km

ORIGINAL

Decision No. 87087

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA CITIES WATER COMPANY, a California corporation, for authorization to increase rates for water service in its Cowan Heights District.	Application No. 56020 (Filed October 23, 1975)

O'Melveny & Myers, by Guido R. Henry, Jr., Attorney at Law, for California Cities Water Company, applicant.
Mary Carlos, Attorney at Law, and A. Tokmakoff, for the Commission staff.

O P I N I O N

Statement of Facts

Just northeast of the city of Tustin, poised over gently ascending slopes leading from the Pacific Ocean to the foothills of the Santa Ana Range, like a cluster of motionless outrider sentinels, are several verdant mesa-like hillocks ruptured by barrancas heavily clad in ice plant, ivy, and various green shrubberies. Known as Cowan Heights, this elysian enclave shelters approximately a thousand expensive homes, sprinkled high and low[1] on their one-half to one-acre sites. Immaculately maintained amidst well-groomed lawns bordered by handsome shrubs and trees, these homes reflect the obvious

1/ The water utility's service area on Cowan Heights is featured by very hilly terrain, quickly changing in elevations ranging between 280 and 900 feet above sea level.

pride of ownership of the largely professional, executive, managerial, and retired upper middle class residents. This obviously is an "in" place to live, and there are numerous swimming pools, shelter stables and pipe paddocks for saddle horses, and car ports and parking pads for handsome colorful recreational vehicles, reflecting the interests of the Cowan Heights residents in the good life. Unfortunately, in the last few years problems centering upon their water supply have arisen in this well-ordered and comfortable enclave; problems that to some degree necessarily were shared by all the residents, and which have served to coalesce the disturbed people into a militant and articulate league before this Commission.

As to its water supply, Cowan Heights has been serviced, to a disputed degree, by the Cowan Heights District (District) of California Cities Water Company (Cal Cities), until recently a wholly owned subsidiary of Consolidated Water Company in Miami, Florida.[2/] This former ownership suffered financial problems at the top, putting great pressure down through Cal Cities to minimize capital improvements. Cal Cities, itself operating through a chain of water districts, of which this district is but one, and deprived of badly needed parental corporate financial support, found it increasingly difficult to raise funds. This situation necessitated deferment of capital project after capital project. Within the Cowan Heights district itself, purchased power and water, and labor accounted for 75 percent of the total district operating expenses, leaving relatively little financial area to internally generate the funds needed. As a consequence needed improvements were not made and service suffered.

2/ It was reported at the hearing in this matter that Consolidated Water Company is presently in federal bankruptcy proceedings.

The District obtains its water from two sources: Red Hills Mutual Water Company (Red Hills) and the East Orange County Municipal Water District (East Orange), a member agency of the Metropolitan Water District of Southern California (Metropolitan). Red Hills is the primary source of water with East Orange providing supplemental amounts to meet seasonal and peak demands. Delivery of Red Hills water is taken at the Red Hills reservoir situated adjacent to the District, and the water obtained is then pumped 300 feet uphill to a 2 million-gallon reservoir located at a 630-foot elevation site. A portion of this water is thereafter boosted further uphill to the 800-foot level where it is stored in two small reservoirs with a combined capacity of 250,000 gallons. Delivery is made to District customers from these three reservoirs, although in one higher area a pneumatic tank in the past provided pressurized service. East Orange injects its supplemental volumes of water into the District system just above the 600-foot level.

Although the water supply is tested regularly by both the state and Orange County departments of health, and has consistently tested safe and potable, at many times it has a very poor taste and carries a disagreeable odor.3/ Water pressure varies widely throughout the disparate elevations of the District; bursting hoses and forcing pressure relief valves to pop regularly in some areas, and being nonexistent for periods lasting hours elsewhere.4/ Surges of

---

3/ Numerous consumers who appeared at the public hearing in this matter spoke of the unpalatable qualities of the water. Many of these testified that they have had to resort to outside bottled water costing up to $20 a month; one testified that when he used it in making up his hummingbird feeder solution, the hummingbirds wouldn't drink it!

4/ One witness testified that the pressure went off four times as she showered the morning of the public hearing.

pressure regularly cause extensive residential water hammer noise, leaking hydrants, and frequent main breaks with flooding. In the past it frequently was impossible to obtain emergency assistance from the utility when an outage or break occurred on a holiday, weekend, or at night after the utility office had closed.[5/]

Early in 1976, and after this application had been filed with the Commission, the Cal Cities common stock was purchased by Southern California Water Company (So-Cal Water).[6/] It was initially intended to merge Cal Cities into So-Cal Water so as to emerge with one operating utility, however, an outside audit revealed that there would be economic penalties under existing tax depreciation law were such merger to be effectuated immediately. Consequently it was decided to delay merger until after April 1978, at which time Commission authorization will be sought. In the interval Cal Cities will be operated as a subsidiary. Since acquisition, So-Cal Water has made operational and engineering studies of the District's system and has instituted some capital improvements to answer the most pressing major service problems, and has planned further improvements for the immediate future. Addressing the pressure problem at the higher elevations, So-Cal Water engineers determined that the pneumatic tank system servicing these areas was at fault, and removed the offending pneumatic tank from the line, replacing it with an in-line booster. It is expected that this change will considerably regularize and improve pressure in the upper service area.[7/]

5/ The emergency procedure formerly required a toll call to San Dimas, but this was not always operative. There were outages in April 1974 and October 1975 lasting four and three and one-half hours respectively, during which consumers were unable to contact any responsible person with the utility.

6/ Decision No. 85622 dated March 23, 1976 in Application No. 56311.

7/ This project was completed the first day of the public hearing in this application.

Studies made by So-Cal Water's engineering department indicate that the water hammer noises complained of are caused by a swing check in a booster located at the bottom level Newport Avenue booster station of the system. It was concluded that when the big booster at that station shuts off, approximately 150 pounds pressure is created on the system side which causes the swing check to slam shut. To correct this So-Cal Water has budgeted for early in 1977 the installation of a soft closing check valve, the so-called "Clay valve". It is believed that the off-hour communciation problem has been resolved by instituting a 24-hour telephone answering service with recourse to standby utility personnel for emergencies. Since institution of this service the District knows of no instance when emergency service calls were not handled. The taste and odor problems are also under study, but as will be discussed later, there are certain reasons why it is unlikely that these problems can be resolved to everyone's satisfaction in the immediate future.

As noted earlier, before acquisition in 1976 by So-Cal Water, Cal Cities filed this application for a rate increase applicable to the Cowan Heights district. For year 1974 (the last full year before the application was filed) the District had a net operating income of $19,856, reflecting a rate of return of only 3.52 percent. This low rate of return was a contributing factor to the difficulties Cal Cities incurred attempting to obtain financing needed to meet continuing requirements for capital improvements and replacements in the District system. The last general rate increase authorized this District was in 1972.[8] Since 1972, aside from numerous and increasing requirements

---

8/ Decision No. 79669 dated February 1, 1972 in Application No. 52176.

for capital investment, the utility has experienced inflationary pressures in the form of increased costs for borrowed money, increased unit costs for plant additions and replacements, as well as generally sharply rising costs for labor, materials, and services, including the costs of purchased power and purchased water. Some of these increased costs have been offset in the interim by special increases authorized by the Commission,9/ but not all.

By this application Cal Cities requested a 36.3 percent general rate increase which assertedly would enable it to obtain a 10.45 percent return, producing a 13.5 percent return on common equity. A duly noticed public meeting was held in Tustin on September 22-23, 1976 before Examiner John B. Weiss. The two-day hearing was well attended by approximately sixty customers, eleven of whom testified in opposition to the proposed increase, setting forth specific examples of the above-mentioned service complaints. Three letters were also presented at the hearing from customers who could not remain at the hearing, all opposing the increase.10/ A representative of the homeowners who assisted in coordinating a protest movement presented a petition bearing approximately 600 signatures and addresses. The petition bears the following legend at top:

9/ The most recent being a 6.6 percent offset increase in rates effective October 1, 1975 granted by Commission Resolution No. W-1803 dated September 16, 1975 in an Advice-Letter Proceeding filed August 19, 1975.

10/ Another 44 letters protesting any increase were received by the examiner prior to the hearing date.

"We, the undersigned, go on record to protest the 45.029 percent rate increase applied for by California Cities Water Company in the Cowan Heights District No. 56020, of Santa Ana, CA 92705. This is not commensurate with the type of service the users in this area have been receiving."11/

The Cal Cities application was based upon proposed test year 1976 and the recorded data used therein was for year 1974. Because of its backlog of work, the staff was unable to make its study on this utility until early in 1976, and therefore had access to recorded data for year 1975 and part of 1976. Accordingly the staff in its study used 1976 as test year. At the hearing, having reviewed the accounts and operations of Cal Cities in considerable detail, the staff presented the results of its study in report form, and concluded by recommending that we adopt a rate of return within the range of 9.4 to 9.7 percent. The staff further suggested adoption of a rate design constructed to more closely tie the use of water to the cost of furnishing it, and provision for a service charge which relates to the cost of standing ready to serve. The staff study differed in a number of items from the estimates submitted by Cal Cities. Among these differences were the following. In its study the staff estimated a higher average number of customers, and projected a higher estimate of total water sales per customer. The staff, using a special study prepared at its request by So-Cal Water, the new parent of Cal Cities following the March 1976 acquisition, arrived at somewhat lower administrative and general expenses than those projected by the former administration of the utility. Using 1975 recorded data, and reflecting lower estimated plant balance

---

11/ It appears that the petition drafter, in arriving at the 45.029 percent figure, compounded the proposed 36.3 percent general rate increase on top of the 6.6 percent offset increase granted in October, 1975.

for 1976, the staff also revised depreciation expenses and reserves, and using up-to-date investment tax credit information, arrived at more supportable income tax estimates. Finally, noting recent slippage in the District's capital budget[12] and other minor rate base differences (primarily based on use of later data), the staff arrived at a lower estimate of average rate base. At the hearing Cal Cities generally stipulated to the staff report estimates as being a reasonable basis for establishing rates, although its vice president testified to the effect that a 9.7 percent rate of return would be a minimum requirement to permit Cal Cities to progress with its financing.

A portion of the hearing was concerned with conservation matters, and testimony and exhibits were introduced relating to a specific water conservation campaign which has been in effect since 1971 by So-Cal Water, the new parent of Cal Cities. This evidence was directed toward elimination of water wastage with an overall message to the effect that saving water conserves energy and money also. One conservation brochure had been distributed to District customers since acquisition of the District by So-Cal Water and further distributions of conservation materials were contemplated. No evidence was presented, however, of any similar program or distribution by the District before the acquisition by So-Cal Water.

<u>Discussion</u>

Once again we are faced by that recurrent bête noire of the Commission, that modern day Phrygian question: how to assure a supply of potable water at reasonable rates to consumers? In the

12/ Applicant's estimated plant additions for 1975 exceeded recorded amounts by nearly $104,000. Deletion of a new one-million gallon reservoir from applicant's 1976 budget accounts for most of the difference between staff and applicant estimates of 1976 plant addition.

matter before us the numerous customers of the District who took of their valuable time and made the effort to attend the Tustin hearing, as well as the unseen hundreds who signed the homeowners' petition, all ask in unison that we not grant the increase requested by Cal Cities, or in the alternative, that we not authorize all the increase requested. They cite grievances and frustrations, providing example after example of past unhappy experience with the District's ancien régime. We hear and can understand their plaints, but we must also recognize that today every aspect of modern civilization is beset with the legacy of inflation we have inherited. Water systems are not immune. Systems such as that of the District must purchase the imported water they sell, the purchased power needed to pump and maintain pressure, the labor needed to operate, and the equipment and replacement pipe and parts needed for maintenance. The consumer expects water when he turns on his tap. Investment money costs have gone up too. Someone must pay these heavily increased costs. The ratemaking process, i.e., the fixing of "just and reasonable" rates, involves a balancing of consumer and investment interests. Although dedicated to public service, a utility is also entitled to a fair and reasonable return for its investment in plant and facilities, as well as for the service it provides (General Telephone Co. (1971) 72 CPUC 652, 654). While regulation does not guarantee profits, there must be enough revenue provided not only for operating expenses, but also for the capital costs of the business, including debt service and reasonable dividends. The rates authorized must not be unjust or unreasonable from the investor's or company's viewpoint (Federal Power Commission v Hope Natural Gas Co. (1943) 320 US 591, 603). The balancing of interests must also reflect due consideration of elements of public interest such as the quality of the service provided, the service area itself including the practical conditions under which the utility is operating, and the efficiency of management. Therefore, it is with all these considerations in mind that we weigh the specifics of the application.

Applicant's exhibits supporting its application were prepared in mid-1975, based upon 1974 operational results, and projected for a test year 1976. On the other hand, the staff had access to 1975 as a recorded year and also part of 1976. Thus, the staff used more recent data than that available to the utility. In most respects the utility has accepted the staff's data; in some others it does not. To begin with, the staff's projection of total water sales exceeds the estimates used by Cal Cities. Cal Cities did not use the conventional Bean method of normalization in projecting consumption, but rather applied a judgmental approach. The utility believes use of the Bean method distorts projection considering the relatively small number of customers involved, the wide water usage variation within that group, and the limited remaining building site area within the District. The staff used a refinement of the Bean technique to make its projection. We will adopt the staff's conclusions, noting in doing so that while the District within a few years time apparently will be saturated insofar as residential expansion is concerned, with no prospect of enlarging, there is still one undeveloped area remaining and there is currently active construction of new homes in progress. Furthermore, the staff projection covers only one or two years ahead and in that period the anticipated future scarcity of land will not become a binding factor. Additionally, erosion control plantings obviously needed and progressing on the hillsides and barrancas in association with the new construction will require additional water consumption.

In comparing operation and maintenance expense estimates the staff estimates for purchased water and purchased power are higher in part resulting from the above-stated projection. The differences between the staff and the applicant in estimating other operation's expenses are nominal and the utility in general accepts the staff estimates for test year 1976.

The staff requested the utility's new parent, So-Cal Water, to prepare a study anticipating revised administrative and general allocated expenses for the District under the new ownership. Study results indicate lower expense estimates than those of the application particularly in regard to payroll, office supplies, regulatory commission expense, and allocation charges to the parent company. After review of the study, the staff accepted the lowered estimates. They appear reasonable and we will adopt them.

Considering taxes other than income taxes, the staff's property tax estimate is lower than that of the applicant, reflecting lower estimated plant balances derived from slippage and deferment of capital budget items from 1975 to 1976 to later periods. The new tax base on unemployment insurance, limits on FICA, and reduction in payroll taxes attributable to the district manager's salary account for other tax differences. Again, the staff utilized later data than that available to the applicant and we will accept the staff estimates. Similarly, the staff's depreciation expense estimate is lower than applicant's primarily as a consequence of lower estimated plant balance and use of 1975 recorded data by the staff.

Both the applicant and the staff used the flow-through method of investment tax credit and accelerated depreciation of newly added plant; however, the applicant, assuming that the Tax Reduction Act would expire July 1, 1976, used lower investment tax rates than the Act provides. The staff, having the advantage of later information, used 10 percent of the average yearly eligible plant additions for both 1975 and 1976 as permitted under law.

In determining rate base, the staff arrived at its lower estimate largely because of overestimates made by the utility in computing utility plant, depreciation, advances for construction, contributions in aid of construction, and working cash. For example, applicant's estimated plant additions for 1975 exceeded recorded amounts by nearly $104,000. Deferment of a new one million-gallon reservoir from the 1976 capital budget until possibly 1978 will remove $100,000 from 1976 plant additions. It is also clear that other budgeted items for 1976 will slip or will not be obtained, in particular certain main extensions, service piping, and subdivision hydrants. However, in part these have been offset by the addition of new booster equipment to replace the pneumatic tank on Clearview Drive. Nonrealization of these utility plant items in turn results in overestimated depreciation reserves. Applicant also overestimated advances for construction and contributions in aid of construction. Refunds from advances for construction were underestimated. The staff's estimate for working cash was loss than applicant's because applicant used two months' expenses less one month's purchased power cost, whereas the staff also deducted one month's purchased water cost. Comparison of rate base computations is set forth in Table I.

TABLE I

Rate Base - 1976 Estimated

	Applicant	Staff
Utility Plant		
District	$1,164,530	$1,016,000
Main Office	9,860	15,900
Work in Progress	2,250	2,300
Materials & Supplies	5,470	4,650
Working Cash	23,240	19,800
Mutual Stock	52,390	52,390
Subtotal	1,257,740	1,111,040
Deductions		
Reserve for Depreciation		
District	196,880	194,950
Main Office	2,960	-
Advances for Construction	340,400	314,970
Contributions in Aid of Constr.	26,680	15,910
Total Deductions	566,920	525,830
Average Rate Base	$ 690,820	$ 585,210

In its application for the District, Cal Cities used customer rates which did not include the offset increase granted by advice-letter proceedings in October, 1975,[13] and as noted above, its customer and sales per customer estimates were too low, and its rate base excessive, not reflecting unrealized or deferred plant addition. By the application Cal Cities requested a 10.45 percent rate of return to bring operating revenues up to $301,400. When adjusted to reflect the above additions and changes, it is apparent that the proposal would actually generate an operating revenue of

13/ By Resolution No. W-1803, in Advice Letter No. 44 dated August 18, 1975, the Commission approved a 6.647 percent offset to be effective October 1, 1975.

$319,800, an increase of 36.3 percent, producing a net operating revenue of $70,800 reflecting an actual 12.10 percent rate of return (see Table II). This is excessive.

Updating Cal Cities' application for the District to reflect present rates, and with adjustments to reflect more realistic customer and sales estimates, and using revised rate base computations excluding unrealized or deferred plant, the staff estimates that 1976 operating revenue for the District would be $234,600, producing $29,900 in net operating revenue, which on an average rate base of $585,200 evidences a 5.11 percent rate of return. Under all the circumstances present herein that is not an equitable or reasonable rate of return.

In an earlier 1976 proceeding (Application No. 55713) involving the San Dimas district, a sister district to Cowan Heights in the Cal Cities system, the staff introduced an exhibit derived from an extensive study of the capital structure, debt and plant investment posture of the entire Cal Cities system. In that proceeding, with the additional factor of an urgent funding requirement to alleviate a serious nitrate problem affecting the San Dimas service, the Commission authorized a 9.70 percent rate of return. In that the same overall capital structure of the parent is applicable here, and considering the short lapse of time since that proceeding and the fact that capital costs are the same today, the staff here recommends that we authorize a rate of return within the range of 9.40 and 9.70 percent.[14] A vice president of Cal Cities testified

14/ A staff Finance and Accounts witness recommended adoption of a 9.70 percent rate of return "...if certain capital improvements are made."

that 9.70 percent would permit progress with its financing, and expressed his opinion that any rate of return "...materially less than 9.70 would make it difficult and otherwise jeopardize the ability of Cal Cities to raise additional debt financing."[15]

While dissimilarities enter any comparison with other water utilities, with particular regard to such things as the source of water, the type service provided, the customer mix and economic conditions prevailing in the service territory, and also recognizing that determination of an earnings allowance for common equity is necessarily a judgmental exercise involving such things as parent-subsidiary relationships, financial requirements, the capital structure of the applicant and its parent, the effect of current high interest rates on the imbedded cost of senior securities, as well as recently authorized rates of return, we are also cognizant that all water utilities experience a degree of business and financial risk common to this regulated industry; therefore, comparisons are helpful in arriving at an appropriate rate of return. In this regard we have noted the following comparisons of the applicant District to both its parent Cal Cities, and to average data derived from reports of nine Class A California water utilities for year 1974:

15/ See Volume 2 of the transcript, page 113, lines 8-12.

	Cowan Heights	Cal Cities	Avg. of 9 Class A Calif. Utilities
1. Ratio of Oper. Revenue to Avg. Net Plant Invest.	34.02%	29.75%	36.33%
2. Ratio Net Oper. Income to Operating Revenue	10.33%	20.76%	17.50%
3. Avg. Net Plant Investment per Customer	$555	$417	$293
4. Return on Avg. Net Plant Investment	3.52%	6.18%	6.25%

We further note that in 12 water utility decisions issued in 1975, the average rate of return was 8.80 percent, and in 14 water utility decisions issued through August 1976, the average rate of return authorized was 9.20 percent.

The staff proposed rate to be within the range of 9.40 percent to 9.70 percent for test year 1976, included a Finance and Accounts recommendation "...for the top of the range if certain capital investments are made." These "capital investments" must refer to the installation of the planned clay valve at the Newport Avenue booster station of the system (by which installation early in 1977 the District will seek to repeat the apparent success of a similar corrective installation adopted at the boosters at the 2 million-gallon reservoir on Clearview), because there were no other capital improvements or additions of significance which survived close examination at the hearing; rather it appears that virtually all of the estimated 1976 capital budget items were to be "slipped", deferred, or deleted. Nonetheless, we have noted the vigorous and aggressive manner in which So-Cal Water, the new owner of Cal Cities, has approached each of the service problems complained of, and how, with but two exceptions[16/] (one of which they can do nothing about), it has taken corrective steps. While it is still early to conclude that these problems are now definitely resolved, we do wish to encourage this turnabout in approach. Accordingly we will authorize a rate of return of 9.40 percent. For test year 1976, this 9.40 percent rate of return would produce approximately $51,900 in additional operating revenue (a 22.1 percent increase) yielding an estimated $25,100 in additional net operating revenue (an 83.9 percent increase). Table II, <u>Comparison of Estimated Summary of Earnings - 1976</u>, compares present, proposed, and approved rates.

16/ The two exceptions are the previously discussed water hammer matter, and the water taste and odor problem. This latter irritant is under study, but So-Cal Water concludes it probably will not be solved soon. The District must depend upon imported water purchased from East Orange for supplemental and peaking volumes. East Orange has two sources for the water it purveys, one being water diverted from the Colorado River, and the second water from the Feather River area. These waters are blended and in the Lake Matthews storage area of the system, at least twice a year there is a phenomenon which occurs when the water turns and the bottom water comes to the surface, bringing a muddy or swampy taste. The Metropolitan Water District tries to control and treat the water but the problem is something they have not been able to control completely. On the other hand, the primary source District water from Red Hills (local ground water) is palatable as is. However, even though the Red Hill's water has never produced a bad sample, the State Health Department has ordered Red Hills to commence clorinating as a safety precaution in that its lead line to Cowan Heights runs in close proximity to a sewer line. This will further adversely affect the taste and odor, making it unlikely that the problem can be solved in the immediate future.

TABLE II

Comparison of Estimated Summary of Earnings
Test Year 1976

(Dollars in Thousands)

	Present Rate	Applicant Request*	Adopted
Operating Revenues	$234.6	$319.8	$286.5
Operating Expenses			
Operations and Maintenance	154.2	154.2	154.2
Admin. and General	14.9	14.9	14.9
Taxes Other than Income	23.6	23.6	23.6
Depreciation	20.8	20.8	20.8
Subtotal	213.5	213.5	213.5
Taxes on Income	(8.8)	35.5	18.0
Total Oper. Expenses	204.7	249.0	231.5
Net Operating Revenue	29.9	70.8	55.0
Average Rate Base	585.2	585.2	585.2
Rate of Return	5.11%	12.10%	9.40%

*Adjusted as discussed in the opinion.

This 9.40 percent rate of return would permit the District to recover its allowed expenses and to earn a reasonable amount to service debt fixed charges and provide for common equity. The results of distributing this rate of return are shown below:

Average Rate Base	$585,200
Authorized Rate of Return	9.40%
Dollar Return	$ 55,000
Annual Charge on Debt Capital	$ 25,900
Return Available for Common Equity	$ 29,100
Percent Return on Common Equity	12.06%

The applicant proposed to spread any increase authorized over all meter minimum and quantity charges, retaining its existing minimum charge type of rate structure with declining rates for higher blocks.[17/] On the other hand, noting that such type rate structure does not encourage conservation of water, the staff proposed switching to a service charge structure with a two-step monthly quantity rate charge. This structure is designed to encourage conservation by placing a larger percentage increase on larger users. It would also reduce bills for users of small quantities.

While no lifeline concept for water as yet has been mandated by the Legislature,[18/] this Commission, recognizing that water is absolutely essential to life, has approved staff proposals for the engraftment of some form of lifeline to rate structures approved by resolution in numerous recent water utility advice-letter proceedings. The objective has been to provide some basic life sustaining quantity at minimum rates to all residential customers, rich or poor. The staff proposal here furthers this objective. While the applicant's new parent So-Cal Water gave evidence of its concern with water conservation by introduction of evidence setting forth its conservation advertising program, we must recognize that in the final analysis it

---

17/ The applicant further proposes to drop both the Public Fire Hydrant Schedule and the Construction Flat Rate Service Schedule from its tariff. We concur. In Orange County fire districts just do not pay hydrant charges, and the utility, after repeatedly billing unsuccessfully, seeks to drop the issue. In that the costs of the hydrant charge, if collected, would merely be passed on back to essentially the same residents, we will authorize the deletion. The Construction Flat Rate Service, on the other hand, will be replaced by a general meter charge on each connection, a more realistic approach to obtaining payment for actual consumption. Its deletion will also be authorized.

18/ The Miller-Warren Energy Lifeline Act relates to gas and electricity alone.

will be up to the consumer to achieve significant conservation, and the consumer is responsive most to demands upon his pocketbook. This last fact is particularly sententious when we note the heavy adverse response in the relatively affluent Cowan Heights District to Cal Cities' proposed increase. Accordingly, the staff proposal, adopted to a 9.40 percent rate of return as set forth below in comparison to the existing rate structure and applicant's proposed structure, will be adopted.

TABLE III

RATE SCHEDULES

Basic Monthly Charges

Size Meter	Present Minimum Rates	Applicant's Prop. Min. Rates	Adopted Monthly Serv. Chg.
5/8 x 3/4 inch	$ 5.55	$ 7.74	$ 5.30
3/4 inch	6.80	9.86	6.00
1 inch	9.90	14.35	8.00
1½ inch	16.15	23.40	11.00
2 inch	23.75	34.40	15.00
3 inch	46.90	68.00	27.00
4 inch	78.20	115.00	36.00

Quantity Rate Charges

Quantity	Present Rates	Applicant's Proposed Rates	Adopted Quantity Rate Charges
First 700 cu.ft., per 100 cu.ft.	(Included in above)		First 2,000 cu.ft. @ $0.243 per 100 cu.ft.
Next 1,300 cu.ft., per 100 cu.ft.	$0.351	$0.466	
Next 18,000 cu.ft., per 100 cu.ft.	0.351	0.466	Over 2,000 cu.ft. @ $0.419 per 100 cu.ft.
Next 30,000 cu.ft., per 100 cu.ft.	0.289	0.376	
Over 50,000 cu.ft., per 100 cu.ft.	0.258	0.331	

Over 95 percent of the District services have a 1-inch meter. A comparison of typical monthly billings for such a 1-inch meter at present rates compared to the adopted rates at varying volumes of water consumption follows:

Volume of Water Consumed	Monthly Bills* @ Present Rates	Monthly Bills* @ Adopted Rates	Percent Increase
Standby service, no consumption	$ 9.90	$ 8.00	(19.2)
500 cu.ft.	9.90	9.22	(6.9)
1,000 cu.ft.	9.90	10.43	5.4
1,500 cu.ft.	9.90	11.65	17.7
2,000 cu.ft.	10.11	12.86	27.2
5,000 cu.ft.	20.64	25.43	23.2
10,000 cu.ft.	38.19	46.38	21.4
20,000 cu.ft.	73.29	88.28	20.5
30,000 cu.ft.	102.19	130.18	27.4
40,000 cu.ft.	131.09	172.08	31.3

* 48 percent of the monthly bills fall in the 2,000 to 5,000 cu.ft. volumes.

Finally, one matter which evoked considerable comment from several customers deserves mention here. At the hearing several customers complained about an area where from time to time geyser leaks in a main have been observed. The area, at Highcliff and Sunrise Lane, contains a 500-foot section of old 10-inch pipe which from time to time develops leaks. The utility, looking to the economics of replacement vs patching, has found it cheaper to patch than replace the bad section of main, placing its capital investment priorities elsewhere. System water losses for Cowan Heights are in the 7 to 8 percent range, including not only waste loss from leaks, but also system flushing, fire hydrant use, and fire department drill use. This percentage of loss is not abnormal for this industry, and it appears that the system is no more leaky than the average and perhaps less leaky than many.

Findings

1. California Cities Water Company is in need of additional revenues for its Cowan Heights District, but the rates proposed by its application are excessive.

2. Since acquisition of California Cities Water Company by Southern California Water Company in 1976, there has been a markedly improved, and solution oriented, approach to the service problems of the Cowan Heights District; a change we wish to encourage.

3. The adopted estimates of rate base and Summary of Earnings for the test year 1976 reasonably indicate the applicant's results of operations for that year and for the immediate future.

4. A rate of return of 9.40 percent on the adopted rate base of $585,210 for the test year 1976 is reasonable. Such rate of return will provide a return on equity of approximately 12.06 percent which is reasonable under these circumstances.

5. The authorized increase in rates at the 9.40 percent rate of return for test year 1976 would provide increased operating revenues of approximately $51,900 (22.1 percent), which amount is reasonable.

6. The existing California Cities Water Company rate structure for the Cowan Heights District, featuring a minimum quantity charge with declining rates for higher consumption levels does not encourage conservation of water and therefore is not reasonable.

7. The rate structure proposed by the staff, incorporating a basic service charge with an ascending two-step rate structure, encourages conservation of water, and reflects a modified lifeline concept. As adapted to a 9.40 percent rate of return, it is reasonable and should be adopted.

8. In that it has been impossible to realize revenue on bills rendered under the Public Fire Hydrant Service schedule, it is reasonable for California Cities Water Company to eliminate that schedule from its Cowan Heights District tariff.

9. The Construction Flat Rate Service schedule does not reflect volumes of water delivered and does not encourage conservation of water. A standard metered service under the General Metered Service schedule would more realistically relate to payment for actual consumption. Therefore, it is reasonable for California Cities Water Company to eliminate that schedule from its Cowan Heights District tariff.

10. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

Conclusion

The application should be approved to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that after the effective date of this order, California Cities Water Company is authorized to file the revised rate schedules attached to this order as Appendix A, and concurrently to withdraw its presently existing schedules, including elimination of the Public Fire Hydrant Service schedule and the Construction Flat Rate Service schedule. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date hereof.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 15th day of MARCH, 1977.

Robert Batinovich
President

William Symons Jr.

Vernon L. Sturgeon

[illegible]

Richard D. Gravelle

Commissioners

Schedule No. CH-1

Cowan Heights Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Cowan Ranch, Peacock Hills, and vicinity, located two miles northeast of Tustin, Orange County.

RATES

Service Charge:	Per Meter Per Month
For 5/8 x 3/4-inch meter	$ 5.30
3/4-inch meter	6.00
1-inch meter	8.00
1½-inch meter	11.00
2-inch meter	15.00
3-inch meter	27.00
4-inch meter	36.00

(Continued)

Schedule No. CH-1

Cowan Heights Tariff Area

GENERAL METERED SERVICE

RATES—Contd.

Quantity Rates:

	Per Meter Per Month
First 2,000 cu.ft., per 100 cu.ft.	$0.243
Over 2,000 cu.ft., per 100 cu.ft.	0.419

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