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ORIGINAL

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application
of CALIFORNIA WATER SERVICE
COMPANY for an order authorizing
it to increase rates charged for
water service in its Bear Gulch
District.

Application 60567
(Filed May 20, 1981)

Donald Houck and McCutchen, Doyle, Brown &
Enersen, by A. Crawford Greene, Attorney
at Law, for California Water Service
Company, applicant.
Steven Weissman, Attorney at Law, and
Mehdi G. Radpour, for the Commission staff.

FINAL OPINION

By Decision (D.) 93845, dated December 15, 1981 in this proceeding, we issued our interim order authorizing California Water Service Company (CWS) to increase rates for water service in its Bear Gulch District during 1982, 1983, and 1984.

D.93845 found that there was not sufficient record evidence to reflect the consequences of the Economic Recovery Tax Act of 1981 (ERTA), and concluded that Application (A.) 60567 should remain open to receive evidence concerning the financial effects of ERTA. This new law causes an increase in federal income tax expenses for ratemaking purposes due to elimination of the full flow-through of accelerated depreciation and investment tax credit on utility plant additions placed in service after December 31, 1980.

On December 15 we also issued D.93848 in Order Instituting Investigation (OII) 24. This decision gives effect to ERTA by

adopting the conventional normalization method for treating depreciation and investment tax credit.

The staff has now developed financial information, shown in Table I, reflecting the effect of our decision in OII 24. CWS concurs with the staff development. The data shown in Table I include increased federal income tax expenses calculated in accordance with D.93848. Further revenue increases of \$148,600 in 1982 and \$156,600 in 1983 result under these calculations.

Table I and Appendix C provide a basis for review of future advice letter step rate increase requests.

Table I
CALIFORNIA WATER SERVICE COMPANY
Bear Gulch District

ADOPTED SUMMARY OF EARNINGS

	<u>Test Year 1982</u>	<u>Test Year 1983</u>
	(Dollars in Thousands)	
<u>At Present Rates</u>		
Operating Revenues	\$ 5,306.6	\$ 5,602.2
Operating Expenses		
Purchased Power	244.4	245.7
Purchased Water	1,223.7	1,231.2
Purchased Chemicals	19.5	21.2
Payroll - District	519.5	572.4
Other Oper. & Maint.	417.2	440.6
Other Admin. & Gen. & Misc.	39.5	39.9
Ad Valorem Taxes - District	133.5	139.3
Payroll Taxes - District	36.0	39.2
Depreciation	345.0	364.5
Ad Valorem Taxes - G.O.	1.7	1.7
Payroll Taxes - G.O.	8.2	8.8
Other Prorates - G.O.	347.8	380.3
Subtotal	<u>\$ 3,336.0</u>	<u>\$ 3,484.8</u>
Uncollectibles	6.9	7.3
Local Franchise Tax & Bus. Lic.	42.6	45.1
Income Taxes Before ITC	583.8	628.1
Investment Tax Credit	(8.1)	(2.9)
Total Operating Expenses	<u>\$ 3,961.2</u>	<u>\$ 4,162.4</u>
Net Operating Revenues	1,345.4	1,439.8
Rate Base	12,239.0	12,546.1
Rate of Return	10.99%	11.48%
<u>At Rate Level Adopted</u>		
Operating Revenues	\$ 5,455.2	\$ 5,758.8
Operating Expenses		
Subtotal	3,336.0	3,484.8
Uncollectibles	7.1	7.5
Local Franchise Tax & Bus. Lic.	43.8	46.2
Income Taxes Before ITC	659.1	707.6
Investment Tax Credit	(8.1)	(2.9)
Total Operating Expenses	<u>\$ 4,037.9</u>	<u>\$ 4,243.2</u>
Net Operating Revenues	1,417.3	1,515.6
Rate Base	12,239.0	12,546.1
Rate of Return	11.58%	12.08%

(Red Figure)

Findings of Fact

1. By D.93845, issued December 15, 1981 in A.60567, we authorized CWS to increase rates in its Bear Gulch District during 1982, 1983, and 1984.

2. D.93845 was an interim order because there was insufficient record evidence concerning the financial effects of ERTA and because we had not yet issued our decision in OII 24.

3. On December 15 we rendered D.93848 in OII 24 adopting the conventional normalization method for treating depreciation expense and investment tax credit.

4. The effect of ERTA and of our decision in OII 24 causes further increased income tax expenses to CWS and results in the need for further revenue increases of \$148,600 or 2.8% in 1982, \$156,600 or 2.8% in 1983, and \$163,900 or 2.8% in 1984.

5. A constant rate of return of 14.50% on common equity, found reasonable in D.93845, will result in returns on rate base of 11.58% in 1982, 12.08% in 1983, and 12.51% in 1984. The 1984 figure will give effect to financial attrition of 0.43% which CWS will suffer between 1983 and 1984.

Conclusions of Law

1. Further increases of \$148,600 or 2.8% for 1982 and \$156,600 or 2.8% for 1983 are reasonable. A further increase in 1984 of \$163,900 or 2.8% is reasonable based upon operational attrition of 0.56% and financial attrition of 0.43%.

2. CWS should be authorized to file the rate schedules attached as Appendixes A and B, subject to the conditions set forth in Conclusion of Law 5.

3. The adopted rates are just, reasonable, and nondiscriminatory.

4. Because of the immediate need for additional revenue, the following order should be effective the date of signature.

5. The further increases authorized in Appendix B should be appropriately modified in the event the rates of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1982, and/or September 30, 1983, exceed the lower of (a) the rate of return found reasonable by the Commission for CWS during the corresponding periods in the most recent rate decision, or (b) 11.58% for 1982 and 12.08% for 1983.

6. Appendixes A, B, and C to D.93845 should be canceled concurrently with the effective date of this order.

FINAL ORDER

IT IS ORDERED that:

1. California Water Service Company (CWS) is authorized to file for its Bear Gulch District, effective today, the revised rate schedules in Appendix A. The filing shall comply with General Order Series 96-A. The effective date of the revised schedules shall be the day of filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 15, 1982 CWS is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases attached to this order as Appendix B, or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the Bear Gulch District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1982, exceeds the lower of (a) the rate of return found reasonable by the Commission for CWS during the corresponding period in the then most recent rate decision or (b) 11.58%. Such filing shall comply with General Order Series 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedule shall be no earlier than January 1, 1983, or 30 days after the filing of the step rate, whichever is later.

3. On or after November 15, 1983 CWS is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases attached to this order as Appendix B, or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the Bear Gulch District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1983, exceeds the lower of (a) the rate of return found reasonable by the Commission for CWS during the corresponding period in the then most recent rate decision or (b) 12.08%. Such filing shall comply with General Order Series 96-A. The requested step rates shall be reviewed by

the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. But the staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedule shall be no earlier than January 1, 1984, or 30 days after the filing of the step rates, whichever is later.

4. Appendixes A, B, and C to D.93845 are canceled concurrently with the effective date of this order.

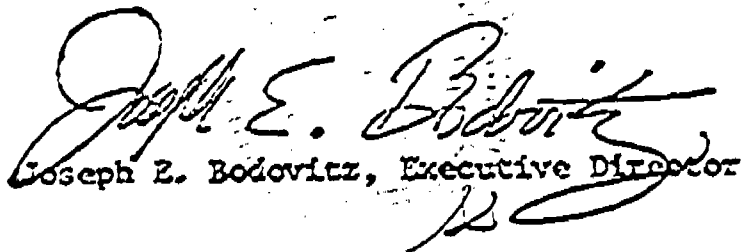
5. CWS shall send the bill insert notice attached as Appendix D to all customers in its Bear Gulch District by April 1, 1982.

This order is effective today.

Dated FEB - 4 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

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


Joseph Z. Bodovitz, Executive Director

APPENDIX A
Page 1

Schedule No. BG-1
Bear Gulch Tariff Area
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The communities of Atherton, Menlo Park, Portola Valley, Woodside, and vicinity, San Mateo County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Service Charge:	
For 5/8 x 3/4-inch meter	\$ 5.00
For 3/4-inch meter	8.30
For 1-inch meter	11.50
For 1 1/2-inch meter	16.00
For 2-inch meter	20.00
For 3-inch meter	38.00
For 4-inch meter	52.00
For 6-inch meter	85.00
For 8-inch meter	126.00
For 10-inch meter	157.00

Quantity Rates:

For the first 300 cu.ft., per 100 cu.ft.	0.705
For all over 300 cu.ft., per 100 cu.ft.	0.923

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

APPENDIX A
Page 2

Schedule No. EG-4

Bear Gulch Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

The communities of Atherton, Menlo Park, Portola Valley, Woodside, and vicinity, San Mateo County.

RATES

Per Month

For each 1½-inch connection	\$ 3.75
For each 2-inch connection	5.00
For each 3-inch connection	7.50
For each 4-inch connection	10.00
For each 6-inch connection	15.00
For each 8-inch connection	20.00
For each 10-inch connection	25.00

SPECIAL CONDITIONS

1. The fire protection service facilities will be installed by the Utility at the cost of the applicant. Such cost shall not be subject to refund. The facilities paid for by the applicant shall be the sole property of the applicant.
2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the Utility at the cost of the applicant. Such cost shall not be subject to refund.
3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the Utility. The Utility may require the installation of a detector check valve with meter for protection against theft, leakage, or waste of water.
4. For water delivered for other than fire protection purposes, charges will be made therefor under Schedule No. EG-1, General Metered Service.
5. The Utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

APPENDIX B

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.

<u>Service Charge</u>	<u>Effective Dates</u>	
	<u>1-1-53</u>	<u>1-1-54</u>
For 5/8 x 3/4-inch meter	\$0.25	\$0.25
For 3/4-inch meter	0.40	0.30
For 1-inch meter	0.60	0.50
For 1 1/2-inch meter	0.80	0.80
For 2-inch meter	1.00	1.00
For 3-inch meter	2.00	2.00
For 4-inch meter	3.00	2.00
For 6-inch meter	4.00	4.00
For 8-inch meter	6.00	6.00
For 10-inch meter	8.00	7.00

Quantity Rates:

For the first 300 cu.ft., per 100 cu.ft.	0.036	0.032
For all over 300 cu.ft., per 100 cu.ft.	0.046	0.043

Private Fire Protection Service

For each 1 1/2-inch Connection	0.40	0.35
For each 2-inch Connection	0.50	0.50
For each 3-inch Connection	0.75	0.75
For each 4-inch Connection	1.00	1.00
For each 6-inch Connection	1.50	1.50
For each 8-inch Connection	2.00	2.00
For each 10-inch Connection	2.50	2.50

(END OF APPENDIX B)

APPENDIX C
Page 1

ADOPTED QUANTITIES

Company: California Water Service Co.
District: Bear Gulch

	<u>1982</u> Ccf(1000)	<u>1983</u> Ccf(1000)	
1. <u>Water Production:</u>	4,716.1	4,740.4	
<u>Purchased Water :</u>	3,956.4	3,980.7	
<u>Surface Supply :</u>	759.7	759.7	
2. <u>Electric Power :</u>	0.768856 Kwh per Ccf	Supplier: PG&E	Date: <u>6-21-81</u>
Kwh :	3,626,000	3,644,700	
Cost :	\$ 244,400	\$ 245,700	
Cost per Kwh :	\$.067408	\$.067408	
3. <u>Ad Valorem Taxes:</u>	\$133,500	\$139,300	
Tax Rate:	0.926%	0.926%	
4. <u>Net-to-Gross Multiplier:</u>	2.06778		
5. <u>Local Franchise Tax Rate:</u>	0.8032%		
6. <u>Uncollectible Rate:</u>	0.13%		
7. <u>Metered Water Sales Used to Design Rates:</u>			

	<u>Range-Ccf</u>	<u>Usage - Ccf</u>	
		<u>1982</u>	<u>1983</u>
Block 1	0-3	563,638	566,443
Block 2	300	<u>3,899,862</u>	<u>3,920,057</u>
Total Usage		4,463,500	4,486,500

APPENDIX C.
Page 28. Number of Services:

	<u>No. of Services</u>		<u>Usage-KCcf</u>		<u>Avg. Usage-Ccf/Yr.</u>	
	<u>1982</u>	<u>1983</u>	<u>1982</u>	<u>1983</u>	<u>1982</u>	<u>1983</u>
Commercial-Metered	16,137	16,217	4,236.0	4,257.0	262.5	262.5
Industrial	7	7	12.7	12.7	1,814.3	1,814.3
Public Authority	100	101	169.4	170.4	1,694.0	1,687.1
Other	<u>18</u>	<u>18</u>	<u>45.4</u>	<u>46.4</u>	2,522.2	2,577.8
Subtotal	16,262	16,343	4,463.5	4,486.5		
Private Fire Prt.	58	59				
Public Fire Prt.	8	8				
Total	16,328	16,410				
Water Loss 5.36%			252.6	253.9		
Total Water Produced			4,716.1	4,740.4		

9. Number of Services (by meter size)

<u>Meter Size</u>	<u>1982</u>	<u>1983</u>
5/8" x 3/4"	11,406 services	11,462 services
3/4"	24	24
1"	3,703	3,723
1½"	793	797
2"	288	289
3"	32	32
4"	10	10
6"	5	5
8"	1	1
10"	-	-
Total	<u>16,262</u>	<u>16,343</u>

APPENDIX C
Page 3

INCOME TAX CALCULATION

Item	1962	1963
<u>State Franchise Tax</u>		
Operating Revenue	\$5,455.2	\$5,758.8
<u>Expenses</u>		
O&M	2,872.4	2,994.2
Taxes Other Than Income	169.5	178.5
Subtotal	3,041.9	3,174.0
<u>Deductions & Adjustments</u>		
Transportation Depr. Adj.	(17.1)	(16.6)
G.O. Depr. Adj.	(4.5)	(4.6)
Soc. Sec. Taxes Capitalized	7.0	7.6
Interest	615.8	603.4
Subtotal Deduction	601.2	677.8
State Tax Depreciation	558.4	572.0
Net Taxable Revenue	1,253.7	1,335.0
CCRT at 9.6%	120.3	128.2
<u>Federal Income Tax</u>		
Operating Revenue	5,455.2	5,758.8
Expenses	3,041.9	3,174.0
Deductions	601.2	677.8
FIT Depreciation	511.7	510.5
Preferred Stock Div. Cr.	3.7	3.7
State Income Tax	120.3	128.2
Taxable Revenue	1,176.3	1,264.6
FIT at 46%	542.1	581.7
Graduated Tax Adj.	(1.5)	(1.5)
Adj. for Invol. Conver.	(0.8)	(0.8)
Investment Tax Credit	(8.1)	(2.9)
FIT	530.7	576.5

(Red Figure)

(END OF APPENDIX C)

APPENDIX D

Bill Insert for CWS Customers
(Bear Gulch District)

One item of expense included in the rate increase recently granted to CWS for its Bear Gulch District by the Public Utilities Commission, amounting to \$148,600, was attributable to President Reagan's Economic Recovery Tax Act of 1981, which requires the Public Utilities Commission to charge ratepayers for the expense of taxes which are not now being paid to the Federal Government and which may never be paid. This expense may increase in the future as a percent of your bill.

(END OF APPENDIX D)