

Decision 83 08 060 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 Baldwin Hills District.)

Application 82-12-16
(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. Ferrv, 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 water rates in its Baldwin Hills District by an annual amount of \$329,600 (or 22.6%) for 1983, by an additional annual amount of \$86,600 (or 4.8%) over the proposed 1983 rates for 1984, and an additional annual amount of \$107,400 (or 5.7%) over the proposed 1984 rates for 1985. During the hearing, Cal-Am revised its request to reflect the additional increases of \$77,400 for the anticipated increase in purchased water cost effective July 1, 1983 and \$2,300 for the increase in purchased power which became effective January 1, 1983.

This matter was consolidated for hearing with Cal-Am's Application (A.) 82-12-17 for a rate increase for the Duarte District, A.82-12-18 for a rate increase for the Village 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 Administrative Law Judge (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 at the combined hearings 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. Poy; on behalf of staff by one of its research analysts, Linda Gori, 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 18, 1983 for the Baldwin Hills District at the Frank D. Parent Elementary School in Inglewood. Twelve 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.

I. SYNOPSIS OF DECISION

By this decision, Cal-Am is authorized to increase its rates by about \$321,900 (22.11%) over the rates which became effective January 1, 1983 for 1983, \$83,500 (4.70%) over the authorized 1983 rates for 1984, and \$64,700 (3.47%) over the 1984 authorized rates for 1985, as compared to requested increases of \$329,600, \$86,600, and \$107,400, respectively. The 1983 increase includes an additional increase of \$57,400 for the increases in the purchased water and power since this application was filed.

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 17.4 Ccf (hundred cubic feet) per month, as well as other usage levels, is as follows:

Bill Analysis - 1983

| <u>Ccf</u> | <u>Present Rates</u> | <u>Authorized Rates</u> | <u>% Increase</u> |
|--------------|--------------------------|-----------------------------|-----------------------|
| 3 | \$ 5.48 | \$ 5.85 | 6.71 |
| 5 | 6.99 | 7.69 | 10.01 |
| 10 | 10.77 | 12.30 | 14.21 |
| 17.4 average | 16.35 | 19.11 | 16.87 |
| 20 | 18.32 | 21.51 | 17.42 |
| 30 | 25.87 | 30.72 | 18.75 |
| 50 | 40.97 | 49.14 | 19.94 |
| 100 | 78.72 | 95.19 | 20.92 |

Table 1

CALIFORNIA-AMERICAN WATER COMPANY
Baldwin Hills District

1983 Present Rates

| Item | Cal-Am Adjusted | CPUC Staff Adjusted | Adopted |
|-------------------------------|--------------------|------------------------|-----------|
| (Dollars in Thousands) | | | |
| Operating Revenues | \$1,401.0 | \$1,496.6 | \$1,455.3 |
| <u>Operating Expenses</u> | | | |
| <u>O&M</u> | | | |
| Payroll | 205.1 | 162.0 | 169.5 |
| Purchased Water ^{1/} | 331.9 | 370.3 | 345.0 |
| Purchased Power | 170.1 | 186.3 | 185.1 |
| S/S | 1.8 | 1.8 | 1.8 |
| Pumping | 43.9 | 43.9 | 43.9 |
| Water Treatment | 12.3 | 8.4 | 10.4 |
| Trans. & Dist. | 90.5 | 79.0 | 84.8 |
| Cust. Accts. | 46.5 | 45.7 | 46.5 |
| Subtotal | 902.1 | 897.4 | 887.0 |
| <u>A&G</u> | | | |
| Payroll | 65.2 | 54.8 | 57.3 |
| Office Supplies | 14.7 | 14.7 | 14.7 |
| Prop. Ins. | .2 | .2 | .2 |
| Inv. & Damages | 10.1 | 8.0 | 10.1 |
| Empl. Pensions/Benefits | 68.1 | 44.1 | 45.0 |
| Business Tax | 0.9 | 0.9 | 0.9 |
| Reg. Comm. Expense | 11.5 | 8.3 | 8.8 |
| Outside Services | 15.5 | 16.6 | 16.6 |
| Misc. Genl. Expense | 7.6 | 3.0 | 3.0 |
| General Plant | 9.8 | 9.8 | 9.8 |
| Rents | 5.8 | 5.8 | 5.8 |
| Subtotal | 209.4 | 166.2 | 172.2 |
| General Office Prorated | 72.5 | 71.6 | 71.6 |
| <u>Taxes-Other</u> | | | |
| Ad Valorem | 28.4 | 28.4 | 28.4 |
| Payroll | 19.2 | 15.9 | 16.6 |
| Subtotal | 47.6 | 44.3 | 45.0 |
| Depreciation | 95.8 | 97.6 | 98.7 |
| Uncollectibles | 4.2 | 5.8 | 5.0 |
| Franchise Tax | 1.8 | 1.7 | 1.7 |
| SCPT | 8.7 | 9.3 | 5.7 |
| FIT | 39.2 | 36.3 | 20.8 |
| Total Operating Exp. | 1,285.5 | 1,330.2 | 1,307.7 |
| Utility Operating Income | 115.5 | 166.4 | 147.6 |
| Rate Base | 2,607.4 | 2,595.0 | 2,615.5 |
| Rate of Return | 4.43% | 6.41% | 5.64% |

^{1/} Includes 7/1/83 rates.

Table 1

CALIFORNIA-AMERICAN WATER COMPANY
Baldwin Hills District

1984 Present Rates

| Item | Cal-Am Adjusted | CPUC Staff Adjusted | Adopted |
|-------------------------------|--------------------|------------------------|-----------|
| (Dollars in Thousands) | | | |
| Operating Revenues | \$1,402.7 | \$1,498.6 | \$1,457.3 |
| <u>Operating Expenses</u> | | | |
| <u>O&M</u> | | | |
| Payroll | 222.4 | 174.6 | 189.5 |
| Purchased Water ^{1/} | 332.6 | 371.2 | 345.9 |
| Purchased Power | 170.1 | 186.3 | 185.1 |
| S/S | 2.0 | 2.0 | 2.0 |
| Pumping | 48.4 | 48.4 | 48.4 |
| Water Treatment | 13.6 | 8.4 | 11.0 |
| Trans. & Dist. | 100.2 | 84.0 | 92.1 |
| Cust. Accts. | 48.2 | 47.4 | 48.2 |
| Subtotal | 937.5 | 922.3 | 922.2 |
| <u>A&G</u> | | | |
| Payroll | 70.7 | 59.1 | 64.1 |
| Office Supplies | 16.1 | 16.1 | 16.1 |
| Prop. Ins. | .2 | .2 | .2 |
| Inv. & Damages | 10.9 | 8.8 | 10.9 |
| Empl. Pensions/Benefits | 73.7 | 48.4 | 49.9 |
| Business Tax | .9 | .9 | .9 |
| Reg. Comm. Expense | 11.5 | 9.3 | 8.8 |
| Outside Services | 17.5 | 16.7 | 16.7 |
| Misc. Genl. Expense | 5.7 | 3.3 | 3.3 |
| General Plant | 10.8 | 10.8 | 10.8 |
| Rents | 5.8 | 5.8 | 5.8 |
| Subtotal | 223.8 | 178.4 | 187.5 |
| General Office Prorated | 78.0 | 76.6 | 76.6 |
| <u>Taxes-Other</u> | | | |
| Ad Valorem | 29.6 | 29.6 | 29.6 |
| Payroll | 20.8 | 17.2 | 18.7 |
| Subtotal | 50.4 | 46.8 | 48.3 |
| Depreciation | 102.6 | 102.8 | 105.0 |
| Uncollectibles | 4.2 | 5.8 | 5.0 |
| Franchise Tax | 1.8 | 1.7 | 1.7 |
| SCPT | 17.0 | 2.5 | (2.6) |
| PIF | 77.0 | 8.0 | (14.0) |
| Total Operating Exp. | 1,304.3 | 1,344.9 | 1,329.7 |
| Utility Operating Income | 98.4 | 153.7 | 127.6 |
| Rate Base | 2,800.7 | 2,675.5 | 2,735.6 |
| Rate of Return | 3.51% | 5.74% | 4.66% |

^{1/} Includes 7/1/83 rates.

II. BACKGROUND

Cal-Am, a wholly owned subsidiary of the American Water Works Company, Inc. of Wilmington, Delaware, renders public utility water service in various areas in the Counties of San Diego, Los Angeles, Ventura, and Monterey.

The Baldwin Hills service area is composed of the unincorporated area of Baldwin Hills in Los Angeles County and a very small portion of the incorporated City of Inglewood.

The water supply for the Baldwin Hills District is obtained from five company-owned wells and from two connections to the Culver City Feeder of the Metropolitan Water District through its member agency West Basin Municipal Water District (WBMWD). The Baldwin Hills service area is limited to pumping 2,067 acre-feet annually from the central basin.

As of December 31, 1981, Cal-Am had 341,599 feet of transmission and distribution mains, ranging in size from 1½ inches to 24 inches, in its Baldwin Hills District. For the recorded year 1981 the total number of average customers was 5,948 of which 5,338 were residential users, 528 were business users, 2 were industrial users, and 20 were public authority users.

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 to 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 interest 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: | | Weighted: | |
|--------------------------|-----------------|-------|---------------|-------|
| | Ratios | Cost | 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 testimony of this witness, 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 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 WBMWD and West Basin Water Replacement District. The bases for adopting the revenue, expense, and rate base items set forth in Table 1 in the synopsis of the decision are set forth in the ensuing paragraphs.

Operating Revenues

The following tabulation compares Cal-Am's and staff's estimates of operating revenues, together with the adopted results, for test years 1983 and 1984 at present rates by customer group. The bases for the adopted results are set forth in the ensuing paragraphs.

1983 Present Rates

| <u>Description</u> | <u>Cal-Am</u> | <u>Staff</u> | <u>Cal-Am Exceeds Staff</u> | | <u>Adopted</u> |
|--------------------|---------------|--------------|-----------------------------|----------|----------------|
| | | | <u>Amt.</u> | <u>%</u> | |
| Commercial | \$1,281.0 | \$1,375.9 | (94.9) | (6.90) | \$1,334.6 |
| Industrial | 88.9 | 88.9 | - | - | 88.9 |
| Public Authority | 14.8 | 15.5 | (0.7) | (4.52) | 15.5 |
| Flat Rate | 5.6 | 5.6 | - | - | 5.6 |
| ERTA Offset | 10.7 | 10.7 | - | - | 10.7 |
| Total | \$1,401.0 | \$1,496.6 | (95.6) | (6.39) | \$1,455.3 |

1984 Present Rates

| | | | | | |
|------------------|-----------|-----------|--------|--------|-----------|
| Commercial | \$1,282.3 | \$1,377.3 | (95.0) | (6.90) | \$1,336.0 |
| Industrial | 88.9 | 88.9 | - | - | 88.9 |
| Public Authority | 15.2 | 16.1 | (.9) | (5.59) | 16.1 |
| Flat Rate | 5.6 | 5.6 | - | - | 5.6 |
| ERTA Offset | 10.7 | 10.7 | - | - | 10.7 |
| Total | \$1,402.7 | \$1,498.6 | (95.9) | (6.40) | \$1,457.3 |

(Red Figures)

The commercial classification includes the residential and business classes of customers. Both estimates are based on staff's estimate of the average number of services for 1983 and 1984. Furthermore, both Cal-Am's and the staff's engineers used the Modified Bean Method (multiple regression analysis) as prescribed in CPUC Standard Practice U-25, Committee Method. The differences in the estimates reflect the use of Los Angeles International Airport weather data by staff as contrasted to the use of the Culver City fire station weather data by Cal-Am.

Staff witness Chew Low presented testimony indicating that recorded weather data collected at the Culver City fire station for the seven-year period 1976 through 1982 had 58 out of 84 temperature entries that were missing or questionable and 24 of 84 rainfall entries that were missing, estimated, or questionable as contrasted to the Los Angeles International Airport data that had no missing or questionable readings during this period. He further testified that although the airport was 4.3 miles from the center of the Baldwin Hills service area as contrasted to 3.3 miles from the Culver City fire station to the service area center, he believed advantages of the greater accuracy of the weather data more than offset the one-mile increased distance from the weather stations to the service area center. He further noted that according to the map, the Baldwin Hills mountain range separated the Culver City fire station from the service area center which was not true for the airport weather stations. For these reasons he used the airport weather data in preference to the fire station data.

Cal-Am's witness Mann testified that he used the Culver City weather data because it had historically been used for the Baldwin Hills District, the Culver City fire station was closer to the service area center than the airport station, and the rainfall data registered at the Culver City station is more representative of that experienced in the area than that measured at the airport. He further testified that for the 30-year period there were only nine bits of rainfall and nine bits of temperature data missing and that the correlation between the data he used and the normalized annual consumption was excellent. For these reasons he believes that his estimates using the Culver City fire station data should be used. Both positions have merit. Consequently, for the purposes of this decision we will adopt as reasonable for the commercial customer group the average of the two estimates, or \$1,328,500 for 1983 and \$1,329,800 for 1984.

Both Cal-Am's and the staff's engineers estimated sales and revenue for the public authority class by segregating the class into normal and large uses. The Cal-Am engineer's estimate for public authority-normal was based on a logarithmic curve of recorded data for the years 1974 through 1981, except 1977, and for public authority-large was based on a five-year (1977-1981) average. The staff engineer's estimate for public authority-normal was based on a recorded four-year (1979-1982) average and for public authority-large on a six-year (1977-1982) average. We will adopt as reasonable the staff's estimates based on later data.

Payroll Expense-General

Cal-Am's estimates of total operating and maintenance (O&M) Baldwin Hills District payroll are \$205,100 for test year 1983 and \$222,400 for test year 1984 as contrasted to the staff's estimates of \$162,000 and \$174,600, respectively. For administrative and general (A&G) payroll expense Cal-Am estimates \$65,200 for 1983 and \$70,700 for 1984 and staff estimates \$54,800 for 1983 and \$59,100 for 1984. 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 Requirement 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 wages 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, but 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 Baldwin Hills District is six. These six employees represent from 10.5% to 12% of the employees in the Los Angeles area whereas the percentage of labor costs assigned to the Baldwin Hills District for the period 1979 through 1985 estimated range from 20.16% to 18.10% 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 Baldwin Hills District payroll O&M expense, it is necessary to differentiate between employees who will generally work wholly within one district and those whose time is allocated among 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.

According to the record, 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 payroll. 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 their salaries allocated in part to the Baldwin Hills 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 salary will not be included in our determination of the appropriate employee payroll expense for the Baldwin Hills 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.

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. The payroll expense associated with this employee will not be allocated in part or whole to the Baldwin Hills District and need not be considered at this time.

In summary we will adopt as reasonable for the payroll expense for the Baldwin Hills District the sum of \$226,800 for test year 1983 and \$253,600 for test year 1984. These figures are computed based on the application of Cal-Am's requested labor escalation factors to the Baldwin Hills' 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 the Baldwin Hills' pro rata share of the O&M payroll expense of the leak van maintenance specialist, the customer service clerk, and the gate valve crew. The allocation of the payroll expense between O&M and A&G will reflect staff's relative values.

Purchased Power and Water

The differences in Cal-Am's and the staff's estimates for purchased power and water relate to differences in the respective estimates of water consumption. Consistent with the consumption on which our adopted revenue estimates are based, and based on the new purchased water and power rates which became effective July 1, 1983, we will adopt as reasonable purchased water costs of \$345,000 for test year 1983 and \$345,900 for test year 1984, and purchased power costs of \$182,900 for test year 1983 and \$182,900 for test year 1984.

Source of Supply and Pumping Expense

Both Cal-Am and the staff estimate the source of supply expense to be \$1,800 for test year 1983 and \$2,000 for test year 1984, and the pumping expense to be \$43,900 for test year 1983 and \$48,400 for test year 1984. These figures appear reasonable and will be adopted.

Water Treatment

Cal-Am's estimates for water treatment expense are \$12,300 for test year 1983 and \$13,600 for test year 1984 as compared to the staff's estimates of \$8,400 for both years. Neither set of these estimates is supported on the record sufficiently to justify the adoption of one set in preference to the other. Consequently, we will adopt as reasonable for this proceeding the average of the estimates, or \$10,400 for 1983 and \$11,000 for 1984.

Transmission and Distribution Expenses

The staff's estimate for the Baldwin Hills District transmission and distribution expenses was \$79,000 for test year 1983 and \$84,000 for test year 1984 as contrasted to Cal-Am's estimates of \$90,500 and \$100,200, 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 \$84,800 for test year 1983 and \$92,100 for test year 1984.

Customer Accounts

Staff accepted Cal-Am's original estimates for this item of \$46,500 for test year 1983 and \$47,400 for test year 1984. However, during the hearing Cal-Am submitted additional data indicating these estimates should be increased by \$800 for each year.

Cal-Am was processing its billing service through a service bureau, Utility Datamation Services, under contract through December 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 not 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 \$67.11 a month for the Baldwin Hills District, or approximately \$800 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 Baldwin Hills District of \$46,500 for test year 1983 and \$48,200 for test year 1984.

District Administrative and General Expenses

Cal-Am's estimates of district administrative and general expenses total \$209,400 for test year 1983 and \$223,800 for test year 1984 as contrasted to the staff's estimates of \$166,200 and \$178,400, respectively. Cal-Am's and the staff's estimates are the same for office supplies, property insurance, business tax, and general plant, and the total of these expenses is \$31,400 for test year 1983 and \$33,800 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 \$65,200 for test year 1983 and \$70,700 for test year 1984 as compared to the staff's estimates of \$54,800 and \$59,100, 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 staff's relative values.

Cal-Am accepts the staff estimate for direct injuries and damages expense of \$8,000 for test year 1983 and \$8,800 for test year 1984 reflecting a decline in its 1982 worker's compensation rate, but presented testimony that effective January 1, 1983 the general liability insurance policy premium increased by \$2,092 a year for the Baldwin Hills 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 \$10,100 for test year 1983 and \$10,900 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 \$68,100 for test year 1983 and \$73,700 for test year 1984 as compared to staff's estimates of \$44,100 and \$48,400, 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 \$45,000 for test year 1983 and \$49,900 for test year 1984.

Cal-Am's estimate for regulatory commission and outside services expenses totaled \$27,000 for test year 1983 and \$29,000 for test year 1984 as compared to the staff's estimates totaling \$24,900 and \$25,000, respectively, for the Baldwin Hills District. To Cal-Am's original estimate of regulatory commission and outside services expense was added the three-year amortization of the printing and mailing costs associated with the second notice of public witness hearing. 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.

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. We will, however, permit the additional \$500 associated with the second-mailed notice. Consequently, our adopted regulatory commission and outside services expense will be \$25,400 for test year 1983 and \$25,500 for test year 1984.

Cal-Am's original estimate for miscellaneous general expenses for the Baldwin Hills District was \$1,100 for test year 1983 and \$1,300 for test year 1984. During the hearing these figures were revised to \$7,600 for test year 1983 and \$5,700 for test year 1984. These figures contrast to the staff's estimate of \$3,000 for test year 1983 and \$3,300 for test year 1984. The major portion of the increased amount relates to programs for improved community and employee relations. Not only were the 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 a 11.11% ratio for group insurance. Applying the staff four-factor percentage to the above staff total figures yields a general office prorate for Baldwin Hills of \$71,600 for test year 1983 and \$76,600 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 \$45,000 for test year 1983 and \$48,300 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 \$98,700 as reasonable for test year 1983 and \$105,000 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 \$5,000, franchise tax of \$1,700, state corporation franchise tax of \$5,700, and federal income taxes of \$20,800, and for test year 1984 uncollectibles of \$5,000, franchise tax of \$1,700, state corporation franchise tax of \$-2,400, and federal income tax of \$-14,000.

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's estimates of advances and contributions because the rate base impact is minor. There are, however, four disputed rate base items for the Baldwin Hills District consisting of (a) the 48th Street well site paving; (b) contingency funds for pump and motor replacements; (c) water main replacement projects; and (d) Cal-Am's proposed meter replacement program.

Cal-Am proposes to pave the parking area at the 48th Street well at an estimated cost of \$8,000. Staff agrees to the need for the paving but estimates that the work can be done for \$2,000-\$3,000 and, therefore, allows \$3,000 for this project. Cal-Am's witness Krueger testified that contract costs varied from 75 cents to \$1 per square foot of paving per inch of thickness and the proposed paving was to be four inches thick resulting in a cost for paving of about \$6,000. He further testified that the job would require the installation of headers and miscellaneous land grading which he estimated would cost approximately \$2,000. Staff witness Gallegos testified that based on his extensive experience with Cal Trans, he estimated

the cost at \$2,000-\$3,000. He further testified that he verified the cost by contacting paving contractors in San Francisco and Los Angeles as well as estimators in Cal Trans. We will adopt as reasonable the staff's estimate of \$3,000 but will increase it by \$2,000 for a total of \$5,000 to allow for the cost of a header and miscellaneous land grading.

According to the staff testimony, three of the pumps and motors in the Baldwin Hills District which Cal-Am scheduled for replacement were found to have an efficiency level at time of replacement above the mid-fair level which should be used as the criterion for replacement or repair. On this basis staff excluded \$8,000 for the Olympiad Booster 1 and 2 pump and motor replacement and \$23,000 for the 48th Street well pump and motor replacement. Exhibit 27, entered into evidence on April 14, 1983, was Cal-Am's revised investment budget schedules. In this exhibit Cal-Am indicated the canceling of the \$23,000 48th Street replacement in 1985 and the \$8,000 Olympiad 1 and 2 replacements in 1983. However, Cal-Am added \$15,000 for each year 1983, 1984, and 1985 as a contingency fund. According to the testimony of witness Krueger, the \$15,000 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 Los Angeles Region 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. However, Cal-Am proposes to provide a fund for one failure per year. As stated in D.82-12-122: "We agree that a contingency fund is reasonable." (Mimeo. page 33.) However, \$15,000 a year appears excessive. Consequently, we will include an amount equal to the replacement cost of the 48th Street pump and motor once in a three-year period, or \$7,670 per year.

According to the testimony of witness Krueger, Cal-Am went out to bid its proposed main replacements subsequent to filing the rate case. The bids were received in January and February 1983 and were found to exceed the budgeted amounts included in the filing. Exhibit 25 sets forth, by district and job, the original estimate, the updated estimated cost, and the application of staff's inflation factors for the years 1984 and 1985 to yield estimates that the witness intends to present to Cal-Am's board of directors and which he recommends be used as a basis of capital improvements for this proceeding.

Testimony presented by witness Gallegos indicated that he adjusted Cal-Am's original estimate for the years 1984 and 1985 by using the 1983 estimate to develop factors relating the length with the cost of main replacement and applying such ratios, together with staff-developed inflation factors, to the proposed 1984 and 1985 projects. This method resulted in a downward adjustment of \$13,000 for 1984 and \$12,400 for 1985. The staff witness also noted a discrepancy of 200 feet between the original estimate and the updated estimate for the extension for Baldwin Hills. The dollar equivalent of this 200-foot discrepancy is \$5,500. This witness further testified that he had no opportunity to review all the estimates in detail and that further review might possibly uncover further discrepancies.

Cal-Am argues that the updated figures increased to reflect staff's inflation factors should be used for this proceeding. Staff argues that Cal-Am's data violate the rate case processing plan dictates, that the estimates had one inconsistency that was discovered and it lacked time to review the entire matter so there could be more discrepancies, and the bids were received for construction in 1984 and 1985 which assumedly included inflation factors so that the application of the staff inflation factor to the 1984 and 1985 bids was improper. For these reasons the staff recommends its estimates be adopted.

According to the record, the original estimates were prepared one or two years ago and updated early in 1982. For the Baldwin Hills District the bids received in 1983 reflect an increase of approximately 57%. In view of the current inflation rate and slump in the construction industry, such an increase appears excessive. Consequently, for this proceeding we will adopt as reasonable the Baldwin Hills main replacement original estimate of \$85,000 increased by 10%, or \$93,500 for test year 1983, and the original estimate of \$109,000 increased by 10% for 1983 and an additional 7.2% for 1984 to yield a 1984 test year figure of \$128,500.

Cal-Am's historical and proposed meter replacement plan for its Baldwin Hills District, together with staff's recommended 1983, 1984, and 1985 replacements, is as follows:

| <u>Year</u> | <u>Total Services</u> | <u>Chanceovers</u> | | <u>Staff</u> | <u>%</u> |
|-------------|---------------------------|--------------------|----------|--------------|----------|
| | | <u>Cal-Am</u> | <u>%</u> | | |
| 1975 | 5,873 | - | | | |
| 1976 | 5,893 | - | | | |
| 1977 | 5,919 | 63 | 1.1% | | |
| 1978 | 5,941 | 208 | 3.5% | | |
| 1979 | 5,936 | 1,008 | 17.0% | | |
| 1980 | 5,939 | 256 | 4.3% | | |
| 1981 | 5,968 | 850 | 14.2% | | |
| 1982 | 5,961 | 799 | 13.4% | | |
| 1983 | 5,967 | 1,526 | 25.6% | 483 | 8.1% |
| 1984 | 5,961 | 675 | 11.3% | 495 | 8.3% |
| 1985 | 5,967 | 680 | 11.4% | 496 | 8.3% |

Testimony presented by witness Foy indicated that:

1. Most meters have a 10-year guarantee with some limited warranties for repair of meters for five additional years.
2. It is more economical to retire meters after 15 years and replace them with magnetic drive meters than to repair the old meters.
3. Cal-Am's replacement meter program is behind schedule and the proposed three-year replacement program will bring the company into a posture of keeping the meter maintenance in its proper time frame.
4. Failure to institute the proposed program would result in an increasing number of aging meters with an accompanying decrease in meter accuracy which would be detrimental to the conservation program by giving consumers a false sense of water consumption.

5. This program has been instituted in all six districts. To treat Baldwin Hills and Village Districts differently as proposed by staff would imbalance those two systems.

Testimony presented by staff witness Gallegos indicated that:

1. The amount of proposed meter work in the Baldwin Hills District was thought to be excessive.
2. Using Cal-Am's guidelines for meter replacement and accepting their estimates for new services and stoppages, the above test year changeover figures were developed.
3. The prices used for the Baldwin Hills District were found to be lower than for the Village District and since the same firm would probably do the work in both districts, they should be the same.
4. The staff cost figures were used for the staff estimate. The rates for the various meter sizes were adjusted using the 1983 meter bids from suppliers and 1982 labor cost. The labor costs were escalated at + 10% for 1983 and 1984 and 6% for 1985. The meter cost was escalated at 7.2% for 1984 and 7.4% for 1985.
5. The staff figures reflect a downward adjustment of \$42,100 for the Baldwin Hills District for 1983 and no adjustment in dollars for 1984 and 1985 due to a lower number of meters being replaced at a higher unit cost.

It is noted that on the average Cal-Am replaced 8.9% of its meters per year for the period 1977 through 1982 and is proposing to replace 16.1% per year for the three years 1983 through 1985, about twice the experienced average. Furthermore, the requested 25.6% replacement for the year 1983 is 8.6% higher than the highest year during that period. The staff

proposal, on the other hand, is for less than the average experienced replacement and from 5% to 9% less than three of the six years in the above period. From these figures we conclude that Cal-Am's request is too high and staff's proposal is too low. Consequently, we will adopt as reasonable for test years 1983, 1984, and 1985 the three highest years of percent meter replacement recorded during the period 1977 through 1982, i.e., 1,014 (17%) for 1983, 846 (14.2%) for 1984, and 800 (13.4%) for 1985. We will also adopt Cal-Am's estimated unit costs.

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 2.0581 based on California franchise tax rate of 9.6%, federal income tax rate of 46.0%, uncollectible rate of 0.390%, and local franchise tax rate of 0.115%.

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. On this basis we adopt as reasonable an operational attrition of 0.98%.

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 (1)</u> | <u>Rate of Return Present Rates (2)</u> | <u>Rate Base (3)</u> | <u>Net-to-Gross Multiplier (4)</u> | <u>Revenue Requirement [(1)-(2)]x(3)x(4)</u> |
|-------------|--|---|------------------------------|--|--|
| 1983 | (0.1162 - | .0564) x | 2,615.5 | x 2.0581 = | \$321,900 |
| 1984 | (0.1186 - | .0466) x | 2,735.6 | x 2.0581 = | 405,400 |
| 1985 | (0.1203 - | .0368) x | 2,735.6 | x 2.0581 = | 470,100 |

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 with 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 be maintained and no group of users is exposed to excessive increases.

Staff recommends that the rates for private fire protection service, sprinkling service, and measured irrigation service be increased proportionally to the increase in the total gross revenue. These positions appear 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 Baldwin Hills District were as follows:

| | <u>1981</u> | <u>1982</u> |
|---------------|-------------|-------------|
| Water Quality | 8 | 27 |
| Pressure | 23 | 22 |
| Billing | 273 | 171 |
| Miscellaneous | <u>5</u> | <u>5</u> |
| Total | 309 | 225 |

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 Baldwin Hills District to be satisfactory.

VII. FINDINGS AND CONCLUSIONS

Findings of Fact

1. Cal-Am is in need of additional revenues for its Baldwin Hills 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 Baldwin Hills District of approximately \$321,900 22.11% as compared to a requested increase of \$329,600 (22.6%) over the rates which became effective January 1, 1983.

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 Baldwin Hills District of approximately \$83,500 (4.70%) over the authorized 1983 rates as compared to a requested increase of \$86,600 (4.8%) over Cal-Am's proposed 1983 rates.

7. An allowance of 0.98% 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 Baldwin Hills District of approximately \$64,700 (3.47%) over the authorized 1984 rates as compared to a requested increase of \$107,400 (5.7%) over Cal-Am's proposed 1984 rates.

8. The adopted estimates previously discussed 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 Baldwin Hills District in the near future. Some of the more controversial specific findings are as follows:

- a. An average of staff's and Cal-Am's estimates for water consumption for the commercial class of customers is reasonable.
- b. The application of Cal-Am's labor escalation factor to a Baldwin Hills District prorate share of a regional force of 51 employees (53 beginning of year 1982 minus two capitalized employees)

plus Baldwin Hills District pro rata share of the O&M payroll expense at the leak van maintenance specialist, the customer service representative, and the gate valve crew is reasonable to derive the test year's payroll expenses.

- c. The adoption of the average of Cal-Am's and the staff's estimates of transmission and distribution expenses is reasonable.
- d. The adoption of a customer's accounts expense for the Baldwin Hills District of \$46,500 for test year 1983 and \$48,200 for test year 1984 is reasonable.
- e. The adoption of an employee pension and benefits expense equal to 11.11% of the payroll is reasonable.
- f. The staff's estimates of regulatory commission and outside services expenses are reasonable if an additional \$500 is included to cover the three-year amortization of the printing and mailing costs associated with the second-mailed notice.
- g. The staff's estimates of miscellaneous general expenses are reasonable.
- h. The staff's estimates of the general office prorated expenses are reasonable.
- i. A contingency fund of \$7,670 per year for unexpected failures of wells, pumps, and/or motors is reasonable.
- j. Adoption of main replacement costs of \$93,500 for test year 1983 and \$128,500 for test year 1984 is reasonable.
- k. The use of the three highest percentage of meter changeovers recorded during the period 1977 through 1982 as the allowable percentage changeovers for test years 1983, 1984, and 1985 is reasonable.

9. Adoption of staff's rate design for metered rates is reasonable. Such rates result in a lifeline differential of 25% for residential customers.

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 Baldwin Hills District is satisfactory.

Conclusions of Law

1. Revenue increases of \$321,900 (22.11%) in 1983, \$83,500 (4.70%) in 1984, and \$64,700 (3.47%) 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 Baldwin Hills 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. 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 Baldwin Hills 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.

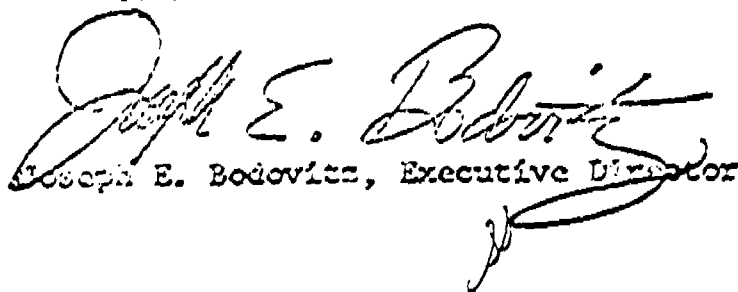
This order is effective today.

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. BK-1

Baldwin Hills District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Baldwin Hills, Windsor Hills, View Park, Ladera Heights, and vicinity,
Los Angeles County.

RATES

| Service Charge: | | Per Meter Per Month | |
|--------------------------------|--|------------------------|-----|
| For 5/8 x 3/4-inch meter | | \$ 4.55 | (I) |
| For 3/4-inch meter | | 7.00 | |
| For 1-inch meter | | 9.60 | |
| For 1 1/2-inch meter | | 12.90 | |
| For 2-inch meter | | 17.50 | |
| For 3-inch meter | | 33.00 | |
| For 4-inch meter | | 44.00 | |
| For 6-inch meter | | 74.00 | |
| For 8-inch meter | | 109.00 | |
| For 10-inch meter | | 134.00 | |
| For 12-inch meter | | 162.00 | |

Quantity Rates:

| | | |
|---|------|-----|
| First 300 cu. ft., per 100 cu. ft. | .433 | |
| Over 300 cu. ft., per 100 cu. ft. | .921 | (I) |

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

APPENDIX A

Page 2

Schedule No. BH-4

Baldwin Hills District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Baldwin Hills, Windsor Hills, View Park, Ladera Heights, and vicinity, Los Angeles County.

RATES

| | <u>Per Month</u> |
|---|------------------|
| For each inch of diameter of private fire protection service | \$ 2.50 (I) |

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 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.

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.

APPENDIX A
Page 3

Schedule No. BH-4

Baldwin Hills District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS (Continued)

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.

8. Subject to the approval of the utility, any change in the location or construction of the 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.

(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.

| <u>Effective Dates</u> | |
|------------------------|---------------|
| <u>1-1-84</u> | <u>1-1-85</u> |

SCHEDULE BE-1

Service Charges:

| | | |
|--------------------------------|--------|--------|
| For 5/8 x 3/4-inch meter | \$0.20 | \$0.20 |
| For 3/4-inch meter | 0.30 | 0.30 |
| For 1-inch meter | 0.50 | 0.30 |
| For 1 1/2-inch meter | 0.60 | 0.50 |
| For 2-inch meter | 1.00 | 0.50 |
| For 3-inch meter | 2.00 | 1.00 |
| For 4-inch meter | 2.00 | 2.00 |
| For 6-inch meter | 4.00 | 2.00 |
| For 8-inch meter | 5.00 | 4.00 |
| For 10-inch meter | 6.00 | 5.00 |
| For 12-inch meter | 7.00 | 6.00 |

Quantity Rates:

| | | |
|---|-------|-------|
| For the first 300 cu.ft., per 100 cu.ft. | 0.020 | 0.016 |
| For the over 300 cu.ft., per 100 cu.ft. | 0.043 | 0.034 |

SCHEDULE BE-4

Rates:

| | | |
|---|------|------|
| For each inch of diameter of private fire protection service | 0.10 | 0.10 |
|---|------|------|

(END OF APPENDIX B)

APPENDIX C

Page 1

ADOPTED QUANTITIES

Company: California-American Water Co.
District: Baldwin Hills District

| | <u>1983</u> | <u>1984</u> |
|--------------------------------|-------------|-------------|
| 1. Water Production: Ccf(1000) | 1,628.6 | 1,630.9 |
| Wells: | 728.2 | 730.5 |
| Purchased Water: | 900.4 | 900.4 |

2. Purchased Power

Supplier: SCE
LADPW

Date: 1-83
8-82

Well Stations

| | | |
|-----------------------|------------|------------|
| Production - KCcf | 900.4 | 900.4 |
| KWh per KCcf | 2.2073 | 2.2073 |
| Req'd KWh, Wells | 1,987,480 | 1,987,480 |
| KWh Unit Cost (LADPW) | \$ 0.07647 | \$ 0.07647 |
| Energy Cost | 151,983 | 151,983 |
| Total Cost, Wells | \$ 151,983 | \$ 151,983 |

Booster Stations

| | | |
|------------------------------|------------|------------|
| Total Production - KCcf | 1,628.6 | 1,630.9 |
| KWh per Ccf | 0.25824 | 0.25824 |
| Req'd KWh, Boosters | 420,570 | 421,164 |
| KWh Unit Cost (SCE) | \$ 0.0715 | \$ 0.0715 |
| Energy Cost | 30,071 | 30,113 |
| Fixed Cost (254 HP at \$100) | 3,048 | 3,048 |
| Total Booster Cost | \$ 33,119 | \$ 33,161 |
| Total Cost | \$ 185,102 | \$ 185,114 |

APPENDIX C

Page 2

ADOPTED QUANTITIES

| | <u>1983</u> | <u>1984</u> |
|---------------------------------------|-------------|-------------|
| 3. <u>Purchased Water Expenses</u> | | Date: 7-83 |
| <u>Central Basin MWD</u> | | |
| Total Production Acre-Feet (AF) | 1,671.7 | 1,677.0 |
| Unit Cost - AF | \$ 173.00 | 173.00 |
| Cost of Noninterruptible | \$289,204 | \$290,121 |
| 4. <u>Pump Tax</u> | | |
| <u>Central & West Basin Water</u> | | Date: 7-83 |
| <u>Replenishment District</u> | | |
| Acre-Feet | 2,067 | 2,067 |
| \$ per AF | \$ 27.00 | 27.00 |
| Cost | \$ 55,809 | \$ 55,809 |
| 5. <u>Ad Valorem Taxes</u> | \$ 28,400 | \$ 29,600 |
| Tax Rate | 1.143% | 1.143% |

APPENDIX C

Page 3

ADOPTED QUANTITIES6. Number of Services - Meter Size

| | <u>1983</u> | <u>1984</u> |
|-----------|--------------|--------------|
| 5/8 x 3/4 | 4,091 | 4,094 |
| 3/4 | 7 | 7 |
| 1 | 1,752 | 1,754 |
| 1 1/2 | 60 | 60 |
| 2 | 37 | 38 |
| 3 | 3 | 3 |
| 4 | 0 | 0 |
| 6 | 2 | 2 |
| 8 | 2 | 2 |
| 10 | 0 | 0 |
| | <u>5,954</u> | <u>5,900</u> |

7. Metered Water Sales
Range Ccf

| | | |
|--------|------------------|------------------|
| 0 - 3 | 211,671 | 211,969 |
| Over 3 | <u>1,282,129</u> | <u>1,283,931</u> |
| | 1,443,800 | 1,495,900 |

8. Water Production

| | <u>No. of Services</u> | | <u>Usage-KCcf</u> | | <u>Avg. Usage-Ccf/Yr.</u> | |
|----------------------|------------------------|--------------|-------------------|----------------|---------------------------|-------------|
| | <u>1983</u> | <u>1984</u> | <u>1983</u> | <u>1984</u> | <u>1983</u> | <u>1984</u> |
| Residential | 5,343 | 5,346 | 1,115.6 | 1,116.2 | 208.8 | 208.8 |
| Business | 588 | 590 | 245.8 | 246.7 | 418.1 | 418.1 |
| Industrial | 3 | 3 | 115.2 | 115.2 | 38,400.0 | 38,400.0 |
| Pub. Auth. Norm. | 19 | 20 | 10.3 | 10.9 | 542.5 | 542.5 |
| Pub. Auth. Large | 1 | 1 | 6.9 | 6.9 | 6,930.0 | 6,930.0 |
| Subtotal | <u>5,954</u> | <u>5,460</u> | <u>1,493.8</u> | <u>1,495.9</u> | | |
| Other | 2 | 2 | 0.1 | 0.1 | | |
| Private Fire Prot. | 18 | 18 | - | - | | |
| Total | <u>5,974</u> | <u>5,980</u> | <u>1,493.9</u> | <u>1,496.0</u> | | |
| Water Loss: 829% | | | 134.7 | 134.9 | | |
| Total Water Produced | | | <u>1,628.6</u> | <u>1,630.9</u> | | |

APPENDIX C

Page 4

INCOME TAX CALCULATION

| | <u>1983</u> | <u>1984</u> |
|--------------------------------|-------------------------------|----------------|
| | <u>(Thousands of Dollars)</u> | |
| Operating Revenue | \$1,777.0 | \$1,862.5 |
| <u>O&M Expense</u> | | |
| Purchased Power | 185.1 | 185.1 |
| Purchased Water | 345.0 | 345.9 |
| Payroll-District | 226.8 | 253.6 |
| Other O&M | 187.4 | 201.7 |
| Other A&G | 114.9 | 123.4 |
| G O Allocation | 71.6 | 76.6 |
| Subtotal | | |
| Uncollectibles @ 0.390% | 6.1 | 6.4 |
| Franchise @ 0.115% | 2.1 | 2.2 |
| Taxes Other | 45 | 48.3 |
| Capitalized Overhead | 3.2 | 3.4 |
| Interest | 114.5 | 134.9 |
| Total Deductions | <u>1,301.7</u> | <u>1,381.5</u> |
| State Tax Depreciation | 96.1 | 104.5 |
| Net Taxable Income | 379.2 | 376.5 |
| State Corp. Franch. Tax @ 9.6% | 36.4 | 36.1 |
| Federal Tax Depreciation | 97.1 | 102.7 |
| State Income Tax | 36.4 | 36.1 |
| Net Taxable Income | 341.8 | 342.1 |
| Fed. Income Tax @ 46% | 157.2 | 157.4 |
| Less Grad. Tax Adj. | 1.2 | 1.2 |
| Less Inv. Tax Cr. | 2.1 | 2.5 |
| Total Federal Income Tax | <u>153.9</u> | <u>153.7</u> |

Net to Gross Multiplier: 2.0581

Book Depreciation: \$98,700 (1983); \$105,000 (1984)

(END OF APPENDIX C)

II. BACKGROUND

Cal-Am, a wholly owned subsidiary of the American Water Works Company, Inc. of Wilmington, Delaware, renders public utility water service in various areas in the Counties of San Diego, Los Angeles, Ventura, and Monterey.

The Baldwin Hills service area is composed of the unincorporated area of Baldwin Hills in Los Angeles County and a very small portion of the incorporated City of Inglewood.

The water supply for the Baldwin Hills District is obtained from five company-owned wells and from two connections to the Culver City Feeder of the Metropolitan Water District through its member agency West Basin Municipal Water District (WBMWD). The Baldwin Hills service area is limited to pumping 2,067 acre-feet annually from the central basin.

As of December 31, 1981, Cal-Am had 341,599 feet of transmission and distribution mains, ranging in size from 1½ inches to 24 inches, in its Baldwin Hills District. For the recorded year 1981 the total number of average customers was 5,948 of which 5,338 were residential users, 588 were business users, 2 were industrial users, and 20 were public authority users.

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 to 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

| <u>Year</u> | <u>Total Services</u> | <u>Chanceovers</u> | | <u>Staff</u> | <u>%</u> |
|-------------|---------------------------|--------------------|----------|--------------|----------|
| | | <u>Cal-Am</u> | <u>%</u> | | |
| 1975 | 5,873 | - | | | |
| 1976 | 5,893 | - | | | |
| 1977 | 5,919 | 63 | 1.1% | | |
| 1978 | 5,941 | 208 | 3.5% | | |
| 1979 | 5,936 | 1,008 | 17.0% | | |
| 1980 | 5,939 | 256 | 4.3% | | |
| 1981 | 5,968 | 850 | 14.2% | | |
| 1982 | 5,961 | 799 | 13.4% | | |
| 1983 | 5,967 | 1,526 | 25.6% | 483 | 8.1% |
| 1984 | 5,961 | 675 | 11.3% | 495 | 8.3% |
| 1985 | 5,967 | 680 | 11.4% | 496 | 8.3% |

Testimony presented by witness Foy indicated that:

1. Most meters have a 10-year guarantee with some limited warranties for repair of meters for five additional years.
2. It is more economical to retire meters after 15 years and replace them with magnetic drive meters than to repair the old meters.
3. Cal-Am's replacement meter program is behind schedule and the proposed three-year replacement program will bring the company into a posture of keeping the meter maintenance in its proper timeframe.
4. Failure to institute the proposed program would result in an increasing number of aging meters with an accompanying decrease in meter accuracy which would be detrimental to the conservation program by giving consumers a false sense of water consumption.

9. Adoption of staff's rate design for metered rates is reasonable. Such rates result in a lifeline differential of 25% for residential customers.

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 Baldwin Hills District is satisfactory.

Conclusions of Law

1. Revenue increases of \$321,900 (22.11%) in 1983, \$83,500 (4.70%) in 1984, and \$64,700 (3.47%) 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.