

Decision 82 12 098 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)
 Palos Verdes District.)

Application 82-03-98
 (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 Palos Verdes District to produce annual revenue increases of 20.8% or \$1,786,100 in 1983, and by additional amounts of 5.8% and 3.6% or \$601,800 and \$402,100, respectively, in 1984 and 1985.

Public hearings on a consolidated record with Application (A.) 82-03-94, A.82-03-95, A.82-03-96, and A.82-03-97 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 on behalf of CWS. Oscar David, Donald Yep, Arthur Gallegos, Donald McCrea, Chew Low, Ernst Knolle, Christopher Blunt, and Sung Han presented evidence on behalf of staff.

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 (D.) 82-11-058, November 17, 1982). Reference is made to that decision and the pertinent text is incorporated here.

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	\$1,786,100	20.8%	\$924,200	10.2%
1984	601,800	5.8	247,000	2.5
1985	402,100	3.6	97,100	1.0

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 (5/8 x 3/4) Inch Meters

<u>Monthly Usage</u>	<u>Present Rates</u>	<u>Adopted Rates</u>	<u>Percent Increase</u>
300 cu.ft.	\$ 5.00	\$ 5.65	13.00%
500	7.21	8.05	11.65
1,000	12.73	14.05	10.37
1,500	18.24	20.05	9.92
2,000	23.76	26.05	9.64
2,500	29.27	32.05	9.50
3,000	34.79	38.05	9.37

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
Palos Verdes District
ADOPTED SUMMARY OF EARNINGS

	<u>Test</u> <u>Year 1983</u> (Dollars in Thousands)	<u>Test</u> <u>Year 1984</u>
<u>Present Rates</u>		
Operating Revenues	9,039.5	9,083.0
<u>Operating Expenses</u>		
Purchased power	1,517.2	1,320.4
Purchased water	2,647.9	2,661.5
Purchased chemicals	6.4	6.5
Payroll - District	671.7	716.7
Other O & M	493.6	528.2
Other A&G and misc.	42.7	44.3
Ad valorem taxes - District	197.4	209.1
Business License	1.0	1.0
Payroll taxes - District	47.0	49.7
Depreciation	505.1	549.4
Ad valorem taxes - G.O.	3.0	3.0
Payroll taxes - G.O.	13.6	14.5
Other prorates - G.O.	610.8	653.8
Subtotal	<u>6,757.4</u>	<u>6,758.1</u>
Uncollectibles	6.0	6.0
Local franch. tax & bus. lic.	89.3	89.7
Income taxes before ITC	483.9	450.8
Investment tax credit	(14.2)	(14.2)
Total operating expenses	<u>7,322.4</u>	<u>7,290.4</u>
Net operating revenues	1,717.1	1,792.6
Rate base	17,777.3	18,763.5
Rate of return	9.66%	9.55%
<u>Authorized Rates</u>		
Operating revenues	9,963.7	10,258.6
<u>Operating expenses</u>		
Subtotal	6,757.4	6,758.1
Uncollectibles	6.6	6.8
Local franch. tax & bus. lic.	98.4	101.3
Income taxes before ITC	952.0	1,046.2
Investment tax credit	(14.2)	(14.2)
Total operating expenses	<u>7,800.2</u>	<u>7,898.2</u>
Net operating revenues	2,163.5	2,360.4
Rate base	17,777.3	18,763.5
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. The authorized return on equity is 14.5%.

For test year 1983, \$349,000 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.)

Operating Revenues

Staff's estimate of operating revenues is \$128,000 greater than that of applicant for test year 1983 and \$138,500 greater in test year 1984 at present rates. These differences are due to disagreement over commercial metered sales figures for two large accounts (Rolling Hills Country Club and Green Hills Memorial Park) and public authority metered sales.

Rolling Hills Country Club's water usage for the test years was estimated by the staff at the average of 1980 and 1981 usage. However, a major well belonging to this customer was out of service in 1981 and has since been restored to service. A staff letter to this account received no response, but a telephone call made after the staff's estimate was made indicated that the degree of salt content in the customer's well water necessitated purchases from CWS to make it usable. The record is silent on whether or not the usage pattern of the club would be different with its own well in production.

CWS assumed that normal purchases before the well outage would resume when the defective source was again brought into service.

We think that the CWS reasoning is the more persuasive in the absence of any clear indication that sales to this golf club would remain at 1981 levels upon the repair of the customer's well, and we will adopt applicant's estimate.

In the case of Green Hills Memorial Park, staff accepted the applicant's original estimate of 1983 and 1984 usage. CWS presented evidence showing that a least square trending of sales data for this customer for the years 1973 through 1981 indicated less usage than it had previously projected. It submitted revised estimates which are supported by recorded sales data through June 1982.

The staff adopted CWS's original estimates but the record does not apprise us of the methodology used by CWS in making its initial estimates. We conclude that applicant's revised estimates are reasonable and are adopted.

Staff estimates for public authority metered sales are said to be supported by staff contacts with these customers and are higher than those of CWS, which relied on trended recorded data tested by experience through June 1982. However, the record shows that only two of 19 large public authority customers were solicited by staff letters and only one response was received. While the single answer was from a large entity which indicated an expected increase in usage, there is no evidence that the one account is representative of the entire class. We adopt the CWS estimates, based upon historical experience, as the more reasonable.

Tank Painting Maintenance

In D.82-11-058, East Los Angeles District, we discussed tank painting expenses and adopted disallowances recommended by staff based upon actual physical inspection.

In the Palos Verdes District, the staff suggests disallowances of \$14,900 in 1983 and \$55,200 in 1985.

We will exclude tank painting expenses for Reservoirs 8 and 26, scheduled for painting in 1983, based upon field inspections by staff.

However, we will approve expenses for Reservoir 5, scheduled for roof repair in 1985 as the staff engineer could not see the underside of the roof and the CWS witness testified to its deterioration.

We will also approve painting of both tanks 1 and 2 at Reservoir 19 in 1985. While the staff recommends disallowance of one of the two tank paintings, based upon inspection, we find that the utility's argument that both tanks be painted at the same time in order to avoid duplicate setup costs and so that the tanks present a uniform appearance to be more reasonable.

Construction Budgets

In D.82-11-058, East Los Angeles District, we stated our reasons for applying the test of reasonableness of construction expenditures only to those recommended for disallowance by the staff and which are in excess of \$25,000. There are three such items in this case.

Staff recommends that a computer control system in the amount of \$144,000 not be approved. The staff believes that applicant has not met its burden of proof in showing a justifiable need for its projected computer-based remote data and control center. An acceptable cost benefit analysis is lacking, according to staff, and CWS has failed to pinpoint the need for the equipment. There is no showing that the existing automatic and manual control systems are not adequate to handle any problems which may arise.

Staff suggests that the better course is for CWS to study its existing computer systems in its Bakersfield and Bear Gulch Districts to obtain a determination of costs and benefits of these systems.

Applicant urges approval of the new computer-based control system as a necessary service improvement rather than a cost-saving mechanism. It also explains that a cost-benefit study is not possible before the system is in and operating.

We will adopt the staff recommendation to delete this item. 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. CWS is in a position to garner actual operating data on the computer-based control systems in two of its districts. A cost-benefit study should be a prerequisite to our approval of further installations in other districts. 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 recommends disallowance of \$80,000 in the 1982 budget for nonspecifics on the theory that a specific disallowance indicates that a general disallowance of construction expenditures should follow. It is unclear whether the staff considers the nonspecific exclusion it recommends to be related to the computer program. The record is clear that the nonspecific disallowance of \$80,000 is for pumping equipment unrelated to the computer system.

The staff reason given for this recommendation is vague and does not deal with the merits of the proposed expenditure. We will approve this budget item as being reasonable.

Staff suggests disallowance of a carport in the 1984 budget at a cost of \$100,000. Staff inspected the site, noted the overall good condition of vehicles in the lot, and testified to his view that the mild environment of this district did not require a carport at this time.

CWS terms the staff position to be unreasonable. It states that a carport in nearby Redondo Beach improved applicant's situation as to rolling stock considerably in that district. Also, CWS argues that it has found that a carport is the most inexpensive way of protecting portable equipment. All of this demonstrates, it seems to us, that it should be an easy matter for applicant to justify this proposed installation by the cost-benefit study which the staff would like to see.

We find that the need for and cost of the carport has not been proven, and we will disallow it in this case.

Findings of Fact

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

2. A rate of return of 12.17% on the adopted rate base of \$17,777,300 for test year 1983 reflects the return on common equity recently granted in CWS's East Los Angeles District and is reasonable.

3. A rate of return of 12.58% on the adopted rate base of \$18,763,500 for test year 1984 reflects increased cost of capital and is reasonable.

4. CWS's earnings under present rates for test year 1983 would produce net operating revenues of \$1,717,100 on a rate base of \$17,777,300 based on the adopted results of operations, resulting in a rate of return of 9.66%.

5. CWS's earnings under present rates for test year 1984 would produce net operating revenues of \$1,792,600 on a rate base of \$18,763,500 based on the adopted results of operations, resulting in a rate of return of 9.55%.

6. The authorized increases in rates are expected to provide annual increases in revenues of \$924,200 in 1983, \$247,000 in 1984, and \$97,100 in 1985.

7. Operational attrition on the basis of adopted rates is 0.23% 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 \$144,000 in 1982 for a computer-based remote data and control system.

13. There is insufficient evidence to justify the expenditure of \$100,000 in 1984 for a carport.

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 Palos Verdes 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 Palos Verdes 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.

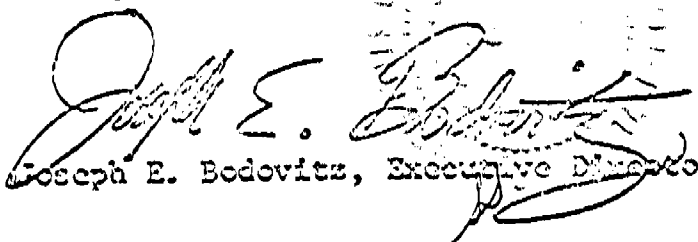
5. Before January 31, 1983, CWS shall send the bill insert in Appendix D to its Palos Verdes District customers.

This order is effective today.

Dated DEC 15 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. CRIMES, 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. FV 1

Palos Verdes Tariff Area
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered service.

TERRITORY

Palos Verdes Estates, Rolling Hills, Rolling Hills Estates, Lomita, Rancho Palos Verdes, and vicinity, Los Angeles County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 3.25	(I)
For 3/4-inch meter	6.00	
For 1-inch meter	8.30	
For 1 1/2-inch meter	11.60	
For 2-inch meter	14.50	
For 3-inch meter	28.00	
For 4-inch meter	38.00	
For 6-inch meter	62.00	
For 8-inch meter	93.00	
For 10-inch meter	115.00	
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft.	0.800	
For the next 29,700 cu.ft., per 100 cu.ft.	1.200	
For all over 30,000 cu.ft., per 100 cu.ft.	1.044	(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. PV-4

Palos Verdes Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

The cities of Palos Verdes Estates, Rolling Hills, Rolling Hills Estates, Lomita, Rancho Palos Verdes, and vicinity, Los Angeles 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	\$0.10	\$0.00
For 3/4-inch meter	0.10	0.10
For 1-inch meter	0.20	0.10
For 1 1/2-inch meter	0.30	0.10
For 2-inch meter	0.50	0.00
For 3-inch meter	1.00	0.00
For 4-inch meter	1.00	0.00
For 6-inch meter	2.00	0.00
For 8-inch meter	2.00	1.00
For 10-inch meter	3.00	1.00
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft.	0.019	0.009
For the next 29,700 cu.ft., per 100 cu.ft.	0.029	0.013
For all over 30,000 cu.ft., per 100 cu.ft.	0.025	0.009

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 1ADOPTED QUANTITIES: WATER PRODUCTIONCompany: California Water Service Co.
District: Palos Verdes District

	<u>1983</u>	<u>1984</u>
1. Water Production: KCcf	8,203.6	8,245.9
All water purchased: Assumed loss =	6.9%	
2. <u>Purchased Power</u>	Supplier: SCE	Date: 5-82
<u>Booster Stations</u>		
Total Production - KCcf	8,203.6	8,245.9
- MG	6,136.7	6,168.3
kWh per MG	4,189	4,189
Req'd kWh, Boosters	25,706,636	25,839,009
kWh Unit Cost	\$ 0.06564	\$ 0.06564
Energy Cost	1,687,400	1,696,100
Less Oak Street Project Credit	170,200	375,700
Net Cost	1,517,200	1,320,400
3. <u>Purchased Water</u>		
Production - MG	6,136.7	6,168.3
- AF	18,832.9	18,929.9
Unit Cost 7-82 rates:	140.60	140.60
Cost	\$ 2,647,906	\$ 2,661,544

APPENDIX C
Page 2

ADOPTED QUANTITIES

4. <u>Number of Services-Water Size:</u>		<u>1983</u>	<u>1984</u>			
5/8 x 3/4		18,247	18,303			
3/4		59	59			
1		2,979	2,987			
1-1/2		571	573			
2		409	410			
3		41	41			
4		18	18			
6		11	11			
8		4	4			
		<u>22,339</u>	<u>22,406</u>			
5. <u>Metered Water Sales:</u>		<u>1983</u>	<u>1984</u>			
<u>Range Ccf</u>		<u>Usage-Ccf</u>				
0 - 3		789,100	791,500			
4 - 300		5,870,100	5,893,200			
300		978,400	992,300			
Total		<u>7,637,600</u>	<u>7,677,000</u>			
6. <u>Number of Services:</u>		<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>	
Commercial	22,098	22,165	6,576.4	6,596.3	297.6	297.6
Comm. Large User	8	8	290.2	295.7	36,275.	36,963.
Industrial	12	12	37.9	41.0	3,158.	3,417.
Public Authority	194	194	721.7	732.6	3,720	3,776.
Other	27	27	11.4	11.4	422	422
subtotal	<u>22,339</u>	<u>22,406</u>	<u>7,637.6</u>	<u>7,677.0</u>		
Private Fire Prot.	114	120				
Total	<u>22,453</u>	<u>22,526</u>				
Water Loss: 6.9%						
Total Water Produced			<u>566.0</u>	<u>568.9</u>		
			<u>8,203.6</u>	<u>8,245.9</u>		

APPENDIX C
Page 3INCOME TAX CALCULATION

	<u>1983</u>	<u>1984</u>
	(Thousands of Dollars)	
Operating Revenue (Authorized)	\$9,963.7	\$10,258.6
<u>O&M Expense</u>		
Purchased Power	1,517.2	1,320.4
Purchased Water	2,647.9	2,661.5
Purchased Chemicals	6.4	6.5
Payroll District	671.7	716.7
Other O&M	493.6	528.2
Other A&G	42.7	44.3
G O Allocation	627.4	671.3
Business License	1.0	1.0
Subtotal	<u>6,007.9</u>	<u>5,949.9</u>
Uncollectibles	6.6	6.8
Franchise	98.4	101.3
Taxes Other	244.4	258.8
Transportation Depr. Adj.	<u>(28.6)</u>	<u>(28.9)</u>
Soc. Sec. Taxes Capitalized	8.2	8.6
Interest	<u>930.3</u>	<u>1,056.8</u>
Total Deductions	<u>7,269.2</u>	<u>7,353.3</u>
State Tax Depreciation	928.5	985.3
Net Taxable Income	1,766.0	1,920.0
State Corp. Franch. Tax @ 9.6%	169.5	184.3
Federal Tax Depreciation	814.4	837.6
State Income Tax	169.5	184.3
Prof. Stock Div. Credit	5.0	5.0
Net Taxable Income	1,705.6	1,878.4
Fed. Income Tax @ 46%	784.6	864.1
Less Grad. Tax Adj.	2.1	2.2
Less Invol. Conv. Adj.	0.0	0.0
Total Federal Income Tax	782.5	861.9
Total Income Tax	952.0	1,046.2
Net-to-Gross Multiplier: 2.0703		
Book Depreciation: \$505,100 (1983); \$549,400 (1984).		

(Red Figure)

(END OF APPENDIX C)

APPENDIX D

Bill Insert for Palos Verdes District Customers
of California Water Service Company

N O T I C E

\$349,000 of the recent rate increase granted to California Water Service Company for its Palos Verdes 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)

Insert p 8 A 82-03-98

Insert B

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.

Insert A

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.

Staff suggests that the better course is for CWS to study its existing computer systems in its Bakersfield and Bear Gulch Districts to obtain a determination of costs and benefits of these systems.

Applicant urges approval of the new computer-based control system as a necessary service improvement rather than a cost-saving mechanism. It also explains that a cost-benefit study is not possible before the system is in and operating.

We will adopt the staff recommendation to delete this item. *Insert para A* CWS is in a position to garner actual operating data on the computer-based control systems in two of its districts. A cost-benefit study should be a prerequisite to our approval of further installations in other districts. *Insert para B*

Staff recommends disallowance of \$80,000 in the 1982 budget for nonspecifics on the theory that a specific disallowance indicates that a general disallowance of construction expenditures should follow. It is unclear whether the staff considers the nonspecific exclusion it recommends to be related to the computer program. The record is clear that the nonspecific disallowance of \$80,000 is for pumping equipment unrelated to the computer system.

The staff reason given for this recommendation is vague and does not deal with the merits of the proposed expenditure. We will approve this budget item as being reasonable.

Staff suggests disallowance of a carport in the 1984 budget at a cost of \$100,000. Staff inspected the site, noted the overall good condition of vehicles in the lot, and testified to his view that the mild environment of this district did not require a carport at this time.