

Decision 82 12 096 DEC 15 1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA WATER SERVICE COMPANY, a
corporation, for an order
authorizing it to increase rates
charged for water service in the
Livermore District.

Application 82-03-96
(Filed March 26, 1982)

McCutchen, Doyle, Brown & Enersen, by
A. Crawford Greene, Attorney at
Law, and Donald Houck, for
California Water Service Company,
applicant.

Lynn T. Carew, Attorney at Law, and
Sung B. Han, for the Commission
staff.

O P I N I O N

By this application California Water Service Company (CWS) seeks authority to increase the rates for water service in its Livermore District to produce annual revenue increases of 34.3% or \$885,200 in 1983, and by additional amounts of 7.5% and 5.8% or \$261,700 and \$217,900, respectively, in 1984 and 1985.

Public hearings on a consolidated record with Application (A.) 82-03-94, A.82-03-95, A.82-03-97, and A.82-03-98 were held before Administrative Law Judge (ALJ) Orville I. Wright in San Francisco on August 2, 3, 4, 5, 6, and 12, 1982. Donald Houck, Barney Tumey, Parker Robinson, and Harold Ulrich presented evidence for CWS. Oscar David, Donald Yep, Arthur Gallegos, Donald McCrea, Chew Low, Ernst Knolle, Christopher Blunt, and Sung Han presented

evidence for staff. There were no intervenors or interested parties. One public witness appeared at the San Francisco hearings opposing the magnitude of the proposed increase in the Livermore District.

The matter was submitted with the filing of concurrent briefs on August 31, 1982. Areas of difference between staff and CWS were:

1. Operating revenues.
2. Payroll increases.
3. Postage expense.
4. Tank painting maintenance.
5. Construction budgets.
6. Rate of return.
7. Rate design.
8. Offset proposals.
9. Ordering paragraph revision.

The several areas of difference which are common to each application in this group of CWS districts were discussed and resolved in the East Los Angeles District decision (Decision 82-11-058, November 17, 1982). Reference is made to that decision and the pertinent text.

Remaining issues are:

1. Operating revenues.
2. Tank painting maintenance.
3. Construction budgets.

Decision Summary

Applicant's request for rate increases and our adopted increases are as follows:

	<u>Additional Revenues Requested</u>	<u>Percent Rate Increase</u>	<u>Additional Revenues Adopted</u>	<u>Percent Rate Increase</u>
1983	\$885,200	34.3%	\$719,100	27.7%
1984	261,700	7.5	136,300	4.1
1985	217,900	5.8	89,100	2.6

The table below shows typical bills for residential metered customers at various usage levels at present rates and at rates authorized for 1983:

General Metered Service (5/8x3/4) inch meters

<u>Monthly Usage</u>	<u>Present rates</u>	<u>Authorized Rates</u>	<u>Percent Increase</u>
300 cu.ft.	\$ 4.83	\$ 6.25	29.4%
500	6.10	7.86	28.9
1000	9.28	11.88	28.0
1500	12.46	15.90	27.6
2000	15.64	19.92	27.4
2500	18.82	23.94	27.2
3000	22.00	27.96	27.1

Table I shows the adopted summary of earnings at present rates and at the rate levels adopted for test years 1983 and 1984.

TABLE I
CALIFORNIA WATER SERVICE COMPANY
Livermore District

ADOPTED SUMMARY OF EARNINGS

	Test Year 1983	Test Year 1984
	(Dollars in Thousands)	
<u>Present Rates</u>		
Operating Revenues	2,599.8	2,616.8
<u>Operating Expenses</u>		
Purchased power	183.0	184.3
Purchased water	1,064.2	1,075.7
Payroll - District	287.8	307.1
Other O & M	189.6	198.5
Other A&G and misc.	32.2	36.8
Ad valorem taxes - District	73.9	76.3
Payroll taxes - District	20.3	21.6
Depreciation	172.0	178.3
Ad valorem taxes - G.O.	1.1	1.1
Payroll taxes - G.O.	5.2	5.3
Other prorates - G.O.	231.1	247.6
Subtotal	2,260.4	2,332.6
Uncollectibles	5.8	5.9
Local franch. tax & bus. lic.	25.2	25.4
Income taxes before ITC	(32.2)	(72.1)
Investment tax credit	(0.5)	(0.5)
Total operating expenses	2,258.7	2,291.3
Net operating revenues	341.1	325.5
Rate base	5,653.5	5,885.7
Rate of return	6.03%	5.53%
<u>Proposed Rates</u>		
Operating revenues	3,318.9	3,476.9
<u>Operating expenses</u>		
Subtotal	2,260.4	2,332.6
Uncollectibles	7.5	7.8
Local franch. tax & bus. lic.	32.2	33.8
Income taxes before ITC	331.4	362.9
Investment tax credit	(0.5)	(0.5)
Total operating expenses	2,631.0	2,736.6
Net operating revenues	687.9	740.3
Rate base	5,653.5	5,885.7
Rate of return	12.17%	12.58%

(Red Figure)

A rate of return on rate base of 12.17% for 1983 and 12.58% for 1984 is found reasonable. Return on equity is 14.5%.

For test year 1983, \$111,000 of the revenue requirement is due to the Economic Recovery Tax Act (ERTA). The effect could increase. We will direct applicant to notify its customers of the ERTA effect on rates. (Appendix D.)

Operating Revenues

For test year 1983, staff estimates of operating revenues exceed comparable CWS estimates by \$13,700 at present rates. For test year 1984, staff estimates exceed those of applicant by \$19,400 at present rates. These differences are attributable to disagreement over commercial metered services and public authority metered sales.

CWS's original estimates of the number of commercial metered customers was predicated on the historical trend of customer growth in Livermore. Staff adopted these estimates after having contacted local zoning officials to obtain data regarding the number of building permit approvals granted. These data show 121 approvals have been allowed for 1983 and 75 approvals allowed for 1984. While admitting that new construction is at a standstill at present, staff believes its estimate of 49 new customers in each of the test years is supported by the proven building potential in the area.

Applicant's revised estimates are based upon recorded data through June 1982 which shows fewer customers in the district in March 1982 than at the close of 1981.

We think that applicant places too much emphasis on short-term data. We will adopt the staff estimates as the more reasonable.

With respect to public authority metered sales, staff accepted applicant's estimates. CWS, however, submitted lower estimates based upon recorded sales through June 1982. The differences, in the words of applicant, are not significant, and amount only to a possible better estimate because of later data.

Minor adjustments made on the eve of rate case hearings should be discouraged. We will adopt the staff estimates as the most reasonable.

Tank Painting

Staff recommends a \$15,000 reduction in the 1985 maintenance budget for one of two companion tanks then scheduled for painting (Tank No. 1, Station 18).

While staff makes this suggestion based upon a physical inspection, the evidence shows that the engineer was unable to view the top of the tanks where applicant's witness testified that signs of rust are already showing.

Accordingly, we adopt applicant's tank painting estimates in this proceeding.

Construction Budgets

Staff recommends disallowance of funds for a projected computer-based remote data and control system.

This denial is not to be viewed as a rejection of the efficiencies inherent in employing modern technology but simply that the company did not supply enough justification for the level of cost.

We discussed this issue in our decision in CWS's Palos Verdes District (A.82-03-94) and adopt the staff recommendation here, as well. This amount is \$258,000 in the 1984 Livermore District budget.

The company is invited to prepare and submit the recommended study in its applications for general rate relief in its remaining districts, for there is growing recognition of the cost-effectiveness of well-designed computer management and control systems for industry.

Staff further recommends the deletion of a storage tank in the 1983 budget at a projected cost of \$364,000. This is a replacement project to increase the present total storage of water at Las Positas from 5 $\frac{1}{2}$ % of applicant's total storage in Livermore to 13% of total storage.

As there are no service complaints in the Las Positas area, and as the existing storage tank continues to function without leakage, staff disputes the necessity of erecting a new storage tank in the vicinity.

CWS states that there is an immediate need for additional storage capacity. It will increase water pressure in the area about five pounds and existing storage is inadequate for a zone that contains about one-third of the district's customers including most of the downtown service area.

We think that applicant's generalizations fall far short of meeting its burden of proof that the proposed construction is reasonable and necessary to provide adequate service to its customers. We will adopt the staff adjustment.

Findings of Fact

1. The adopted estimates of operating revenues, operating expenses, rate base, and rate of return for test years 1983 and 1984 are reasonable.

2. A rate of return of 12.17% on the adopted rate base of \$5,653,500 for test year 1983 is consistent with the return recently authorized for CWS' East Los Angeles District and is reasonable.

3. A rate of return of 12.58% on the adopted rate base of \$5,885,700 for test year 1984 reflects expected changes in cost of capital and is reasonable.

4. CWS's earnings under present rates for test year 1983 would produce net operating revenues of \$341,100 on a rate base of \$5,653,500 based on the adopted results of operations, resulting in a rate of return of 6.03%.

5. CWS's earnings under present rates for test year 1984 would produce net operating revenues of \$325,500 on a rate base of \$5,885,700 based on the adopted results of operations, resulting in a rate of return of 5.53%.

6. The authorized increases in rates are expected to provide annual increases in revenues of \$719,100 in 1983, \$136,300 in 1984, and \$89,100 in 1985.

7. Operational attrition on the basis of adopted rates is 0.71% and financial attrition is 0.02% for 1985.

8. CWS's level of water service is adequate.

9. The increases in rates and charges authorized for the year 1983 in Appendix A are just and reasonable; and the present rates and charges insofar as they differ from those prescribed are for the future, unjust and unreasonable.

10. Increases in rates authorized for 1984 and 1985 in Appendixes B and C are required to offset attrition in earnings and are reasonable.

11. The adopted rate design will limit the impact on individual customers.

12. There is insufficient evidence to justify the expenditure of \$258,000 in 1984 for a computer-based remote data and control system in this district.

13. There is insufficient evidence to justify the expenditure of \$364,000 in 1983 to increase storage capacity at Las Positas in this district.

14. The orderly transition to the increased rates and charges authorized here to be effective January 1, 1983 necessitates that this order be given immediate effect.

Conclusion of Law

The application should be granted to the extent provided by the following order.

O R D E R

IT IS ORDERED that:

1. California Water Service Company (CWS) is authorized to file the revised schedules attached to this order as Appendix A and to concurrently cancel its present schedules for such service. This filing shall comply with General Order (GO) Series 96. The effective date of the revised schedules shall be 4 days after the date of filing, but not earlier than January 1, 1983. The revised schedules shall apply only to service rendered on and after their effective date.

2. After CWS has completed its 1983 refinancing of its Series T Bonds, CWS shall file an advice letter, with appropriate workpapers, requesting changes in the authorized step rates for 1984 and 1985 to reflect the changes in the adopted rates of return for 1984 and 1985 resulting from actual 1983 refinancing costs of Series T Bonds differing from those costs adopted in this decision. Staff shall review the refinancing costs of the Series T Bonds and determine whether the refinancing costs are prudent. If staff finds that the refinancing costs are prudent, the revised rates of return for 1984 and 1985 shall be determined by substituting the actual 1983 refinancing costs of the Series T Bonds for the estimated costs adopted in order to derive the revised embedded debt costs for each of the two years. All other ratios, cost factors, and weighting factors adopted in this decision shall be used in calculating the revised rates of return. Changes in revenues for each year shall be calculated by multiplying the 1984 adopted rate base by the change in rate of return less the offsetting income tax effect due to the change in the embedded cost of debt for 1984. The resulting change in net revenues shall then be multiplied by the adopted net-to-gross multiplier to arrive at the change in gross revenues. The revised step rates resulting from the above determinations shall become effective on the date the authorized step rates would normally become effective, or on the date the changes in rates authorized in this ordering paragraph are approved by the Commission, whichever is later.

3. On or after November 15, 1983, CWS is authorized to file an advice letter, with appropriate workpapers, 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 Livermore District rate of return on rate base, adjusted to reflect the rates

then in effect and normal ratemaking adjustments for the 12 months ended 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) 12.17%. Such filing shall comply with GO 96-A. The requested step rates shall be reviewed by staff and shall go into effect upon staff's determination that they conform with this order. But 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. On or after November 15, 1984, CWS is authorized to file an advice letter, with appropriate workpapers, 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 Livermore District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1984, 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) 12.58%. Such filing shall comply with GO 96-A. The requested step rates shall be reviewed by staff and shall go into effect upon staff's determination that they conform with this order. But 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, 1985, or 30 days after the filing of the step rates, whichever is later.

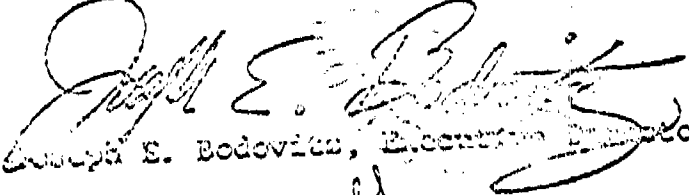
5. Before January 31, 1983, CWS shall send the bill insert in Appendix D to its Livermore District customers.

This order is effective today.

Dated DEC 15 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 S. Bodovitz, Executive Director

APPENDIX A

Page 1

Schedule No. LV-1

Livermore Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Livermore and vicinity, Alameda County.

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 4.60	(I)
For 3/4-inch meter	7.90	
For 1-inch meter	10.80	
For 1 1/4-inch meter	15.20	
For 2-inch meter	19.50	
For 3-inch meter	35.00	
For 4-inch meter	49.00	
For 6-inch meter	81.00	
For 8-inch meter	122.00	
For 10-inch meter	150.00	
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft.550	
For the next 29,700 cu.ft., per 100 cu.ft.804	
For all over 30,000 cu.ft., per 100 cu.ft.785	(I)

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. LV-4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Livermore and vicinity, Alameda County.

RATES

	<u>Per Month</u>	
For each 1½-inch connection	\$ 4.15	(I)
For each 2-inch connection	5.50	
For each 3-inch connection	8.25	
For each 4-inch connection	11.00	
For each 6-inch connection	16.50	
For each 8-inch connection	22.00	
For each 10-inch connection	27.50	(I)

(END OF APPENDIX A)

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.

		Effective Dates	
		<u>1-1-84</u>	<u>1-1-85</u>
<u>SCHEDULE EL-1</u>			
Service Charges:			
For 5/8 x 3/4-inch meter		\$0.20	\$0.10
For 3/4-inch meter		0.30	0.20
For 1-inch meter		0.40	0.30
For 1 1/2-inch meter		0.60	0.40
For 2-inch meter		1.00	0.50
For 3-inch meter		1.00	1.00
For 4-inch meter		2.00	1.00
For 6-inch meter		3.00	2.00
For 8-inch meter		5.00	3.00
For 10-inch meter		6.00	4.00
Quantity Rates:			
For the first 300 cu.ft., per 100 cu.ft.		0.022	0.015
For the next 29,700 cu.ft., per 100 cu.ft.		0.032	0.023
For all over 30,000 cu.ft., per 100 cu.ft.		0.033	0.019

SCHEDULE EL-4

Rates:

For each 1 1/2-inch connection	0.35	0.00
For each 2-inch connection	0.50	0.00
For each 3-inch connection	0.75	0.00
For each 4-inch connection	1.00	0.00
For each 6-inch connection	1.50	0.00
For each 8-inch connection	2.00	0.00
For each 10-inch connection	2.50	0.00

(END OF APPENDIX B)

APPENDIX C

Page 1

ADOPTED QUANTITIES

Company: California Water Service Co.

District: Livermore District

	<u>1983</u>	<u>1984</u>
1. Water Production: KCcf	3,417.4	3,442.7
Wells:	1,123.6	1,123.6
Purchased Water	2,293.8	2,319.1
Assumed Loss: 5.42%		
2. <u>Purchased Power</u>	Supplier: PG&E	Date: 5-82
<u>Wells & Boosters, Combined</u>		
Production - MG	2,556.6	2,575.5
kWh per MG	869	869
Req'd kWh, Wells	2,221,685	2,238,110
kWh Unit Cost	<u>\$ 0.08235</u>	<u>\$ 0.08235</u>
Total Cost	\$ 182,956	\$ 195,074

APPENDIX C
Page 2

3. <u>Purchased Water Expenses</u>	<u>1983</u>	<u>1984</u>
Production - KCcf	3,417.4	3,442.7
Less Company Wells	958.6	958.7
Less Leased Wells	<u>164.7</u>	<u>164.7</u>
Purchased Water - KCcf	2,294.1	2,319.3
A. Purchased from Zone 7 - Ccf	2,294,100	2,319,300
1st 33 Ccf x 12 = 396		
Next 300 Ccf x 12 = 3,600		
Next 3,000 Ccf x 12 = <u>36,000</u>		
Subtotal; 3 blocks= 39,996Ccf	<u>39,996</u>	<u>39,996</u>
Excess over 3,333 Ccf per month:	2,254,104	2,279,304
Service charges:		
8 x 12 x \$60/mo.	\$ 5,760	\$ 5,760
Quantity charges:		
1st 33 Ccf at \$0.811	321	321
Next 300 Ccf at \$0.648	2,333	2,333
Next 3,000 Ccf at \$0.519	18,684	18,684
Excess at \$0.455	<u>1,025,617</u>	<u>1,037,083</u>
Cost from Zone 7	\$1,052,715	\$1,064,181
B. Leased Well - Mingoia		
Production - KCcf	164.7	164.7
Ccf	164,700	164,700
Cost per Ccf	\$ 0.07	\$ 0.07
Cost	11,529	11,529
Total Cost	\$1,064,244	\$1,075,710
(\$ Thou)	\$ 1,064.2	\$ 1,075.7

APPENDIX C
Page 3

ADOPTED QUANTITIES

4. <u>Number of Services-Water Size:</u>		1983	1984
5/8 x 3/4		11,655	11,699
3/4		122	123
1		803	806
1 1/2		82	83
2		115	115
3		25	25
4		14	14
6		5	5
8		1	1
		<u>12,822</u>	<u>12,871</u>

5. <u>Metered Water Sales:</u>		1983	1984
<u>Range Ccf</u>		<u>Usage-Ccf</u>	
0 - 3		449,626	451,344
4 - 300		2,491,951	2,503,200
300		<u>290,700</u>	<u>301,596</u>
Total		3,232,277	3,256,140

6. <u>Number of Services:</u>	<u>No. of Services</u>		<u>Usage-KCcf</u>		<u>Avg. Usage Ccf/SVC</u>	
	1983	1984	1983	1984	1983	1984
Commercial	12,690	12,739	2,837.5	2,848.4	223.6	223.6
Industrial	8	8	2.5	2.5	312.5	312.5
Public Authority	117	117	389.6	402.5	3,329.9	3,440.2
Other	7	7	2.7	2.7	385.7	385.7
Subtotal	<u>12,822</u>	<u>12,871</u>	<u>3,232.3</u>	<u>3,256.1</u>		
Private Fire Prot.	<u>66</u>	<u>66</u>				
Total	12,888	12,937				
Water Loss: 5.42%			<u>185.3</u>	<u>186.6</u>		
Total Water Produced			3,417.6	3,442.7		

APPENDIX C

Page 4

INCOME TAX CALCULATION

	1983 (Thousands of Dollars)	1984 (Thousands of Dollars)
Operating Revenue	\$3,318.9	\$3,476.9
<u>O&M Expense</u>		
Purchased Power	183.0	184.3
Purchased Water	1,064.2	1,075.7
Payroll-District	287.8	307.1
Other O&M	189.6	198.5
Other A&G	32.2	36.8
G.O. Allocation	237.4	254.0
Subtotal	1,994.2	2,056.4
Uncollectibles	7.5	7.8
Franchise	32.2	33.8
Taxes Other	99.2	97.9
Transportation Depr. Adj.	(11.3)	(13.1)
Soc. Sec. Taxes Capitalized	2.7	2.9
Interest	297.3	333.3
Total Deductions	2,421.8	2,519.0
State Tax Depreciation	277.9	288.5
Net Taxable Income	619.2	669.4
State Corp. Franchise Tax @ 9.6%	59.4	64.3
Federal Tax Depreciation	242.0	240.1
State Income Tax	59.4	64.3
Prof. Stock Div. Credit	1.6	1.6
Net Taxable Income	594.1	651.9
Fed. Income Tax @ 46%	273.3	299.9
Less Grad. Tax Adj.	0.7	0.7
Less Invol. Conv. Adj.	0.6	0.6
Total Federal Income Tax	272.0	298.6
Total Income Tax	331.4	362.9

Net-to-Gross Multiplier: 2.0733

Book Depreciation: \$172,000 (1983); \$178,300 (1984)

(Red Figure)

(END OF APPENDIX C)

APPENDIX D

Bill Insert for Livermore District Customers
of California Water Service Company

N O T I C E

\$111,000 of the recent rate increase granted to California Water Service Company for its Livermore District was made necessary by changes in tax laws proposed by the President and passed by Congress. This was the Economic Recovery Tax Act of 1981. Among its provisions was a requirement that utility ratepayers be charged for certain corporate taxes even though the utility does not have to pay them. This results from the way utilities may treat tax savings from depreciation on their plant and equipment. The savings can no longer be credited to the ratepayer, but must be left with the company and its shareholders.

For a more detailed explanation of this tax change, send a stamped self-addressed envelope to:

Consumer Affairs Branch
Public Utilities Commission
350 McAllister Street
San Francisco, CA 94102

(END OF APPENDIX D)

3rd need para for pg 6

The company is invited to prepare and submit the recommended study in its applications for general rate relief in its remaining districts, for there is growing recognition of the cost effectiveness of well designed computer management and control systems for industry. B

This denial is not to be viewed as a rejection of the efficiencies inherent in employing modern technology but simply that the company didn't supply enough justification for the level of cost. A

Minor adjustments made on the eve of rate case hearings should be discouraged. We will adopt the staff estimates as the most reasonable.

Tank Painting

Staff recommends a \$15,000 reduction in the 1985 maintenance budget for one of two companion tanks then scheduled for painting (Tank No. 1, Station 18).

While staff makes this suggestion based upon a physical inspection, the evidence shows that the engineer was unable to view the top of the tanks where applicant's witness testified that signs of rust are already showing.

Accordingly, we adopt applicant's tank painting estimates in this proceeding. *viewed as a rejection of the efficiencies inherent in employing modern technology but simply that the company did not supply enough justification for the level of cost.*

Construction Budgets

Staff recommends disallowance of funds for a projected computer-based remote data and control system. *This denial is not to be*

We discussed this issue in our decision in CWS's Palos Verdes District (A.82-03-94) and adopt the staff recommendation here, as well. This amount is \$258,000 in the 1984 Livermore District budget. *Insert new para B*

Staff further recommends the deletion of a storage tank in the 1983 budget at a projected cost of \$364,000. This is a replacement project to increase the present total storage of water at Las Positas from 54% of applicant's total storage in Livermore to 13% of total storage. *Re*

As there are no service complaints in the Las Positas area, and as the existing storage tank continues to function without leakage, staff disputes the necessity of erecting a new storage tank in the vicinity.