

ORIGINAL

Decision 82 09 020 SEP 8 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of CALIFORNIA-AMERICAN WATER)
COMPANY for an order authorizing)
it to increase its rates for water)
service in its MONTEREY PENINSULA)
DISTRICT.)

Application 82-02-47
(Filed February 22, 1982)

Steefel, Levitt & Weiss, by Lenard G. Weiss, Attorney at Law, for California-American Water Company, applicant.
William Dixon, for Utility Workers Union Local 511, intervenor.
Tom Dalzell, Attorney at Law, for Utility Workers Union Local 511 and Coalition of California Utility Workers, interested party.
James E. Scarff, Attorney at Law, and Mehdi G. Radpour, for the Commission staff.

INTERIM OPINION

I. Introduction

By Application (A.) 82-02-47 filed February 22, 1982, California-American Water Company (CalAm) requests authority to increase rates in its Monterey district by \$2,808,100 (40.2%) in 1982, with additional increases of approximately \$922,100 (12.8%) in 1983, and \$573,600 (7.7%) in 1984. Four days of public hearing have been held in this matter.

The last general rate increase for this district was authorized by Decision (D.) 92241 on September 16, 1980 (A.58850). In that proceeding CalAm requested additional revenues to compensate for the \$2,680,000 additional plant construction in progress at the time. The estimated amount consisted of the following:

Four Wells	\$ 565,106
Water Treatment Plant	1,376,348
Mains	<u>738,546</u>
Total	\$2,680,000

The Commission did not allow the additional revenues requested, providing instead:

"When the four wells and treatment plant in the Lower Carmel Valley go into service, applicant is authorized to file an advice letter with appropriate supporting data to adjust its rates to reflect the reasonable cost of this investment." (D.92241.)

The projects are now completed.

On March 4, 1982, CalAm filed Advice Letter 234 stating that the projects would be completed by March 31, 1982. The cost of the completed projects is \$5,037,285, consisting of the following:

Four Wells	\$ 848,702
Water Treatment Plant	2,519,069
Mains	<u>1,669,514</u>
Total	\$5,037,285

CalAm requested authorization for an annual revenue increase of \$925,000 to compensate for these costs.

By Resolution W-2980 dated May 18, 1982, the Commission authorized a \$489,200 annual revenue increase, based on the original estimate of \$2,680,000 for plant additions. Regarding the remaining portion of CalAm's request, we stated:

"Because of the large differences between actual and estimated costs, it is our view that in the current rate proceeding, the utility should justify all cost increases over and above the original \$2,680,000 estimate."

Accordingly, CalAm has offered evidence regarding this investment as part of its showing in this proceeding.

This matter was to be submitted based on 1982 and 1983 test years, with rates effective on October 1, 1982. After all the evidence regarding these plant additions was received, CalAm proposed that the schedule of the main case be changed to a January 1, 1983 decision, based on 1983 and 1984 test years, and that an interim order be issued addressing the remainder of its request relative to the plant additions. CalAm's proposal requires that additional data be furnished the staff and that further hearings be scheduled for the fall. Staff supports CalAm's proposal.

II. Plant Additions

CalAm's witness Bennett testified regarding the differences between the estimated and actual costs of plant additions. A comparison of these costs is shown below:

	<u>Actual Costs</u>	<u>Original 1978 Estimates</u>	<u>Cost Changes</u>
<u>Direct Costs</u>			
Land	\$ 173,707	\$ 170,000	\$ 3,707
Wells - 4	214,836	100,000	114,836
Pumping Equipment	332,859	215,000	117,859
Fencing	21,347	20,000	1,347
Pipeline	1,507,718	660,000	847,718
Filter Plant	<u>1,996,359</u>	<u>1,230,000</u>	<u>766,359</u>
Subtotal	\$4,246,826	\$2,395,000	\$1,851,826
<u>Overheads</u>			
Legal & Consultants	\$ 332,395	\$ 25,000	\$ 307,395
Company: Eng., Design, Constr. & Insp.	212,513	186,000	26,513
AFUDC	<u>245,551</u>	<u>74,000</u>	<u>171,551</u>
Subtotal	\$ 790,459	\$ 285,000	\$ 505,459
Total	\$5,037,285	\$2,680,000	\$2,357,285

He explained why actual costs were so much greater than originally estimated.

Bennett testified that some of the difference was due to the over 40% escalation in the costs of material and labor over the four-year period from when costs were originally estimated (1978) to the time of substantial construction (1981). He also identified various changes in plans or conditions that contributed to the differences.

Regarding wells, CalAm elected to install observation wells at each of the four well sites, a decision that was not originally contemplated. CalAm also specified continuous inspection of the well construction and development process by hydro-geological consultants, to ensure construction of the best wells possible. This inspection was not included in the original estimate of project costs.

Regarding pumping equipment, a large part of the additional cost is due to a use permit clause requiring submersible pump motors.

Regarding pipelines, the 1978 pipeline cost estimate was not based on the actual configuration, since sites had not been definitely selected for the wells and filter plant. CalAm was unable to overcome objections to its proposed San Carlos well site, so it expanded its existing Begonia plant. A much longer pipeline was required (29,250 feet vs. 19,950 feet).

Regarding the filter plant, several factors contributed to the higher costs, including inflation. The pneumatically operated valves at the existing plant were changed to electric valves, in order to eliminate compressor noise that had led to many complaints from residents nearby. Further unexpected cost increases occurred from the need to fit 11 additional filters at the rear of an existing site with only front access. Further costs arose from the need to remove two existing pumps used to pump supernatant backwash water, and to install two larger pumps in their place (25 Hp vs. 15 Hp), and

to install two new 100 Hp supernatant pumps. Because the backwash lagoon that could be built on the Begonia site is limited in size, it must be pumped out twice a day, requiring higher rated and larger horsepower pumps. All four pumps were required to have submersible motors.

Construction of the plant was put to competitive bid. The low bid of \$780,000 was reduced to \$442,883 by eliminating certain minor elements of work and removing portions of the job that could be done at lower cost by CalAm employees and local labor. The total cost for plant installation (excluding filter equipment) is about \$595,000, as compared to the \$780,000 low bid.

Regarding legal and consulting costs, CalAm provided a chronology of the use permits process indicating the various stages and delays that contributed to such costs being much greater than anticipated.

Staff witness Wilson testified that staff has reviewed CalAm's construction program and finds the \$5,037,285 figure reasonable. Staff states that the majority of the work was contracted out and done by the lowest bidder. Staff finds the costs and procedures reasonable.

Based on CalAm's showing and the staff review, we find that the remaining balance of the costs associated with the Lower Carmel Valley project included in Advice Letter 234 was reasonably incurred and is appropriately included in rate base.

We also find CalAm's procedural recommendation is reasonable. Although we prefer to avoid frequent rate increases, either course leads to increases only a few months apart (October 1st and January 1st if the case stays on the original schedule). This adopted approach has the advantage of isolating the increases related to this project that has been vigorously supported within the service territory, enhancing public understanding of the reasons for the

increase. Further, this approach avoids the apparent unfairness of a decision in late 1982 based on a 1982 test year, with its corresponding implication of inadequacy. Therefore the parties should proceed as proposed by CalAm.

III. Revenue Requirement and Rate Design

CalAm's original request was for \$925,400 annually. The amount granted by Resolution W-2980 was \$489,200. The remaining revenue requirement is \$436,200. CalAm should be authorized to increase its rates in order to recover this additional revenue.

In Resolution W-2980 we stated:

"Because the new plant is not directly related to water consumption, the increase is applied equally to the service charge and the commodity charge on a percentage basis."

We find the same rationale applicable to this further increase in the absence of any evidence to the contrary.

The following tables show typical bills for residential metered customers at various elevations and usage levels, at present and authorized rates:

California-American Water Company
 Monterey Peninsula District
 RESIDENTIAL METERED SERVICE
 BILL COMPARISON
 (5/8 x 3/4-inch meters)

<u>Monthly Use</u>	<u>Present Rates</u>	<u>Authorized Rates</u>	<u>Percent Increase</u>
<u>Gravity Zone</u>			
300 cu. ft.	\$ 5.80	\$ 6.21	7.07%
500 " "	7.64	8.17	6.94
1,000 " "	12.26	13.06	6.52
1,500 " "	16.88	17.96	6.39
2,000 " "	21.50	22.85	6.28
2,500 " "	26.22	27.75	6.24
3,000 " "	30.74	32.64	6.18
<u>First Elevation Zone</u>			
300 cu. ft.	\$ 6.35	\$ 6.76	6.46%
500 " "	8.39	8.92	6.32
1,000 " "	13.51	14.31	5.92
1,500 " "	18.63	19.71	5.78
2,000 " "	23.75	25.10	5.68
2,500 " "	28.87	30.50	5.65
3,000 " "	33.99	35.89	5.59
<u>Second Elevation Zone</u>			
300 cu. ft.	\$ 6.78	\$ 7.19	6.05%
500 " "	8.94	9.47	5.93
1,000 " "	14.36	15.16	5.57
1,500 " "	19.78	20.86	5.46
2,000 " "	25.20	26.55	5.36
2,500 " "	30.62	32.25	5.32
3,000 " "	36.04	37.94	5.27

Because the investment has been made and the plant is in service, the rates authorized by this order should be effective immediately.

Findings of Fact

1. CalAm has invested \$5,037,285 in its Lower Carmel Valley project.
2. The actual costs substantially exceed the original estimated costs of the project.
3. The actual costs were reasonably incurred by CalAm.
4. A portion of the actual costs have been included in rate base and reflected in rates by Commission Resolution W-2980.
5. The remaining balance of actual costs should be included in rate base and reflected in rates.
6. Based on CalAm's last authorized rate of return, the revenue requirement associated with the actual costs of this project is \$925,400 annually.
7. The rate increase authorized by Resolution W-2980 was calculated to yield \$489,200 annually.
8. The additional revenue requirement associated with the remaining balance of the actual costs is \$436,200.
9. Because the new plant is not directly related to water consumption, the increase is applied equally to the service charge and the commodity charge on a percentage basis.
10. The increased rates authorized are justified; the present rates are for the future unjust and unreasonable.
11. The rate increase should be effective immediately because the plant is in service and otherwise providing no return to CalAm.

Conclusions of Law

1. CalAm's investment in the Lower Carmel Valley project is reasonable.
2. CalAm should be authorized to increase its rates by \$436,200 on an annual basis.

INTERIM ORDER

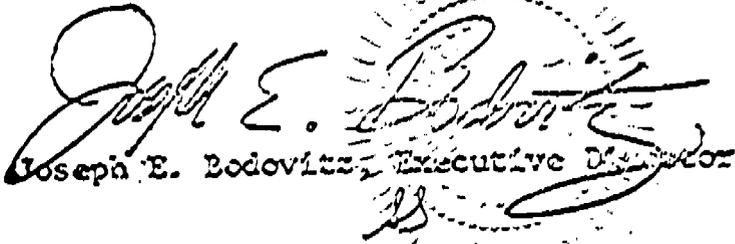
IT IS ORDERED that California-American Water Company is authorized to file revised Schedules Nos. MO-1 and MO-7 set forth in Appendix A, generating \$436,200 in additional revenues based on an equal percentage increase to the service charge and the commodity charge. The revised rates shall become effective on the date they are filed.

This order is effective today.

Dated SEP 8 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 E. Bodovitz, Executive Director

APPENDIX A
Page 1

Schedule No. MO-1

Monterey Peninsula Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water furnished on a metered basis.

TERRITORY

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

RATES

	<u>Per Meter Per Month</u>		
	<u>Gravity Zone</u>	<u>1st Elevation Zone</u>	<u>2nd Elevation Zone</u>
Service Charge:			
For 5/8 x 3/4-inch meter	\$ 4.05	\$ 4.30	\$ 4.55 (1)
For 3/4-inch meter	5.80	6.30	6.70
For 1-inch meter	8.40	9.40	9.90
For 1-1/2-inch meter	14.20	15.20	15.70
For 2-inch meter	24.00	26.00	28.00
For 3-inch meter	43.00	47.00	51.00
For 4-inch meter	64.00	70.00	76.00
For 6-inch meter	101.00	116.00	131.00
For 8-inch meter	160.00	180.00	200.00
Quantity Rates:			
For the first 300 cu.ft., per 100 cu.ft.	\$ 0.720	\$ 0.820	\$ 0.880
For all over 300 cu.ft., per 100 cu.ft.	0.979	1.079	1.139 (1)

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.

SPECIAL CONDITION

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

APPENDIX A
Page 2

SCHEDULE NO. MO-7
MONTEREY PENINSULA TARIFF AREA
STREET SPRINKLING SERVICE

APPLICABILITY

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

TERRITORY

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

RATE

Per Month

For all water used, per 100 cu. ft. \$0.931 (1)

(END OF APPENDIX A)

California-American Water Company
 Monterey Peninsula District
 RESIDENTIAL METERED SERVICE
 BILL COMPARISON
 (5/8 x 3/4-inch meters)

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3,000 " "	33.90 ⁹ <i>ll</i>	35.89	5.87 ⁵⁹
<u>Second Elevation Zone</u>			
300 cu. ft.	\$ 6.78	\$ 7.19	6.05%
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per R. F. ...