

Decision 83 08 054 AUG 17 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of CALIFORNIA-AMERICAN WATER COMPANY)
for an order authorizing it to in-)
crease its rates for water service)
in its Village District.)

Application 82-12-18
(Filed December 8, 1982)

Steefel, Levitt & Weiss, by Lenard G. Weiss,
Attorney at Law, for applicant.
Edward Duncan, for himself; Brown and Caldwell,
by William K. Perry, for City of Thousand
Oaks; Joseph A. Daly, for Department of
Health Services; and William Dixon, for
Utility Workers Union of America, AFL-CIO;
interested parties.
F. Javier Plasencia, Attorney at Law, and
Sung B. Han, for the Commission staff.

O P I N I O N

California-American Water Company (Cal-Am), a California corporation, seeks authorization to increase its rates for water service in its Village District by an annual amount of \$1,182,900 (or 27.8%) increase in 1983 over the rates which became effective July 1, 1982, by an additional annual amount of \$543,600 (or 9.9%) over the proposed 1983 rates for 1984, and an additional annual amount of \$326,400 (or 5.3%) over the proposed 1984 rates for 1985. During the hearing Cal-AM increased its request by \$467,600 to reflect the increases of \$465,000 in purchased water and \$2,600 in purchased power.

After due notice a hearing to receive public witness testimony and statements was held before Administrative Law Judge (ALJ) William A. Turkish in Thousand Oaks, California, on April 4, 1983. Statements were received from 13 public witnesses setting

forth their views on the propriety of the application. In addition, this matter was combined for hearing with Cal-Am's Application (A.) 82-12-16 for a rate increase for the Baldwin Hills District, A.82-12-17 for a rate increase for the Duarte District, and A.82-12-19 for a rate increase for the San Marino District. After due notice public hearings on the combined matters were held before ALJ N. R. Johnson in Los Angeles on April 11-15 and April 19-20, 1983, and the matter was submitted on concurrent briefs due May 31, 1983. Briefs were received from Cal-Am, the Commission staff (staff), and the Utility Workers Union of America, AFL-CIO (Union). Testimony was presented on behalf of Cal-Am by its director of rates and revenue, John Barker, by a consultant for Stetson Engineers, Inc., Robert M. Mann, by its vice president of finance, Robert W. Bruce, by its manager of the Los Angeles Division, Linn E. Magoffin, by its Los Angeles operations manager, Andrew Krueger, and by its vice president of operations, Lawrence D. Foy; on behalf of staff by one of its research analysts, Linda Gori, and by utilities engineers Chew Low, Donald Yep, Wayne Koerting, Arthur Gallegos, D. McCrea, and Sung B. Han; on behalf of the County of Ventura by one of its supervisors, Edwin A. Jones; on behalf of the Department of Health Services by Joseph A. Daly; and on behalf of himself by Edward Duncan. In addition, statements were heard from 13 public witnesses at the combined hearing in Los Angeles on April 11, 1983.

An informal public meeting, jointly sponsored by Cal-Am and staff, was held on January 20, 1983 for the Village District at Howard Johnson's Motor Lodge in Thousand Oaks. Fifteen of Cal-Am's customers attended the meeting, most of whom expressed concern about the magnitude of the increase as contrasted to the relatively modest increase in the Consumer Price Index.

Many of those in attendance expressed dissatisfaction with the responses of Cal-Am representatives to questions regarding the requested rate increases. As a result, an additional meeting was requested for Thousand Oaks by both the City of Thousand Oaks and the Conejo Oaks Property Owners Association. These requests were granted and the above-noted public witness hearing was held on April 4 before ALJ Turkish.

I. SYNOPSIS OF DECISION

By this decision Cal-Am is authorized to increase its rates by about \$1,304,300 (29.05%) over the rates which became effective July 1, 1982 for 1983, \$399,400 (6.89%) over the authorized 1983 rates for 1984, and \$195,500 (3.15%) over the 1984 authorized rates for 1985 as compared to requested increases of \$1,182,900, \$543,600, and \$326,400, respectively. The 1983 authorized rate increase includes the increase of \$465,000 in purchased water which became effective July 1, 1983 and the increase of \$2,600 in purchased power which became effective January 1, 1983.

Table 1, following, sets forth a comparison of Cal-Am and the staff estimates, together with the adopted results.

A rate of return on rate base of 11.62% for 1983, 11.86% for 1984, and 12.03% for 1985 is found reasonable. Such rates of return will provide a times interest coverage of 2.53, 2.46, and 2.41, respectively. The authorized return on equity is 14.50%.

The effect of the adopted rate charges on a typical residential customer using 22.18 Ccf (hundred cubic feet) per month is as follows:

Bill Analysis - 1983

<u>Ccf</u>	<u>Present Rates</u>	<u>Authorized Rates</u>	<u>Percent Increase</u>
3	\$ 6.27	\$ 9.37	49.47
5	7.45	10.80	44.91
10	10.41	14.38	38.05
20	16.33	21.53	31.79
22.18 (Average)	17.62	23.08	30.99
30	22.25	28.68	28.86
50	34.09	42.97	26.05
100	63.69	78.72	23.60

Table 1
CALIFORNIA-AMERICAN WATER COMPANY
Village District
1983 Present Rates

Item	Cal-Am Adjusted	CPUC Staff Adjusted	Adopted
(Dollars in Thousands)			
Operating Revenues	\$4,403.1	\$4,403.1	\$4,403.1
<u>Operating Expenses</u>			
<u>O&M</u>			
Payroll	356.9	259.3	272.7
Purchased Water ^{1/}	2,747.4	2,747.4	2,747.4
Purchased Power ^{2/}	45.3	45.3	45.3
S/S	3.7	3.7	3.7
Pumping	33.4	33.4	33.4
Water Treatment	5.3	5.3	5.3
Trans. & Dist.	171.5	133.5	152.5
Cust. Accts.	167.4	165.3	167.4
Subtotal	3,530.9	3,393.2	3,427.7
<u>A&G</u>			
Payroll	88.1	94.1	98.9
Office Supplies	44.3	44.3	44.3
Prop. Ins.	.4	.4	.4
Inj. & Damages	19.6	15.6	19.6
Empl. Pensions/Benefits	113.9	97.6	101.8
Business Tax	-	-	-
Reg. Comm. Expense	17.6	13.6	14.8
Outside Services	51.8	36.8	36.8
Misc. Genl. Expense	13.5	8.5	8.5
General Plant	12.2	12.2	12.2
Rents	33.6	33.6	33.6
Subtotal	395.0	356.7	370.9
General Office Prorated	197.9	195.5	195.5
<u>Taxes-Other</u>			
Ad Valorem	85.6	85.6	85.6
Payroll	32.6	26.0	27.3
Subtotal	118.2	111.6	112.9
Depreciation	243.7	242.6	242.1
Uncollectibles	11.2	11.2	11.2
Franchise Tax	65.5	65.5	65.5
SCPT	(61.5)	(33.6)	(38.4)
PIT	(275.7)	(154.8)	(175.2)
Total Operating Exp.	4,225.2	4,187.9	4,211.6
Utility Operating Income	177.9	215.2	191.5
Rate Base	7,340.9	7,042.4	7,029.0
Rate of Return	2.42%	3.06%	2.72%

(Red Figure)

^{1/} Includes \$465,000 increase effective 7-1-83.^{2/} Includes \$2,600 increase effective 1-1-83.

Table 1

CALIFORNIA-AMERICAN WATER COMPANY
Village District
1984 Present Rates

Item	Cal-Am Adjusted	CPUC Staff Adjusted	Adopted
(Dollars in Thousands)			
Operating Revenues	\$4,489.2	\$4,489.2	\$4,489.2
<u>Operating Expenses</u>			
<u>O&M</u>			
Payroll	417.2	276.2	302.1
Purchased Water ^{1/}	2,804.2	2,804.2	2,804.2
Purchased Power ^{2/}	46.1	46.1	46.1
S/S	4.1	4.1	4.1
Pumping	36.8	36.8	36.8
Water Treatment	5.8	5.8	5.8
Trans. & Dist.	186.0	149.7	167.9
Cust. Accts.	176.8	174.7	176.8
Subtotal	3,677.0	3,497.6	3,543.8
<u>A&G</u>			
Payroll	103.0	100.2	109.6
Office Supplies	48.1	48.1	48.1
Prop. Ins.	.4	.4	.4
Inj. & Damages	21.1	17.1	21.1
Empl. Pensions/Benefits	132.1	110.7	114.3
Business Tax	-	-	-
Reg. Comm. Expense	17.6	13.6	14.8
Outside Services	58.5	36.8	36.8
Misc. Genl. Expense	9.7	9.3	9.3
General Plant	13.4	13.4	13.4
Rents	59.8	59.8	59.8
Subtotal	463.7	409.4	427.6
General Office Prorated	212.9	209.1	209.1
<u>Taxes-Other</u>			
Ad Valorem	92.3	92.3	92.3
Payroll	37.7	28.0	30.6
Subtotal	130.0	120.3	122.9
Depreciation	268.4	267.7	262.6
Uncollectibles	11.4	11.4	11.4
Franchise Tax	66.8	66.8	66.8
SCPT	(81.4)	(42.0)	(53.6)
FIT	(353.4)	(204.0)	(232.5)
Total Operating Exp.	4,395.4	4,331.3	4,358.1
Utility Operating Income	93.8	157.9	131.3
Rate Base	8,556.1	8,131.6	8,084.9
Rate of Return	1.10%	1.94%	1.62%

(Red Figure)

^{1/} Based on purchased water rate effective 7-1-83.^{2/} Based on purchased power rate effective 1-1-83.

II. BACKGROUND

Cal-Am, a wholly owned subsidiary of the American Water Works Company, Inc. of Wilmington, Delaware, was incorporated in California on December 7, 1965 for the purpose of acquiring all of the water properties of the California Water and Telephone Company. The acquisition was accomplished on April 1, 1966. Subsequently, on December 31, 1969 the Village Water Company in Ventura County and the Pollock Water Service, Inc. in Monterey County were merged into Cal-Am.

The Village District presently provides public utility water service in and adjacent to the unincorporated community of Newbury Park, in a portion of a territory contiguous to the City of Thousand Oaks, and in a small area adjacent to the City of Camarillo known as Country Club. In addition to private right-of-way grants, Village operates under a 30-year franchise granted by the County of Ventura.

Elevations served in the Village District vary between 300 feet and 1,050 feet above sea level. All of the water requirements are purchased through 12 separate connections with the Calleguas Municipal Water District, a member agency of the Metropolitan Water District of southern California.

As of December 31, 1981, the Village District had 970,334 lineal feet of water mains varying in size from two-inch diameter to 18-inch diameter. The total average number of customers for the recorded year 1981 was 14,742 of which 13,919 were residential customers, 619 were business customers, 128 were industrial customers, 74 were public authority customers, and 2 were golf course customers.

III. RATE OF RETURN

Cal-Am is requesting that this Commission authorize rates that will produce a return on common equity of 16%. According to witness Bruce's testimony, the 16% return on equity request is based on the expectations of common stock investors who require a higher return on stocks than bonds because of the relatively greater risk, who expect the earnings of corporations to provide a steady stream of dividends that increase by at least the rate of inflation, and who expect the book value of the original investment to increase through retained earnings reinvested in the corporation. He further testified that because public utility bond rates have not declined by the same percentages as have the prime rate and treasury issues, that the risk to the public utility common stock investor has been perceived by the investor to have increased necessitating a return on common equity of 300 to 400 basis points above bond interest rates or in excess of the 16% return on equity requested by Cal-Am.

Staff witness Gori recommended a rate of return on common equity of 14.50%. According to her testimony, the 14.50% return on equity is the same return on equity this Commission authorized for Cal-Am in December 1982 for its Monterey District. In that proceeding (A.82-02-47) witness Gori recommended a return on equity in the range of 14.75% to 15.25%. She noted that in authorizing 14.50% the Commission took cognizance of the fact that interest rates had declined between the time of her recommendation and the issuance of the decision. She further testified that a review of interest rate trends and forecasts subsequent to the above-mentioned determination shows that recorded and projected market conditions

have not changed significantly since the decision issued and that no material changes have occurred which would impact the 14.50% return on equity found fair and reasonable for Cal-Am in that decision. Witness Gori also testified that she analyzed the average risk premium between the realized returns of nine publicly traded water utilities and the returns on 10-year and 20-year government treasury bonds. She found that in a five-year time period the nine companies have required an average premium of 4.34% over the 10-year treasury bonds and a premium of 5.08% over 20-year treasury bonds. Applying these factors to an average forecasted rate for 10-year and 20-year treasury bonds yields a range of required return on equity of 13.84 to 14.78% which, according to the record, gives further support to witness Gori's recommended 14.50% return on common equity.

Staff's recommended capital structure and computed rate of return, together with the implicit after-tax interest coverage for the years 1983, 1984, and 1985, are as follows:

Component	Capitalization : : Ratios	Cost : : Cost	Weighted : : Cost
<u>Average Year 1983</u>			
Long-Term Debt	51.50%	8.92%	4.59%
Common Equity	<u>48.50</u>	14.50	<u>7.03</u>
Total	<u>100.00%</u>		<u>11.62%</u>
			2.53x
<u>Average Year 1984</u>			
Long-Term Debt	51.50%	9.38%	4.83%
Common Equity	<u>48.50</u>	14.50	<u>7.03</u>
Total	<u>100.00%</u>		<u>11.86%</u>
			2.46x
<u>Average Year 1985</u>			
Long-Term Debt	51.50%	9.71%	5.00%
Common Equity	<u>48.50</u>	14.50	<u>7.03</u>
Total	<u>100.00%</u>		<u>12.03%</u>
			2.41x

According to the further testimony of witness Gori, the above-recommended capital structure is predicated upon the same capital requirements, financing projections, and capital structure incorporated in Decision (D.) 82-12-122 on Cal-Am's Monterey District A.82-02-47. Cal-Am's witness Bruce stipulated to the above capital structure and cost of debt.

We have carefully considered the evidence of record on rate of return and adopt as reasonable the above financial structure, cost of debt, and the staff's recommended return on equity of 14.50%.

IV. SUMMARY OF EARNINGS

General

Late-filed Exhibit 58, filed at the request of the presiding ALJ, sets forth a comparison of Cal-Am's and staff's summary of earnings for test years 1983 and 1984 at both present and Cal-Am's proposed rates. The exhibit summarizes the areas of agreement and disagreement between the estimates and data of Cal-Am and staff and reflects such current data as the increase in Southern California Edison Company's rates effective January 1, 1983 and the current rates from the West Basin Municipal Water District and West Basin Water Replacement District.

Table 1 in the synopsis of this decision sets forth the summary of earnings as estimated by Cal-Am and the staff, together with our adopted results. The bases for adopting these revenue, expense, and rate base items are set forth in the ensuing paragraphs.

Operating Revenues

Cal-Am stipulated to the staff's operating revenue estimates of \$4,403,100 for test year 1983 and \$4,489,200 for test year 1984. We will adopt these figures.

Payroll Expense-General

Cal-Am's estimates of total operating and maintenance (O&M) Village District payroll are \$356,900 for test year 1983 and \$417,200 for test year 1984 as contrasted to the staff's estimates of \$259,300 and \$276,200, respectively. Cal-Am's estimates for administrative and general (A&G) payroll expense are \$88,100 for 1983 and \$103,000 for 1984 as compared to staff's estimates of \$94,100 and \$100,200, respectively. The differences in the amounts of the estimates reflect both differences in the size of the wage escalation factor to be used and the number of existing and additional employees to be used for the test years under consideration.

Direct comparison of Cal-Am's and the staff's estimates is difficult because of the different methodology used by the parties. Cal-Am's estimate reflects the application of wage escalation factors on a position-by-position basis for existing positions, filled or vacant, for test years 1981, 1982, and through April 1983 and anticipated wages on a position-by-position basis for five proposed additional employees. In general this estimate reflects 57 employees in the Los Angeles Region as of April 1983 and the addition of five more employees for the 1983, 1984, and 1985 test years for a total of 62 employees, including the equivalent of approximately two employees whose salaries will be capitalized instead of expensed.

The staff's estimate for projected payroll is based on dollar projections. Staff normalized the direct payroll for each district for the years 1977 through 1982 by adjusting for customer growth and in-place payroll increases for each district. The average of these six recorded and normalized payrolls for each district was then expanded by the same factors to provide the 1983 and 1984 test years' estimated payrolls.

Payroll Expense-Wage Escalation

The Village, Baldwin Hills, Duarte, and San Marino Districts are a part of the Los Angeles Region. The Village District employees were organized approximately one year ago at which time a contract was negotiated and signed. The wage portion of the contract for the Village District expires on June 30, 1983. The union agreement for the other three districts in the Los Angeles Region runs through December 12, 1984.

Testimony and exhibits on the amount of wage escalation that Cal-Am is requesting were presented on behalf of Cal-Am by witness Foy. According to his testimony, Cal-Am is requesting the same overall wage escalation granted for its Monterey District by D.82-12-122 dated December 30, 1982 on its A.82-02-47; namely, 12.5% for 1983, 11.0% for 1984, and 10.0% for 1985. According to this witness's testimony, the requested wage escalation factors are based on the following component parts:

	<u>Union</u>	<u>Nonunion</u>	<u>Supervisory</u>	<u>Corp. Off.</u>
1983	12.4	10.5	9.9	10.1
1984	11.4	11.2	10.2	9.4
1985	-	8.0	8.0	9.1

The union escalation factors are those included in the currently effective labor contract for Baldwin Hills, San Marino, and Duarte Districts of the Los Angeles Region. The escalation factors for the Village District are to be negotiated to become effective July 1, 1983. The escalation factors for the nonunion supervisory, nonunion nonsupervisory, and corporate office components were, according to the record, submitted to Cal-Am's board of directors as part of its 1983 budget and were approved

at that time. Also, according to the record, the nonunion nonsupervisory group escalation rates are related to the union escalation factors and the nonunion supervisory group escalation factors are related to the wage levels of the personnel being supervised.

Testimony and exhibits on wage escalation factors used for the payroll estimates were presented on behalf of staff by witness Koerting. According to his testimony, staff accepted all "in-place" escalation factors. In all instances where there was no written agreement or reasonably nonrevocable commitments by an appropriate board, staff applied wage escalation factors developed by the Economic Section of the Revenue Requirements Division (RRD) of 5.4% for 1983 and 4.8% for 1984. According to this witness, the only committed escalation factors were those contained in the union contracts running through December 12, 1984 for the Baldwin Hills, Duarte, and San Marino Districts and June 30, 1983 for the Village District.

According to Cal-Am's witness, the staff method ignored the facts that there is in effect now and through 1984 an existing collective bargaining agreement executed by Cal-Am December 12, 1981, that wages for nonunion-nonsupervisory, supervisory, and management went into effect July 1, 1982, and that Cal-Am remains well behind those water utilities with which it directly competes for competent employees at all levels.

In its brief Cal-Am argues that where no future wage commitments exist in a strict contractual sense for nonunion employees, it follows a long-established policy of relating nonunion wages for nonsupervisory personnel to union wages and relating nonunion supervisory wages to the wages of those being supervised. According to Cal-Am, such a procedure is reasonable and was accepted by this Commission as such in the Monterey case.

Cal-Am further argues that it is committed to the budgeted increases as evidenced by its president's letter to staff (Exhibit 53) and that any lesser increases would have a negative impact on employee morale, turnover, and productivity.

In its brief Union argues that this Commission lacks jurisdiction to set rates based on any factors other than those contained in the collective bargaining agreement and that to do so would be contrary to the doctrine of federal preemption in the area of labor law which prohibits state interference with collective bargaining and the terms of a collective bargaining agreement. Union further states that for the Commission to take the position that 5.4% is an adequate wage increase in spite of the fact that members of the same union are working for other utilities at considerably higher wages is not only an intrusion into the collective bargaining process, it is not very good arithmetic.

With respect to collective bargaining agreements, we have previously stated:

"The Commission will not view as sacrosanct in its rate-making process every element of a collective bargaining agreement when such affects rates and service to the detriment of ratepayers, who, we note, are not represented at the collective bargaining table and have only this Commission to protect them. The Commission will not shy away from examining the deleterious effect on service and rates of inefficient utility management. We reserve the right to order such changes - or disallow such costs - as we find necessary. (Pacific Gas and Electric Company, D.92489, p. 282, December 2, 1980.)"

Furthermore, with regard to wage escalation factors specifically, we recently stated as follows:

"With respect to applicant's question concerning our authority to refuse to recognize an existing expense item, we will simply state that merely to rubber stamp any increased expense over which a utility has control would be to abdicate our role as regulator. It is our duty not merely to examine actual incurred expenses, but to ratify or reject expenses on the basis of reasonableness in light of all relevant circumstances. This is especially true in connection with controllable expenses. (Del Este Water Company, D.82-09-061, p. 12, September 22, 1982.)"

As in the matter of the Monterey District proceeding, we find that Cal-Am has established the reasonableness of the wage escalation factors contained in the contract. Furthermore, the record fully supports Cal-Am's position that increases to nonunion employees in excess of RRD's Economic Section recommended increases of 5.4% for 1983 and 4.8% for 1984 are justified in light of the discrepancies in wage levels of Cal-Am employees as compared to equivalent employees of other similarly located utilities. We place Cal-Am on notice, however, that the rate

levels authorized here for the years 1983, 1984, and 1985 are based on revenue requirements providing for the above wage escalation rates. The escalation factors actually effected will be reviewed in conjunction with the annual attrition allowance review and suitable adjustments will be made to such attrition allowances should it be determined that the wage escalation factors placed into effect are less than presently set forth in the record of this proceeding.

Payroll Expense-Additional Employees

Having disposed of the proper escalation factors to be applied to employee wages, we will now address the number of employees to whom such wage escalation factors are to be applied.

According to the record, the number of employees in the Los Angeles Region for the period December 1981 to April 1983 has varied from a low of 50 in May 1982 to a high of 57 in April 1983. The number of employees assigned to the Village District was 11 at the beginning of 1982 and was increased to 13 during the year. These employees represent from 19.3% to 22% of the employees in the Los Angeles area whereas the percentage of labor costs assigned to the Village District for the period 1979 through 1985 estimated ranges from 29.04% to 34.36% of the Los Angeles Region O&M wages. The difference is composed of regional costs allocated to the four districts. Obviously, in determining the proper level of the Village District payroll expense, it is necessary to differentiate between employees who will generally work wholly within one district and those whose time is allocated between the four districts comprising the Los Angeles Region.

Testimony presented on behalf of Cal-Am indicates that the full complement of personnel for the Los Angeles Region was 53 as of January 1982. To this was added a leak van maintenance specialist in August 1982, a laborer to the Village District in September 1982, a draftsman to the Village District in October 1982, and an administrative assistant in January 1983 bringing the total to 57. Cal-Am proposes to add a commercial clerk, two gate valve personnel, and a senior pump operator for the region and a meter reader for the Village District for a total of 62.

According to the record, the staff estimate reflects approximately 52 employees for the region for test year 1982 increasing to approximately 56 for the test years 1983-84. The staff witness emphasized that his estimates were based on dollar projections without direct consideration of the number of employees and that any translation from dollars to number of employees was very approximate.

The record further indicates that the weighted average number of employees for test year 1982 was 52.4 and the overall weighted average percent of payroll capitalized for the same year was 3.29% or the equivalent of 1.7 employees. Deducting this 1.7 from the above 52.4 leaves 50.7 employees whose salaries are expensed to the O&M and A&G payrolls. This approximates the 50 employees which the staff witness testified were the region number for the six years 1977 through 1982. However, according to the testimony of Cal-Am's witness, the weighted recorded average for the year 1982 is an inappropriate figure for use because 1982 was the third year of a rate case where Cal-Am received only an attrition allowance and the earnings were such that the company elected to hold employee vacancies as long as

possible resulting in an abnormally low average. Such a posture appears reasonable and we will adopt as a beginning of year figure 53 employees for the Los Angeles Region. Of the four employees added from August 1982 through January 1983, only two had duties which encompassed the entire Los Angeles Region and would therefore have a portion of their salaries allocated to the Village District. One of these, the maintenance specialist for the leak van, was justified on the record and will be allowed. The other, an administrative assistant, was not justified in this proceeding and will be disallowed. Consequently, our adopted beginning of year 1983 region complement will be 56 employees, including two whose salaries are to be capitalized instead of expensed and two for the Village District whose salaries will be added to the Village District pro rata share of payroll expense in our determination of the appropriate employee payroll expense for the Village District.

We are persuaded by the testimony of Cal-Am's witness Foy and the California Department of Health's witness Daly that a proper gate valve maintenance program should be initiated on a regional basis and will adopt as reasonable the expenses associated with the proposed gate valve crew of two.

According to the testimony of Cal-Am's witness, a senior pump operator is necessary to fill in during vacations and illnesses and to take bacterial samples and do maintenance work on pumps. It would appear, however, that such work is currently being done by existing crews. In view of this and the fact that it is not proposed to increase the number of pumping facilities, the addition of another pump operator does not appear warranted and will not be allowed for ratemaking purposes.

Cal-Am's request for an additional customer service clerk, as testified to by witness Foy, appears reasonable and will be adopted.

The fifth additional employee position proposed by Cal-Am is a meter reader for the Village District. According to the testimony of witness Foy, an additional meter reader in the Village District is necessary to reduce the work load for meter readers from 382 meters a day to 255 meters a day and to implement its new billing system whereby the meter reader carries a hand-held computer and delivers a bill at the site. This witness further testified that the above work load level was approved as reasonable by D.82-12-122 for the Monterey District. This position appears reasonable and will be adopted. The payroll costs associated with this position will be allocated wholly to the Village District.

In summary we will adopt as reasonable for the payroll expense for the Village District the sum of \$371,600 for test year 1983 and \$411,700 for test year 1984. These figures are computed based on the application of Cal-Am's requested labor escalation factors to Village's pro rata share of a regional force of 51 employees (53 beginning of year 1982 employees minus the equivalent of two employees' salaries capitalized) plus Village's pro rata share of the O&M payroll expense of the leak van maintenance specialist, the customer service clerk, and the gate valve crew, plus the payroll costs of the Village District's laborer hired in September 1982, the draftsman hired in October 1982, and the meter reader to be added to the 1983 payroll. The allocation of payroll expense between O&M and A&G will be based on the relative values reflected in the staff's estimates.

Purchased Water and Power Expenses

Cal-Am stipulated to the staff's estimates for purchased water and power expenses. Consequently, these figures will be adopted. The adopted expenses include the additional increase of \$465,000 in purchased water which became effective July 1, 1983 and the additional increase of \$2,600 in purchased power which became effective January 1, 1983.

Source of Supply, Pumping, and Water Treatment Expenses

Cal-Am's and staff's estimates of source of supply, pumping, and water treatment expenses are the same and will be adopted.

Transmission and Distribution Expenses

The staff's estimate for the Village District transmission and distribution expenses was \$133,500 for test year 1983 and \$149,700 for test year 1984 as contrasted to Cal-Am's estimates of \$171,500 and \$186,000, respectively.

According to the record, Cal-Am prepared its estimates on an item-by-item basis through the use of zero-base budgeting to establish the lowest level of normal expense and adding to this projection unusual expenses that are normalized or amortized over the expected life of the expenditure. The staff's estimates were based on trending, on an account-by-account basis, the past recorded expenses. Staff witness Koerting testified that he believed his trending estimates fully reflected all costs that had gone on in the past, including inflation and expansion.

Both methods have merit and are commonly used in the preparation of estimates such as these. The record does not support the selection of one method in preference to the other. Under these circumstances we will adopt the average of the two sets of estimates as reasonable for this proceeding, or \$152,500 for test year 1983 and \$167,900 for test year 1984.

Customer Accounts

Staff accepted Cal-Am's original estimates for this item of \$165,300 for test year 1983 and \$174,700 for test year 1984. However, during the hearing Cal-Am submitted additional data indicating these estimates should be increased by \$2,100 for each year.

Cal-Am was processing its billing service through a service bureau, Utility Datamation Services, under contract through December² 31, 1981. Upon being informed on November 13, 1981 that the price would be increased to 42 cents per customer, Cal-Am elected to install its own in-house billing system. On June 1, 1982 Cal-Am executed a contract with Electronic Data Systems to develop an in-house, on-line billing system. This new system was activated on January 1, 1983 but did operate at a satisfactory speed. It was ascertained that additional

memory and software programming was required to bring the system up to its full operational potential. In addition, it was found necessary to install additional protective equipment for the electrical system. The total cost of the additional equipment was \$51,040 which was added to the master lease of the computer billing system and spread over a period of five years. The increased cost of the additional equipment totals \$1,076.94 a month which factors to \$178.15 a month for the Village District, or approximately \$2,100 a year. It is obvious that Cal-Am could not have foreseen these additional costs at the time it was preparing for the rate case. We consider this as supplemental information rather than an updating of submitted data. Furthermore, we feel that it would be inequitable to penalize Cal-Am for not providing data that was unavailable at the time of the rate case preparation. Consequently, we will adopt as reasonable for this proceeding customers' accounts expense for the Village District of \$167,400 for test year 1983 and \$176,800 for test year 1984.

District Administrative and General Expenses

Cal-Am's estimates of district administrative and general expenses total \$395,000 for test year 1983 and \$463,700 for test year 1984 as contrasted to the staff's estimates of \$356,700 and \$409,400, respectively. Cal-Am's and the staff's estimates are the same for office supplies, property insurance, business tax, general plant, and rents, and the total of these expenses is \$90,500 for test year 1983 and \$121,700 for test year 1984. These amounts will be adopted as reasonable for this proceeding.

Cal-Am's A&G payroll expense was estimated to be \$88,100 for test year 1983 and \$103,000 for test year 1984 as compared to the staff's estimates of \$94,100 and \$100,200, respectively. The differences relate to the proper wage escalation factors to be applied to this expense. As discussed in the section on payroll, we are allocating the adopted payroll expense between O&M and A&G on the basis of the staff's relative values.

Cal-Am accepts the staff estimate for direct injuries and damages expense of \$15,600 for test year 1983 and \$17,100 for test year 1984 reflecting a decline in its 1982 workers' compensation rate but presented testimony that effective January 1, 1983 the general liability insurance policy premium increased by \$4,022 a year for the Village District. This information was forwarded to staff in January 1983 but apparently not in time to be included in staff's estimate. We are persuaded that the increase should be included in our adopted results and, therefore, accept Cal-Am's estimate of \$19,600 for test year 1983 and \$21,100 for test year 1984 for this item as reasonable for this proceeding.

Employee pension and benefits expense consists of pensions, group insurance, and other. Cal-Am's estimate for this item was \$113,900 for test year 1983 and \$132,100 for test year 1984 as compared to staff's estimates of \$97,600 and \$110,700, respectively. The differences relate to both the premium rate and amount of payroll expense used as a basis for computing the group insurance expense. Cal-Am applied an overall rate of 12.37% to its estimated payroll whereas staff applied the 1982 recorded rate of 10.34% to its estimated payroll.

The 12.37% rate used by Cal-Am reflected an increase of 24.59% effective November 1, 1982 applied to the prior rate of 9.93% on an annual basis. Staff witness Yep testified that in his opinion the proper rate is 11.11%. According to his testimony, this rate reflects the ratio of the recorded 1982 expense to the calculated 1982 expense applied to the above 12.37%. We are persuaded that this is a reasonable percentage figure and we will adopt it and apply it to our adopted total payroll to yield our adopted employee pension and benefits expense of \$101,800 for test year 1983 and \$114,300 for test year 1984.

Cal-Am's estimated regulatory commission expense is \$17,600 for test year 1983 and 1984 as contrasted to staff's estimate of \$13,600 for both years. To Cal-Am's original estimate of \$13,700 was added \$3,900 equal to the three-year amortization of the printing and mailing costs of \$3,540 associated with the second notice of hearing and \$8,143 of printing, mailing, legal, and report preparation costs associated with the public witness hearing held in Thousand Oaks on April 4, 1983. Cal-Am argues that the second mailed notice represents a deviation from past Commission practices which specified one mailed notice setting forth all the hearing dates followed by a newspaper notice of the formal public hearings. This position has merit and will be adopted. On January 20, 1983 an informal public meeting concerning the rate application was held in Thousand Oaks. According to the testimony of witness Foy, Cal-Am's representatives went to the meeting with the understanding that they would be dealing with service questions and complaints and not to discuss the details of the requested rate

increase. The members of the public that attended the meeting were apparently disappointed in not receiving answers to their questions regarding the bases for the requested rate increase and requested a second meeting in Thousand Oaks. According to the testimony of witness Foy, Cal-Am agreed with the Commission that they should go back and answer questions about the application and were in fact working with the Conejo Valley Homeowners Association and the city manager of Thousand Oaks to set up an informal meeting with the company staff to answer detailed questions on the rate increase. At that point, according to the record, a formal hearing before an ALJ with a court reporter and attended by Cal-Am and staff representatives was requested. Witness Foy stated that since the additional hearing in Thousand Oaks was requested by the ratepayers, it should be paid for by the ratepayers. The notice of the first informal meeting that was mailed to each ratepayer stated in part:

"The public meeting will be held on TUESDAY, JANUARY 18, 1983 AT 7:00 P.M. AT FRANK D. PARENT ELEMENTARY SCHOOL, MULTI-PURPOSE ROOM, 5354 WEST 64TH STREET, INGLEWOOD, CALIFORNIA. It is relatively informal and affords customers the opportunity to ask questions and express their views. California-American Water Company will have representatives there to explain the reasons for the proposed rate increase. Likewise, there will be a Commission staff representative who conducts the meeting and explains how the staff will be analyzing the proposed rate increase. The public meeting should answer questions about the proposed rate increase. The Commission wishes to know if customers have had service problems with California-American Water Company."

The notice clearly states that Cal-Am's representatives will be there to explain the reasons for the proposed rate increase. Consequently, any additional expense incurred because of their lack of preparedness should clearly be borne by Cal-Am and not the ratepayers. The above-described \$8,143 expense will be disallowed. We will, therefore, adopt as reasonable a regulatory commission expense equal to the staff's estimate plus the additional cost of the second mailing of \$3,540 amortized over a three-year period, or \$14,800, for test years 1983 and 1984.

Cal-Am's estimates for outside services expense were \$51,800 for test year 1983 and \$58,500 for test year 1984 as compared to the staff's estimates of \$36,800 for both years. According to staff testimony, the staff estimates were lower than Cal-Am's estimates because they were based on combined hearings as contrasted with Cal-Am's estimates based on separate hearings. Inasmuch as the hearings were held on a combined basis, we will accept the staff's estimates as reasonable for this proceeding.

Cal-Am's original estimate for miscellaneous general expenses for the Village District was \$7,900 for test year 1983 and \$8,700 for test year 1984. During the hearing these figures were revised to \$13,500 for test year 1983 and \$9,700 for test year 1984. These figures contrast to the staff's estimate of \$8,500 for test year 1983 and \$9,300 for test year 1984. The major portion of the increased amount relates to programs for improved community and employee relations. Not only were Cal-Am's proposed increases not filed on a timely basis in accordance with the Rate Case Processing Plan but the testimony does not justify assessing such costs against the ratepayer.

Improved community and employee relations benefit the utility and its shareholders directly and the ratepayers indirectly. Under these circumstances we will adopt the staff estimates as reasonable in this proceeding.

General Office Prorate

The total general office expense to be prorated in accordance with the four-factor allocation method is estimated by Cal-Am to be \$1,175,800 for test year 1983 and \$1,264,900 for test year 1984 and by staff to be \$1,167,400 for test year 1983 and \$1,255,900 for test year 1984. Inasmuch as Cal-Am stipulated to all the staff estimates except employee pension and benefits expense, the \$8,400 difference for 1983 and \$9,000 difference for 1984 relate to that specific item. Consistent with our treatment of the district employees and benefits, we will adopt the staff's figures reflecting an 11.11% ratio for group insurance. Applying the staff four-factor percentage to the above staff total figures yields a general office prorate for Village of \$195,500 for test year 1983 and \$209,100 for test year 1984.

Taxes-Other

Cal-Am stipulated to the staff's estimates of ad valorem taxes leaving only payroll taxes for determination for this item. Consistent with our adopted payroll, we will adopt as reasonable for this proceeding taxes-other of \$112,900 for test year 1983 and \$122,900 for test year 1984.

Depreciation Expense

Both Cal-Am and staff used the same methodology and rates to derive their respective depreciation expense estimates. The differences are due to differences in the estimated rate bases. Consequently, we will adopt \$242,000 as reasonable for test year 1983 and \$262,600 for test year 1984 consistent with our subsequently discussed adopted rate base items.

Uncollectibles and Franchise Tax

Consistent with our previously discussed adopted revenue and expense items, we will adopt as reasonable for test year 1983 uncollectibles of \$11,200, franchise tax of \$65,500, state corporation franchise tax of (\$38,400), and federal income taxes of (\$175,800), and for test year 1984 uncollectibles of \$11,400, franchise tax of \$66,800, state corporation franchise tax of (\$53,600), and federal income tax of (\$232,500).

Rate Base

Cal-Am takes no issue with staff's computed working cash analysis because the Commission accepted staff's recommendation on similar computations in the Monterey District matter nor with the staff estimates of advances and contributions because the rate base impact is minor. There are, however, two disputed rate base items as follows: (a) Cal-Am's proposed meter replacement program, and (b) the establishment of a contingency fund.

Cal-Am's witness Foy testified that due to the deterioration of earnings over the past number of years, Cal-Am has not been able to keep its meter replacement program at a desired level but that the meter replacements proposed for the years 1983, 1984, and 1985 could bring Cal-Am into a posture of keeping the meter maintenance in its proper time frame. He further testified that if the proposed program were not instituted, Cal-Am would slip further behind and would have ever-increasing numbers of aging meters. Staff witness Gallegos testified that he thought the replacement of about 55% of the Village District meters, as proposed by Cal-Am, was excessive. He further testified that using the company guidelines for meter replacement and replacement for stopped meters as well as their estimate for new services, he developed a meter replacement program he believed to be sufficient for satisfactory operation.

The following table shows the historical meter replacement and the utility-proposed meter replacement as well as the staff's estimated meter replacements:

<u>Year</u>	<u>Total Services</u>	<u>Changeovers</u>		<u>Staff</u>	<u>%</u>
		<u>Cal-Am</u>	<u>%</u>		
1975	9,795	47	0.5%		
1976	10,602	-	-		
1977	11,505	2	nil		
1978	12,708	-	-		
1979	13,902	127	0.9%		
1980	14,655	9	0.1%		
1981	14,996	189	1.3%		
1982	14,995	1,499	10.0%		
1983 Est.	15,188	3,011	19.8%	1,483	9.8%
1984 Est.	15,388	2,871	18.7%	1,517	9.9%
1985 Est.	15,588	2,510	16.1%	1,452	9.3%

Witness Gallegos also found the unit cost and inflation rate used for computations by Cal-Am to be excessive and for his estimate escalated current meter costs at a rate of 7.2% for 1984 and 7.4% for 1985, and escalated meter installation labor costs at 10% per year for 1983 and 1984 and 6% for 1985. The staff estimate resulted in a reduction in Cal-Am's estimates of meter replacement of \$35,500 in 1983, \$39,100 in 1984, and \$30,300 in 1985. We are persuaded that Cal-Am's proposed meter changeover program replacing from 61% to 98% more meters than the maximum replacement rate recorded for the period 1975 through 1982 is excessive. Consequently, we will allow the highest recorded annual percent changeover of 10% for the three test years in question resulting in 1,519 meter replacements in 1983, 1,539 meter replacements in 1984, and 1,559 meter replacements in 1985. We will also adopt the staff's unit costs.

Exhibit 27, entered into evidence on April 14, 1983, was Cal-Am's revised investment budget schedules. This schedule included the addition of \$5,000 for 1983, 1984, and 1985 as a contingency fund. According to the testimony of witness Krueger, the \$5,000 represented the minimum amount to replace failed equipment. Cal-Am argues that a similar revision was exactly the approach taken by the company and adopted in the recent Monterey District decision. In D.82-12-122 on that matter we stated:

"There is some confusion in the record regarding an allowance of \$31,000 as a general contingency fund. Apparently CalAm revised its capital construction budget during the proceeding, and the revised version did not include a line item labeled general contingency as had previous budgets. Staff understood this omission to indicate that CalAm had included contingency funds elsewhere in its budget so that to include it again would allow double counting of the funds.

"CalAm explained that the omission was inadvertent, occurring because of a change in the form. CalAm claims that the contingency has historically existed and is still required to cover unexpected emergencies that are not covered by the investment budget, such as a pump or well that must be replaced unexpectedly. Without the contingency fund some scheduled project would have to be deferred to make funds available to cover such an unscheduled replacement."
(Mimeo. page 32.)

Apparently there are some differences in this proceeding as compared to the Monterey District proceeding. First of all, according to the testimony of staff witness Gallegos, the first time staff became aware of a contingency fund for unexpected failures was at the hearings and not during the preparation of the staff exhibit. Secondly, the form used in Exhibit 27 was last revised in June 1967 and could not be considered as a cause for the omission in the budget of a contingency fund budget item. Cal-Am further argues that staff witnesses agreed that in a three-year period there will be the loss of at least one well or pump or motor. From Exhibit 27 it would appear that a booster pump and motor replacement would cost about \$15,000. Allowing \$5,000 a year, as requested by Cal-Am, appears reasonable and will be allowed.

Net-to-Gross Multiplier

The net-to-gross multiplier represents the change in gross revenues required to produce a unit change in net revenues. We will adopt as reasonable staff's net-to-gross multiplier of 2.0849 based on California franchise tax rate of 9.6%, federal income tax rate of 46.0%, uncollectible rate of 0.255%, and local franchise tax rate of 1.492%.

Attrition

An attrition allowance is granted for increased financial costs and increased expenses and rate base items which are not offset by the increases in revenues in the third year of the three-year rate increase. As previously discussed, the test year 1985 financial attrition was computed by staff to be 0.17% which on our adopted financial structure and debt costs requires a rate of return of 12.03% to provide our adopted return on equity of 14.50%.

The operational attrition is derived by extrapolating the two test year estimates with the nonrecurring major plant addition, Industrial Park Reservoir excluded for purposes of calculation. On this basis we adopt as reasonable an operational attrition of 0.99%.

Revenue Requirement

The revenue requirement for each of the test years is computed by the product of the difference between the authorized rate of return and the adopted rate of return at present rates, the rate base, and the net-to-gross multiplier as follows:

<u>Year</u>	<u>Authorized Rate of Return</u> (1)	<u>Rate of Return Present Rates</u> (2)	<u>Rate Base</u> (3)	<u>Net-to-Gross Multiplier</u> (4)	<u>Revenue Requirement</u> $\frac{(1)-(2)}{x(3)} \times (4)$
1983	(0.1162 - .0272)	x	7,029,000	x 2.0849	= 1,304,300
1984	(0.1186 - .0162)	x	8,084,900	x 2.0849	= 1,726,100
1985	(0.1203 - .0063)	x	8,084,900	x 2.0849	= 1,921,600

V. RATE DESIGN

According to the record, Cal-Am proposes a rate design for metered service which has a service charge designed to recover two-thirds of the fixed charges of the district and the balance of the revenue requirement increase being spread equally to the quantity charge blocks and to the other tariff schedules. In keeping with this Commission's policy staff recommends the adoption of a rate design which will result in a lifeline differential of 25% for residential customers. Staff does not object to increasing the service charge for residential customers provided the 25% differential is maintained and no group of users are exposed to excessive increases. Staff recommends that the rates for private fire protection service, sprinkling services, and measured irrigation service be increased proportionally to the increase in the total gross revenues. This position appears reasonable and will be adopted. Our adopted rates set forth in Appendixes A and B reflect all of the above parameters.

VI. CUSTOMER SERVICE

Testimony of staff witness Low indicated the complaints which were investigated and resolved by Cal-Am in the Village District were as follows:

	<u>1981</u>	<u>1982</u>
Water Quality	31	6
Pressure	41	59
Billing	279	188
Miscellaneous	<u>9</u>	<u>15</u>
Total	360	268

According to this witness's testimony, most of these complaints were resolved quickly and in a satisfactory manner. Consequently, staff considers the quality of service provided in the Village District to be satisfactory.

VII. FINDINGS AND CONCLUSIONS

Findings of Fact

1. Cal-Am is in need of additional revenues for its Village District but the proposed rates set forth in the application are excessive.
2. A rate of return on common stock equity of 14.50% and overall rates of return of 11.62%, 11.86%, and 12.03% for the years 1983, 1984, and 1985, respectively, are reasonable.
3. Staff's estimates of cost of debt and capital structure are reasonable.
4. The increases in rates and charges authorized by this decision are justified, and are just and reasonable.

5. The authorized increase in rates at the 11.62% rate of return for test year 1983 is expected to provide increased revenues for Cal-Am's Village District of approximately \$1,304,300 (29.05%) as compared to a requested increase of \$1,182,900 (27.8%) over the rates which became effective July 1, 1982. The 1983 authorized rate increase includes the increase of \$467,600 in purchased water and power since the utility filed its original request.

6. The authorized increase in rates at the 11.86% rate of return for test year 1984 is expected to provide increased revenues for Cal-Am's Village District of approximately \$399,400 (6.89%) over the authorized 1983 rates as compared to a requested increase of \$543,600 (9.9%) over Cal-Am's proposed 1983 rates.

7. An allowance of 0.99% in rate of return to compensate operational attrition for test year 1985 is reasonable. Allowing for this operational attrition in determining the authorized increase in rates at the 12.03% rate of return for test year 1985 is expected to provide increased revenues for Cal-Am's Village District of approximately \$195,500 (3.15%) over the authorized 1984 rates as compared to a requested increase of \$326,400 (5.3%) over Cal-Am's proposed 1984 rates.

8. The adopted estimates previously discussed here of operating revenues, operating expenses, and rate base for the test years 1983 and 1984 reasonably indicate the result of Cal-Am's operations in its Village District in the near future. Some of the more controversial specific findings are as follows:

- a. The application of Cal-Am's labor escalation factor to a Village District pro rata share of a regional force of 51 employees (53 beginning of year 1982 minus two capitalized employees) plus Village District's pro rata share of the O&M payroll expense at the leak van maintenance specialist, the customer service representative, and the gate valve crew, plus

the payroll costs of the Village District's laborer hired in September 1982, the draftsman hired in October 1982, and the meter reader to be hired is reasonable to derive the test years' payroll expenses.

- b. The adoption of the average of Cal-Am's and the staff's estimates of transmission and distribution expenses is reasonable.
- c. The adoption of a customer's accounts expense for the Village District of \$167,400 for test year 1983 and \$176,800 for test year 1984 is reasonable.
- d. The adoption of an employee pension and benefits expense equal to 11.11% of the payroll is reasonable.
- e. The staff's estimates of regulatory commission and outside services expenses are reasonable if an additional \$1,200 is included to cover the three-year amortization of the printing and mailing costs associated with the second mailed notice.
- f. The staff's estimates of miscellaneous general expenses are reasonable.
- g. The staff's estimates of the general office prorated expenses are reasonable.
- h. A contingency fund of \$5,000 per year for unexpected failures of wells, pumps, and/or motors is reasonable.
- i. The use of the highest percentage number of meter changeovers recorded during the period 1977 through 1982 as the allowable percentage number for test years 1983, 1984, and 1985 is reasonable.

9. Adoption of the staff-recommended rate design for metered rates is reasonable.

10. Adoption of private fire protection service, sprinkling service, and measured irrigation service rates which reflect increases proportional to the increase in the total gross revenue is reasonable.

11. The quality of service provided by Cal-Am in its Village District is satisfactory.

Conclusions of Law

1. Revenue increases of \$1,304,300 (29.05%) in 1983, \$399,400 (6.89%) in 1984, and \$195,500 (3.15%) in 1985 are reasonable based upon adopted results of operations and attrition allowances.

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

3. Because of the immediate need for additional revenue, the order should be effective today.

O R D E R

IT IS ORDERED that:

1. California-American Water Company (Cal-Am) 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 the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 15, 1983 Cal-Am is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases attached to this order as Appendix B or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the Village District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments

for the 12 months ending September 30, 1983, exceeds the lower of (a) the rate of return found reasonable by the Commission for Cal-Am during the corresponding period in the then most recent rate decision, or (b) 11.86%. This filing shall comply with GO Series 96 and shall include a letter of completion for the Industrial Park Reservoir Construction Project. 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 schedules shall be no earlier than January 1, 1984, or 30 days after the filing of the step rates, whichever is later.

3. On or after November 15, 1984 Cal-Am is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases attached to this order as Appendix B or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the Village District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1984, exceeds the lower of (a) the rate of return found reasonable by the Commission for Cal-Am during the corresponding period in the then most recent rate decision, or (b) 12.03%. This filing shall comply with GO Series 96. 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 schedules shall be no earlier than January 1, 1985, or 30 days after the filing of the step rates, whichever is later.

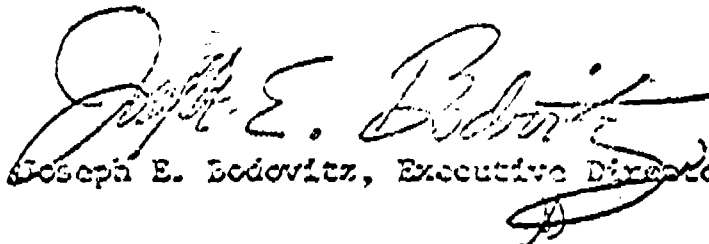
This order is effective today.

Dated AUG 17 1983, at San Francisco, California.

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

Commissioner Leonard M. Grimes, Jr.,
being necessarily absent, did not
participate.

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


Joseph E. Bodovitz, Executive Director

APPENDIX A
Page 1

Schedule No. V-1

Village District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

RATES

Service Charge:		Per Meter Per Month	
For 5/8 x 3/4-inch meter	\$	7.90	(I)
For 3/4-inch meter		8.70	
For 1-inch meter		11.80	
For 1 1/2-inch meter		15.90	
For 2-inch meter		21.50	
For 3-inch meter		40.00	
For 4-inch meter		54.00	
For 6-inch meter		89.00	
For 8-inch meter		133.00	
For 10-inch meter		164.00	
For 12-inch meter		186.00	(I)

Quantity Rates:

0-300 cu. ft., per 100 cu. ft.	\$	0.490
Over 300 cu. ft., per 100 cu. ft.		0.715

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month.

APPENDIX A
Page 2

Schedule No. V-4

Village District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Portions of Thousand Oaks, Newbury Park, and area adjacent to Camarillo, and vicinity, Ventura County.

RATES

PER MONTH

For each inch in diameter of service connection \$3.80

The rates for private fire service are based upon the size of the service and no additional charges will be made for fire hydrants, sprinklers, hose connections or standpipe connected to and supplied by such private fire service.

SPECIAL CONDITIONS

1. The fire protection service and connection shall be installed by the utility or under the utility's direction. Cost of the entire fire protection installation excluding the connection at the main shall be paid for by the applicant. Such payment shall not be subject to refund.

2. The installation housing the detector type check valve and meter and appurtenances thereto shall be in a location mutually agreeable to the applicant and the utility. Normally such installation shall be located on the premises of applicant, adjacent to the property line. The expense of maintaining the fire protection facilities on the applicant's premises (including the vault, meter, detector type check valves, backflow device and appurtenances shall be paid for by the applicant.

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Schedule No. V-4

Village District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS, Continued

3. All facilities paid for by the applicant shall be the sole property of the applicant. The utility and its duly authorized agents shall have the right to ingress to and egress from the premises for all purposes relating to said facilities.

4. The minimum diameter will be 4 inches, and the maximum diameter will be the diameter of the main to which the service is connected.

(a) The minimum diameter of connections for private fire hydrant will be six inches.

5. If distribution main of adequate size to serve a private fire protection system in addition to all other normal services does not exist in the street or alley adjacent to the premises to be served, then a main from the nearest existing main of adequate capacity shall be installed by the utility, or under the utility's direction, and the cost paid by the applicant. Such payment shall not be subject to refund.

6. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction. All facilities are to be installed according to the utility's specifications and maintained to the utility's satisfaction. The utility may require the installation of a backflow prevention device and a standard detector-type meter approved by the Insurance Services Office for protection against theft, leakage or waste of water.

7. No structure shall be built over the fire protection service and the customer shall maintain and safeguard the area occupied by the service from traffic and other hazardous conditions. The customer will be responsible for any damage to the fire protection service facilities.

APPENDIX A

Page 4

Schedule No. V-4

Village District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS, Continued

8. Subject to the approval of the Utility, any change in the location or construction of fire protection service as may be requested by public authority or the customer will be made by the Utility following payment to the Utility of the entire cost of such change.

9. Any unauthorized use of water other than fire protection purposes, charges shall be made therefor at the regular established rate for general metered service, and/or may be grounds for the Utility discontinuing the fire protection service without liability to the Utility.

APPENDIX A

Page 5

Schedule No. V-9FL

Village District Tariff Area

FLAT RATE SCHEDULE

APPLICABILITY

This rate is available only to a subdivider building a minimum of fifteen (15) homes within a tract approved by the County of Ventura or City of Thousand Oaks in area served by the Village District.

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

RATE

Monthly Charge per Water Connection\$5.10 (I)

SPECIAL CONDITIONS

1. Service shall be furnished under the above charge at a flat rate per lot as soon as connection has been made to the water system by means of a service pipe or a jumper. Upon occupancy, service will be furnished only in accordance with filed Rules and Regulations and billed at General Metered Service rates.

2. Charges under this rate schedule shall be billed to subdividers only. The subdivider shall be liable for the charge until such time as the new owner or occupant signs an application for metered service, or until the subdivider requests the removal of the service connection or jumper.

3. Where the water usage, in the opinion of the utility, exceeds the amount which would be allowable for the sum of \$5.10 under its General Metered Service Quantity Rates, the utility may install a meter. In such a case, the General Metered Service Schedule minimum and quantity rates will apply. (I)

APPENDIX A

Page 6

Schedule No. V-9MC

Village District Tariff Area

METERED CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all water service furnished for construction purposes.

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

RATES

QUANTITY RATE

PER METER
PER MONTH

For all water delivered, per 100 cu. ft. \$ 1.09 (I)

MINIMUM CHARGE

PER DAY

For all sizes of meters \$16.60 (I)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

SPECIAL CONDITIONS

- (1) Construction water service under this schedule will be furnished only when surplus water is available over the requirements for domestic service and under conditions which will not adversely affect domestic service. The utility will be the sole judge as to the availability of such surplus water.
- (2) Applicants for metered construction service will be required to apply for the service at least 48 hours in advance of the time of delivery of water is requested and to pay the costs and charges as provided in Rule 13, Temporary Service.

(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 V-1</u>			
Service Charges:			
For 5/8 x 3/4-inch meter	\$ 0.70	\$ 0.25	
For 3/4-inch meter	0.80	0.30	
For 1-inch meter	1.00	0.40	
For 1 1/2-inch meter	1.40	0.50	
For 2-inch meter	2.00	0.50	
For 3-inch meter	4.00	1.00	
For 4-inch meter	5.00	2.00	
For 6-inch meter	8.00	3.00	
For 8-inch meter	12.00	4.00	
For 10-inch meter	15.00	5.00	

Quantity Rates:

For the first 300 cu. ft., per 100 cu. ft.	0.029	0.016
For all over 300 cu. ft., per 100 cu. ft.	0.042	0.023

SCHEDULE V-4

Rates:

For each inch of diameter of service connection	0.40	0.20
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SCHEDULE V-9FL

Rates:

For monthly charge per water connection	0.50	0.30
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SCHEDULE V-9MC

Rates:

For all water delivered, per 100 cu. ft.	0.10	0.06
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Minimum Charge:

For all size of meters	1.60	0.80
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(END OF APPENDIX B)

APPENDIX C
Page 1

ADOPTED QUANTITIES

Company: California American Water Co.
District: Village District .

	<u>1983</u>	<u>1984</u>
1. Water Production: Ccf(1000)	6,137.3	6264.1
Wells:	-	-
Purchased Water: Ccf(1000)	6,137.3	6264.1
Purchased Water: AF	14,089.0	14,380.4
2. <u>Purchased Power</u>	Supplier: SCE	Date: 1-83
<u>Booster Stations</u>		
Total Production - KCcf	6,137.3	6,264.1
KWh per Ccf	0.09477	0.09477
Req'd KWh, Boosters	581,632	593,649
PA-1 KWh	485,779	495,816
GS-2 KWh	69,214	70,644
GS-1 KWh	26,639	27,189
Energy Cost. PA-1 at \$.0715/KWh	\$34,733	\$35,451
GS-2 at \$.07423/KWh	\$ 5,138	\$ 5,244
GS-1 at \$.09568/KWh	\$ 2,549	\$ 2,601
Fixed Cost (235 HP at \$1)	\$ 2,820	\$ 2,820
Total Booster Cost	\$45,240	\$46,116
3. <u>Purchased Water Expenses</u>		Date: 7-83
Calleguas Mun. Water District		
Purchased Water-AF	14,089.0	14,380.4
Unit Cost - AF	\$ 195	\$2 195
Cost	\$2,747,355	\$2,804,178
4. <u>Ad Valorem Taxes</u>	\$85,600	92,300
Tax Rate	0.908%	0.908%

APPENDIX C
Page 2

ADOPTED QUANTITIES

	<u>1983</u>	<u>1984</u>				
5. <u>Number of Services - Meter Size</u>		Date: 7-83				
5/8 x 3/4	6,931	7,020				
3/4	6,265	6,347				
1	1,388	1,408				
1 1/2	193	201				
2	331	348				
3	25	26				
4	24	25				
6	13	13				
8	14	14				
10	0	0				
	<u>15,184</u>	<u>15,402</u>				
6. <u>Metered Water Sales</u>						
<u>Range Ccf</u>						
0 - 3	560,219	568,042				
Over 300	<u>5,110,861</u>	<u>5,220,591</u>				
	5,671,080	5,788,633				
7. <u>Water Production</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>		
Residential	14,293	14,465	3,804.5	3,850.6	266.2	266.2
Business-Normal	629	667	644.5	683.4	1,024.6	1,024.6
Business-Large	47	49	431.2	449.6	9,175.0	9,175.0
Golf Courses	2	2	115.3	115.3	57,659.5	57,659.5
Industrial	141	146	400.8	415.0	2,842.3	2,842.3
Public Authority	73	73	274.8	274.8	3,764.0	3,764.0
General Metered	<u>15,184</u>	<u>15,402</u>	<u>5,671.1</u>	<u>5,788.7</u>		
Other	20	20	20.1	20.0		
Private Fire Protection	91	96	-	-		
Total	<u>15,295</u>	<u>15,518</u>	<u>5,691.2</u>	<u>5,808.7</u>		
Water Loss: 7.27%			446.2	455.4		
Total Water Produced			<u>6,137.4</u>	<u>6,264.1</u>		

(The cumulative increase from January 1, 1976 is 167.3%
The Lifeline bill on January 1, 1976 was \$4.80)

APPENDIX C

Page 3

INCOME TAX CALCULATION

	<u>1983</u>	<u>1984</u>
	(Thousands of Dollars)	
Operating Revenue	\$5,707.4	\$6,215.3
<u>O&M Expense</u>		
Purchased Power	45.3	46.1
Purchased Water	2,747.4	2,804.2
Payroll-District	371.6	411.7
Other O&M	362.3	391.4
Other A&G	272.0	318.0
G O Allocation	195.5	209.1
Uncollectibles	14.6	15.8
Franchise	84.9	92.5
Taxes Other	112.9	122.9
AFUDC	44.8	2.0
Soc. Sec. Taxes Capitalized	3.8	4.3
Interest	282.5	332.4
Total Deductions	<u>4,537.6</u>	<u>4,750.4</u>
State Tax Depreciation	287.9	326.8
Net Taxable Income	881.9	1,138.1
State Corp. Franchise Tax at 9.6%	84.7	109.3
Federal Tax Depreciation	279.7	297.5
State Income Tax	84.7	109.3
Prof. Stock Div. Credit	4.1	4.1
Net Taxable Income	801.3	1,054.0
Fed. Income Tax at 46%	368.6	484.8
Less Grad. Tax Adj.	2.8	2.8
Less Invol. Cov. Adj.	10.6	11.2
Total Federal Income Tax	<u>355.2</u>	<u>470.8</u>

Net to Gross Multiplier: 2.0849

Book Depreciation: \$242,000 (1983); \$262,400 (1984)

(Red Figure)

(END OF APPENDIX C)