disc	60.00	
1-1/2 inch	125.00	
2-inch disc of torrent	200.00	
2-1/2 inch Sparling Fire Hydrant	250.00	
3-inch disc or torrent	500.00	(I) (D)

The deposit less the cost of any repairs other than those due to normal depreciation, will be returned to the customer upon completion of the service for which the meter was installed.

(End of Appendix B)

APPENDIX C

Park Water Company
Central Basin Division

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.

	Effective Dates 1-1-92	1-1-93
Schedule No. PR-1, General Metered Service		
Quantity Rate:		
For all water delivered, per 100 cu.ft. ..	$0.031	$0.032
Service Charge:	Per Meter Per Month	
For 5/8 x 3/4-inch meter	$ 0.20	$ 0.20
For 3/4-inch meter	0.30	0.30
For 1-inch meter	0.50	0.50
For 1-1/2-inch meter	1.00	1.00
For 2-inch meter	1.90	1.00
For 3-inch meter	3.00	3.00
For 4-inch meter	5.00	5.00
For 6-inch meter	10.00	10.00
For 8-inch meter	16.00	16.00
For 10-inch meter	23.00	23.00
For 12-inch meter	33.00	33.00
Schedule No. PR-2L, Limited Flat Rate Service	Per Service Connection Per Month	
For a single-family residential unit, or a commercial unit	$ 0.60	$ 0.60
Schedule No. PR-4F, Non-Metered Fire Service	Per Service Per Month	
Size of Service:		
2-inch	$ 0.20	$ 0.20
3-inch	0.25	0.25
4-inch	0.35	0.35
6-inch	0.55	0.55
8-inch	0.80	0.80
10-inch	1.15	1.20
12-inch	1.70	1.75

(End of Appendix C)

APPENDIX D
(Page 1)

Park Water Company
Central Basin Division

ADOPTED QUANTITIES

Ad Valorem Taxes	1991	1992
Assessed Value (000)	$11,923.8	$14,200.0
Effective Tax Rate	0.0105	0.0105
Ad Valorem Taxes (000)	$125.2	$149.1

Purchased Power Costs

So. Cal. Edison (SCE)

kWh Used		
PA-1, Wells	485,376	485,376
PA-2, Wells	389,165	389,165
GS-TP, Wells	77,944	77,944
GS-TP, Boosters	145,600	145,600
	1,098,085	1,098,085
kWh per AF		
PA-1, Wells	565	565
PA-2, Wells	430	430
GS-TP, Wells	519	519
SCE Cost		
PA-1, Wells	$ 43,797	$ 43,797
PA-2, Wells	39,812	39,812
GS-TP, Wells	10,865	10,865
GS-TP, Boosters	17,027	17,027
Total	$111,501	$111,501

SCE Rates Effective: 2-1-90

Components	PA-1	PA-2 1st Rate	PA-2 2nd Rate	GS-TP
Base Rate	$0.04673	$0.03666	$0.03666	$0.05762
ECABF	0.03678	0.05347	0.01019	0.04993
Energy Rate	0.00381	0.00381	0.00381	0.00381
CLMABF	0.00000	0.00000	0.00000	0.00000
Energy Commission	0.00020	0.00020	0.00020	0.00020
ERABF	(0.00178)	(0.00178)	(0.00178)	(0.00178)
MAABF	0.00112	0.00112	0.00112	0.00112
Total Energy Charge	0.08686	0.09348	0.05020	0.11090

(Continued)

APPENDIX D
(Page 2)

Park Water Company
Central Basin Division

ADOPTED QUANTITIES

	1991	1992
So. Cal. Gas (SCG)		
THERM Used		
GN-10, Boosters	4,500	4,500
SCG Cost		
GN-10, Boosters	$ 2,937	$ 2,937
SCG Rates Effective: 1-15-90		
Total Purchased Power Costs	$114,438	$114,438
Total Water Supplies (Acre feet)		
Purchased Water		
Central Basin MWD	11,076.7	11,095.7
Minimum Violation	80.0	80.0
Total Central Basin	11,156.7	11,175.7
City of Bellflower	2,570.0	2,570.0
Total Purchased Water	13,726.7	13,745.7
Pumped Water	1,915.3	1,915.3
Total Water Supply	15,642.0	15,661.0
Purchased Water Costs		
Central Basin MWD @ $235/A.F.	$2,603,025	$2,607,490
Minimum Violation	18,800	18,800
Total Central Basin	2,621,825	2,626,290
City of Bellflower @ $262/A.F.	673,340	673,340
Total Purchased Water Costs	$3,295,165	$3,299,630
Replenishment Tax		
Replenishment Rate @ $54/A.F.	$ 103,426	$ 103,426
Water Sales (KCCF)		
Total Water Supply	6,813.8	6,821.9
Conservation (5%)	(340.7)	(341.1)
Unaccounted Water (5%)	340.7	341.1
Total Water Sales	6,813.8	6,821.9

(Continued)

APPENDIX D
(Page 3)

Park Water Company
Central Basin Division

ADOPTED QUANTITIES

	1991	1992
Water Monitoring Cost	$42,698	$44,619
Chemicals	$10,000	$10,000

(Continued)

APPENDIX D
(Page 4)

Park Water Company
Central Basin Division

ADOPTED QUANTITIES

Number of Metered Services	1991	1992
Meter Size:		
5/8 x 3/4	26,267	26,300
3/4	116	116
1	734	734
1-1/2	277	278
2	302	303
3	76	76
4	27	27
6	18	18
8	2	2
Total	27,819	27,854

Number of Service
Central Basin

	No. of Service 1991	No. of Service 1992	Usage-KCcf 1991	Usage-KCcf 1992	Avg. Use Ccf/Yr 1991 or 1992
Resi.(Flat)	18	18	3.0	3.3	
Commercial	26,143	26,178	5,798.5	5,806.3	221.8
Industrial	19	19	67.8	67.8	3,566.0
Public Auth.	182	182	484.8	484.8	2,664.0
Temporary	21	21	20.6	20.6	982.8
Resale	1	1	2.7	2.7	2,657.0
Sub Total	26,384	26,419	6,377.4	6,385.5	
Pub.Fire	11	11			
Private Fire	115	115			
Total	26,510	26,545			
Water Conservation	5.0%		(318.9)	(319.3)	
Water Loss	5.0%		318.9	319.3	
Total Water Supply			6,377.4	6,385.5	

Number of Service
Uehling

	No. of Service 1991	No. of Service 1992	Usage-KCcf 1991	Usage-KCcf 1992	Avg. Use Ccf/Yr 1991 or 1992
Commercial	1,441	1,441	390.8	390.8	271.2
Public Auth.	11	11	12.9	12.9	1,176.0
Resale	1	1	32.7	32.7	32,733.0
Sub Total	1,453	1,453	436.4	436.4	
Private Fire	2	2			
Total	1,455	1,455			
Water Conservation	5.0%		(21.8)	(21.8)	
Water Loss	5.0%		21.8	21.8	
Total Water Supply			436.4	436.4	

(End of Appendix D)

(End of Appendix D)

APPENDIX E

Park Water Company
Central Basin Division

AT PRESENT AND ADOPTED RATES

Schedule No. PR-1

GENERAL METERED SERVICE
(For a 5/8 x 3/4-Inch Meter)

Monthly Usage Ccf	Present Rates	Adopted Rates	Amount Increase	Percent Increase
		1991		
0	$ 6.80	$ 7.20	$ 0.40	5.88
5	11.55	12.22	0.67	5.80
10	16.30	17.23	0.93	5.71
18.5 Avg.	24.38	25.76	1.38	5.66
20	25.80	27.26	1.46	5.66
30	35.30	37.29	1.99	5.64
50	54.30	57.35	3.05	5.62
100	101.80	107.50	5.70	5.60
		1992		
0	7.20	7.40	0.20	2.78
5	12.22	12.57	0.35	2.86
10	17.23	17.74	0.51	2.96
18.5 Avg.	25.76	26.53	0.77	2.99
20	27.26	28.08	0.82	3.01
30	37.29	38.42	1.13	3.03
50	57.35	59.10	1.75	3.05
100	107.50	110.80	3.30	3.07
		1993		
0	7.40	7.60	0.20	2.70
5	12.57	12.93	0.36	2.86
10	17.74	18.26	0.52	2.93
18.5 Avg.	26.53	27.32	0.79	2.98
20	28.08	28.92	0.84	2.99
30	38.42	39.58	1.16	3.02
50	59.10	60.90	1.80	3.05
100	110.80	114.20	3.40	3.07

(End of Appendix E)