

ORIGINAL⁸Decision 82 12 097 DEC 15 1982

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) Application 82-03-97
 authorizing it to increase rates) (Filed March 26, 1982;
 charged for water service in the) amended June 10, 1982)
 Los Altos-Suburban District.)

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

Lynn Carew, Attorney at Law, for the
 Commission staff.

O P I N I O NBackground

California Water Service Company (CWS) requests approval of rates designed to produce a rate of return in its Los Altos-Suburban District (Los Altos) of 13.77% in 1983, 14.44% in 1984, and 14.59% in 1985. These rates of return would provide a constant return on equity of 18.00% in each of the three years. The revenue increases proposed by CWS to produce those rates of return are:

| <u>Year</u> | <u>Revenues</u> | <u>Percent</u> |
|-------------|-----------------|----------------|
| 1983 | \$1,286,400 | 30.2% |
| 1984 | 274,200 | 4.9 |
| 1985 | 178,500 | 3.1 |

On May 25, 1982 CWS executed an agreement with the City of Los Altos (City) and the City of Los Altos Community Services District 1 (District), which provides for the sale of the City's water system^{1/} to CWS. Since it was CWS' intention to acquire the City's system on or about July 1, 1982, CWS filed its June 10, 1982 amendment to show the impact of the merger on its revenue requirement. CWS does not request any change in its proposed rates, but it alleges that the merger necessitates increases in revenues larger than originally requested. CWS states that the merger will increase customers by 8.6% and that revenues must increase in proportion. CWS's amended revenue increases are:

| <u>Year</u> | <u>Revenues</u> | <u>Percent</u> |
|-------------|-----------------|----------------|
| 1983 | \$1,385,800 | 30.5% |
| 1984 | 297,200 | 5.0 |
| 1985 | 193,700 | 3.1 |

CWS states that the rates of return at the proposed rates will be 13.11% in 1983 and 13.82% in 1984, less than the 13.77% and 14.44% returns requested in the original application. Because of the relationship between revenues, expenses, and rate base in the City's system, CWS' proposed rates will not provide the same rates of return on the combined systems as they would on the Los Altos system alone. However, because of the special circumstances produced by the merger, CWS is willing to accept the lower returns which the proposed rates produce, rather than to propose higher rates. By doing so it does not concede that these lower rates of return are those required by financial conditions in general.

^{1/} The City's system was formerly the North Los Altos Water Company, a subsidiary of Citizens Utilities Company.

Most of the issues raised by the Los Altos application, as amended, were heard by Administrative Law Judge (ALJ) Orville Wright on a common record with Applications (A.) 82-03-94, 82-03-95, 82-03-96, and 82-03-98, CWS's general rate applications for its East Los Angeles, San Carlos, Livermore, and Palos Verdes Districts. Many common issues were decided in Decision (D.) 82-11-058 (November 17, 1982). We will refrain from covering any matters already resolved by that decision.

Hearings on issues specific to the Los Altos application were held before ALJ Robert T. Baer on October 18 and 19, 1982, in San Francisco. The matter was submitted subject to receipt of certain late exhibits from the staff and CWS, as well as briefs on the single issue of the staff's proposals for a pump repair and overhaul program and for annual reports on the progress of that program. These documents have now been received and the matter is ready for decision.

Decision Summary

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

| <u>Year</u> | <u>Additional Revenues Requested</u> | <u>Percent Rate Increase</u> | <u>Additional Revenues Adopted</u> | <u>Percent Rate Increase</u> |
|-------------|--|--------------------------------------|--|--------------------------------------|
| 1983 | \$1,385,800 | 30.5% | \$1,084,200 | 23.7% |
| 1984 | 297,200 | 5.0 | 205,300 | 3.6 |
| 1985 | 193,700 | 3.1 | 125,400 | 2.1 |

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>Adopted Rates</u> | <u>Percent Increase</u> |
|----------------------|----------------------|----------------------|-------------------------|
| 300 cu.ft. | \$ 4.87 | \$ 7.00 | 43.7% |
| 500 | 6.30 | 8.67 | 37.6 |
| 1,000 | 9.88 | 12.83 | 29.9 |
| 1,500 | 13.46 | 17.00 | 26.3 |
| 2,000 | 17.04 | 21.16 | 24.2 |
| 2,500 | 20.62 | 25.33 | 22.8 |
| 3,000 | 24.20 | 29.49 | 22.0 |

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

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, \$203,000 of the revenue requirement is due to the Economic Recovery Tax Act (ERTA). We will direct applicant to notify its customers of the ERTA effect on rates. (Appendix D.)

TABLE I
CALIFORNIA WATER SERVICE COMPANY
Los Altos-Suburban

ADOPTED SUMMARY OF EARNINGS

| | Test <u>Year 1983</u> | Test <u>Year 1984</u> |
|-------------------------------|--------------------------|--------------------------|
| | (Dollars in Thousands) | |
| <u>Present Rates</u> | | |
| Operating Revenues | \$4,580.3 | \$4,600.2 |
| <u>Operating Expenses</u> | | |
| Purchased power | 529.0 | 531.0 |
| Purchased water | 965.5 | 972.9 |
| Ground water charge | 491.7 | 493.5 |
| Payroll - District | 478.2 | 510.2 |
| Other O & M | 458.0 | 483.1 |
| Other A&G and misc. | 20.7 | 22.0 |
| Ad valorem taxes - District | 107.2 | 110.2 |
| Payroll taxes - District | 33.9 | 35.8 |
| Depreciation | 320.3 | 334.5 |
| Ad valorem taxes - G.O. | 1.9 | 1.8 |
| Payroll taxes - G.O. | 8.2 | 8.7 |
| Other prorates - G.O. | <u>374.8</u> | <u>401.3</u> |
| Subtotal | 3,789.4 | 3,905.0 |
| Uncollectibles | 6.7 | 6.8 |
| Local franch. tax & bus. lic. | 60.6 | 60.8 |
| Income taxes before ITC | 82.1 | 9.4 |
| Investment tax credit | <u>(3.5)</u> | <u>(3.5)</u> |
| Total operating expenses | 3,935.3 | 3,978.5 |
| Net operating revenues | 645.0 | 621.7 |
| Rate base | 9,585.1 | 9,890.5 |
| Rate of return | 6.73% | 6.29% |
| <u>Authorized Rates</u> | | |
| Operating revenues | 5,664.5 | 5,894.4 |
| <u>Operating expenses</u> | | |
| Subtotal | 3,789.4 | 3,905.0 |
| Uncollectibles | 8.3 | 8.7 |
| Local franch. tax & bus. lic. | 74.9 | 77.9 |
| Income taxes before ITC | 628.9 | 662.1 |
| Investment tax credit | <u>(3.5)</u> | <u>(3.5)</u> |
| Total operating expenses | 4,498.0 | 4,650.2 |
| Net operating revenues | 1,166.5 | 1,244.2 |
| Rate base | 9,585.1 | 9,890.5 |
| Rate of return | 12.17% | 12.58% |

(Red figure)

Balancing Accounts

As of October 31, 1982 (most current data), the balancing account for the Los Altos-Suburban District was undercollected by \$64,000. Staff recommends: at the time when this decision is to be issued, if the accumulated over or undercollection of the balancing account exceeds 1% of the adopted gross annual revenues for this district, that the balance be amortized over a one-year period through an appropriate adjustment to quantity rates based on adopted sales. As this recommendation is consistent with the current "Procedures for Maintenance of Balancing Accounts for Water Utilities" adopted by us on September 6, 1978, it will be adopted. At adopted quantities there will be an additional \$0.012/Ccf for test year 1983 only.

Issues

The issues litigated by staff and CWS are:

1. What are the most reasonable estimates of sales per commercial customer for 1983, 1984, and 1985?
2. What payroll increase factors should be adopted for 1983 and 1984?
3. What estimates of postage expense for 1983 and 1984 are reasonable?
4. What estimates of tank painting expense for 1983, 1984, and 1985 are reasonable?
5. What construction budget items for 1982, 1983, and 1984 should be included in rate base?
6. Is the staff's proposal to require a specific pump repair and overhaul program and annual progress reports reasonable?

We will now consider each of these issues in order.

Sales

CWS estimates that annual sales per commercial customer in Los Altos (excluding North Los Altos) for the years 1983, 1984, and 1985 will be 290.3 hundred cubic feet (Ccf). The staff estimates that the figure will be 295.0 Ccf. The sole reason for the difference is that in applying the Modified Bean statistical method to estimate future sales from recorded sales, the staff excluded recorded sales data from the drought aftermath year 1980, while CWS included that data. Both staff and CWS excluded data from drought year 1977 and aftermath years 1978 and 1979 because there was so much conservation or residual conservation in those years that they were useless for correlating use per customer with weather.

To explain why he included 1980 data, the CWS witness sponsored Exhibit 75. Sheet 6 of that exhibit is a graph showing recorded Ccf per customer for years 1970 through 1981, excluding 1977, 1978, and 1979. Among the points on the graph are two straight lines, one ending at the staff's estimate of 295.0 Ccf, and the other ending at CWS' estimate of 290.3 Ccf. Both lines trend downward, showing declining consumption each year. CWS argues that the staff should not have excluded 1980 data because the point on the graph for 1980 is actually closer to the staff's trend line than either the 1975 or 1976 points, which years the staff did include. Furthermore, the 1980 point is closer to CWS' trend line than either the 1974, 1975, or 1976 points.

To show that CWS' estimate was more probable than the staff's the witness used recorded sales for years ending December 1981 through August 1982:

| <u>Year Ending</u> | <u>Sales per Customer (Ccf)</u> |
|--------------------|-------------------------------------|
| 12-81 | 296.1 |
| 1-82 | 293.9 |
| 2-82 | 292.8 |
| 3-82 | 292.7 |
| 4-82 | 288.2 |
| 5-82 | 282.7 |
| 6-82 | 283.4 |
| 7-82 | 275.1 |
| 8-82 | 272.1 |

These data show recorded sales per customer declining steadily from year ending December 1981 to a low point in year ending August 1982 of 272.1 Ccf, much lower than even CWS' estimate of 290.3 Ccf.

The CWS witness also adjusted the recorded 272.1 Ccf for year ending August 1982 for temperature and rainfall. The adjusted Ccf per customer is 281.6 on the CWS basis and 281.3 on the staff basis. Again both figures are well below either the staff or CWS estimate.

The witness also adjusted for temperature and rainfall on the staff basis recorded sales per customer of 296.1 Ccf for 1981. Thus, adjusted sales per customer are 292.4 for 1981. The CWS witness also testified that the staff trend declines by 0.87 Ccf per year as shown on Exhibit 75, Sheet 3. Projecting that declining trend through 1985 produces the following adjusted sales per customer:

| <u>Year</u> | <u>Ccf/Customer</u> |
|-------------|---------------------|
| 1981 | 292.4 |
| 1982 | 291.5 |
| 1983 | 290.7 |
| 1984 | 289.8 |
| 1985 | 288.9 |

The average for 1983, 1984, and 1985 is 289.8 Ccf per customer on the staff basis.

Using the same method on the CWS basis, the witness found adjusted sales for 1981 of 292.7 Ccf per customer. Exhibit 75, Sheet 4, shows that CWS' estimated consumption declines 1.41 Ccf per customer per year. Projecting that declining trend through 1985 produces the following adjusted sales per customer.

| <u>Year</u> | <u>Ccf/Customer</u> |
|-------------|---------------------|
| 1981 | 292.7 |
| 1982 | 291.3 |
| 1983 | 289.9 |
| 1984 | 288.5 |
| 1985 | 287.1 |

The average for 1983, 1984, and 1985 is 288.5 Ccf per customer on the CWS basis.

This test - on both the staff and the CWS basis - of the reasonableness of the staff and CWS estimates suggests that CWS' estimate of 290.3 Ccf is more reasonable than the staff's estimate of 295.0 Ccf.

The staff witness produced a graph showing that between 1970 and 1976 recorded consumption ranged between 287.52 Ccf and 321.51 Ccf, and averaged 300.76 Ccf. For the years 1977, 1978, 1979, and 1980 consumption stayed below the low point of the 1970-1976 range. He also calculated that the staff's estimate of 295 Ccf was 98.08% of the predrought average of 300.7 Ccf, while CWS' estimate of 290.3 Ccf was 96.52% of the predrought average. He considered a deviation of 1.92 percentage points from the predrought average to be reasonable, but a deviation of 3.48 percentage points from the predrought average to be a little bit too high. (Tr. 2:155.)

The staff witness also testified that in the San Carlos and Livermore District proceedings the staff and CWS both excluded the four years 1977-1980. However, in Palos Verdes District both staff and CWS excluded three years (1977-1979) and in East Los Angeles District both staff and CWS excluded only one year (1977).

The staff witness sponsored CWS workpapers showing computation of sales estimates based on excluding the four years 1977-80. However, the CWS witness testified that these computations did not constitute its official position, which it had stated only in its initial exhibit and revised exhibit. In both exhibits CWS consistently computes sales estimates based on excluding the three years, 1977-79.

Finally, the staff witness noted the coincidence between recession years and low consumption. He pointed to 1974 and 1975 as both recession years and low consumption years in the predrought 1970-1976 period. By the same token, 1981 has been a recession year and water consumption during this year has been less than the predrought average.

We will adopt the CWS estimate of 290.3 Ccf per commercial customer per year for this rate proceeding. Our decision to include 1980 data to estimate 1983, 1984, and 1985 consumption is based on a number of factors:

1. The declining trends of both CWS and staff;
2. The declining trend of the data for recorded years ending each month between December 1981 and August 1982;
3. The seeming coincidence between recession years and low consumption years;
4. The grouping of the data points on the staff graph (Exhibit 85) for years 1979, 1980, 1981, and 1982 around (both above and below) the low point of the pre-drought years (1970-1978);
5. The nearness of the 1980 recorded consumption to both the staff and CWS trend line; and
6. The projections - on both staff and CWS bases - of the adjusted sales for 1981.

Process

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These factors suggest that future consumption will be lower than the staff projects. We therefore find the estimate of CWS to be more reasonable.

Payroll Increases

In projecting payroll expense for future years staff and CWS used the following inflation factors:

| <u>Payroll Increase</u> | <u>1982</u> | <u>1983</u> | <u>1984</u> |
|-------------------------|-------------|-------------|-------------|
| CWS - All Districts | 11.0% | 9.5% | 9.5% |
| Staff - 4 Districts | | | |
| Union | 11.0 | 9.5 | 6.7 |
| Nonunion | 11.0 | 6.4 | 6.7 |
| Staff - Los Altos | | | |
| Union | 11.0 | 9.5 | 6.2 |
| Nonunion | 11.0 | 6.1 | 6.2 |

It is clear from the table that the staff has used lower inflation factors for Los Altos than it did for the four companion applications. This is due to more recent projections prepared by the Revenue Requirements Division.

CWS objects to this late updating of the staff position. CWS contends that it is unreasonable to expect that CWS could accord, for instance, a 6.7% increase in 1984 to union personnel in East Los Angeles, San Carlos, and Livermore, and only a 6.2% increase in Los Altos. This is especially true when it is the same union.

We agree with CWS and will adopt for Los Altos the same inflation factors we adopted for the four companion districts. We have used the same inflation factor for both union and nonunion payroll. This is consistent with our policy established in our lead decision for CWS' East Los Angeles District.

Postage

The staff position on postage expense did not differ from the staff position in the four companion applications. We will therefore adopt for Los Altos the same approach we found reasonable in the East Los Angeles application, the lead case in this group.

Tank Painting

In 1983, 1984, and 1985 CWS plans to spend various amounts to paint tank interiors and exteriors. As to some tanks the staff excluded the projected expense; as to others it reduced the expense. CWS presented extensive oral testimony and color photographs to support its recommendations that certain of its tanks required painting in certain years. We will consider each tank excluded by staff and then those for which the staff reduced CWS proposed expense.

Station 24 is a redwood tank scheduled for painting in 1983 at a cost of \$2,500. Staff excluded this cost because the tank was in such poor condition that it should either be replaced or removed from service. CWS concurs that it should be torn down. However, CWS seeks to substitute in its place another redwood tank (Station 30) for painting in 1983 at the same cost. CWS first advised the staff of the proposed substitution during the hearing on October 18. The staff did not inspect this tank and cannot tell from the photographs whether it merely needs paint or might be in as poor condition as Station 24. The late inclusion of Station 30 has placed the staff in an impossible position and it would not be reasonable to include Station 30 for 1983.

The staff did not inspect the tops of Blandor 2 and 3 steel tanks and therefore missed extensive rust patches on Blandor 2's top, where water pools against a lip. The staff also overlooked rusting where Blandor 2 has settled below the level of a contiguous walk. The photographs also show obvious rusting and paint peeling on the top of Blandor 3. The CWS witness testified that once rust appears, or the top coat peels away exposing the prime coat, deterioration progresses rapidly. The larger the areas of rust, or paint stripping, or peeling, the more expensive the paint job because of extra sandblasting to bare metal and building up of primer coats. CWS reasonably included Blandor 2 and 3 painting expense in 1983.

CWS planned to paint Blandor 3's interior in 1985 for \$7,200. Staff estimated the cost at \$8,000. Since CWS insists it knows its own costs, we will adopt \$7,200 as reasonable in this instance.

CWS planned to paint its Pinecrest, Sunset, and Station 19 tanks in 1985 for a total cost of \$27,100. The staff excluded all three projects. CWS color photos of the Pinecrest tank show rust at low spots on the roof, on the vent plates, and on the roof vent, and two blotches made by vandals on the side of the tank. Photos of Sunset tank also show rusting on the roof. Since the staff did not inspect the roofs of the tanks, it could not have evaluated their need for painting in light of the condition of the roofs. Therefore, we will find that Pinecrest and Sunset tanks should be painted in 1985. However, the photos of Station 19 tank show only minor conditions that may be corrected by touching up. We agree, therefore, with the staff that the 1985 expense for painting Station 19 should be excluded.

CWS planned to spend \$69,400 to paint the three Vineyard tanks in 1984. The staff excluded this expense. The photos of Vineyard 1 show extensive streaking of the paint on the side of the tank with rust forming in the streaks and around the vent screens. The CWS witness testified that the vent screens would be removed and replaced with welded steel plates to eliminate a source of rust. Photos of Vineyard 2 show rust spots and paint stripping on the roof and side of the tank. A photo of Tank 3 shows only minor rust spots on the ladder and access hatch. We agree with staff that painting of Vineyard 3 could be postponed. However, since all three tanks are in the same location, they should be painted together to avoid excessive setup and labor expense by the contractor and to present a uniform appearance to those that must view them. Therefore, we find that CWS' proposed expense is reasonable.

CWS plans to paint Maryknoll 1 and 2 in 1985 for \$28,500. The staff excluded the expense. The photos show extensive streakings on the side, rust around vent plates and a valve, and rust in low spots on the roof of Tank 1. Tank 2 has paint streaking, light rust on the sides, and paint stripping on the top. We believe the expense is reasonable and will adopt CWS estimate.

We will now deal with staff reductions of painting expense. CWS plans to paint Stations 26, 29, and 31 in 1985 at \$5,400 each. Each of these tanks is 50,000 gallons, as is Station 17, which CWS plans to paint in 1983 at a cost of \$3,400. Since all four tanks are the same volume and about the same size and shape, the staff took the \$3,400 estimate for 1983 and, using 8% for 1984 and 9.9% for 1985 as inflation factors, arrived at an estimate of \$4,000 for each tank to be painted in 1985. This method is generally reasonable and we will adopt it for these three tanks. However, we will allow CWS the \$35 per tank lost when the staff rounded to \$4,000.

Regarding North Los Altos, CWS testified, and the staff concurred, that the tanks were in a poorer state of repair than the Los Altos tanks. It is reasonable to suppose, as the CWS witness testified, that the North Los Altos tanks will be more costly to paint than those in Los Altos, which have been subject to higher standards of maintenance. Therefore, while we believe the staff's estimating method is proper and reasonable, it does not take into account this factor. Therefore, we will adopt the midpoint between staff and CWS' estimates as reasonable for each North Los Altos tank.

Tables II and III show our adopted tank painting expenses:

TABLE II

Adopted Painting Expense-Los Altos-Suburban

| <u>Tank</u> | <u>1983</u> | <u>1984</u> | <u>1985</u> | <u>Item</u> |
|-----------------------|-------------|-------------|-------------|----------------|
| Blandor 2 & 3 | \$12,600 | \$ - | \$ - | Paint Exterior |
| Maryknoll 1 & 2 | 28,500 | - | - | Paint Exterior |
| Pinecrest | 6,800 | - | - | Paint Interior |
| Vineyard 2 | 33,400 | - | - | Paint Interior |
| Sta. 4 Tank | 5,500 | - | - | Paint Exterior |
| Sta. 17 Tank | 3,400 | - | - | Paint Exterior |
| O'Keefe 2 | - | 15,200 | - | Paint Interior |
| Vineyard 1 | - | 44,700 | - | Paint Interior |
| Vineyard 1, 2, & 3 | - | 69,400 | - | Paint Exterior |
| Blandor 3 | - | - | 7,200 | Paint Interior |
| Pinecrest | - | - | 8,500 | Paint Exterior |
| Sunset | - | - | 10,400 | Paint Exterior |
| Sta. 26 | - | - | 4,035 | Paint Exterior |
| Sta. 29 | - | - | 4,035 | Paint Exterior |
| Sta. 31 | - | - | 4,035 | Paint Exterior |
| Totals | 90,200 | 129,300 | 38,205 | |

TABLE III

Adopted Painting Expense-North Los Altos

| | <u>1983</u> | <u>1984</u> | <u>1985</u> | <u>Item</u> |
|---------------------------|-------------|-------------|-------------|-------------|
| Sta. 119 (Mosher) Tank 1 | \$ 7,300 | \$ - | \$ - | Interior |
| Tank 2 | 7,300 | - | - | Interior |
| Tank 1) | | | | |
| Tank 2) | 12,850 | - | - | Exterior |
| Sta. 123 (Van Buren) Tank | - | 7,800 | - | Interior |
| Tank | - | 8,200 | - | Exterior |
| Sta. 121 (Ramona) Tank 1 | - | - | 6,750 | Interior |
| Tank 2 | - | - | 9,050 | Interior |
| Tank 3 | - | - | 8,550 | Interior |
| Tank 1) | | | | |
| Tank 2) | - | - | 18,150 | Exterior |
| Tank 3) | | | | |
| Totals | 27,450 | 16,000 | 42,500 | |

Construction Budget

In our decision for the East Los Angeles District, we determined to review for reasonableness only those questioned construction budget items in excess of \$25,000 (D.82-11-058, November 17, 1982). There are no items of that magnitude in this case.

Pump Repair Reports

Staff recommends the initiation in this district of a program whereby CWS be ordered to:

- a. Submit a specific pump repair and overhaul program with firm estimates of costs.
- b. Submit a report on the progress of this program at each step rate increase request, including costs expended and remaining. A staff review of this report would adjust the rates as appropriate.

This proposal was made because CWS' estimate for pump repair costs for 1983, 1984, and 1985 was increased from \$28,200

in May 1982 to approximately \$38,000 in September 1982 without specification of the particular pumps involved and the amount to be spent on each.

As the issue was not fully developed at the hearing, the parties were requested to file concurrent briefs. These were received.

In brief, CWS presents a number of reasons which indicate that it is impractical and inefficient to require it to nominate the precise pumps to be repaired over a three-year program and to be required to make those specific repairs without regard to current circumstances.

We have reviewed the respective filings and believe that the CWS arguments should be put to rest before we approve the staff suggestion. We will accordingly decline to adopt staff's proposal at this time without prejudice to its right to review the matter in future proceedings.

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 \$9,585,100 for test year 1983 is consistent with rates of return granted in other CWS districts and is reasonable.

3. A rate of return of 12.58% on the adopted rate base of \$9,890,500 for test year 1984 reflects changes in debt costs and is reasonable.

4. CWS' earnings under present rates for test year 1983 would produce net operating revenues of \$645,000 on a rate base of \$9,585,100 based on the adopted results of operations, resulting in a rate of return of 6.73%.

5. CWS' earnings under present rates for test year 1984 would produce net operating revenues of \$621,700 on a rate base of \$9,890,500 based on the adopted results of operations, resulting in a rate of return of 6.29%.

6. The authorized increases in rates are expected to provide annual increases in revenues of \$1,084,200 in 1983, \$205,300 in 1984, and \$125,400 in 1985.

7. Operational attrition on the basis of adopted rates is 0.59% and financial attrition is 0.02% for 1985.

8. CWS' 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 and is nondiscriminatory.

12. There is insufficient evidence to justify different payroll estimates in this proceeding than those we found reasonable for CWS' East Los Angeles District (D.82-11-058, November 17, 1982).

13. There is insufficient evidence to justify tank painting maintenance expenditures in excess of those shown in Tables II and III of this decision.

14. There is insufficient evidence to justify adoption of staff's proposal to require a specific pump repair and overhaul program and annual progress reports at this time.

15. 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.

16. As of October 31, 1982, the balancing account for the Los Altos-Suburban District was undercollected by \$64,000.

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 four 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 Los Altos-Suburban 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 Los Altos-Suburban 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) 12.58%. 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. The utility is authorized to include an additional charge of \$0.012/Ccf to its quantity rates for the year 1983 only, to amortize the undercollection in the balancing account.

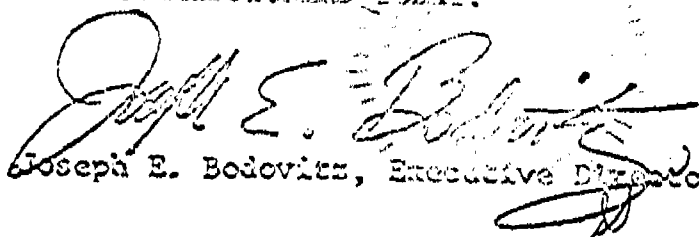
6. Before January 31, 1983, CWS shall send the bill insert in Appendix D to its Los Altos-Suburban District customers.

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 E. Bodovitz, Executive Director

APPENDIX A

Page 1

Schedule No. LS-1

Los Altos-Suburban Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Los Altos and vicinity, Santa Clara County.

RATES

| | Per Meter Per Month | |
|---|------------------------|-----|
| Service Charge: | | |
| For 5/8 x 3/4-inch meter | \$ 5.20 | (I) |
| For 3/4-inch meter | 6.80 | |
| For 1-inch meter | 9.10 | |
| For 1 1/2-inch meter | 12.60 | |
| For 2-inch meter | 16.50 | |
| For 3-inch meter | 30.00 | |
| For 4-inch meter | 40.00 | |
| For 6-inch meter | 63.00 | |
| For 8-inch meter | 100.00 | |
| For 10-inch meter | 121.00 | |
| Quantity Rates: | | |
| For the first 300 cu.ft., per 100 cu.ft. | .600 | |
| For the next 29,700 cu.ft., per 100 cu.ft. | .833 | |
| For all over 30,000 cu.ft., per 100 cu.ft. | .793 | (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.

SPECIAL CONDITION

Due to the undercollection in the balance account, a charge of \$ 0.012 per Ccf of water usage is to be added to the quantity rates to amortize the undercollection for 1983 only.

APPENDIX A

Page 2

Schedule No. LS-4

Los Altos-Suburban Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Los Altos and vicinity, Santa Clara 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 | 0.20 | 0.20 |
| For 1-inch meter | 0.30 | 0.20 |
| For 1 1/2-inch meter | 0.40 | 0.30 |
| For 2-inch meter | 0.50 | 0.50 |
| For 3-inch meter | 1.00 | 1.00 |
| For 4-inch meter | 1.00 | 1.00 |
| For 6-inch meter | 2.00 | 2.00 |
| For 8-inch meter | 4.00 | 2.00 |
| For 10-inch meter | 4.00 | 3.00 |
| Quantity Rates: | | |
| For the first 300 cu.ft., per 100 cu.ft. | 0.021 | 0.014 |
| For the next 29,700 cu.ft., per 100 cu.ft. | 0.029 | 0.019 |
| For all over 30,000 cu.ft., per 100 cu.ft. | 0.030 | 0.016 |

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: Los Altos District

| | <u>1983</u> | <u>1984</u> |
|--|----------------|---------------|
| <u>Los Altos</u> | | |
| 1.A Water Production: KCcf | 5,554.1 | 5,587.2 |
| Wells: | 2,598.4 | 2,608.0 |
| Purchased Water: | 2,955.7 | 2,979.2 |
| Assumed Loss = 7.9% | | |
| <u>North Los Altos</u> | | |
| 1.B Water Production: KCcf | 393.6 | 394.1 |
| Wells: | 93.3 | 93.3 |
| Purchased Water: | 300.3 | 300.8 |
| Assumed Loss = 8.5% | | |
| 1.C Combined Production: KCcf | 5,947.7 | 5,981.3 |
| 2.A <u>Purchased Power - Los Altos</u> | Supplier: PG&E | Date: 8-23-82 |
| <u>Well Stations</u> | | |
| Production - MG | 1,943.8 | 1,950.9 |
| kWh per MG | 2,598 | 2,598 |
| Req'd kWh, Wells | 5,049,992 | 5,068,438 |
| kWh Unit Cost | \$ 0.08128 | \$ 0.08128 |
| Total Cost, Wells | \$ 410,463 | \$ 411,963 |
| <u>Booster Stations</u> | | |
| Total Production - MG | 4,154.8 | 4,179.5 |
| kWh per MG | 226 | 226 |
| Req'd kWh, Boosters | 938,985 | 944,567 |
| kWh Unit Cost | \$ 0.08128 | \$ 0.08128 |
| Total Booster Cost | \$ 76,321 | \$ 76,774 |
| Total Cost | \$ 486,784 | \$ 488,737 |

APPENDIX C
Page 2

ADOPTED QUANTITIES

| | <u>1983</u> | <u>1984</u> |
|---|----------------|---------------|
| 2.B <u>Purchased Power - NIAS</u> | Supplier: PG&E | Date: 8-23-82 |
| <u>Combined Wells & Booster Pumping, NIAS</u> | | |
| Production - MG | 69.8 | 69.8 |
| kWh per MG | 2,735.7 | 2,735.7 |
| Req'd kWh, Wells | 190,950 | 190,950 |
| kWh Unit Cost | \$ 0.08128 | \$ 0.08128 |
| Cost, from NIAS | \$ 15,500 | \$ 15,500 |
| <u>From Los Altos District</u> | | |
| Production - MG | 224.6 | 225.0 |
| IAS Wells | 107.1 | 107.4 |
| kWh per MG | 2,598 | 2,598 |
| Req'd kWh, Wells | 278,246 | 279,025 |
| Boosted Production, MG | 224.6 | 225.0 |
| kWh per MG | 226 | 226 |
| Req'd kWh, Boosters | 50,760 | 50,850 |
| Total Req'd kWh | 329,006 | 329,875 |
| Unit Cost | \$ 0.08128 | \$ 0.08128 |
| Cost from IAS | \$ 26,700 | \$ 26,800 |
| Total Cost, NIAS | \$ 42,200 | \$ 42,300 |
| 2.C <u>Total Purchased Power, IAS & NIAS (\$ Thou.)</u> | | |
| IAS | \$ 486.8 | \$ 488.7 |
| NIAS | 42.2 | 42.3 |
| Total | \$ 529.0 | \$ 531.0 |

APPENDIX C

Page 3

ADOPTED QUANTITIES

| | <u>1983</u> | <u>1984</u> |
|---|-------------|-------------|
| 3.A <u>Purchased Water Expenses - Los Altos</u> | | Date: 7-82 |
| <u>Santa Clara Valley Water District</u> | | |
| I. <u>Contract Water</u> (MG) | 1,908.8 | 1,923.2 |
| Total Production Acre-Feet (AF) | 5,858 | 5,902 |
| Unit Cost - AF | \$ 140.00 | \$ 140.00 |
| Cost of Contract Water | \$ 820,100 | \$ 826,700 |
| II. <u>Non-Contract Water - 14.1% of Contract</u> (MG) | 269.2 | 271.4 |
| Agreed Quantities - AF | 826 | 833 |
| Cost per AF | 100.00 | 100.00 |
| Cost | \$ 82,600 | \$ 83,300 |
| III. <u>Zanetti Leased Well</u> | | |
| Production - MG | 14.5 | 14.5 |
| - Ccf | 19,384 | 19,384 |
| Cost = \$0.03/Ccf, \$35/Mo. minimum. Expires 4-14-83 | \$ 600 | \$ 600 |
| IV. <u>San Jose Water Works @ 4-6-82 Rates</u> | | |
| Production - MG | 18.5 | 18.5 |
| - Ccf | 24,742 | 24,742 |
| Quantity Rates per Ccf | \$ 0.453 | \$ 0.453 |
| Quantity Charge | \$ 11,200 | \$ 11,200 |
| Svc. Chg. 1-2" Meter @ \$7.00/Mo. 1-8" Meter @ \$43.00/Mo. \$50. x 12 = | \$ 600 | \$ 600 |
| Total, SJWW | \$ 11,800 | \$ 11,800 |
| Cost, Purchased Water, LAS | \$ 915,100 | \$ 922,400 |

APPENDIX C

Page 4

ADOPTED QUANTITIES

| | <u>1983</u> | <u>1984</u> |
|--|-------------|-------------|
| 3.B <u>Purchased Water Expenses - North Los Altos</u> | | Date: 7-82 |
| I. Total Production - MG | 294.4 | 294.8 |
| NLAS Wells | 69.8 | 69.8 |
| To be Obtained from LAS: MG | 224.6 | 225.0 |
| " " " " SCVWD 52.3% MG | 117.5 | 117.6 |
| " " " " Company | | |
| Wells, LAS 47.7% MG | 107.1 | 107.4 |
| | 100.0% | |
| II. Average Cost from SCVWD (MG) | 117.5 | 117.6 |
| as of 7-1-82, per MG | \$ 414.47 | \$ 414.47 |
| a. Cost (\$ Thou.) | \$ 48.7 | \$ 48.7 |
| b. Company Wells, NLAS | 1.7 | 1.7 |
| c. Total Cost, NLAS | \$ 50.4 | \$ 50.4 |
| 3.C <u>Combined Purchased Water Expenses</u> | | |
| Cost from Los Altos | \$ 915.1 | \$ 922.4 |
| Cost from North Los Altos | 50.4 | 50.4 |
| Total Cost, Purchased Water | \$ 965.5 | \$ 972.8 |
| 4. <u>Pump Taxes</u> | | |
| Santa Clara Valley Water Replenishment District | | |
| <u>North Los Altos</u> | | |
| North Los Altos Well Production - MG | 69.8 | 69.8 |
| Los Altos Well Production - MG | 107.1 | 107.4 |
| Total, North Los Altos - MG | 176.9 | 177.2 |
| - AF | 542.9 | 543.8 |
| <u>Los Altos</u> | | |
| Company Wells - MG | 1,943.8 | \$ 1,950.9 |
| Leased Well - MG | 14.5 | 14.5 |
| Total - MG | 1,958.3 | 1,965.4 |
| - AF | 6,009.8 | 6,031.6 |
| Total Combined AF | 6,552.7 | 6,575.4 |
| Cost per AF | \$ 75 | \$ 75 |
| (\$ Thou.) | \$ 491.5 | \$ 493.2 |

APPENDIX C

Page 5

ADOPTED QUANTITIES6. Number of Services - Meter Size

| | <u>1983</u> | <u>1984</u> |
|-----------|---------------|---------------|
| 5/8 x 3/4 | 14,712 | 14,738 |
| 3/4 | 24 | 24 |
| 1 | 1,658 | 1,660 |
| 1 1/2 | 131 | 131 |
| 2 | 376 | 376 |
| 3 | 57 | 57 |
| 4 | 14 | 14 |
| 6 | 7 | 7 |
| 8 | 0 | 0 |
| 10 | 0 | 0 |
| | <u>16,979</u> | <u>17,007</u> |

7. Metered Water Sales
Range Ccf

| | | |
|----------|------------------|------------------|
| 0 - 3 | 585,500 | 586,800 |
| 4 - 297 | 4,242,000 | 4,255,400 |
| Over 300 | 647,600 | 659,900 |
| | <u>5,475,100</u> | <u>5,502,100</u> |

8. Number of Services

| | <u>No. of Services</u> | | <u>Usage-KCcf</u> | | <u>Avg-Usage-Ccf/Yr.</u> | |
|------------------------|------------------------|---------------|-------------------|----------------|--------------------------|-------------|
| | <u>1983</u> | <u>1984</u> | <u>1983</u> | <u>1984</u> | <u>1983</u> | <u>1984</u> |
| Commercial-Los Altos | 15,430 | 15,456 | 4,479.3 | 4,486.9 | 290.3 | 290.3 |
| Commercial-N.Los Altos | 1,336 | 1,338 | 360.1 | 360.6 | 269.5 | 269.5 |
| Industrial | 35 | 35 | 274.7 | 284.0 | 7,848.6 | 8,114.3 |
| Public Authority | 162 | 162 | 350.4 | 360.0 | 2,163.0 | 2,222.2 |
| Other | 16 | 16 | 10.6 | 10.6 | - | - |
| Subtotal | 16,979 | 17,007 | 5,475.1 | 5,502.1 | | |
| Private Fire Prot. | 221 | 236 | | | | |
| Total | <u>17,200</u> | <u>17,243</u> | | | | |
| Water Loss: 7.9% | | | 472.2 | 474.5 | | |
| Total Water Produced | | | <u>5,947.3</u> | <u>5,976.6</u> | | |

APPENDIX C

Page 6

INCOME TAX CALCULATION

| | 1983 (Thousands of Dollars) | 1984 (Thousands of Dollars) |
|----------------------------------|--------------------------------|--------------------------------|
| Operating Revenue | \$ 5,664.5 | \$ 5,894.4 |
| <u>O&M Expense</u> | | |
| Purchased Power | 529.0 | 531.0 |
| Purchased Water | 965.5 | 972.9 |
| Replenishment Assessment | 491.7 | 493.5 |
| Payroll - District | 478.2 | 510.2 |
| Other O&M | 458.0 | 483.1 |
| Other A&G | 20.7 | 22.0 |
| G.O. Allocation | 384.9 | 411.8 |
| Subtotal | 3,328.0 | 3,424.5 |
| Uncollectibles @ 0.147% | 8.3 | 8.7 |
| Franchise @ 1.322% | 74.9 | 77.9 |
| Taxes Other | 141.1 | 146.0 |
| Transportation Depr. Adj. | (18.2) | (19.4) |
| Soc. Sec. Taxes Capitalized | 5.4 | 5.6 |
| Interest | 502.8 | 560.0 |
| Total Deductions | 4,042.3 | 4,203.3 |
| State Tax Depreciation | 451.8 | 477.2 |
| Net Taxable Income | 1,170.4 | 1,213.9 |
| State Corp. Franchise Tax @ 9.6% | 112.4 | 116.5 |
| Federal Tax Depreciation | 377.3 | 379.0 |
| State Income Tax | 112.4 | 116.5 |
| Prof. Stock Div. Credit | 3.4 | 3.4 |
| Net Taxable Income | 1,129.1 | 1,192.2 |
| Fed. Income Tax @ 46% | 519.4 | 548.4 |
| Less Grad. Tax Adj. | 1.2 | 1.2 |
| Less Invol. Conv. Adj. | 1.7 | 1.6 |
| Total Federal Income Tax | 516.5 | 545.6 |
| Total Income Tax | 628.9 | 662.1 |

Net to Gross Multiplier: 2.0790

Book Depreciation: \$320,300 (1983); \$334,500 (1984).

(Red Figure)

(END OF APPENDIX C)

APPENDIX D

Bill Insert for Los Altos-Suburban District Customers
of California Water Service Company

N O T I C E

\$203,000 of the recent rate increase granted to California Water Service Company for its Los Altos-Suburban 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)

These factors suggest that future consumption will be lower than the staff projects. We therefore find the estimate of CWS to be more reasonable.

Payroll Increases

In projecting payroll expense for future years staff and CWS used the following inflation factors:

| <u>Payroll Increase</u> | <u>1982</u> | <u>1983</u> | <u>1984</u> |
|-------------------------|-------------|-------------|-------------|
| CWS - All Districts | 11.0% | 9.5% | 9.5% |
| Staff - 4 Districts | | | |
| Union | 11.0 | 9.5 | 6.7 |
| Nonunion | 11.0 | 6.4 | 6.7 |
| Staff - Los Altos | | | |
| Union | 11.0 | 9.5 | 6.2 |
| Nonunion | 11.0 | 6.1 | 6.2 |

It is clear from the table that the staff has used lower inflation factors for Los Altos than it did for the four companion applications. This is due to more recent projections prepared by the Revenue Requirements Division.

CWS objects to this late updating of the staff position. CWS contends that it is unreasonable to expect that CWS could accord, for instance, a 6.7% increase in 1984 to union personnel in East Los Angeles, San Carlos, and Livermore, and only a 6.2% increase in Los Altos. This is especially true when it is the same union.

We agree with CWS and will adopt for Los Altos the same inflation factors we adopted for the four companion districts. *We have used the same inflation factor for both union and nonunion postage payrolls. This is consistent with our policy established in our lead decision in CWS East Los Angeles District.*

The staff position on postage expense did not differ from the staff position in the four companion applications. We will therefore adopt for Los Altos the same approach we found reasonable in the East Los Angeles application, the lead case in this group.