

NOV 22 1991

Decision 91-11-069 November 20, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application )  
of CALIFORNIA-AMERICAN WATER )  
COMPANY (U 210-W) for an order )  
authorizing it to increase in its )  
rates for water service in its )  
MONTEREY PENINSULA, DUARTE, )  
SAN MARINO AND BALDWIN HILLS )  
DISTRICTS. )

Application 91-03-011  
Application 91-03-015  
Application 91-03-016  
Application 91-03-017  
(Filed March 7, 1991)

Steeffel, Levitt & Weiss, by Lenard G. Weiss, Attorney at Law, for California-American Water Company, applicant.  
Levy, Samrick & Bernard, Inc., by William G. Fleckles, Attorney at Law, for Pebble Beach Community Services District, interested party.  
Izetta Jackson and Alberto Guerrero, Attorneys at Law, and Sazedur Rahman, for Commission Advisory and Compliance Division; C.B. Brooker, for Division of Ratepayer Advocates.

I N D E X

<u>Subject</u>	<u>Page</u>
OPINION .....	2
1. Background and Summary of Decision .....	2
2. Settlement Agreements .....	6
3. Baldwin Hills District .....	15
3.1 Discussion .....	16
4. The Los Angeles Basinwide Technical Plan .....	18
5. Rates of Return .....	19
5.1 Cal-Am's Request .....	20
5.2 DRA's Recommendations .....	21
5.3 Comparable Group of Water Utilities .....	21
5.4 Discounted Cash Flow Analysis .....	24
5.4.1 Discussion .....	25
5.5 Risk Premium Analysis .....	26
5.6 Capital Asset Pricing Model .....	27
6. Motion for Sanctions .....	28
Findings of Fact .....	30
Conclusions of Law .....	33
ORDER .....	34
Appendices A-1 thru A-4	
Appendices B-1 thru B-4	
Appendices C-1 thru C-4	
Appendices D-1 thru D-4	

OPINION

1. Background and Summary of Decision

California American Water Company (Cal-Am) requests rate increases in its Monterey (A.91-03-011), Duarte (A.91-03-015), Baldwin Hills (A.91-03-016), and San Marino (A.91-03-017) districts as follows:

<u>District</u>	<u>1992</u>		<u>1993</u>		<u>1994</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Monterey	\$4,208,000	30.31	811,400	2.66	-	-
Duarte	839,800	27.74	95,800	2.41	87,200	2.20
Baldwin Hills	164,100	6.06	88,000	3.06	83,200	2.81
San Marino	414,200	7.13	130,800	2.08	127,600	2.00

In the four districts above, Cal-Am requests a rate of return of 11.69% for 1992 and 11.67% for 1993 with a constant return on equity of 13.50%.

The Division of Ratepayer Advocates (DRA) (whose witnesses testified regarding cost of capital) recommends a rate of return of 10.79% for 1992, 1993, and 1994 with a constant return on equity of 12.00%.

While investigating Cal-Am's application and prior to the formal hearings, the Commission Advisory and Compliance Division-Water Branch (CACD) (whose witnesses testified regarding results of operations) conducted informal hearings in three districts: San Marino on April 30, Duarte on May 1, and Baldwin Hills on May 2, 1991. Numerous customers appeared in each district to complain about the proposed rate increase. The Commission has also received numerous letters from customers in each district protesting the rate increase.

These applications were consolidated for formal hearings. Prior to evidentiary hearings, Cal-Am and CACD entered into settlement agreements. The Pebble Beach Community Service District filed a joinder to the stipulations for settlement and expressly declined to file comments under Article 13.5 of the Commission's Rules of Practice and Procedure, our settlement rules. There are no other parties in the proceeding. (Exh. 22 and 32.) However, no agreement was reached between the parties on the proposed construction of the Hall Well in the San Marino District or the requested rates of return. These are the only disputed issues in this proceeding.

On May 21 and July 15, 1991, Public Participation Hearings were held in Monterey and Los Angeles, respectively. Customers from the Monterey District appeared to oppose the application for their district. Customers from the Baldwin Hills District appeared to complain about water pressure. A representative of the Los Angeles Chapter of the Sierra Club appeared to question the feasibility of the proposed new well construction in the San Marino District.

On July 8-11 and 15-17, 1991, evidentiary hearings were held in San Francisco and Los Angeles, respectively. Cal-Am and DRA witnesses presented rate of return recommendations for the test years. After cross-examination of one Cal-Am witness, who addressed the proposed Hall Well in the San Marino district, CACD learned that although Cal-Am based the need for the new well on systemwide supply and demand data, the pipeline connecting the upper and lower system was disconnected in 1990. In addition, CACD discovered that it had received an outdated version of one study supporting the need for the well. Based on these disclosures, CACD moved to strike the request to construct Hall Well from the application and to prohibit Cal-Am from renewing this request until its scheduled general rate case filing in 1995. Cal-Am requested a one-to-three month continuance to prepare revised exhibits and

provide correct supporting data to CACD. The evidentiary hearing was abruptly ended after the ALJ took the motion to strike under submission.

On August 27, 1991, Cal-Am and CACD/DRA filed concurrent closing briefs addressing rate of return.

On September 18, 1991 the assigned administrative law judge (ALJ) granted CACD's motion to strike and ruled that Cal-Am should be allowed to file an application for Hall Well prior to 1995. In the same ruling, Pebble Beach Community Services District's (District) request to intervene in the Monterey application was denied because it would unduly broaden the issues and unduly delay a final order in the proceeding. District requested approximately a 30% additional rate increase with no adequate notice to the public, without specifically quantifying the amount of the increase, and without the sponsorship of Cal-Am. District failed to file the pleading requested by the assigned ALJ to address these issues.

On October 7, 1991, CACD filed a motion for modification of the ALJ ruling to clarify that CACD's motion was to strike from the application Cal-Am's request to include Hall Well in rate base, not to strike all evidence on the issue. We herein make this clarification and affirm the ruling that Cal-Am should be allowed to file a separate application prior to 1995.

On the same day, October 7, 1991, the Proposed Decision of ALJ Bennett was filed. Cal-Am and CACD duly filed comments and replies. We make only those technical corrections recommended by the parties in their comments. We do not agree with CACD's argument that the principle of interim relief is applicable to the decision that Cal-Am may file an application to include Hall Well in rate base prior to the next scheduled general rate case for the San Marino District. By allowing Cal-Am to re-apply for authority to include Hall Well in rate base, we are modifying Cal-Am's rate

case plan pursuant to D.90-08-045. We are not in any way granting or promising to grant the rate relief requested.

Two days after the Proposed Decision was filed, CACD filed a motion for sanctions against Cal-Am for violation of Rule 1, Ethical Conduct, based upon its alleged willful misrepresentation of facts during the proceeding. We herein deny this motion. However, we conclude that any duplication of expense to prepare a new application to include Hall Well in rate base should not be charged to the ratepayer. We require that Cal-Am provide an itemized accounting of any additional expenses to pursue a new application involving this issue.

In summary, we find that the settlement agreements and DRA's recommended rates of return are reasonable and authorize the following increases or decreases at adopted rates:

District	1992		1993		1994	
	Amount	Percent	Amount	Percent	Amount	Percent
Monterey	\$2,413,500	16.17	1,147,900	6.62	-	-
Duarte	711,200	21.00	51,400	1.25	74,000	1.78
Baldwin Hills	92,700	3.17	69,200	2.29	69,500	2.25
San Marino	(132.4)	(2.01)	99,300	1.54	75,300	1.15

We conclude that Cal-Am's overall service quality is satisfactory. However, we order that priority be given to certain subdivisions in the Baldwin Hills district in making annual main improvements scheduled under the five-year improvement program to expedite better fire flow and water pressure. We order periodic water pressure and fire flow testing and reports to be filed in each annual advice letter authorized in these proceedings. We order Cal-Am to file a supplemental main improvement plan with its 1993 advice letter evaluating the impact of expediting the scheduled five-year main and hydrant improvements and including an

upgrade of fire hydrants in specific areas with inadequate fire flow.

## 2. Settlement Agreements

Cal-Am and CACD submitted two settlement agreements covering issues resolved in the four applications. (Exh. 22 and 32.) The Pebble Beach Community Services District submitted a joinder to these agreements. Exhibit 22 addresses the Monterey District and Exhibit 32 addresses the other three districts. These settlement agreements itemize the company request, CACD calculations, and the stipulated amount for each category of expense, revenue, and rate base in each district. The overall impact of these agreements is to reduce the request in each district as shown on the table above.

Because the settlement agreements reflect applicant's adoption of existing Commission ratemaking policy in many instances, contain applicants' agreement to provide additional documentation to support its request, and result in reasonable expense, revenue, and rate base for the test periods, we find them reasonable. We adopt the following summary of earnings for each district in the test years:

Table 1-1  
California-American Water Company  
Monterey District  
Adopted Summary of Earnings  
(Dollars in Thousands)  
1992

At Present Rates	Cal-Am	Staff	Adopted at Present Rates	Adopted at Auth. Rates
-----	-----	-----	-----	-----
Operating revenues	\$13,909.4	\$14,993.5	\$14,925.8	\$17,339.3
Operating expenses				
Purchased water	0.0	0.0	0.0	0.0
Purchased power	1,308.9	1,225.7	1,268.0	1,268.0
Pumping	235.6	225.3	225.3	225.3
Payroll	2,990.1	2,877.5	2,951.2	2,951.2
Purchased chemicals	174.2	174.2	174.2	174.2
Other O & M	1,367.6	1,245.5	1,283.3	1,283.3
Other A & G	1635.2	1521.8	1521.8	1521.8
G.O. prorations	1038.0	974.3	1021.6	1,021.6
Business license	0.0	0.0	0.0	0.0
Taxes other than inc.	720.4	676.4	714.9	714.9
Depreciation	2,007.2	1,921.7	1,985.8	1,985.8
	-----	-----	-----	-----
Subtotal	11,477.2	10,842.4	11,146.1	11,146.1
Uncollectibles	34.4	37.5	37.2	43.3
Franchise tax	41.6	44.9	44.7	52.0
State income tax	(6.2)	209.8	154.9	378.1
Federal income tax	(53.4)	662.9	481.0	1,297.0
Total oper. expenses	11,493.6	11,797.5	11,863.9	12,916.6
Net oper. revenues	2,415.8	3,196.0	3,061.9	4,422.7
Rate Base	42,240.2	37,997.9	40,982.8	40,982.8
Rate of Return	5.72%	8.41%	7.47%	10.79%



Table 1-2  
California-American Water Company  
Monterey District  
Adopted Summary of Earnings  
(Dollars in Thousands)  
1993

At Present Rates	Cal-Am	Staff	Adopted at Present Rates	Adopted at Auth. Rates
-----	-----	-----	-----	-----
Operating revenues	\$14,894.4	\$15,805.6	\$15,631.1	\$18,487.2
Operating expenses				
Purchased water	0.0	0.0	0.0	0.0
Purchased power	1,418.8	1,282.9	1,311.5	1,311.5
Pumping	247.4	235.3	235.3	235.3
Payroll	3,139.6	3,006.1	3,083.1	3,083.1
Purchased chemicals	188.2	188.2	188.2	188.2
Other O & M	1,456.1	1,301.3	1,349.5	1,349.5
Other A & G	1,737.4	1,599.9	1,599.9	1,599.9
G.O. prorations	1,087.8	1,008.2	1,059.2	1,059.2
Business license	0.0	0.0	0.0	0.0
Taxes other than inc.	795.3	690.2	756.7	756.7
Depreciation	2,223.7	1,982.6	2,153.5	2,153.5
Subtotal	12,294.3	11,294.7	11,736.9	11,736.9
Uncollectibles	36.7	39.4	39.0	46.2
Franchise tax	44.6	47.2	46.8	55.5
State income tax	(18.3)	243.9	150.7	414.9
Federal income tax	(96.6)	784.5	462.5	1,352.3
Total oper. expenses	12,260.7	12,409.7	12,435.9	13,605.8
Net oper. revenues	2,633.7	3,395.9	3,195.2	4,881.4
Rate Base	48,267.5	39,190.3	45,237.2	45,237.2
Rate of Return	5.46%	8.67%	7.06%	10.79%

Table 2-1  
California-American Water Company  
Duarte District  
Adopted Summary of Earnings  
(Dollars in Thousands)  
1992

At Present Rates	Cal-Am	Staff	Adopted at Present Rates	Adopted at Auth. Rates
-----	-----	-----	-----	-----
Operating revenues	\$3,044.6	\$3,074.0	\$3,387.1	\$4,098.3
Operating expenses				
Purchased water	412.9	424.6	676.5	676.5
Purchased power	543.2	549.2	548.3	548.3
Pumping	39.7	38.3	38.3	38.3
Payroll	543.3	543.0	543.0	543.0
Purchased chemicals	3.3	3.3	3.3	3.3
Other O & M	263.4	251.8	255.6	255.6
Other A & G	254.2	247.2	247.2	247.2
G.O. prorations	225.3	204.8	222.0	222.0
Business license	1.1	1.1	1.1	1.1
Taxes other than inc.	123.3	114.8	122.5	122.5
Depreciation	364.7	362.2	360.5	360.5
	-----	-----	-----	-----
Subtotal	2,774.4	2,740.3	3,018.3	3,018.3
Uncollectibles	11.8	12.0	13.2	16.0
Franchise tax	0.0	0.0	0.0	0.0
State income tax	(6.2)	6.9	8.7	74.6
Federal income tax	(23.4)	20.4	26.2	267.1
Total oper. expenses	2,756.6	2,779.6	3,066.4	3,375.9
Net oper. revenues	288.0	294.4	320.7	722.4
Rate Base	6,762.9	6,493.5	6,694.2	6,694.2
Rate of Return	4.26%	4.53%	4.79%	10.79%

Table 2-2  
California-American Water Company  
Duarte District  
Adopted Summary of Earnings  
(Dollars in Thousands)  
1993

At Present Rates	Cal-Am	Staff	Adopted at Present Rates	Adopted at Auth. Rates
-----	-----	-----	-----	-----
Operating revenues	\$3,051.1	\$3,090.6	\$3,404.3	\$4,149.7
Operating expenses				
Purchased water	415.4	431.0	684.5	684.5
Purchased power	544.2	551.9	550.7	550.7
Pumping	41.6	39.8	39.8	39.8
Payroll	571.0	566.0	566.0	566.0
Purchased chemicals	3.6	3.6	3.6	3.6
Other O & M	274.7	260.8	265.0	265.0
Other A & G	271.4	261.0	261.0	261.0
G.O. prorations	236.1	211.9	230.2	230.2
Business license	1.1	1.1	1.1	1.1
Taxes other than inc.	128.3	118.4	126.6	126.6
Depreciation	380.7	385.8	380.1	380.1
	-----	-----	-----	-----
Subtotal	2,868.1	2,831.3	3,108.6	3,108.6
Uncollectibles	11.8	12.1	13.3	16.2
Franchise tax	0.0	0.0	0.0	0.0
State income tax	(15.0)	1.6	2.0	71.0
Federal income tax	(53.0)	0.5	1.3	231.1
Total oper. expenses	2,811.9	2,845.5	3,125.2	3,426.8
Net oper. revenues	239.2	245.1	279.1	722.9
Rate Base	6,833.1	6,374.4	6,699.1	6,699.1
Rate of Return	3.50%	3.85%	4.17%	10.79%

Table 3-1  
California-American Water Company  
Baldwin Hills District  
Adopted Summary of Earnings  
(Dollars in Thousands)  
1992

At Present Rates	Cal-Am	Staff	Adopted at Present Rates	Adopted at Auth. Rates
-----	-----	-----	-----	-----
Operating revenues	\$2,710.4	\$2,744.8	\$2,912.8	\$3,019.7
Operating expenses				
Purchased water	570.7	586.1	769.7	769.7
Purchased power	229.3	230.4	230.3	230.3
Pumping	18.4	18.4	18.4	18.4
Payroll	448.2	448.0	448.0	448.0
Purchased chemicals	1.1	1.1	1.1	1.1
Other O & M	178.8	177.6	177.6	177.6
Other A & G	222.9	214.0	214.0	214.0
G.O. prorations	184.9	174.3	182.2	182.2
Business license	1.8	1.8	1.8	1.8
Taxes other than inc.	80.8	77.8	80.2	80.2
Depreciation	229.1	228.5	228.6	228.6
	-----	-----	-----	-----
Subtotal	2,166.0	2,158.0	2,351.9	2,351.9
Uncollectibles	7.5	7.6	8.0	8.3
Franchise tax	12.5	13.7	14.5	15.2
State income tax	30.6	37.3	34.5	44.4
Federal income tax	100.0	121.7	112.4	148.4
Total oper. expenses	2,316.6	2,338.3	2,521.4	2,568.2
Net oper. revenues	393.8	406.5	391.4	451.5
Rate Base	4,214.8	4,145.9	4,184.7	4,184.7
Rate of Return	9.34%	9.80%	9.35%	10.79%

Table 3-2  
California-American Water Company  
Baldwin Hills District  
Adopted Summary of Earnings  
(Dollars in Thousands)  
1993

At Present Rates	Cal-Am	Staff	Adopted at Present Rates	Adopted at Auth. Rates
-----	-----	-----	-----	-----
Operating revenues	\$2,710.4	\$2,749.9	\$2,916.1	\$3,088.3
Operating expenses				
Purchased water	570.8	588.0	771.3	771.3
Purchased power	229.3	230.4	230.4	230.4
Pumping	19.2	19.2	19.2	19.2
Payroll	471.0	466.9	466.9	466.9
Purchased chemicals	1.2	1.2	1.2	1.2
Other O & M	187.1	184.5	184.5	184.5
Other A & G	237.5	225.5	225.5	225.5
G.O. prorations	193.8	180.5	188.9	188.9
Business license	1.8	1.8	1.8	1.8
Taxes other than inc.	85.6	82.3	84.3	84.3
Depreciation	239.9	239.2	238.8	238.8
	-----	-----	-----	-----
Subtotal	2,237.2	2,219.5	2,412.8	2,412.8
Uncollectibles	7.4	7.6	8.0	8.5
Franchise tax	12.5	13.7	14.8	15.5
State income tax	23.2	31.4	28.3	44.1
Federal income tax	74.9	99.8	89.6	144.1
Total oper. expenses	2,355.2	2,372.0	2,553.5	2,625.1
Net oper. revenues	355.2	377.9	362.6	463.2
Rate Base	4,330.7	4,235.9	4,292.4	4,292.4
Rate of Return	8.20%	8.92%	8.45%	10.79%

Table 4-1  
California-American Water Company  
San Marino District  
Adopted Summary of Earnings  
(Dollars in Thousands)  
1992

At Present Rates	Cal-Am	Staff	Adopted at Present Rates	Adopted at Auth. Rates
-----	-----	-----	-----	-----
Operating revenues	\$5,809.4	\$5,901.5	\$6,581.2	\$6,448.8
Operating expenses				
Purchased water	984.1	1,023.2	1,483.5	1,483.5
Purchased power	803.7	821.8	821.5	821.5
Pumping	56.9	56.9	56.9	56.9
Payroll	679.8	679.2	679.2	679.2
Purchased chemicals	6.4	6.4	6.4	6.4
Other O & M	288.8	275.7	275.7	275.7
Other A & G	384.0	373.1	373.1	373.1
G.O. prorations	378.6	356.7	373.0	373.0
Business license	1.1	1.1	1.1	1.1
Taxes other than inc.	168.7	161.8	163.8	163.8
Depreciation	664.4	637.8	640.6	640.6
	-----	-----	-----	-----
Subtotal	4,416.5	4,393.7	4,874.8	4,874.8
Uncollectibles	7.9	7.9	8.9	8.7
Franchise tax	61.8	49.6	69.8	68.4
State income tax	84.1	105.5	121.7	109.6
Federal income tax	275.3	345.3	398.8	354.3
Total oper. expenses	4,845.6	4,902.0	5,474.0	5,415.7
Net oper. revenues	963.8	999.5	1,107.2	1,033.1
Rate Base	10,372.8	9,757.2	9,573.6	9,573.6
Rate of Return	9.29%	10.24%	11.57%	10.79%

Table 4-2  
California-American Water Company  
San Marino District  
Adopted Summary of Earnings  
(Dollars in Thousands)  
1993

At Present Rates	Cal-Am	Staff	Adopted at Present Rates	Adopted at Auth. Rates
-----	-----	-----	-----	-----
Operating revenues	\$5,823.1	\$5,916.2	\$6,597.6	\$6,548.1
Operating expenses				
Purchased water	989.2	1,028.4	1,490.8	1,490.8
Purchased power	804.8	823.6	823.3	823.3
Pumping	59.7	59.7	59.7	59.7
Payroll	714.4	708.0	708.0	708.0
Purchased chemicals	6.7	6.7	6.7	6.7
Other O & M	300.3	286.2	286.2	286.2
Other A & G	408.8	392.5	392.5	392.5
G.O. prorations	396.8	369.3	386.7	386.7
Business license	1.1	1.1	1.1	1.1
Taxes other than inc.	175.7	166.7	170.7	170.7
Depreciation	684.1	654.7	660.8	660.8
Subtotal	4,541.6	4,496.9	4,986.5	4,986.5
Uncollectibles	7.9	8.0	8.9	8.8
Franchise tax	61.9	49.7	69.9	69.4
State income tax	74.0	97.7	113.1	108.6
Federal income tax	241.0	316.1	366.6	354.1
Total oper. expenses	4,926.4	4,968.4	5,545.0	5,527.4
Net oper. revenues	896.7	947.8	1,052.6	1,020.7
Rate Base	10,459.2	9,585.1	9,458.7	9,458.7
Rate of Return	8.57%	9.89%	11.13%	10.79%

However, the settlement agreements do not address the request of numerous Baldwin Hills District customers to expedite main improvements in certain subdivisions and the request of the Los Angeles Chapter of the Sierra Club to assure that further construction of facilities in the Los Angeles Basin comply with existing Los Angeles Basinwide Water Master standards. The settlement agreements were negotiated before this testimony was introduced in the proceeding. We discuss these issues below.

### 3. Baldwin Hills District

Three customers residing in the Baldwin Hills District complained of many years of low water pressure in the district. Dave Gibson, chairman of the Concerned Homeowners of View Park, Windsor Hill and Windsor Vista, states that this condition has existed for 20 years. Although the pressure has been tested and found to meet the General Order 103 standard of 40 psi, Gibson states that the testing is done during non-peak hours when residents are away from home. Gibson has conducted his own tests and has found them to be inadequate. Gibson has discussed the pressure problem with Cal-Am, Captain Cord and Battalion Chief Clady of the Los Angeles County Fire Department, Supervisor Kenneth Hahn, and Assemblywoman Gwen Moore. Gibson is aware of the main improvement program and scheduled improvements. However, he does not believe this program obligates Cal-Am to improve the water pressure. Gibson discusses a residential fire on Kenway Street in 1988 which totally destroyed two homes and severely damaged three others. He believes the existing fire plug with one outlet should be upgraded to two outlets which allow fire hoses to reach either side of the street.

Byron Freeman made statements similar to Gibson's regarding low pressure tests conducted at his home by Cal-Am during non-peak times. These tests showed no pressure at his house, but adequate pressure at the meter. Freeman indicates these



circumstances exist even for relatively new homes. He also discussed a fire in January 1990.

Paul Blackburn, Deputy Fire Chief for the Los Angeles County Fire Department, states that he has closely monitored the water system in the View Park, Windsor Hills, and Ladera Heights areas of the Baldwin Hills District for the past few years. He is concerned about fire flow and requests that the 5-year improvement plan be expedited to allow completion in a shorter period of time. He would like the plan to include upgrading inadequate fire hydrants.

### 3.1 Discussion

Public witnesses indicate that although they request water pressure improvements, they do not believe rates should be increased to make these improvements. We disagree that the improvements should be made with no compensation in rates. These are permanent facilities which serve the customer.

At the request of the assigned ALJ, Cal-Am introduced Exhibit 30, the 5-year main improvement plan and testified that numerous improvements in the above subdivision areas have been completed. According to this plan, the following main and hydrant reinforcement and replacement will occur as a portion of the \$2 million improvement plan:

1991	\$45,400
1992	31,000
1993	36,700
1994	35,300
1995	18,600

We estimate that if completed in four years, the main and hydrant improvement plan will increase rates roughly 58 cents per customer per year. If completed in three years, the increase is

roughly \$1.70 per customer per year.<sup>1</sup> This is a small price to pay for better fire flow coverage. However, even though small, this amount is not included in the notice of a proposed rate increase, nor the proposed rates, nor was the issue presented for cross-examination during the evidentiary hearings. Notwithstanding these circumstances, it is reasonable to give priority in the district to the improvements scheduled for the above subdivision areas with low pressure complaints and inadequate fire flow. Therefore, we will order that main improvements in the View Park, Windsor Hill, Windsor Vista, Kenway, and Ladera Heights areas be given priority in annual district main improvements now scheduled. In order to evaluate whether the scheduled improvements remedy the pressure problem upon completion of annual improvements, Cal-Am will conduct pressure tests during peak and non-peak periods in the above areas and report the results in its annual advice letters for the test years.

In order to evaluate the effect that expediting the scheduled 5-year improvement plan will have on rates, we will order

---

<sup>1</sup> Mains and hydrant reinforcement and replacement scheduled for 1995 is \$18,600. The gross revenue increase for \$18,600 is:

$$\begin{aligned} & \$18,600 \times \text{net-to-gross multiplier} \times \text{authorized} \\ & \quad \text{rate of return on rate base} \\ = & \$18,600 \times 1.7775 \times 10.79\% \\ = & \$3,567.00 / 6,111 \text{ (the number of metered} \\ & \quad \text{customers estimated for 1995)} \\ = & \$0.58 \text{ increase per customer per year.} \end{aligned}$$

Mains and hydrant reinforcement and replacement for 1994 and 1995 is \$35,500 + \$18,600 = \$54,100. The gross revenue increase for \$54,100 is:

$$\begin{aligned} & \$54,100 \times \text{net-to-gross multiplier} \times \text{authorized} \\ & \quad \text{rate of return on rate base} \\ = & \$54,100 \times 1.7775 \times 10.79\% \\ = & \$10,376 / 6,111 \text{ (the number of metered customers} \\ & \quad \text{for 1994)} \\ = & \$1.70 \text{ increase per customer per year.} \end{aligned}$$

Cal-Am and CACD to investigate this request and the request to include hydrant improvements in the problem areas. The results of the re-evaluation will be submitted with the authorized 1993 advice letter with notice to the public of any proposed increase in rates needed to complete the revised improvement plan should the Commission wish to adopt it.

4. The Los Angeles Basinwide Technical Plan

Ms. Maxine Leichter raised concern that the proposed Hall Well in the San Marino district meet the requirements of the Basinwide Technical Plan. This plan was published by the Environmental Protection Agency (EPA) in April 1990. It was the result of several years of studying contamination of ground water in the Los Angeles basin in order to determine how to clean up the basin. According to Leichter, the primary finding is that the pumping patterns of purveyors in the basin are spreading the contamination. Pumping in any part of the main basin in San Gabriel Valley affects the movement of water throughout the basin. Thus, pumping water from a new uncontaminated well can cause water movement toward the well and eventually contaminate the new well. The plan recommends that new wells be in contaminated areas so that the water can be pumped out and treated.

Leichter stated that in May 1991, the regional and state Water Quality Control Boards amended the 1990 plan to require that new water extractions in or adjacent to areas of high levels of contamination should include extraction and treatment of high levels of contamination. The Watermaster also requires that new wells in the San Gabriel basin meet its approval prior to construction. Leichter also challenged the Watermaster pump tax included in rates and certain Watermaster expenses.

Mr. Andrew A. Krueger, witness for Cal-Am, confirmed that Cal-Am intends to obtain all necessary permits prior to construction of a new well. Therefore, Leichter's contamination concerns may be addressed in any future permit proceedings before

the local Watermaster, regional Water Quality Control Board, state Department of Public Health Services (DHS) or federal Environmental Protection Agency. Under a memorandum of understanding (MOU) between this Commission and DHS, water contamination issues involving water utilities are pursued by DHS who recommends to us its preferred solution. (MOU Between DHS and PUC on Maintaining Safe and Reliable Water Supplies for Regulated Water Companies in California, February 7, 1987.) However, since Leichter is obviously a party interested in future proceedings involving Hall Well, we will require that Cal-Am notify her of any such proceedings.

CACD indicates that the challenged Watermaster expenses are not reflected in the current settlement agreement. We will expect CACD to use its discretion in investigating and making recommendations regarding these expenses in future rate proceedings.

#### 5. Rates of Return

Cal-Am and DRA agree on the standard to be achieved in setting rates of return for ratemaking purposes. This standard is established in two leading Supreme Court cases, Bluefield Waterworks and Hopc Natural Gas Company.

Bluefield dictates that:

"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." (Bluefield Water Works &

Improvement Co. v. Public Service Commission of West Virginia (1923) 262 U.S. 679.)

Hope states that:

"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." (Federal Power Commission v. Hope Natural Gas Co. (1944) 320 U.S. 391.)

Thus, the expected return on equity provides common stock investors a fair opportunity to earn the cost of common equity. From the company's viewpoint, this is the cost of capital. The cost of capital equals the weighted cost of common equity plus the cost of existing debt. The common equity shareholder receives the residual earnings after the company cost of service and debt are paid.

Cal-Am and DRA agree on the cost of debt and the company's capital structure. However, they disagree on the expected return on equity and resulting rate of return.

5.1 Cal-Am's Request

Cal-Am supports its request of 13.50% return on equity with three main arguments:

1. The cost of common equity which faces a typical water utility is a reasonable measure of the cost of common equity which faces Cal-Am.
2. Water utility common stocks are just as risky as electric utility common stocks and should be given a fair opportunity to earn the same equity return.

3. The fair rate of return recognizes that there are flotation costs<sup>2</sup> from past and potential future issues of common stock.

Cal-Am contends that the cost of common equity falls in a range of 12.6% to 13.4% according to the above presumptions and the results of applying the discounted cash flow, risk premium, and capital asset pricing models.

#### 5.2 DRA's Recommendations

DRA selects 11.50% to 12% as the reasonable range of return on equity. DRA recommends a rate of return of 10.79% and a return on common equity of 12% based upon its professional judgement, the historical and current returns of a comparable group of water companies and the results of its discounted cash flow (DCF) and risk premium (RP) analyses.

DRA contends that water utilities face less business risk than energy or telecommunications utilities because they use a renewable resource, face minimal threat of customer bypass, earn a return on construction-work-in-progress, collect up to 50% of their fixed costs in service charges and are governed by a Commission sensitive to the impact of the drought on rates. DRA also contends flotation costs are excluded by this Commission in estimating rate of return, citing D.89-11-068. DRA also argues in its brief that the Commission has rejected the position that the business risks of water and energy utilities are the same.

#### 5.3 Comparable Group of Water Utilities

Cal-Am's comparable group of 11 utilities is a mixture of California and Regional water utilities which it considers representative of Cal-Am's operations. DRA uses the same group of utilities plus American Water Works and Philadelphia Suburban

---

<sup>2</sup> Flotation costs are the expenses incurred by Cal-Am's parent company when issuing stock.

Corporation. Dividend yields and growth rates derived from this comparable group are used in Cal-Am and DRA's DCF and RP analysis.

DRA contends it selected utilities which realize at least 70% of revenue from water operations, and have stock regularly traded. Cal-Am challenges whether Suburban meets the first criterion. Cal-Am contends that Suburban was not a water utility until it recently sold off its non-utility assets. Therefore, Cal-Am contends it does not meet DRA's standard of deriving 70% of revenue from water operations and that there are several years when Suburban's water revenues were less than 70 percent of total revenues. Cal-Am also contends that Suburban is classified by Moody's financial institution as an industrial corporation instead of a public utility. Cal-Am contends that Suburban shows a financial history similiar to a new corporation, that is, low initial growth, low earnings and low dividends because of its recent sale of non-utility companies. Cal-Am concludes that the earlier data for the entire company is colored by the fact that investors were trying to anticipate the growth of new subsidiaries. Therefore, using this data is not an accurate reflection of investor's expectations. Lastly, Zepp, Cal-Am's witness, testified that DRA did not include Suburban as a comparable company in Park Water Company's rate application, A.90-08-056, D.91-05-024.

However, Zepp, admits that DRA witness, Brooker, has separated out the water company from the remaining corporate business. Zepp also admits that two years ago Suburban was recognized by Moody's financial rating institution as a public utility and it is the entire corporation which was classified as an industrial company.

DRA witness, Brooker, explained that Suburban was excluded from DRA's comparable group used in 1989 because during this one year Suburban did not meet the 70 percent water revenue criteria. During this same year corporate realignment occurred and non-utility assets were sold. Shortly thereafter, DRA performed a

financial study of Suburban concluding that it could be added to DRA studies after 1989. Brooker testified that his analysis in this proceeding separates the water operation from the total company, and uses only these statistics from the water operations, excluding all statistics for the year 1989. In Brooker's opinion, after selling non-utility assets, the entire corporation now meets the 70 percent standard. He believes including Suburban is a valuable addition to the comparable group sample size. On cross-examination, Brooker calculated that excluding Suburban from the comparable group will decrease the estimated reasonable range of return on equity from 11.52-12.05% to 11.45-11.99%, based upon a 3-month yield, and from 11.80-12.33% to 11.74-12.28% based upon a 6-month yield. However, Brooker agreed that his re-calculation only adjusts the difference in yield and that the growth figures should also be adjusted upward if Suburban is excluded. He admits that this growth adjustment will increase the estimated return on equity by 6 to 40 basis points. However, Brooker does not agree to change his analysis or recommended rate of return.

We conclude that Zepp's challenge to including Suburban as a comparable company does not sufficiently establish it is inappropriate. DRA indicates that it has excluded portions of Suburban's financial analysis which Cal-Am finds inappropriate, operations other than the water company and the one year (1989) that the corporation was undergoing change. The argument left is that investors were making investment decisions anticipating these changes five years before they occurred, based upon no growth in Suburban dividends during 1988 and 1989. If we agree that no growth in one or two years of a historical period is a basis for excluding companies from the comparable group, we would exclude several more of Cal-Am's and DRA's comparable group based upon low growth during 1988-1990. (Exh. 6-Attachment, Exh. 15-Tables 8 and 9, and Exh. 16-Dividends Growth Rates 1970-1990.) We are persuaded



that DRA's financial analysis of Suburban included in this proceeding is reasonable.

#### 5.4 Discounted Cash Flow Analysis

The discounted cash flow model presumes 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. The discount rate represents the earnings on an alternate investment of comparable risk. The expected return on equity is the expected dividend yield at the time of purchase plus the expected growth rate of dividends in the future.

Cal-Am's application of the discounted cash flow (DCF) model estimates the return on equity as 12.7%.

DRA contends that Cal-Am's growth rates used in its DCF analysis are overstated because of an error in the selection process. Future growth rates are determined by reviewing historical growth trends. Cal-Am used growth rates for a 10-year period only. DRA believes both 5- and 10-year historical growth statistics should be used because the average growth for each of these periods is significantly different, a difference which may influence investors.

DRA applies the DCF model to financial statistics of the comparable group to obtain estimated investor expectations of return on equity in the test years. Dividend yields are calculated from actual dividends paid in the marketplace. DRA derived the current dividend yield for the comparable group by applying, on a monthly basis, over the most recent three months and six months, each company's actual dividend paid to the corresponding average monthly market price. DRA used the period November 1990 to April 1991 for its calculations because it is the most recent period for which financial data is available.

While dividend yield is calculated from actual current events, expected growth requires professional judgement based upon

historical financial indicators. DRA used historical 10-year and 5-year average earnings-per-share, dividends-per-share and sustainable growth rates to estimate an expected dividend growth rate. Since these two periods yielded significantly different averages, DRA estimated a mid-range of expected growth to be added to the current yield. Under DRA methodology, the DCF model produces an expected return on equity in the range of 11.52% to 12.05% based on a 3-month yield, and 11.80% to 12.33% based on a 6-month yield.

Cal-Am criticizes DRA's use of 5-year and 10-year growth statistics in projecting investor's expected earnings. The 5-year historical growth average (1.10%) is substantially lower than the 10-year average (6.85%). Cal-Am argues that DRA's decision to rely on an estimated growth range (4.25% to 4.75%) based upon both historical periods of growth is unreasonable because recent poor utility earnings will not continue and will not be relied upon by investors in the future. Cal-Am contends the 10-year figures should be used.

Cal-Am also contends that if a composite of the 5-year and 10-year historical growth is to be used, it is more reasonable to use the simple average growth for the two periods, 5.44%, rather than the range selected by DRA. Cal-Am contends that if this simple average is used, the recommended range of common equity is 12.8% to 13.1%. Cal-Am argues that alternatively, DRA could give more weight to the historical sustainable growth averages, as it did in 1990. This results in a range of common equity of 12.20% to 12.50%.

#### 5.4.1 Discussion

The historical trends from the 5-year and 10-year periods are significantly different. The 10-year period produces a relatively high rate of growth, 6.85%, which is rather misleading for predicting future growth when compared with the recent, 5-year average of 1.10% growth. Under these circumstances, where recent

growth has decreased substantially, it is reasonable to consider both trends to predict future growth. It is common knowledge that the economy is in the process of slow recovery from a period of low earnings. It is reasonable to select a mid-range of the difference in this growth because it is more likely that upward growth will be graduated rather than a sudden upward swing. Therefore, DRA's projected growth is more reasonable.

### 5.5 Risk Premium Analysis

The risk premium (RP) analysis calculates the additional risk of common stocks when compared to utility bonds or government securities. This additional risk is expressed as a premium and is added to the estimated cost of debt to determine the required return on equity.

Cal-Am's application of an alternative risk premium analysis similar to the one presented by DRA in 1990 indicates the cost of equity falls in a range of 12.4% to 12.9%.

DRA contends that Cal-Am has actually incorporated 19 years of historical growth in its estimate by using a historical 10-year average growth to calculate the return for each of the ten years in the RP analysis. As a result, in DRA's opinion, Cal-Am is estimating an investor's expectations in each of the ten historical years, not the expectation for 1991. DRA contends if Cal-Am had used growth rates under DRA's methodology, Cal-Am's recommended range of return on equity under the RP analysis would have been 11.78% to 12.25%, which is comparable with DRA's recommended range.

DRA argues that Cal-Am's witness, Zepp, showed limited knowledge of California water companies or this Commission's ratemaking policy. DRA contends Zepp's recommendations are based upon general information rather than precedents established by this Commission. DRA alleges this Commission has repeatedly rejected several arguments asserted by Zepp, such as, water companies are as risky as gas and electric companies and including flotation costs as an appropriate expense in calculating return on equity.

To estimate a risk premium, DRA used the most recent 10-year average risk premiums for 30-year Treasury Bonds, AA-rated utility bonds and A-rated utility bonds. DRA calculated the average equity risk premium from this data and added May 1991 long-range forecasted yields on AA-rated utility bonds and 30-year government issues for the test periods. To these results, DRA added 25 basis points, which is the historical average difference between AA- and A-rated utility bonds. This method produces an estimated range of return on equity of 11.46% to 11.83%.

Cal-Am contends that DRA calculates its averages of historical data year-by-year, assuming investors evaluate future growth by looking at one previous year of growth. Cal-Am argues that investors look at more than one prior year of dividend growth in formulating expectations about future dividend growth. Cal-Am contends this assumption is contrary to DRA's assumption using the DCF model where DRA used 5-year and 10-year historical growth.

DRA responds that it assumed that the expected premium over bond yields today is based upon an average of historical premiums over the past ten years. DRA explains that it used one year of data in order to estimate actual equity returns in each year of the 10 years. DRA compared actual equity returns in one year with actual bond yields in the same year to calculate the actual risk premium in each of the ten years.

We agree that DRA's arguments are the more persuasive and that a 19-year historical calculation is unreasonable.

#### 5.6 Capital Asset Pricing Model

Cal-Am's application of the Capital Asset Pricing Model (CAPM) risk premium estimates indicate the equity cost for the period 1992-94 falls in a range of 12.6% to 13.4%.

The CAPM model determines the cost of equity under the following formula:  $RF + \text{Beta} \times \text{Risk Premium}$ . Beta is a measure of risk based on the volatility in the market price of a common stock compared to the overall stock market. Beta is the average risk of

an average water utility. Cal-Am argues that the CAPM is a reasonable method of estimating return on equity.

While agreeing that CAPM is used to estimate cost of equity for other types of utilities, DRA argues that the results of Cal-Am's CAPM model are unreliable because the beta used in the model to estimate the risk of an average water utility was based on five companies. DRA contends this data base is too small to be a reliable representation of the thousands of water companies that exist in the industry.

We agree that the CAPM results are less reliable than those of the DCF and RP analyses because of the significantly smaller data base for evaluating risk.

#### 6.0 Motion for Sanctions

CACD alleges that Cal-Am wilfully withheld the material fact that the San Marino district water system is physically divided into two parts called the "upper and lower system." CACD considers this fact crucial in analyzing Cal-Am's request for a new well because Cal-Am supported its request for the Hall Well, located in the lower system, with supply and demand data from the entire system. CACD contends that Cal-Am intentionally created the impression that a new well would enhance the water supply for the entire district when, in fact, the new well will only benefit the lower system. As punishment for this misrepresentation, CACD suggests that we deny the new well and a renewal of the request prior to the time for the next prescribed general rate case, disallow all costs related to the request, reduce the return on equity or impose a \$6,000 fine and a \$2,000 fine pursuant to PU Code § 2107.

Cal-Am responds with affidavits from two witnesses that any omission of fact was inadvertent. Cal-Am argues that the use of the terms "upper and lower system" throughout its witnesses' testimony and the inclusion in the application of a system map showing the disconnection negate the notion of intentional

misrepresentation. Cal-Am argues that CACD was not, in fact, misled since it opposed the request prior to the hearing. Cal-Am contends that procedures have been instituted to avoid any similar occurrence in the future. Cal-Am contends that preliminary analysis of data separated by upper and lower system still supports a need for Hall Well.

We have reviewed the record in this proceeding carefully. We agree that Krueger's description of the 20-inch pipe connecting the upper and lower system leaves the misleading impression that this connection continues to exist. Cal-Am admits the omission and its witnesses swear under penalty of perjury that it was inadvertent. There are no facts to show intentional concealment of this fact for the purpose of misleading the Commission, behavior for which we have severely penalized past applicants. In addition, the assigned ALJ had the opportunity to observe the demeanor of Cal-Am witnesses as these facts were revealed. There is no indication from the ALJ ruling that this omission was obviously intentional.

We do not minimize the seriousness of this act by concluding the omission was not intentional. We will not take lightly a recurrence of such behavior by Cal-Am. However, without convincing evidence that this omission was committed for the purpose to mislead, we will not impose fines or monetary penalties. The ALJ Ruling to strike the request to include Hall Well in rate base from this application is, itself, an important sanction. We agree that the adequacy of an innocent customer's water supply should not be placed at risk because of management error. Therefore, we adopt the assigned ALJ's recommendation that Cal-Am be authorized to renew this request in a separate application prior to the next scheduled rate case filing.

Upon review of all circumstances surrounding Cal-Am's incomplete attempt to place Hall Well in rate base, there is one additional adverse effect which may arise. Cal-Am may desire to revise its existing studies supporting the need for Hall Well or

prepare new studies. We do not find reasonable duplicative expenses to renew this request. Therefore, we will require in any separate application to include Hall Well in rate base that Cal-Am provide an itemized accounting to show that future expenses charged to the ratepayer do not duplicate those already incurred.

Findings of Fact

1. Cal-Am requests a rate increase in its Monterey district for 1992 and 1993 and in its Duarte, Baldwin Hills, and San Marino districts for 1992, 1993, and 1994.

2. Cal-Am and DRA agree on the components of capital structure, long-term and short-term debt used to calculate the rate of return and return on equity.

3. The two settlement agreements indicate the adoption of Commission ratemaking policy in numerous instances and refer to additional documentation provided to support the applications in numerous other instances. Therefore, the settlement agreements are reasonable.

4. Customers and the Fire Department in the Baldwin Hills district complain of low pressure, inadequate fire flow, and hydrants. Although overall service in the district is satisfactory, it is reasonable to complete scheduled main and hydrant improvements in these areas as soon as possible and investigate the impact of expediting the 5-year plan.

5. The Los Angeles Chapter of the Sierra Club request that the proposed Hall Well meet standards for new wells in the San Gabriel basin set by the EPA and Los Angeles basin Watermaster is reasonable. However, issues of public utility water quality are investigated by the state Department of Public Health under a memorandum of understanding with this Commission. It is reasonable to require Cal-Am notify the Sierra Club of any such proceeding.

6. Cal-Am and DRA dispute the appropriate rate of return and return on equity for the test years and the proposed construction of Hall Well in the San Marino district. DRA and Cal-Am have

entered into two settlement agreements resolving all other disputed issues.

7. Cal-Am requests 13.50% return on equity for the test period based upon numerous assumptions and its methodology in applying the results of the discounted cash flow (DCF), risk premium (RP) and capital asset pricing models (CAPM).

8. DRA recommends 12% return on equity for the test period based upon its professional judgement, comparable water utilities, and applying the results of the DCF and RP financial models.

9. DRA uses financial statistics of its selected comparable group of water utilities as the data base for applying the DCF and RP models.

10. Cal-Am contends Philadelphia Suburban (Suburban) does not meet adequate standards to be included in DRA's comparable group of water utilities.

11. DRA contends the exclusion of Suburban from the list of comparable water utilities has little impact on the resulting estimated growth. DRA agrees that the exclusion results in a 6 to 40 basis points difference in the estimated return on equity under the DCF analysis. The mid-point of this adjustment is 23 basis points.

12. DRA uses financial statistics of Suburban water operations only and excludes 1989 data in analyzing Suburban for its comparable group.

13. Cal-Am's application of the DCF model results in an estimated return on equity of 12.71%; DRA's application of the same model results in an estimated range of return on equity of 11.52% - 12.33%.

14. Cal-Am's application of the RP results in an estimated range of return on equity of 12.42% - 12.98%; DRA's application of the same model results in a range of 11.46% - 11.83%.

15. One major difference in the results under the DCF and RP models is Cal-Am's selection of a 10-year historical period to



estimate future growth and DRA's selection of both a 5-year and 10-year historical period and a mid-range of growth combining the two periods.

16. DRA's historical periods in its DCF and RP analyses and use of a mid-range of growth between these two different growth periods considers longer historical trends and gives more reasonable weight to the recent low and slow growth in the economy. The recent condition of the economy is common knowledge to a prudent investor and likely to be considered in purchasing stock.

17. DRA's year-by-year calculation and comparison of the risk of common stock and utility bonds or government securities in its RP analysis is more reasonable than Cal-Am's calculation which results in including 19 years of historical data.

18. Cal-Am's application of the CAPM results in an estimated range of return on equity of 12.58% to 13.42%; DRA considers this model unreliable because of its small data base of five water companies.

19. Cal-Am's estimated return on equity from applying the CAPM is less reliable than results from DRA's application of the DCF and RP models because the data bases of the latter (13 companies) are over twice as large as the CAPM data base (5 companies).

20. The Commission has rejected the argument that water utilities have the same business risk as energy and telecommunications utilities and has rejected requests to include flotation costs in estimating return on equity and gives no indication that its parent plans to issue stock.

21. The inclusion of flotation costs in estimates of return on equity is unreasonable since Cal-Am is not publicly traded.

22. DRA selects 11.50% to 12.00% as a reasonable range of return on equity.

23. DRA's recommended range of return on equity, 11.46% to 12.33%, and specific recommendation of 12% for the test years are

reasonable because they reflect reasonable judgment and reasonable methodology to estimate investor's expectation.

24. There is no evidence to show that Cal-Am intended to omit or conceal the material fact that the upper and lower systems in the San Marino district are physically disconnected.

Conclusions of Law

1. The settlement agreements, Exhibits 22 and 32, should be accepted as reasonable.

2. Scheduled improvements in certain areas of the Baldwin Hills district should be expedited.

3. A return on equity of 12% for 1992, 1993, and 1994 in the four consolidated applications is reasonable and should be adopted.

4. Cal-Am should be authorized to file the rates set forth in Appendices A-1 to D-4, as specified in the following order. The rates contained in these appendices are reasonable.

5. Cal-Am should be authorized to file advice letters requesting relief as specified in the order.

6. Arguments asserting that water utilities incur the same business risk as energy and telecommunications utilities and that flotation costs are appropriate to include in estimates of the cost of equity have been rejected in previous Commission decisions.

7. Cal-Am should be authorized to file a separate application to include Hall Well in rate base prior to the next scheduled general rate case filing for the San Marino district.

8. CACD's motion for sanctions should be denied.

9. These applications should be granted to the extent provided by the following order.

O R D E R

IT IS ORDERED that:

1. California-American Water Company (Cal-Am) is authorized to file the revised schedules attached as Appendix A-1 for its Monterey District, Appendix A-2 for its Duarte District, Appendix A-3 for its Baldwin Hills District, and Appendix A-4 for its San Marino District. These filings shall comply with General Order (GO) Series 96-A. The effective date of the revised schedules shall be 5 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 5, 1992, Cal-Am is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1993 included in Appendices B-1 to B-4, or to file a lesser increase in the event that the rate of return on rate base for its Monterey, Duarte, Baldwin Hills or San Marino Districts, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1992, exceeds the lesser of (a) the rate of return found reasonable by the Commission for applicant for the corresponding period in the then most recent rate decision, or (b) 10.79%. This filing shall comply with GO 96-A. The requested 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, or 40 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after

their effective date. Should a rate decrease be in order, the rates shall become effective January 1, 1993.

3. On or after November 5, 1993, Cal-Am is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1994 included in Appendices B-2 to B-4, or to file a lesser increase in the event that the rate of return on rate base for its Duarte, Baldwin Hills or San Marino Districts, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1992, exceeds the lesser of (a) the rate of return found reasonable by the Commission for applicant for the corresponding period in the then most recent rate decision, or (b) 10.79%. This filing shall comply with GO 96-A. The requested 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, 1994, or 40 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date. Should a rate decrease be in order, the rates shall become effective January 1, 1994.

4. On or after the effective date of this order, Cal-Am is authorized to file an application to construct Hall Well in the San Marino District. Cal-Am shall serve a copy of any application filed at any governing agency involving the new Hall Well on the Los Angeles Chapter of the Sierra Club. Cal-Am shall provide in any separate application to include Hall Well in rate base an itemized accounting of expenses incurred to pursue the application. Cal-Am may not charge to the ratepayer future expenses which duplicate amounts already expended to support this request.

5. CACD's motion for sanctions is denied.

6. Cal-Am shall give priority in its 5-year main and hydrant improvements to those scheduled for the View Park, Windsor Hill, Windsor Vista, and Ladera Heights subdivisions in the Baldwin Hills District.

7. In its authorized 1992 advice letter filing, Cal-Am shall include a report evaluating the impact of expediting main and hydrant improvements in its 5-year main improvement plan. Should the expedited improvement plan result in a need for increased rates, Cal-Am shall give notice to its customers of a potential rate increase.

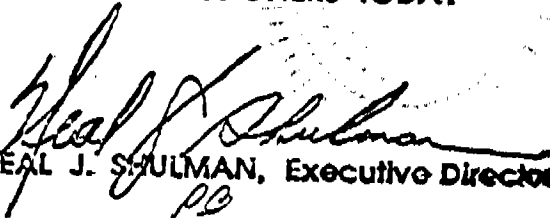
This order is effective today.

Dated November 20, 1991, at San Francisco, California.

PATRICIA M. ECKERT  
President  
DANIEL Wm. FESSLER  
NORMAN D. SHUMWAY  
Commissioners

Commissioner John B. Ohanian,  
being necessarily absent, did  
not participate.

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

  
NEAL J. SHULMAN, Executive Director  
PC

Appendix A-1  
Page 1

Schedule No. MO-1

Monterey Peninsula District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water furnished on a metered basis.

TERRITORY

The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, Sand City, a portion of Seaside, and certain unincorporated areas in the County of Monterey.

RATES

Quantity Rates:

	<u>Per Meter Per Month</u>		
	<u>Gravity Zone</u>	<u>1st Elevation Zone</u>	<u>2nd Elevation Zone</u>
Residential:			
For the first 800 cu.ft., per 100 cu.ft.....	\$ 1.5584	\$ 1.7564	\$ 1.8124 (I)
For all over 800 cu.ft., per 100 cu.ft.....	1.9478	2.1458	2.2018 (I)
Apartments & Multi-Family:			
For all water delivered, per 100 cu.ft.....	1.5584	1.7564	1.8124 (I)
All Other:			
For all water delivered, per 100 cu.ft.....	1.9478	2.1458	2.2018 (I)

Service Charge:

For 5/8 x 3/4-inch meter .....	\$ 9.25	(I)
For 3/4-inch meter .....	13.80	
For 1-inch meter .....	23.00	
For 1-1/2-inch meter .....	43.00	
For 2-inch meter .....	72.00	
For 3-inch meter .....	130.00	
For 4-inch meter .....	195.00	
For 6-inch meter .....	304.00	
For 8-inch meter .....	483.00	

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

Appendix A-1  
Page 2

Schedule No. MO-4

Monterey Peninsula District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

The incorporated cities of Monterey, Pacific Grove, Carmel-by-the Sea, Del Rey Oaks, Sand City, a portion of Seaside and certain unincorporated areas in the County of Monterey.

RATES

	<u>Per Month</u>	
For each 4-inch connection .....	\$ 17.60	(I)
For each 6-inch connection .....	\$ 35.70	
For each 8-inch connection .....	\$ 54.00	
For each 10-inch connection .....	\$ 77.45	(I)

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

SPECIAL CONDITIONS

1. The fire protection service and connection shall be installed by the utility or under the utility's direction. Cost of the entire fire protection installation excluding the connection at the main shall be paid for by the applicant. Such payment shall not be subject to refund.
2. The installation housing the detector type check valve and meter and appurtenances thereto shall be in a location mutually agreeable to the applicant and the utility. Normally such installation shall be located on the premises of applicant, adjacent to the property line. The expense of maintaining the fire protection facilities on the applicant's premises (including the vault, meter, detector type check valves, backflow device and appurtenances) shall be paid for by the applicant.

Appendix A-1  
Page 3

Schedule No. MO-4H

Monterey Peninsula District Tariff Area

PRIVATE FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all water service furnished for private fire hydrant service.

TERRITORY

The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, Sand City, a portion of Seaside, and certain unincorporated areas in the County of Monterey.

RATE

Per Month

Private Fire Hydrant Service Installed at Cost of Applicant:

For each Fire Hydrant Installed ..... \$ 15.00 (I)

SPECIAL CONDITIONS

1. The fire protection service and connection shall be installed by the utility or under the utility's direction. Cost of the entire fire protection installation excluding the connection at the main shall be paid for by the applicant. Such payment shall not be subject to refund.
2. The installation housing the detector type check valve and meter and appurtenances thereto shall be in a location mutually agreeable to the applicant and the utility. Normally such installation shall be located on the premises of applicant, adjacent to the property line. The expense of maintaining the fire protection facilities on the applicant's premises (including the vault, meter, detector type check valves, backflow device and appurtenances) shall be paid for by the applicant.
3. All facilities paid for by the applicant shall be the sole property of the applicant. The utility and its duly authorized agents shall have the right to ingress to and egress from the premises for all purposes relating to said facilities.
4. The minimum diameter will be 6 inches, and the maximum diameter will be the diameter of the main to which the service is connected.



Appendix A-1  
Page 4

Schedule No. MO-7

Monterey Peninsula District Tariff Area

STREET SPRINKLING SERVICE

APPLICABILITY

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

TERRITORY

The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, Sand City, a portion of Seaside and certain unincorporated areas in the County of Monterey.

RATE

For all water used, per 100 cu.ft. ....\$ 2.122 (I)

SPECIAL CONDITIONS

1. Due to an undercollection in revenues because of mandatory rationing, and in accordance with Decision No. 90-08-055, a surcharge of \$ .4612 per Ccf is to be added to the quantity rate for twelve months from January 1, 1991. (T)
2. A surcharge of 2.5% will be added to all bills because of the Canada Reservoir research project, for a maximum period of 60 months from October 17, 1990, or until there is an overcollection in the balancing account.
3. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(End of Appendix A-1)

APPENDIX B-1  
Page 1

California-American Water Company  
Monterey District

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

SCHEDULE NO. MO-1

Service Charges:	1993
For 5/8 x 3/4-inch meter. . . . .	\$0.15
For 3/4-inch meter. . . . .	0.20
For 1-inch meter. . . . .	3.50
For 1-1/2-inch meter. . . . .	5.00
For 2-inch meter. . . . .	8.00
For 3-inch meter. . . . .	20.00
For 4-inch meter. . . . .	25.00
For 6-inch meter. . . . .	46.00
For 8-inch meter. . . . .	67.00

Quantity Rates:

	Gravity Zone	1st Elevation Zone	2nd Elevation Zone
Residential:			
For the first 800 cu.ft. per 100 cu.ft. . . . .	0.0000	0.0000	0.0000
For all over 800 cu.ft. per 100 cu.ft. . . . .	0.0000	0.0000	0.0000
Apartments & Multi-Family:			
For all water delivered, per 100 cu.ft. . . . .	0.0000	0.0000	0.0000
All Other:			
For all water delivered, per 100 cu.ft. . . . .	0.0000	0.0000	0.0000

APPENDIX B-1  
Page 2

California-American Water Company  
Monterey District

SCHEDULE NO. MO-4  
-----

Rates

For each 4-inch connection. . . . .	0.050
For each 6-inch connection. . . . .	0.100
For each 8-inch connection. . . . .	2.000
For each 10-inch connection. . . . .	2.550

SCHEDULE NO. MO-4H  
-----

For each fire hydrant installed. . . . .	2.000
--	-------

SCHEDULE NO. MO-7  
-----

For all water used, per 100 cu.ft. . . . .	0.072
--	-------

(End of Appendix B-1)

California-American Water Company  
Monterey DistrictAdopted Quantities  
-----

	1992 -----	1993 -----
1. Purchased Power : KWH		
Filter Plant Running Wells	230,544.0	239,845.0
- Seaside	3,503,227.0	3,503,227.0
- Upper Valley	89,012.0	89,012.0
- Lower Valley	4,443,920.0	4,724,204.0
	-----	-----
Total Main System	8,266,703.0	8,556,288.0
Other Systems		
- Water West	129,473.0	129,473.0
- Ryan Ranch	293,504.0	357,621.0
Pumping Plants	3,519,133.0	3,661,127.0
	-----	-----
Total All Systems	12,208,813.0	12,704,509.0
2. Purchased Power Expenses		
PG&E (3-22-89)		
Filter Plant Running Wells	\$29,207.0	\$29,988.0
- Seaside	\$343,993.0	\$343,993.0
- Upper Valley	12,564.0	12,564.0
- Lower Valley	439,034.0	462,581.0
	-----	-----
Total Main System	\$824,798.0	\$849,126.0
Other Systems		
- Water West	\$13,752.0	\$13,752.0
- Ryan Ranch	31,773.0	38,662.0
Pumping Plants	397,677.0	409,960.0
	-----	-----
Total All Systems	\$1,268,000.0	\$1,311,500.0
3. Uncollectible rate	0.25000%	
4. California corporation franchise tax	9.30%	
5. Federal tax rate	34.00%	
6. Net to gross multiplier	1.77350	

APPENDIX C-1  
Page 2

California-American Water Company  
Monterey District

Adopted Quantities  
-----

## 10. Number of Services by meter size

	1992	1993
	-----	-----
5/8 x 3/4 inch	31,022	31,405
3/4	0	0
1	3,762	3,807
1 1/2	947	958
2	565	574
3	58	59
4	87	88
6	7	7
8	3	3
	-----	-----
	36,451	36,901

## 11. Metered Sales (Kccf)

	1992	1993
	-----	-----
0-8 Ccf	2379.6	2505.4
> 8	3823.0	4061.4
 Total	 6202.6	 6566.8

## 12. Number of Service and Usage

	No. of Service	Usage - Kccf	Ave Usage - ccf		
	1992	1993	1992	1993	1992
	-----	-----	-----	-----	-----
Residential	30,827	31,179	2746.7	2943.3	89.1
Business Norm.	4,944	4,988	1603.8	1660.5	324.4
Business Large	68	69	679.6	717.6	9,994.2
Ryan Ranch	148	198	53.1	64.7	10,400.6
Industrial	7	7	35.9	39.9	358.9
Pub. Auth. Norm.	426	429	182.5	203.6	5,128.5
Pub. Auth. Large	16	16	418.7	440.7	26,167.9
Golf Course	15	15	482.2	496.5	27,543.1
	-----	-----	-----	-----	-----
Subtotal	36451	36901	6,202.6	6,566.8	32,147.5
Other	677	728	35.0	45.0	33,103.3
	-----	-----	-----	-----	-----
Total	37,128	37,629	6,237.6	6,611.8	
 Water Loss	 5.76%		 381.3	 402.6	
			-----	-----	
Total Water Produced			6618.9	7014.4	

Note: Normal Usage(Ccf/Svc.) - Residential = 98.4, Bus.(Norm.) = 346.1, Bus.(Large) = 11456.0, Ryan Ranch = 424.0, Ind. = 5700.0, PA (Norm.) = 482.7, PA (Large) = 27782.3, Golf Course = 33103.3.

California-American Water Company  
Monterey DistrictIncome Tax Calculation  
-----

	1992 -----	1993 -----
	(Dollars in thousands)	
Operating Revenue (authorized rates)	\$17,339.3	\$18,487.2
Expenses		
Purchased water	0.0	0.0
Purchased power	1,268.0	1,311.5
Pumping	225.3	235.3
Payroll	2,951.2	3,083.1
Purchased chemicals	174.2	188.2
Other O & M	1,283.3	1,349.5
Other A & G	1521.8	1599.9
G.O. prorations	1,021.6	1,059.2
Business license	0.0	0.0
Taxes other than income	714.9	756.7
Uncollectibles	43.3	46.2
Franchise tax	52.0	55.5
Interest expense	2331.9	2,623.8
Total Deduction	11,587.6	12,308.9
State Tax Depreciation	1,685.7	1,717.5
Net Taxable Income	4,066.0	4,460.8
State Corp. Franch. Tax 9.3%	378.1	414.9
Federal Tax Depreciation	1,650.5	1,691.3
State Income Tax	154.9	378.1
Less Preferred Stock Dividend	0.0	0.0
Net Taxable Income	3,946.3	4,108.9
Fed. Income Tax 34.00%	1,341.7	1,397.0
Less ITC	44.7	44.7
Total Federal Income Tax	1,297.0	1,352.3
Total Income Tax	1,675.2	1,767.2

(END OF APPENDIX C-1)

APPENDIX D-1  
Page 1California-American Water Company  
Monterey District

Comparison of typical bills for residential gravity zone metered customers of various usage level and average level at present and authorized rates for the year 1992.

General Metered Service  
(5/8 x 3/4-inch meters)

Monthly Usage (Cubic Feet)	At Present Rates	At Authorized Rates	Percent Increase
500	\$14.67	\$17.04	16.17%
743 (Average)	18.03	20.83	15.50%
1000	22.14	25.61	15.68%
2000	38.74	45.09	16.39%
3000	55.34	64.57	16.67%
5000	88.54	103.52	16.92%
10000	171.54	200.91	17.12%

(END OF APPENDIX D-1)

Appendix A-2  
Page 1

Schedule No. DU-1

Duarte District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

Quantity Rates:

All water delivered, per 100 cu. ft. . . . . \$ 1.0490 (I)

Service charge:

Per Meter Per Month

For 5/8 x 3/4-inch meter . . . . .	\$ 9.50	(I)
For 3/4-inch meter . . . . .	14.25	
For 1-inch meter . . . . .	21.55	
For 1-1/2-inch meter . . . . .	35.50	
For 2-inch meter . . . . .	49.50	
For 3-inch meter . . . . .	75.20	
For 4-inch meter . . . . .	120.00	
For 6-inch meter . . . . .	207.00	
For 8-inch meter . . . . .	342.00	(I)

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

SPECIAL CONDITIONS

1. Due to an undercollection in the balancing account, a surcharge of \$.0008 per Ccf is to be added to the quantity rate for twelve months from the effective date of Advice Letter No. 375.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.



Appendix A-2  
Page 2

Schedule No. DU-3M

Duarte District Tariff Area

MEASURED IRRIGATION SERVICE

APPLICABILITY

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

TERRITORY

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

RATES

Quantity Rates:

- A. Pressure service all water,  
per 100 cu. ft. . . . . \$ 0.82013 (I)
- B. Gravity service all water,  
per 100 cu. ft. . . . . 0.65877 (I)

Service charge:

Per Meter Per Month

For 5/8 x 3/4-inch meter . . . . .	\$ 2.05	(R)
For 3/4-inch meter . . . . .	3.08	
For 1-inch meter . . . . .	5.13	
For 1-1/2-inch meter . . . . .	10.25	
For 2-inch meter . . . . .	16.40	
For 3-inch meter . . . . .	30.75	
For 4-inch meter . . . . .	51.25	
For 6-inch meter . . . . .	102.50	
For 8-inch meter . . . . .	164.00	

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

Appendix A-2  
Page 3

Schedule No. DU-4

Duarte District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

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

RATE

Per Month

For each inch of diameter of private fire protection service . . . . . \$ 5.33 (I)

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

SPECIAL CONDITIONS

1. The fire protection service and connection shall be installed by the Utility or under the Utility's direction. Cost of the entire fire protection installation excluding the connection at the main shall be paid for by the applicant. Such payment shall not be subject to refund.
2. The installation housing the detector type check valve and meter and appurtenances thereto shall be in a location mutually agreeable to the applicant and the Utility. Normally such installation shall be located on the premises of the applicant, adjacent to the property line. The expense of maintaining the fire protection facilities on the applicant's premises (including the vault, meter detector type check valves, backflow device and appurtenances) shall be paid for by the applicant.

(End of Appendix A-2)

APPENDIX B-2  
Page 1

California-American Water Company  
Duarte District

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

SCHEDULE NO. DU-1  
-----

Service Charges:	1993	1994
For 5/8 x 3/4-inch meter. . . . .	\$0.10	\$0.05
For 3/4-inch meter. . . . .	0.15	0.05
For 1-inch meter. . . . .	2.45	0.10
For 1-1/2-inch meter. . . . .	4.50	6.30
For 2-inch meter. . . . .	11.50	11.00
For 3-inch meter. . . . .	23.00	24.00
For 4-inch meter. . . . .	42.00	40.00
For 6-inch meter. . . . .	83.00	72.00
For 8-inch meter. . . . .	154.00	124.00

Quantity Rates:

For all water, per 100 cu.ft.	-0.0220	0.0000
-------------------------------	---------	--------

SCHEDULE NO. DU-4  
-----

For each inch of diameter of private fire protection service .....	0.1200	0.1200
--	--------	--------

(End of Appendix B-2)

California-American Water Company  
Duarte District

Adopted Quantities  
-----

	1992 ----	1993 ----
1. Water Production : AF		
Surface Right	1672.0	1672.0
San Gabriel Basin Safe Yield	140000.0	140000.0
Duarte Percent	0.018463	0.018463
Safe Yield	2584.8	2584.8
Replenishment Water	2692.2	2727.8
Total	6949.0	6984.6
Total (KCCF)	3027.0	3042.5
2. Purchased Water Expenses		
Main San Gabriel Basin (7-1-91)		
Replenishment Cost \$206.85/AF	\$556,884.8	\$564,245.2
Long Beach Cost \$1.50/AF	\$6,385.2	\$6,385.2
Administrative Cost \$16.30/AF	\$113,269.3	\$113,849.3
Total Cost	\$676,539.3	\$684,479.7
3. Purchased Power : KWH		
Wells	4,334,535	4,356,705
Boosters	570,090	572,730
Irrig. Boosters	249,360	250,690
	-----	-----
Total Power Consumption	5,153,985	5,180,125
4. Purchased Power Expenses		
So. Cal. Edison (1-1-91)		
Wells	\$446,006.4	\$448,018.2
Boosters	\$73,691.6	\$73,953.3
Irrig. Boosters	\$28,584.3	\$28,713.2
	-----	-----
Total Power Cost	\$548,282.3	\$550,684.7
4. Uncollectible rate	0.38990%	
5. California corporation franchise tax	9.30%	
6. Federal tax rate	34.00%	
7. Net to gross multiplier	1.77060	

## APPENDIX C-2

Page 2

California-American Water Company  
Duarte DistrictAdopted Quantities  
-----

## 10. Number of Services by meter size

	1992	1993
	-----	-----
5/8 x 3/4 inch	5,794	5,811
3/4	52	52
1	428	432
1 1/2	244	247
2	319	324
3	7	7
4	7	7
6	1	1
8	1	1
	-----	-----
	6,853	6,882

## 11. Metered Sales (Kccf)

	1992	1993
	-----	-----
All Water	2641.5	2656.0
Total	2641.5	2656.0

## 12. Number of Service and Usage

	No. of Service		Usage - Kccf		Ave Usage - ccf	
	1992	1993	1992	1993	1992	1993
	-----	-----	-----	-----	-----	-----
Residential	6,110	6,125	1572.7	1576.6	257.4	257.4
Business Norm.	594	608	449.0	459.6	755.9	755.9
Business Large	28	28	360.4	360.4	12,870.9	12,870.9
Industrial	20	20	42.3	42.3	2,117.0	2,117.0
Pub. Auth. Norm.	100	100	173.0	173.0	1,730.1	1,730.1
Pub. Auth. Large	0	0	0.0	0.0	0.0	0.0
Golf Course	1	1	44.1	44.1	44,075.0	44,075.0
	-----	-----	-----	-----		
Subtotal	6853	6882	2,641.5	2,656.0		
Irrigation	64	64	183.8	183.8		
Other	118	125	11.0	11.0		
	-----	-----	-----	-----		
Total	7,035	7,071	2,836.3	2,850.8		
Water Loss	6.30%		190.7	191.7		
			-----	-----		
Total Water Produced			3027.0	3042.5		

California-American Water Company  
Duarte District

Income Tax Calculation  
-----

	1992 -----	1993 -----
	(Dollars in thousands)	
Operating Revenue (authorized rates)	\$4,098.3	\$4,149.7
<b>Expenses</b>		
Purchased water	676.5	684.5
Purchased power	548.3	550.7
Pumping	38.3	39.8
Payroll	543.0	566.0
Purchased chemicals	3.3	3.6
Other O & M	255.6	265.0
Other A & G	247.2	261.0
G.O. prorations	222.0	230.2
Business license	1.1	1.1
Taxes other than income	122.5	126.6
Uncollectibles	16.0	16.2
Franchise tax	0.0	0.0
Interest expense	380.9	388.5
Total Deduction	3,054.7	3,133.2
State Tax Depreciation	241.6	253.6
Net Taxable Income	802.0	762.9
State Corp. Franch. Tax 9.3%	74.6	71.0
Federal Tax Depreciation	238.5	251.4
State Income Tax	8.7	74.6
Less Preferred Stock Dividend	0.0	0.0
Net Taxable Income	796.4	690.5
Fed. Income Tax 34.00%	270.8	234.8
Less ITC	3.7	3.7
Total Federal Income Tax	267.1	231.1
Total Income Tax	341.7	302.0

(END OF APPENDIX C-2)

APPENDIX D-2  
Page 1California-American Water Company  
Duarte District

Comparison of typical bills for residential metered customers of various usage level and average level at present and authorized rates for the year 1992.

General Metered Service  
(5/8 x 3/4-inch meters)

Monthly Usage (Cubic Feet)	At Present Rates	At Authorized Rates	Percent Increase
500	\$13.23	\$14.25	7.64%
1000	17.47	19.49	11.58%
2000	25.94	29.98	15.59%
2145 (Average)	27.16	31.50	15.97%
3000	34.40	40.47	17.63%
5000	51.34	61.45	19.69%
10000	93.68	113.90	21.58%

(END OF APPENDIX D-2)

Appendix A-3  
Page 1

Schedule No. BH-1

Baldwin Hills District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

Quantity Rates:

First 400,000 cu. ft., per 100 cu. ft. . . . .	\$ 1.3460 (I)
Over 400,000 cu. ft., per 100 cu. ft. . . . .	1.6260 (I)

Service Charge:

Per Meter Per Month

For 5/8 x 3/4-inch meter . . . . .	\$ 6.84	(I)
For 3/4-inch meter . . . . .	10.25	(R)
For 1-inch meter . . . . .	16.75	(I)
For 1-1/2-inch meter . . . . .	28.75	
For 2-inch meter . . . . .	38.75	
For 3-inch meter . . . . .	65.00	
For 4-inch meter . . . . .	83.75	
For 6-inch meter . . . . .	140.00	
For 8-inch meter . . . . .	201.00	
For 10-inch meter . . . . .	247.00	
For 12-inch meter . . . . .	293.00	

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

SPECIAL CONDITIONS

1. Due to an undercollection in the balancing account, a surcharge of \$0.03037 per Ccf is to be subtracted from the quantity rate for twelve months from the effective date of Advice Letter No. 374.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF.



Appendix A-3  
Page 2

Schedule No. BH-4

Baldwin Hills District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

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

RATE

	PER SERVICE
	<u>Per Month</u>
For each inch of diameter of private fire protection service . . . . .	\$3.42 (I)

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

SPECIAL CONDITIONS

1. The fire protection service and connection shall be installed by the Utility or under the Utility's direction. Cost of the entire fire protection installation excluding the connection at the main shall be paid for by the applicant. Such payment shall not be subject to refund.
2. The installation housing the detector type check valve and meter and appurtenances thereto shall be in a location mutually agreeable to the applicant and the Utility. Normally such installation shall be located on the premises of the applicant, adjacent to the property line. The expense of maintaining the fire protection facilities on the applicant's premises (including the vault, meter detector type check valves, backflow device and appurtenances) shall be paid for by the applicant.

(End of Appendix A-3)

APPENDIX B-3  
Page 1

California-American Water Company  
Baldwin Hills District

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

SCHEDULE NO. BH-1  
-----

Service Charges:	1993	1994
For 5/8 x 3/4-inch meter. . . . .	\$0.51	\$0.46
For 3/4-inch meter. . . . .	0.65	0.80
For 1-inch meter. . . . .	1.45	1.30
For 1-1/2-inch meter. . . . .	7.18	8.98
For 2-inch meter. . . . .	9.69	12.11
For 3-inch meter. . . . .	16.25	20.30
For 4-inch meter. . . . .	20.93	26.17
For 6-inch meter. . . . .	35.00	43.00
For 8-inch meter. . . . .	50.00	63.00
For 10-inch meter. . . . .	62.00	77.00
For 12-inch meter. . . . .	74.00	91.00

Quantity Rates:

First 400,000 cu.ft., per 100 cu.ft.	-0.0040	0.0000
Over 400,000 cu.ft. per 100 cu.ft.	-0.0040	0.0000

SCHEDULE NO. BH-4  
-----

For each inch of diameter of private fire protection service .....	0.1000	0.1000
--	--------	--------

(End of Appendix B-3)

California-American Water Company  
Baldwin Hills District

Adopted Quantities  
-----

	1992 -----	1993 -----
1. Water Production : AF		
Pumping Right	2066.3	2066.3
Purchased	2032.0	2037.2
Total	4098.3	4103.5
Total (Kccf)	1785.2	1787.5
2. Purchased Water Expenses		
Central & West Basin (7-1-91)		
Replenishment Cost @ \$100.00/AF	\$206,630.0	\$206,630.0
Central Basin Assessment	\$2,279.0	\$2,393.0
West Basin MWD (7-1-91)		
Purchased Cost \$276.00/AF	\$560,820.0	\$562,277.0
Total Purchased Water Cost	\$769,729.0	\$771,300.0
3. Purchased Power Expenses		
Boosters (S.C.E. Effective 1-91):		
PA-1 (158 H.P.)	251,600	251,800
PA-2 (74 KW)	154,110	154,450
Power Consumption (KWH)	405,710	406,250
Power Cost	\$45,487	\$45,538
Wells (LADWP Effective 1-91)		
Power Consumption (KWH)	1,920,810	1,920,810
Power Cost	\$184,859	\$184,859
Total Purchased Power Cost	\$230,346	\$230,397
4. Uncollectible rate	0.2754%	
5. Local franchise taxes	0.5028%	
6. California corporation franchise tax	9.30%	
7. Federal tax rate	34.00%	
8. Net to gross multiplier	1.77750	

## APPENDIX C-3

Page 2

California-American Water Company  
Baldwin Hills DistrictAdopted Quantities  
-----

## 10. Number of Services by meter size

	1992	1993
	-----	-----
5/8 x 3/4 inch	4,086	4,089
3/4	1	1
1	1,890	1,892
1 1/2	68	68
2	58	58
3	1	1
4	2	2
6	0	0
8	0	0
10	0	0
12	0	0
	-----	-----
	6,106	6,111

## 11. Metered Sales (KCcf)

	1992	1993
	-----	-----
0 - 4 KCcf	1597.2	1599.3
> 4 KCcf	51.3	51.3
	-----	-----
Total	1648.5	1650.6

## 12. Number of Service and Usage

	No. of Service	Usage - Kccf	Ave Usage - ccf
	1992	1993	1992
	-----	-----	-----
Residential	5,460	5,460	1245.4
Business Norm.	620	625	254.6
Business Large	3	3	24.8
Industrial	2	2	99.3
Pub. Auth. Norm.	20	20	13.7
Pub. Auth. Large	1	1	10.7
	-----	-----	-----
Subtotal	6106	6111	1648.5
All Other	27	27	4.6
	-----	-----	-----
Total	6,133	6,138	1,653.1
			1,655.2
Water Loss	7.40%		132.1
			132.3
			-----
Total Water Produced			1785.2
			1787.5

## APPENDIX C-3

Page 3

California-American Water Company  
Baldwin Hills DistrictIncome Tax Calculation  
-----

	1992 -----	1993 -----
	(Dollars in thousands)	
Operating Revenue (authorized rates)	\$3,019.7	\$3,088.3
Expenses		
Purchased water	769.7	771.3
Purchased power	230.3	230.4
Pumping	18.4	19.2
Payroll	448.0	466.9
Purchased chemicals	1.1	1.2
Other O & M	177.6	184.5
Other A & G	214.0	225.5
G.O. prorations	182.2	188.9
Business license	1.8	1.8
Taxes other than income	80.2	84.3
Uncollectibles	8.3	8.5
Franchise tax	15.2	15.5
Transportation depreciation	0.0	0.0
Interest expense	238.1	249.0
Total Deduction	2,384.9	2,447.0
State Tax Depreciation	157.9	166.6
Net Taxable Income	476.9	474.7
State Corp. Franch. Tax 9.3%	44.4	44.1
Federal Tax Depreciation	155.2	164.6
State Income Tax	34.5	44.4
Less Preferred Stock Dividend	0.0	0.0
Net Taxable Income	445.1	432.3
Fed. Income Tax 34.00%	151.3	147.0
Less ITC	2.9	2.9
Total Federal Income Tax	148.4	144.1
Total Income Tax	192.8	188.2

(END OF APPENDIX C-3)

APPENDIX D-3  
Page 1

California-American Water Company  
Baldwin Hills District

Comparison of typical bills for residential metered customers of various usage level and average level at present and authorized rates for the year 1992.

General Metered Service  
(5/8 x 3/4-inch meters)

Monthly Usage (Cubic Feet)	At Present Rates	At Authorized Rates	Percent Increase
500	\$13.31	\$13.57	1.97%
1000	19.95	20.30	1.78%
1901 (Average)	31.91	32.43	1.64%
2000	33.22	33.76	1.63%
3000	46.50	47.22	1.56%
5000	73.05	74.14	1.50%
10000	139.42	141.44	1.45%

(END OF APPENDIX D-3)

Appendix A-4  
Page 1

Schedule No. SM-1

San Marino District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

Quantity Rates:

All water delivered, per 100 cu. ft. . . . . \$ 0.8245 (R)

Service Charge:

Per Meter Per Month

For 5/8 x 3/4-inch meter . . . . .	\$ 7.38
For 3/4-inch meter . . . . .	8.61
For 1-inch meter . . . . .	13.05
For 1 1/2-inch meter . . . . .	20.45
For 2-inch meter . . . . .	28.60
For 3-inch meter . . . . .	54.50
For 4-inch meter . . . . .	80.10
For 6-inch meter . . . . .	143.30
For 8-inch meter . . . . .	217.00
For 10-inch meter . . . . .	276.50

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

SPECIAL CONDITIONS

1. Due to an undercollection in the balancing account, a surcharge of \$0.0197 per CcF is to be added to the quantity rate for twelve months from the effective date of Advice Letter No. 376.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(End of Appendix A-4)

APPENDIX B-4  
Page 1

California-American Water Company  
San Marino District

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

SCHEDULE NO. SM-1  
-----

Service Charges:	1993	1994
For 5/8 x 3/4-inch meter . . . . .	\$0.00	\$0.00
For 3/4-inch meter . . . . .	0.00	0.00
For 1-inch meter . . . . .	0.00	0.00
For 1-1/2-inch meter . . . . .	0.00	0.00
For 2-inch meter . . . . .	0.00	0.00
For 3-inch meter . . . . .	0.00	0.00
For 4-inch meter . . . . .	0.00	0.00
For 6-inch meter . . . . .	0.00	0.00
For 8-inch meter . . . . .	0.00	0.00
For 10-inch meter . . . . .	0.00	0.00

Quantity Rates:

For all water, per 100 cu.ft.	0.0151	0.0125
-------------------------------	--------	--------

SCHEDULE NO. SM-4  
-----

For each inch of diameter of private fire protection service .....	0.0000	0.4300
--	--------	--------

(End of Appendix B-4)



California-American Water Company  
San Marino District

Adopted Quantities  
-----

	1992 -----	1993 -----
1. Water Production : AF		
San Gabriel Basin Safe Yield	140000.0	140000.0
San Marino Percent	0.039908	0.039908
Safe Yield	5587.1	5587.1
Replenishment Water	4346.7	4379.3
Raymond Basin	2299.0	2299.0
MWD	1200.0	1200.0
S. Pasadena	40.0	40.0
Pasadena	125.0	125.0
Total	13,597.8	13,630.4
Total (KCcf)	5,923.2	5,937.4
2. Purchased Water Expenses		
Main San Gabriel Basin (7-1-91)		
Replenishment Cost \$206.85/AF	\$899,110.0	\$905,853.0
Long Beach Cost \$1.50/AF	\$8,380.7	\$8,380.7
Administrative Cost \$16.30/AF	\$161,920.9	\$162,452.2
MWD (7-1-91) @ \$261.00/AF	\$313,200.0	\$313,200.0
All Other	\$100,874.8	\$100,874.8
Total Cost	\$1,483,486.3	\$1,490,760.8
3. Purchased Power : KWH		
Upper System		
So. Cal. Edison	3,586,234	3,599,579
Pasadena Municipal	1,434,430	1,434,430
Lower System		
So. Cal. Edison	3,473,030	3,480,925
Total Power Consumption	8,493,694	8,514,934
4. Purchased Power Expenses (1-1-91)		
Upper System		
So. Cal. Edison	\$346,141.0	\$347,369.0
Pasadena Municipal	\$160,329.0	\$160,329.0
Lower System		
So. Cal. Edison	\$315,006.0	\$315,595.0
Total Power Consumption	\$821,476.0	\$823,293.0
5. Uncollectible rate	0.13470%	
6. California corporation franchise tax	9.30%	
7. Federal tax rate	34.00%	
8. Net to gross multiplier	1.78120	

APPENDIX C-4

California-American Water Company  
San Marino District

Adopted Quantities

10. Number of Services by meter size

	1992	1993
5/8 x 3/4 inch	7,684	7,699
3/4	7	7
1	4,543	4,553
1 1/2	964	970
2	513	514
3	13	13
4	14	14
6	8	8
8	0	0
10	0	0
	13,746	13,778

11. Metered Sales (Kccf)

	1992	1993
All Water	5506.2	5519.4
Total	5506.2	5519.4

12. Number of Service and Usage

	No. of Service		Usage - Kccf		Ave Usage - ccf	
	1992	1993	1992	1993	1992	1993
Residential	12,066	12,088	3847.8	3854.9	318.9	318.9
Business Norm.	1,441	1,450	836.6	841.9	580.6	580.6
Business Large	37	37	359.3	359.3	9,710.4	9,710.4
Industrial Norm.	59	59	58.5	58.5	990.8	990.8
Industrial Large	11	11	167.7	167.7	15,248.0	15,248.0
Pub. Auth. Norm.	118	119	109.9	110.8	931.4	931.4
Pub. Auth. Large	14	14	126.4	126.4	9,026.7	9,026.7
Subtotal	13,746	13,778	5506.2	5519.4		
All Other	148	150	17.8	17.8		
Total	13,894	13,928	5,524.0	5,537.2		
Water Loss	6.74%		399.2	400.2		
Total Water Produced			5923.2	5937.4		

## APPENDIX C-4

Page 3

California-American Water Company  
San Marino DistrictIncome Tax Calculation  
-----

	1992 ----	1993 ----
	(Dollars in thousands)	
Operating Revenue (authorized rates)	\$6,448.8	\$6,548.1
Expenses		
Purchased water	1,483.5	1,490.8
Purchased power	821.5	823.3
Pumping	56.9	59.7
Payroll	679.2	708.0
Purchased chemicals	6.4	6.7
Other O & M	275.7	286.2
Other A & G	373.1	392.5
G.O. prorations	373.0	386.7
Business license	1.1	1.1
Taxes other than income	163.8	170.7
Uncollectibles	8.7	8.8
Franchise tax	68.4	69.4
Interest expense	544.7	548.6
Total Deduction	4,855.9	4,952.5
State Tax Depreciation	414.8	427.9
Net Taxable Income	1,178.1	1,167.7
State Corp. Franch. Tax 9.3%	109.6	108.6
Federal Tax Depreciation	402.8	418.4
State Income Tax	121.7	109.6
Less Preferred Stock Dividend	0.0	0.0
Net Taxable Income	1,068.3	1,067.6
Fed. Income Tax 34.00%	363.2	363.0
Less ITC	8.9	8.9
Total Federal Income Tax	354.3	354.1
Total Income Tax	463.9	462.7

(END OF APPENDIX C-4)

APPENDIX D-4  
Page 1California-American Water Company  
San Marino District

Comparison of typical bills for residential metered customers of various usage level and average level at present and authorized rates for the year 1992.

General Metered Service  
(5/8 x 3/4-inch meters)

Monthly Usage (Cubic Feet)	At Present Rates	At Authorized Rates	Percent Increase
500	\$11.62	\$11.50	-1.04%
1000	15.87	15.63	-1.52%
2000	24.35	23.87	-1.98%
2658 (Average)	29.94	29.30	-2.14%
3000	32.84	32.12	-2.20%
5000	49.81	48.61	-2.42%
10000	92.24	89.83	-2.61%

(END OF APPENDIX D-4)