

Decision S3 OS 061 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 Duarte District.)

Application 82-12-17
(Filed December 8, 1982)

Steeffel, 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 authority to increase rates for water service in its Duarte District by \$474,800 (31.1%) on an annual basis for 1983 over its present rates which became effective April 21, 1982, by \$198,600 (9.9%) for 1984 over its proposed 1983 rates, and by \$227,600 (10.3%) in 1985 over its proposed 1984 rates. During the hearing, Cal-Am revised its request to reflect an additional increase of \$17,200 in purchased power cost which became effective January 1, 1983. This matter was combined for hearing with Cal-Am's Application (A.) 82-12-16 for a general rate increase in its Baldwin Hills District, A.82-12-18 for a general rate increase in its Village District, and A.82-12-19 for a general increase in its 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, 12, 13, 14, 15, 19, and 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. Foy; 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 19, 1983 for the Duarte District at the San Marino High School Little Theatre in San Marino. Nine of Cal-Am's customers attended the meeting. One customer complained that the water supply was inadequate during a recent brush fire causing \$25,000 damage to his house. Another customer complained of experiencing pinholes in the upper tubing serving his premises. According to Cal-Am, the pinhole problem results from residues from the manufacturing and improper installation procedures used by contractors. Most of the customers present were concerned about the magnitude of the requested rate increase.

I. SYNOPSIS OF DECISION

By this decision Cal-Am is authorized to increase its rates by about \$278,800 (18.08%) over the rates which became effective January 1, 1983 for 1983, \$141,300 (7.76%) over the authorized 1983 rates for 1984, and \$110,400 (5.59%) over the 1984 authorized rates for 1985 as compared to requested increases of \$474,800, \$198,600, and \$227,600, respectively. The 1983 increase includes an additional increase of \$17,200 for the purchased power increase 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, 2.40, 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 19.4 Ccf (hundred cubic feet) per month as well as other usage levels are as follows:

Bill Analysis - 1983

<u>Ccf</u>	<u>Present Rates</u>	<u>Authorized Rates</u>	<u>% Increase</u>
3	\$ 4.23	\$ 6.12	44.68
5	5.27	7.24	37.43
10	7.86	10.04	27.69
19.4 average	12.72	15.28	20.14
20	13.05	15.64	19.82
30	18.24	21.24	16.43
50	28.62	32.44	13.34
100	54.57	60.44	10.75

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

Item	Cal-Am Adjusted	CPUC Staff Adjusted	Adopted
(Dollars in Thousands)			
Operating Revenues	\$1,542.3	\$1,542.3	\$1,542.3
<u>Operating Expenses</u>			
<u>O&M</u>			
Payroll	249.1	213.7	223.6
Purchased Water ^{1/}	137.0	137.0	137.0
Purchased Power- S/S	257.7	257.7	257.7
Pumping	25.9	10.0	14.0
Water Treatment	44.5	44.5	44.5
Trans. & Dist.	8.4	8.3	8.3
Cust. Accts.	126.1	122.9	124.5
	35.7	34.8	35.7
Subtotal	884.4	828.9	845.3
<u>A&G</u>			
Payroll	70.1	60.2	63.6
Office Supplies	16.7	16.7	16.7
Prop. Ins.	.2	.2	.2
Inv. & Damages	12.8	10.1	12.8
Empl. Pensions/Benefits	79.3	51.9	55.5
Business Tax	.9	.9	.9
Reg. Comm. Expense	11.3	7.8	8.3
Outside Services	16.1	17.5	17.5
Misc. Genl. Expense	8.1	3.3	3.3
General Plant	9.3	9.3	9.3
Rents	4.9	4.9	4.9
Subtotal	229.7	182.8	193.0
General Office Prorated	82.4	81.4	81.4
<u>Taxes-Other</u>			
Ad Valorem	36.3	36.3	36.3
Payroll	22.9	20.1	21.1
Subtotal	59.2	56.4	57.4
Depreciation	134.2	143.8	144.4
Uncollectibles	8.3	8.3	8.3
SCPT	(4.4)	10.0	7.3
FIT	(21.3)	41.0	29.6
Total Operating Exp.	1,372.5	1,352.6	1,366.7
Utility Operating Income	169.8	189.7	175.6
Rate Base	2,872.6	2,657.1	2,675.3
Rate of Return	5.91%	7.14%	6.56%

(Red Figure)

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

Table 1
CALIFORNIA-AMERICAN WATER COMPANY
Duarte District
1984 Present Rates

Item	Cal-Am Adjusted	CPUC Staff Adjusted	Adopted
(Dollars in Thousands)			
Operating Revenues	\$1,553.9	\$1,553.9	\$1,553.9
<u>Operating Expenses</u>			
<u>O&M</u>			
Payroll	272.5	230.4	250.0
Purchased Water ^{1/}	158.0	158.0	158.0
Purchased Power ^{1/}	259.3	259.3	259.3
S/S	28.6	10.0	14.4
Pumping	48.9	48.9	48.9
Water Treatment	9.2	10.0	10.0
Trans. & Dist.	141.9	136.7	139.3
Cust. Accts.	37.8	36.9	37.8
Subtotal	956.2	890.2	917.7
<u>A&G</u>			
Payroll	76.8	65.0	70.5
Office Supplies	18.3	18.3	18.3
Prop. Ins.	.2	.2	.2
Inv. & Damages	13.8	11.1	13.8
Empl. Pensions/Benefits	86.4	57.9	61.9
Business Tax	0.9	0.9	0.9
Reg. Comm. Expense	11.3	7.8	8.3
Outside Services	18.2	17.5	17.5
Misc. Genl. Expense	6.0	3.6	3.6
General Plant	10.1	10.1	10.1
Rents	4.9	4.9	4.9
Subtotal	246.9	197.3	210.0
General Office Prorated	88.7	87.1	87.1
<u>Taxes-Other</u>			
Ad Valorem	38.0	38.0	38.0
Payroll	24.9	21.8	23.7
Subtotal	62.9	59.8	61.7
Depreciation	148.0	152.0	153.8
Uncollectibles	8.4	8.4	8.4
SCPT	(16.8)	(1.0)	(5.2)
PIT	(74.1)	(4.8)	(23.2)
Total Operating Exp.	1,420.2	1,389.0	1,410.3
Utility Operating Income	133.7	164.9	143.6
Rate Base	3,255.1	2,890.7	2,930.4
Rate of Return	4.11%	5.70%	4.90%

(Red Figure)

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

II. BACKGROUND

Cal-Am, a wholly owned subsidiary of the American Water Works Company, Inc. of Wilmington, Delaware, was incorporated 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 service area of the Duarte District lies at the northern edge of the San Gabriel Valley and extends into the foothills of the San Gabriel Mountains providing domestic water service to the Cities of Bradbury and Duarte and portions of Irwindale, Monrovia, and vicinity. Elevations within the service area range from 375 to 1,000 feet above sea level. The domestic system, consisting of six pressure zones, is supplied by seven wells which feed directly into the distribution pipeline system. Irrigation water is generally supplied by diversion of surface water from the San Gabriel River and Fish Canyon. In times of extremely low river flow, water from wells can be delivered to the irrigation customers. As of December 31, 1981, there were 489,691 feet of transmission and distribution mains in the Duarte District ranging in size from 1½ inches to 36 inches in diameter. For the recorded year 1981 the average number of total customers was 6,237.

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 re-invested 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 : Ratios	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 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 West Basin Municipal Water District and West Basin Water Replacement District.

Table 1 in the synopsis of the decision sets forth the summary of earnings as estimated by Cal-Am and 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 \$1,542,300 for test year 1983 and \$1,553,900 for test year 1984. We will adopt these figures.

Payroll Expense-General

Cal-Am's estimates of total operating and maintenance (O&M) Duarte District payroll are \$249,100 for test year 1983 and \$272,500 for test year 1984 as contrasted to the staff's estimates of \$213,700 and \$230,400, respectively. Cal-Am's estimates for administrative and general (A&G) payroll expense are \$70,100 for 1983 and \$76,800 for 1984 compared to staff's estimates of \$60,200 for 1983 and \$65,000 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 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 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 Duarte District is eight. These eight employees represent from 14.0% to 16% the employees in the Los Angeles area whereas the percentage of labor costs assigned to the Duarte District for the period 1979 through 1985 estimated ranges from 21.57% to 23.01% 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 Duarte 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 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 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 Duarte 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 Duarte District.

We are persuaded by the testimony of Cal-Am's witness Poy 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 Duarte District and need not be considered at this time.

In summary we will adopt as reasonable for the payroll expense for the Duarte District the sum of \$287,200 for test year 1983 and \$320,500 for test year 1984. These figures are computed based on the application of Cal-Am's requested labor escalation factors to Duarte'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 Duarte'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. 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 and Pumping Expenses

Cal-Am stipulated to the staff's estimates for purchased water and power. Furthermore, staff's and Cal-Am's estimates of pumping expense are for the same amount. Consequently, we will adopt as reasonable these expense estimates for test years 1983 and 1984. An additional \$17,200 was included to reflect power rate increase which became effective January 1, 1983.

Source of Supply Expense

Cal-Am's adjusted source of supply estimate for test year 1983 is \$25,900 and for test year 1984 is \$28,600 as contrasted to staff's estimate of \$10,000 for both years. The principal differences in the estimates result from the disallowance by staff of Cal-Am's proposed \$30,000 in expenditures spread over three years to restore its Duarte District spreading grounds. A less major item that staff disallowed in its estimates is the maintenance of the access road around the Lemon Irrigation Reservoir. According to the testimony of witness Krueger, Cal-Am must spend \$30,000 to eliminate growth of tules, trees, and various grasses and to remove debris, maintain fence lines, and scarify the surface of the spreading grounds to obtain adequate percolation of the water. He further testified that Cal-Am has an adjudicated appropriation of 1,671 acre-feet a year of raw water that can be accepted only through spreading grounds and that it could be lost if not accepted annually. Staff witness Koering testified that his estimates are based on the average of recorded costs from 1979 through 1982 and reflect all source of supply O&M costs, including the costs listed by Cal-Am as normalized maintenance which include the above-described spreading ground and reservoir road maintenance costs. He further testified that the contract with the Corps of Engineers has been in effect for 20 years and, therefore, any necessary costs would be reflected in his estimates. We are persuaded that the Duarte spreading grounds are in need of additional maintenance but believe Cal-Am's request is somewhat high. Consequently, for purposes of this proceeding, we will allow as reasonable the 1977 recorded expense for this item of \$2,251 (highest of record) increased by 10% per year, or

\$4,000 for 1983 and \$4,400 for 1984. According to the record, the reservoir road normalized maintenance expense of \$2,800 for 1983 and \$3,000 for 1984 for a road to the Lemon Irrigation District is for a road that does not exist. This item will not be allowed. For the other source of supply expense items we will adopt as reasonable the staff's estimate of \$10,000 for both 1983 and 1984 resulting in a total source of supply expense of \$14,000 for test year 1983 and \$14,400 for test year 1984.

Water Treatment Expense

Cal-Am's adjusted estimated water treatment expense for test year 1983 is \$8,400 and for test year 1984 is \$9,200 as contrasted to the staff's estimates of \$8,300 and \$10,000, respectively. We will adopt as reasonable the staff's estimates based on later data.

Transmission and Distribution Expenses

The staff's estimate for the Duarte District transmission and distribution expenses was \$122,900 for test year 1983 and \$136,700 for test year 1984 as contrasted to Cal-Am's estimates of \$126,100 and \$141,900, respectively.

According to the record, Cal-Am prepared its estimates on an item-by-item basis through the use of zero-based 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 \$124,500 for test year 1983 and \$139,300 for test year 1984.

Customer Accounts

Staff accepted Cal-Am's original estimates for this item of \$34,800 for test year 1983 and \$36,900 for test year 1984. However, during the hearing Cal-Am submitted additional data indicating these estimates should be increased by \$900 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 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 \$77.90 a month for the Duarte District,

or approximately \$900 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 Duarte District of \$35,700 for test year 1983 and \$37,800 for test year 1984.

District Administrative and General Expenses

Cal-Am's estimates of district administrative and general expenses total \$229,700 for test year 1983 and \$246,900 for test year 1984 as contrasted to the staff's estimates of \$182,800 and \$197,300, 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 \$31,100 for test year 1983 and \$33,500 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 \$10,100 for test year 1983 and \$11,100 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 \$2,657 a year for the Duarte 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 \$12,800 for test year 1983 and \$13,800 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 \$79,300 for test year 1983 and \$86,400 for test year 1984 as compared to staff's estimates of \$51,900 and \$57,900, 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 payroll to yield our adopted employee pension and benefits expense of \$55,500 for test year 1983 and \$61,900 for test year 1984.

Cal-Am's estimate for regulatory commission and outside services expense totals \$27,400 for test year 1983 and \$29,500 for test year 1984 as compared to the staff's estimates totaling \$25,300 for both years for the Duarte 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 \$25,800 for test years 1983 and 1984.

Cal-Am's original estimate for miscellaneous general expenses for the Duarte District was \$1,200 for test year 1983 and \$1,400 for test year 1984. During the hearing these figures were revised to \$8,100 for test year 1983 and \$6,000 for test year 1984. These figures contrast to the staff's estimate of \$3,300 for test year 1983 and \$3,600 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 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 Duarte of \$81,400 for test year 1983 and \$87,100 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 \$57,400 for test year 1983 and \$61,700 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 \$144,400 as reasonable for test year 1983 and \$153,800 for test year 1984 consistent with our subsequently discussed adopted rate base items.

Uncollectibles and Income Taxes

Consistent with our previously discussed adopted revenue and expense items, we will adopt as reasonable for test year 1983 uncollectibles of \$8,300, state corporation franchise tax of \$7,300, and federal income taxes of \$29,600, and for test year 1984 uncollectibles of \$8,400, state corporation franchise tax of \$-5,200, and federal income tax of \$-23,200.

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, seven disputed rate base items for the Duarte District consisting of (a) Fish Canyon and Lemon Irrigation Reservoir roof replacement projects; (b) Duarte operating center and office; (c) Starpine Reservoir road; (d) High Mesa Reservoir road; (e) Bacon Well electrical panel; (f) contingency fund; and (g) water main replacement projects.

Testimony and exhibits supporting Cal-Am's position that the wooden roofs covering the Fish Canyon and Lemon Domestic Reservoirs should be replaced with aluminum roofs and structural members was presented by witness Krueger. According to the record, these two roofs were resurfaced with tar and gravel roofing in 1981 on the recommendation of one of Cal-Am's engineers, Steve Lonhart. Upon removal of the previous tar paper roofing material, according to the testimony of this witness, it was determined that the wood sheathing and wood beams had deteriorated due to age and needed replacement. The cost of replacing the Fish Canyon Reservoir roof, to be completed by June 1984, was estimated to be \$120,000 and the cost of replacing the Lemon Domestic Reservoir roof, to be completed by June 1985, was estimated to be \$135,000.

This witness further testified that because two years ago a fire destroyed the roof to the Spinks Canyon Reservoir causing it to become temporarily inoperative, the City of Duarte requested these two roofs, should they be replaced, be reroofed with noncombustible material. Testimony was also presented by an associate sanitary engineer employed by the Sanitary Engineering Branch, California Department of Health Services, John Daly, indicating he had personally inspected both reservoirs and had noted that a lot of wood in both reservoirs was in very poor condition. He further stated that prior to reroofing portions of the original tar paper covering had come off the roof exposing some of the sheathing and, therefore, inspecting such underlying wood sheathing was rather easy.

Staff engineer McCrea testified that based on the Lonhart report recommending to Cal-Am management that the roofs be resurfaced with built-up tar and gravel roofing rather than be replaced, he disallowed the budgeted amounts as unnecessary. According to the record, Steve Lonhart filled the reservoirs and used a dingy to closely inspect the underside of the roofing and the supporting structures. The Fish Canyon roof was reported to be in good condition and the report was silent on the Lemon Domestic roof which the staff interpreted to mean that it also was in good condition. As previously stated, witness Daly testified that the roofing material was in such condition that inspecting the underlying wood was rather easy. Obviously, the same opportunity was available to Lonhart who did not recommend the roofs be replaced. Furthermore, the testimony relating to deteriorated wood encompassed only the wood surface directly under the tar paper. According to the record, the only inspection of the underside and supporting structures was by Lonhart. Under these circumstances we will adopt the staff position for these two items.

According to the testimony of witness Magoffin, Cal-Am proposes to spend \$130,000 to rehabilitate the Duarte operations center and office by rearranging the partitions in the office to achieve a better atmosphere for the public and for Cal-Am employees working there and to renovate the outside of the office to achieve a blending in with the early California atmosphere that the City of Duarte is attempting to achieve in the area. Exhibit 21 contains a letter from the Duarte City Manager to witness Magoffin indicating that the city looks toward firms like Cal-Am in setting a proper example leading to the general upgrading of the city and indicating that Duarte would appreciate the beautification of Cal-Am property

in the new Pothill Industrial Business Center. Staff witness McCrea testified that he had visited the site on a field trip and found the existing structure architecturally matches the surrounding area and adequately serves as an operation center for the company. On this basis, staff excluded the \$130,000 from its recommended capital addition expenditures. We are persuaded that the existing structure is adequate and there is no need to burden the ratepayer with the proposed unnecessary expense. Under these circumstances we will adopt the staff's position on this matter.

Cal-Am proposes to install and/or improve driveways at Starpine and High Mesa Reservoir sites at an estimated cost of \$4,500. Staff witness McCrea testified that he walked up both driveways and noted that the High Mesa Reservoir driveway had severely cracked asphalt paving with weeds growing in the pavement and the asphalt dike alongside the driveway was in very poor condition. According to his testimony, these conditions did not prevail on the Starpine Reservoir driveway. Consequently, he disallowed one-half of the total cost, or \$2,250, as unnecessary for the Starpine driveway. We find his position reasonable and will adopt it for this proceeding.

Cal-Am proposes to replace several specific pumps and motors and a related electrical panel in the Duarte District. Staff witness McCrea testified that he found the Bacon Well and Fish Canyon Well 1 pump and motors to be operating at a high efficiency level at the time of their proposed replacement and on this basis disallowed \$32,000 for Bacon Well and \$13,000 for Fish Canyon Well 1. According to the testimony of witness Krueger, approximately \$25,000 of the cost of the Bacon Well was

necessary to replace and upgrade the existing electrical panel and to properly house the panel. At the same time, Cal-Am would raise the Bacon Well column and install a pump pedestal as required by the California Health Department. This latter requirement was supported by witness Daly's testimony. Under these circumstances we will disallow the \$13,000 for Fish Canyon Well 1 as proposed by staff but will allow the \$32,000 proposed for the Bacon Well.

Exhibit 27, Cal-Am's revised investment budget schedules, indicated the canceling of the above \$13,000 Fish Canyon Well 1 item but included an additional \$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. Cal-Am 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."

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 McCrea, 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. 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 Fish Canyon Well 1 pump and motor once in a three-year period, or \$4,300 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.

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 violates 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.

It is noted that the three-year totals for the original and revised estimates are \$207,000 and \$209,400, respectively, a difference of only 1.2%. Under these circumstances we will adopt as reasonable for this proceeding Cal-Am's original estimates, concurred with by staff, of \$70,500 for 1983 and \$46,500 for 1984.

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 2.0596 based on California franchise tax rate of 9.6%, federal income tax rate of 46.0%, and an uncollectible rate of 0.538%.

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 1.66%.

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 -	.0656)	x	2,675.3	x 2.0596	= 278.8
1984	(0.1186 -	.0490)	x	2,930.4	x 2.0596	= 420.1
1985	(0.1203 -	.0324)	x	2,930.4	x 2.0596	= 530.5

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 is 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. This position appears reasonable and will be adopted. Our adopted rates set forth in Appendixes A and B reflect staff-recommended rates.

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	14	16
Pressure	38	18
Billing	222	181
Miscellaneous	<u>4</u>	<u>2</u>
Total	278	217

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 Duarte District to be satisfactory.

VII. FINDINGS AND CONCLUSIONS

Findings of Fact

1. Cal-Am is in need of additional revenues for its Duarte 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 Duarte District of approximately \$278,800 (18.08%) as compared to a requested increase of \$474,800 (31.1%) over the rates which became effective April 21, 1982.
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 Duarte District of approximately \$141,300 (7.76%) over the authorized 1983 rates as compared to a requested increase of \$198,600 (9.9%) over Cal-Am's proposed 1983 rates.

7. An allowance of 1.66% 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 Duarte District of approximately \$110,400 (5.59%) over the authorized 1984 rates as compared to a requested increase of \$227,600 (10.3%) 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 Duarte 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 Duarte District pro rata share of a regional force of 51 employees (53 beginning of year 1982 minus two capitalized employees) plus Duarte 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 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 Duarte District of \$35,700 for test year 1983 and \$37,800 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 expense 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.
 - 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. The disallowance of funds for ratemaking purposes for the replacement of roofs on the Fish Canyon and Lemon Irrigation Reservoirs is reasonable.
 - i. The disallowance of cost of repairing the Starpine Reservoir driveway for ratemaking purposes is reasonable.
 - j. The disallowance of \$13,000 for the replacement of Fish Canyon Well 1 pump and motor is reasonable.
 - k. The allowance of \$32,000 for the replacement of the Bacon Well electric panel and the placement of the pump on a pedestal are reasonable.
 - l. A contingency fund of \$4,300 per year for unexpected failures of wells, pumps, and/or motors is reasonable.
 - m. Adoption of main replacement costs of \$70,500 for test year 1983 and \$46,500 for test year 1984 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 Duarte District is satisfactory.

Conclusions of Law

1. Revenue increases of \$278,800 (18.08%) in 1983, \$141,300 (7.76%) in 1984, and \$110,400 (5.59%) 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 Duarte 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 Duarte 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.

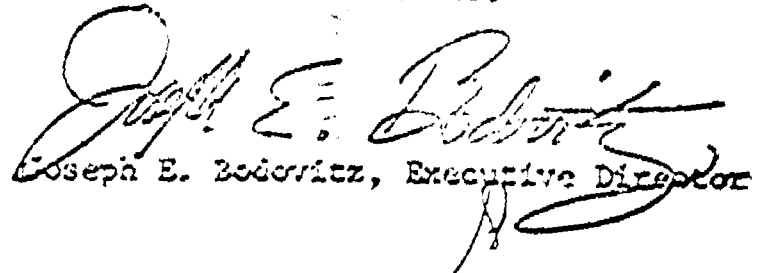
This order is effective today.

Dated AUG 17 1983 , at San Francisco, California.

VICTOR CALVO
FRISCILLA 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. DU-1

Duarte District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all general metered water service.

TERRITORY

Bradbury, Duarte, portions of Irwindale, Monrovia, and vicinity, Los Angeles County.

RATES

Quantity Rates:		<u>Per Meter Per Month</u>	
First	300 cu. ft., per 100 cu. ft.	\$0.440	
Over	300 cu. ft., per 100 cu. ft.	0.560	
Service Charge:			
For	5/8 x 3/4-inch meter	\$4.80	(I) (I)
For	3/4-inch meter	5.60	
For	1-inch meter	8.20	
For	1 1/2-inch meter	11.80	
For	2-inch meter	16.50	
For	3-inch meter	24.00	
For	4-inch meter	36.00	
For	6-inch meter	58.00	
For	8-inch meter	96.00	

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

APPENDIX A
Page 2

Schedule No. DU-3M

Duarte District Tariff Area

MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured service for irrigation purposes as defined in the special conditions below. Applicable only to premises serviced under Schedule No. DU-3M on a continuous basis on and after January 1, 1969.

TERRITORY

Bradbury, Duarte, portions of Irwindale, Monrovia, and vicinity, Los Angeles County.

RATES

Quantity Rates:	<u>Per Meter Per Month</u>	
A. Pressure service all water, per 100 cu. ft.	\$0.303	(I)
B. Gravity service all water, per 100 cu. ft.	0.215	(I)
 Service Charge:		
For 5/8 x 3/4-inch meter	8.25	(I)
For 3/4-inch meter	10.30	
For 1-inch meter	16.40	
For 1 1/2-inch meter	23.64	
For 2-inch meter	33.00	
For 3-inch meter	47.00	
For 4-inch meter	74.00	
For 6-inch meter	102.00	
For 8-inch meter	158.00	(I)

The Service Charge is a readiness-to-serve charge applicable to this service and to which is to be added the monthly usage charge computed at the Quantity Rate.

APPENDIX A
Page 3

Schedule No. DU-3M

Duarte District Tariff Area

MEASURED IRRIGATION SERVICE
(Continued)

SPECIAL CONDITIONS

1. Measured irrigation service to be supplied under these tariffs is only for water used for commercial agricultural, commercial floracultural, or commercial horticultural purposes, and served from a connection to the special irrigation system in the area.

2. Premises as used in connection with this tariff schedule means a contiguous parcel of land on which there is a large enough area to engage in the commercial activities outlined in Special Condition No. 1 over and above the land on the premise which is improved in a manner not eligible for this rate under Special Condition No. 1.

3. If a portion of the premise served under this schedule is developed and used for purposes other than those outlined in Special Condition No. 1, such as but not restricted to, housing, ornamental noncommercial landscaping, lawns, swimming pools, etc., there must be installed a separate service connection on the Company's domestic system which will be billed under Schedule No. DU-1, and no water from the service installed under Schedule DU-3M will be used in connection for such portion of the premise.

4. If a premise which is entitled to measured irrigation service by virtue of having been receiving such service continuously since January 1, 1969 and complying with the special conditions mentioned above is divided into two or more premises, each such premise resulting from such division may apply for service under this schedule, providing the development of the premise is such that it can qualify under the special conditions of this Tariff Schedule No. DU-3M.

5. A customer on the premise eligible for this irrigation service may request for this convenience an additional service or services and a customer eligible for service on this schedule in connection with the division of a premise may apply for a service to his portion of the divided premise. The cost of such service shall be paid by the applicant.

(Continued)

APPENDIX A

Page 4

Schedule No. DU-3M

Duarte District Tariff Area

MEASURED IRRIGATION SERVICE

(Continued)

SPECIAL CONDITIONS (Cont'd)

Such payment shall not be subject to refund. Following the date of the adoption of this schedule, no applications will be taken or service connections installed of less than 1-1/2-inch in diameter provided that in connection with the installation of additional services on the irrigation system the following special conditions must be met:

- a. If an irrigation main of adequate size to serve additional service connections does not exist adjacent to the premises to be served, then a main from the nearest existing irrigation main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
- b. If off-site facilities of the irrigation system are inadequate to serve additional service connections requested to premises which are otherwise entitled to such service, the utility will not install such new services unless the applicant is willing to pay the cost without refund of the necessary additions to the off-site facilities to enable the utility to adequately serve the additional service connections requested.

APPENDIX A

Page 5

Schedule No. DU-4

DUARTE DISTRICT TARIFF AREA
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Bradbury, Duarte, portions of Irwindale, Monrovia, and vicinity, Los Angeles County.

RATE

PER MONTH

For each inch of diameter of service connection \$2.60 (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 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.

APPENDIX A

Page 6

Schedule No. DU-4

Duarte 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.

8. Subject to the approval of the Utility, any change in the location or construction of the fire protection service 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
Page 1

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
1-1-84 1-1-85

SCHEDULE DU-1

Service Charges:

For 5/8 x 3/4-inch meter	\$0.40	\$0.30
For 3/4-inch meter	0.50	0.30
For 1-inch meter	0.70	0.50
For 1 1/2-inch meter	1.00	0.70
For 2-inch meter	1.50	1.00
For 3-inch meter	2.00	1.00
For 4-inch meter	3.00	2.00
For 6-inch meter	5.00	3.00
For 8-inch meter	8.00	6.00

Quantity Rates:

For the first 300 cu.ft., per 100 cu.ft.	0.032	0.027
For all over 300 cu.ft., per 100 cu.ft.	0.041	0.034

SCHEDULE DU-4

Rates:

For each inch of diameter of service connection	0.30	0.30
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APPENDIX B
Page 2

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.

SCHEDULE DU-3M

Service Charges:	Effective Dates	
	<u>1-1-84</u>	<u>1-1-85</u>
For 5/8 x 3/4-inch meter	\$1.90	\$0.50
For 3/4-inch meter	2.35	0.65
For 1-inch meter	3.88	0.92
For 1 1/2-inch meter	5.40	1.40
For 2-inch meter	7.50	2.00
For 3-inch meter	11.00	3.00
For 4-inch meter	17.00	5.00
For 6-inch meter	23.00	6.00
For 8-inch meter	36.00	10.00

Quantity Rates:

A. Pressure service all water, per 100 cu. ft.	0.069	0.019
B. Gravity service all water, per 100 cu. ft.	0.049	0.013

(END OF APPENDIX B)

APPENDIX C
Page 1ADOPTED QUANTITIESCompany: California American Water Co.
District: Duarte District

	<u>1983</u>	<u>1984</u>
1. Water Production: Ccf(1000)	2,653.2	2,671.1
Wells:	2,458.2	2,476.1
Surface:	195.0	195.0
2. <u>Purchased Power</u>	Supplier: SCE	Date: 1-83
<u>Well Stations</u>		
Production - KCcf	2,458.2	2,476.1
KWh per Ccf	1.1123	1.1123
Req'd KWh, Wells	2,734,256	2,754,166
KWh Unit Cost	\$0.0715	\$0.0715
Energy Cost	195,499	196,923
Fixed Cost (1400 at \$1/HP)	16,800	16,800
Total Cost, Wells	<u>212,299</u>	<u>213,723</u>
<u>Booster Stations</u>		
Production - KCcf	2,653.2	2,671.1
KWh per Ccf	.20447	.20447
Req'd KWh, Boosters	542,500	546,160
KWh Unit Cost	\$0.0715	\$0.0715
Energy Cost	38,789	39,050
Fixed Cost (550 at \$1/HP)	6,600	6,600
Total Booster Cost	<u>\$45,389</u>	<u>\$45,650</u>
Total Cost	\$257,700	\$259,400
3. <u>Pump Tax</u>		
<u>Main San Gabriel Basin (5-5-82)</u>		
Total Production AF	6,091.0	6,132.0
Makeup Water AF	5,272.4	5,087.7
Replenishment AF	818.6	1,044.3
Cost: Admin. Assessn. at \$127 AF	\$7,736	\$7,788
Makeup Water at \$9 AF	47,452	45,789
Replenishment at \$100 AF	<u>81,860</u>	<u>104,430</u>
Total Cost	\$137,048	\$158,007
4. Ad Valorem Taxes	\$36,300	\$38,000
Tax Rate	0.884%	0.884%

APPENDIX C

Page 2

ADOPTED QUANTITIES

5. <u>Number of Services - Meter Size</u>	<u>General Metered</u>		<u>Irrigation</u>	
	<u>1983</u>	<u>1984</u>	<u>1983</u>	<u>1984</u>
5/8 x 3/4	5,145	5,180	0	0
3/4	604	607	0	0
1	362	365	2	2
1 1/2	207	210	3	3
2	208	210	38	38
3	14	14	15	15
4	15	16	6	6
6	5	5	0	0
8	3	3	0	0
10	0	0	0	0
	<u>6,563</u>	<u>6,610</u>	<u>64</u>	<u>64</u>

6. <u>Metered Water Sales (Ccf)</u>					
<u>General Metered</u>	<u>Irrigation</u>				
0-3		246,872	248,639		
>3		2,050,876	2,065,871		
		<u>2,297,748</u>	<u>2,314,510</u>		
	Pressure Service			185,000	185,000
	Gravity Service			10,000	10,000
				<u>195,000</u>	<u>195,000</u>

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>	<u>1983</u>	<u>1984</u>
Residential	5,936	5,977	1,378.4	1,388.0	232.2	232.2
Business	527	533	626.1	643.3	1,207.0	1,207.0
Golf Courses	1	1	34.3	34.3	34,303.0	34,303.0
Industrial	13	13	31.7	31.7	2,442.0	2,442.0
Public Auth-Normal	68	68	43.4	43.4	638.9	638.9
Public Auth-Large	18	18	173.8	173.8	9,657.0	9,657.0
General Metered	<u>6,563</u>	<u>6,610</u>	<u>2,297.7</u>	<u>2,314.5</u>		
Irrigation	64	64	195.0	195.0		
Other	6	6	4.1	4.1		
Private Fire Protection	49	53	-	-		
Total	<u>6,682</u>	<u>6,733</u>	<u>2,496.8</u>	<u>2,513.6</u>		
Water Loss: 5.90%			156.5	157.6		
Total Water Produced			<u>2,653.3</u>	<u>2,671.2</u>		

APPENDIX C

Page 3

INCOME TAX CALCULATION

	<u>1983</u> (Thousands of Dollars)	<u>1984</u> (Thousands of Dollars)
Operating Revenue (Authorized)	1,821.0	1,973.8
<u>O&M Expense</u>		
Purchased Power	257.7	259.3
Purchased Water	137.0	158.0
Payroll-District	287.2	320.5
Other O&M	227.0	250.4
A&G	128.5	138.6
G.O. Allocation	81.4	87.1
Subtotal	<u>1,118.8</u>	<u>1,213.9</u>
Uncollectibles @ 0.538%	9.8	10.6
Franchise Flat Rate	0.9	0.9
Taxes Other	57.4	61.7
Total O&M and A&G	<u>1,186.9</u>	<u>1,287.1</u>
Capitalized Overheads	2.9	3.2
A.F.U. D. C.	1.8	2.6
Interest Expense	118.1	139.1
Debt Expense	0.8	0.8
Subtotal Deductions	<u>1,300.5</u>	<u>1,432.8</u>
State Tax Depreciation	157.6	177.2
Net Taxable Income	<u>352.9</u>	<u>363.8</u>
State Corp. Franch. Tax @ 9.6%	33.9	34.9
Federal Tax Depreciation	152.3	167.0
State Income Tax	33.9	34.9
Net Taxable Income	<u>324.3</u>	<u>339.1</u>
Fed. Income Tax @ 46%	149.2	156.0
Less Grad. Tax Adj.	1.2	1.2
I.T.C.	3.1	4.3
Total Federal Income Tax	<u>144.9</u>	<u>150.5</u>
Total Income Tax	178.8	185.4

Net to Gross Multiplier: 2.05959

Book Depreciation: \$144,400 (1983); \$153,800 (1984)

(END OF APPENDIX C)

II. BACKGROUND

Cal-Am, a wholly owned subsidiary of the American Water Works Company, Inc. of Wilmington, Delaware, was incorporated 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 service area of the Duarte District lies at the northern edge of the San Gabriel Valley and extends into the foothills of the San Gabriel Mountains providing domestic water service to the Cities of Bradbury and Duarte and portions of Irwindale, Monrovia, and vicinity. ^{Elevators} Elevators within the service area range from 375 to 1,000 feet above sea level. The domestic system, consisting of six pressure zones, is supplied by seven wells which feed directly into the distribution pipeline system. Irrigation water is generally supplied by diversion of surface water from the San Gabriel River and Fish Canyon. In times of extremely low river flow, water from wells can be delivered to the irrigation customers. As of December 31, 1981, there were 489,691 feet of transmission and distribution mains in the Duarte District ranging in size from 1½ inches to 36 inches in diameter. For the recorded year 1981 the average number of total customers was 6,237.