

Decision No. 87333

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of CALIFORNIA WATER SERVICE)
COMPANY, a corporation,)
for an order authorizing it to)
increase rates charged for water)
service in the East Los Angeles)
district.)

Application No. 56134
(Filed December 22, 1975)

McCutchen, Doyle, Brown & Enersen, by Crawford Greene,
Attorney at Law, for applicant.
Lionel B. Wilson, Attorney at Law, and James Barnes,
for the Commission staff.

O P I N I O N

Applicant California Water Service Company seeks authority to increase rates for water service in its East Los Angeles District. The proposed rates would increase revenues by a total of \$767,000, or 18 percent.

Public hearing was held before Examiner Gilman in Los Angeles on October 4, 5, and 7, 1976 and in Rolling Hills on October 6, 1976. Copies of the application had been served; notice of filing of the application published and mailed to customers; and notice of hearing published, mailed to customers, and posted, in accordance with this Commission's rules of procedure. The matter was submitted on October 7, 1976, subject to filing by applicant of a late-filed exhibit and a decision draft within thirty days and filing by the staff of any exceptions to the draft within an additional ten days. The manner in which each issue was to be resolved in the decision draft was specified by the presiding examiner.

Testimony on behalf of applicant was presented by its vice president and treasurer, by its vice president, and by the general superintendent of its East Los Angeles District. One customer appeared and made a statement regarding water quality. The Commission staff presentation was made through an accountant and three engineers.

Service Area and Water System

Applicant owns and operates water systems in twenty-two districts in California. Its East Los Angeles District is located adjacent to the easterly boundary of the city of Los Angeles. A large portion of the service area is in the unincorporated portion of Los Angeles County, between the city of Los Angeles on the west to and including the westerly portion of the city of Montebello. From north to south, the boundaries are from the southerly city limits of the cities of Los Angeles, Alhambra, and Monterey Park, southerly to and including the city of Commerce as well as a small portion of the city of Vernon. Due to the large difference in elevation (145 feet - 632 feet above sea level) nine separate pressure zones are required to serve the territory. Total population served is estimated at 81,800.

Water for the East Los Angeles District is obtained from two sources. About half the water produced is from 33 wells, located throughout the district. Most of them are in the central and southern portion of the district where the underground supply is best. All well pumps are driven by electric motors and are controlled by time clock, float switch, pressure governor, or remote control from the district field office. Supplementing the well supply are three connections to feeder mains of the Metropolitan Water District of Southern California (MWD).

All wells pump either directly or through booster pumps into the distribution system. There are 27 electrically driven booster pumps which pump water to the upper zones. Seventeen of these pumps can be remote-controlled from the field office. Each booster pump is equipped with by-pass connections which permit use of a trailer-mounted portable gasoline booster pump, normally stationed in East Los Angeles for emergency use.

The distribution system includes about 270 miles of distribution mains, ranging in size up to 24-inch, and approximately 20 million gallons of storage capacity. There are about 25,100 metered services, 470 private fire protection services, and 1,900 public fire hydrants.

Service

An investigation of applicant's operations, service, and facilities in its East Los Angeles District was made by the Commission staff. The staff reported that there were only three informal complaints to the Commission from this district during the period from January 1974 through June 1976. Utility records indicate that customer complaints received at applicant's district office were quickly resolved. The number of complaints does not appear excessive. Service is satisfactory.

The one customer who appeared at the hearing objected to the relatively high sulfate content of the water received by applicant from MWD in the East Los Angeles District. It is, however, the same water received by millions of other consumers in southern California. The current practice of MWD in blending State Water Project water with the previous solely Colorado River water has improved the water quality to at least satisfactory levels.

Rates

Applicant's present tariffs for this district consist primarily of schedules for general metered service and public fire hydrant service.

Applicant proposes to increase its rates for general metered service and to modify its rates for public fire hydrant service to implement the provisions of Section VIII.4. "Fire Hydrant Agreement" of General Order No. 103. That section provides for agreements between the water utility and fire protection agencies. It further provides:

"If such agreement between the utility and the agency provides that the agency thereafter shall maintain or cause to be maintained and install or cause to be installed all fire hydrants, starting with the tee in the main, and shall supply or cause to be supplied all labor and materials for all new hydrants on new or existing mains, the agency shall be relieved of hydrant service charges."

The following Table I presents a comparison of applicant's present and proposed general metered service rates and those authorized herein:

TABLE I

Comparison of Monthly Rates

Service Charge:	Present	Proposed		Authorized
		For 1977	After 1977	
For 5/8 x 3/4-inch meter	\$ 4.22	\$ 4.86	\$ 4.98	\$ 4.22
For 3/4-inch meter	4.58	5.28	5.40	5.37
For 1-inch meter	6.28	7.24	7.41	7.32
For 1-1/2-inch meter	8.75	10.09	10.33	10.26
For 2-inch meter	11.33	13.05	13.37	13.19
For 3-inch meter	20.95	24.15	24.74	24.40
For 4-inch meter	28.47	32.81	33.62	33.18
For 6-inch meter	47.31	54.52	55.88	55.14
For 8-inch meter	70.33	81.04	83.07	81.98
For 10-inch meter	87.06	100.33	102.84	101.50
Quantity Rates:				
First 500 cu.ft., per				
100 cu.ft.	\$.371	\$.422	\$.431	\$.371
Next 29,500 cu.ft.,				
per 100 cu.ft. ....	.371	.422	.431	.431
Over 30,000 cu.ft.,				
per 100 cu.ft. ....	.361	.418	.431	.431

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

Applicant's studies show that an average commercial customer (business and residential) uses about 23,350 cubic feet of water per year, or 19 Ccf (hundreds of cubic feet) per month. For a customer with a standard 5/8 x 3/4-inch meter, the charge for that quantity of water under present rates is \$11.27 per month. At applicant's proposed rates for the year 1977, the corresponding monthly charge would be \$12.88, or 14 percent higher than under

present rates. At applicant's proposed rates for subsequent years, the corresponding monthly charge would be \$13.17, or 17 percent higher than under present rates. At the rates authorized herein, the corresponding monthly charge will be \$12.11, or 7 percent higher than under present rates.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in the following Table II, based upon Exhibit 11, the final reconciliation exhibit sponsored jointly by applicant and the staff, are the estimated results of operation for the test year 1977, under present rates and under those proposed by applicant for the year 1977.

Applicant's original estimates were completed in October 1975. Between then and the completion date of the staff's exhibit, several changes took place in rates for purchased water, purchased power, ad valorem taxes, and other expenses, some of which have been reflected in offset increases in applicant's rates. Also, additional data became available as to actual numbers of customers, year-end 1975 plant balances, and other recorded data. In addition, another full year's weather data became available for use in adjusting recorded consumption to normal weather conditions. Further, a standardized method of estimating normal consumption by use of computer technology in lieu of the formerly accepted graphical method has been developed recently by a joint committee of industry and Commission staff representatives.

Instead of amending the estimated summaries of earnings each time a change took place and each time later data became available, applicant kept the Commission staff advised of changes and new data so they could be reflected in the staff's estimates. When the staff exhibits were distributed, applicant checked the staff's independent estimates for reasonableness and adopted those portions on which there were no issues.

At the hearing, after presentation of additional testimony by applicant regarding the average amount of well water that could be utilized in this district, the staff stipulated to applicant's estimate of well production. That left only one issue to be resolved with respect to summary of earnings, as shown on Table II, Column (d).

TABLE II

Reconciliation of Applicant's and Staff's Summary of Earnings
 Test Year 1977
 (Dollars in Thousands)

Item	Applicant's Estimates			Effect of Commercial Sales Issue (d)	Staff's Estimates		
	Original (a)	Change (b)	Modified (c)		Modified (e)	Change (f)	Original (g)
<u>PRESENT RATES</u>							
Operating Revenues	\$ 4,355.9	\$260.2	\$ 4,616.1	\$42.4	\$ 4,658.5	\$ -	\$ 4,658.5
<u>Operating Expenses</u>							
Operation & maint.	1,998.8	107.2	2,106.0	23.5	2,129.5	13.6	2,115.9
Admin. & gen. misc.	85.5	1.2	86.7	-	86.7	-	86.7
Taxes other than income	483.7	6.9	490.6	0.7	491.3	-	491.3
Depreciation	342.9	(17.0)	325.9	-	325.9	-	325.9
Amortiz. SCFT	9.7	(9.7)	-	-	-	-	-
G.O. prorated expenses	345.4	(16.6)	328.8	-	328.8	-	328.8
Income taxes	160.8	82.9	243.7	9.6	253.3	(7.2)	260.5
Total expenses	3,426.8	154.9	3,581.7	33.8	3,615.5	6.4	3,609.1
Net Operating Revenue	929.1	105.3	1,034.4	8.6	1,043.0	(6.4)	1,049.4
Deprec. Rate Base	12,309.7	(14.3)	12,295.4	-	12,295.4	-	12,295.4
Rate of Return	7.55%	0.86%	8.41%	0.07%	8.48%	(0.05)%	8.53%

(Red Figure)

- (a) Applicant's estimates, summarized on staff's Exhibit 17, page 1, lines 15-27.
 (b) Effect of applicant's adoption of staff's modified estimates exclusive of effect of issue in Column (d).
 (c) Modified applicant's estimates, consisting of the sum of Columns (a) and (b) of this table.
 (d) Effect of difference between applicant's and staff's estimates of sales per commercial customer.
 (e) Modified staff's estimates, consisting of the sum of Columns (f) and (g) of this table.
 (f) Effect of staff's adoption of applicant's estimate of average future well production.
 (g) Staff's estimates, summarized in staff's Exhibit 17, page 1, lines 15-27.

(Continued)

TABLE II
(Continued)
Reconciliation of Applicant's and Staff's Summary of Earnings
Test Year 1977

(Dollars in Thousands)

Item	Applicant's Estimate			Effect of Commercial Sales Issue (d)	Staff's Estimates		
	Original (a)	Change (b)	Modified (c)		Modified (e)	Change (f)	Original (g)
<u>PROPOSED RATES</u>							
Operating Revenues	\$ 5,004.5	\$264.1	\$ 5,268.6	\$53.2	\$ 5,321.8	\$ -	\$ 5,321.8
<u>Operating Expenses</u>							
Operation & maint.	1,998.8	107.7	2,106.5	23.5	2,130.0	13.6	2,116.4
Admin. & gen. misc.	85.5	1.2	86.7	-	86.7	-	86.7
Taxes other than income	494.1	7.0	501.1	0.9	502.0	-	502.0
Depreciation	342.9	(17.0)	325.9	-	325.9	-	325.9
Amortiz. SCFT	9.7	(9.7)	-	-	-	-	-
G.O. prorated expenses	345.4	(16.6)	328.8	-	328.8	-	328.8
Income taxes	<u>497.0</u>	<u>84.6</u>	<u>581.6</u>	<u>15.2</u>	<u>596.8</u>	<u>(7.2)</u>	<u>604.0</u>
Total expenses	3,773.4	157.2	3,930.6	39.6	3,970.2	6.4	3,963.8
Net Operating Revenue	1,231.1	106.9	1,338.0	13.6	1,351.6	(6.4)	1,358.0
Deprec. Rate Base	12,309.7	(14.3)	12,295.4	-	12,295.4	-	12,295.4
Rate of Return	10.00%	0.88%	10.88%	0.11%	10.99%	(0.05)%	11.04%

(Red Figure)

- (a) Applicant's estimates, summarized on staff's Exhibit 17, page 1, lines 15-27.
 (b) Effect of applicant's adoption of staff's modified estimates exclusive of effect of issue in Column (d).
 (c) Modified applicant's estimates, consisting of the sum of Columns (a) and (b) of this table.
 (d) Effect of difference between applicant's and staff's estimates of sales per commercial customer.
 (e) Modified staff's estimates, consisting of the sum of Columns (f) and (g) of this table.
 (f) Effect of staff's adoption of applicant's estimate of average future well production.
 (g) Staff's estimates, summarized in staff's Exhibit 17, page 1, lines 15-27.

Consumption Per Commercial Customer

After modification by both applicant and staff of their respective original estimated summaries of earnings for the test year 1977, the only remaining issue to be resolved in those summaries is the difference in estimates of normal consumption per commercial customer.

Applicant's original estimate of 230.0 Ccf per commercial customer for the year 1977 was based upon a preliminary proposed method of estimating then being considered by the joint committee of industry and Commission staff representatives hereinbefore mentioned. Subsequently, certain improvements and modifications were incorporated in the final method adopted by the committee. Applicant applied that final method to total metered commercial consumption and updated weather statistics. Applicant's modified estimate of probable normal consumption per commercial customer is 233.5 Ccf per year. The span of years used in developing that estimate is 1970-1975, the period with the best correlation of adjusted consumption out of nine trial runs extending as far back as 1963-1975.

The staff's corresponding estimate for commercial customers is 238.2 Ccf per year, representing the weighted average of 185.9 Ccf for residential customers and 450.6 Ccf for business customers. The staff witness divided the commercial estimates into residential and business because the average residential use is less than half the average business use in this district. The span of years used in determining the estimate for residential use is 1964-1975, the period with the third-best correlation of adjusted consumption. The staff witness chose the third-best correlation because the end result of using the spans with the best correlation gave a total of about 232 Ccf, which appeared to him to be too low when compared with unadjusted 1976 probable consumption.

The issue as to normal commercial consumption per customer thus has two parts:

- (1) Should commercial use be estimated in total or should the residential and business portions be estimated separately?
- (2) Should the estimates of future normal consumption be based upon the span of years with the best correlation or is it appropriate to use some other method in this instance?

In regard to the dividing of commercial consumption into residential and business for estimating purposes, that approach would appear reasonable if the available data reflected a consistent interpretation of what constitutes residential as opposed to business use. The Uniform System of Accounts for water corporations prescribed by this Commission does not give specific definitions of the two terms. It merely provides, in the accounting instructions for Ac. 601-1, Commercial Sales:

"At its option the utility may further subdivide sub-account 601.1 as follows:

- 601.11. Residential Sales
- 601.12. Business Sales"

Applicant's witness discussed problems which had been encountered in the past with inconsistent interpretation from year to year in the subdividing of commercial use. He gave examples of situations where interpretations could vary. In view of the reasonable correlation achieved for combined commercial use, as evidenced by the fifth page of Exhibit 10, separate estimates for residential and business use are not warranted in this instance.

In regard to the use of the "Committee Method", the issue stems from different interpretations by applicant and staff witnesses as to the intent of the final step of the basic procedure set forth on the second page of Exhibit 9:

"Adopt results if they appear reasonable."

Applicant's witness was a member of the joint committee which developed the method. He testified that the objective of the committee was to develop a method that would produce reasonable results and avoid what amounts to subjective judgments on the part of estimators. Inherent in the method is the development of statistical relationships designated as the "Inverse McSee Ratio". In less esoteric terms, this ratio, expressed as a percentage, gives a numerical index as to the extent that the actual consumption figures for a particular span of years, adjusted to normal weather conditions, deviate from the straight line which is the best "fit" through those adjusted points. A more descriptive title for this index might be "Percentage Standard Error".

The span of years which results in the lowest percentage standard error can thus be easily determined. Applicant's witness testified that, in his opinion, the results for the span with the lowest standard error should be used unless that span produced an estimated straight-line trend which, when reviewed visually on graphs such as those in Exhibit 10, was not a convincing fit to the adjusted consumption.

Exhibit 10 shows that the percentage standard error for the staff's estimates of residential and business use were, respectively, 1.9 percent and 2.8 percent whereas the corresponding error for applicant's estimate of total commercial use was only 1.3 percent. The second page of that exhibit also shows that the staff's adopted straight-line solution fits the years prior to 1970 reasonably well but is considerably at variance with the significant downward trend in adjusted consumption actually experienced since 1970. Under these circumstances, we do not find it persuasive that recorded consumption for a single year, not adjusted to average weather conditions, was higher than the amount derived from a good correlation of consumption for six

consecutive recent years which is adjusted to remove the effects of abnormal weather. Applicant's estimate of future normal consumption per commercial customer is adopted in setting the rates authorized herein.

Water Conservation

Applicant presented, as Exhibit 3, a comprehensive review of its efforts to effect water conservation.

Applicant's witness testified that part of the present program has been in effect for several years. Although it is impossible to separate the effects of this program from all other possible causes of the changes in normal consumption per customer, the witness stated that, in his opinion, at least a portion of the change in usage can reasonably be attributed to the conservation program. In this regard, we note that the general trend in usage per commercial customer was upward until about the year 1970 and downward since that year.

The presiding examiner suggested that, in view of the fairly high percentage of Spanish-speaking customers in this district, future conservation advertisements and literature directed to customers in this district be prepared both in English and Spanish. Applicant has agreed to adopt that suggestion. Therefore, applicant's conservation program will be rated as satisfactory. No adjustment in rate of return is necessary.

Rate of Return

Applicant and staff witnesses each presented studies in support of their respective recommendations as to a reasonable rate of return. The following Table III is a comparative summary based upon applicant's Exhibit 2 and the staff's Exhibit 15:

TABLE III
Rate of Return

<u>Item</u>	<u>Capital Ratio</u>	<u>Cost Factors</u>	<u>Weighted Cost</u>
<u>Applicant</u>			
Long-term debt	52.3%	7.87%	4.12%
Preferred stock	6.5	7.19	.47
Common stock equity	<u>41.2</u>	13.13	<u>5.41</u>
Total	100.0		10.00
<u>Staff</u>			
Long-term debt	52.31	7.87	4.12
Preferred stock	6.45	7.14	.46
Common stock equity	<u>41.24</u>	12.78	<u>5.27</u>
Total	100.00		9.85

Both applicant and the staff supported their conclusions as to a reasonable rate of return with comprehensive tables and testimony. It can be seen, however, from Table III that the difference between applicant and staff stems almost entirely from the difference in assumed allowance for a reasonable return on common stock equity. The 10.00 percent rate of return on total capitalization would result in a 13.13 percent return on common equity whereas a 9.85 percent return on total capital would result in a 12.78 percent return on common equity.

As has been stated in numerous previous decisions of this Commission, the determination of a reasonable return on common equity is largely a matter of judgment. The difference between the recommendations of applicant and staff is well within a range that might be expected for independent judgments by any two competent experts on the subject. The staff accountant cited a number of factors which he reviewed in developing his recommendation as to return on common equity. These are set forth in detail on page 8 of Exhibit 15. It appears that the staff recommendation strikes a

reasonable balance between consumer's short-term interests in the lowest rates and his long-term interest in ensuring that the applicant can obtain the financing necessary to maintain good service. The staff recommendation is adopted.

Trend in Rate of Return

Applicant's Exhibit 12 shows that, for a three-year test period, if the present water rates remained unchanged except for offset rate changes to cover such things as changes in wage rates, tax rates, and rates for purchased water and power (those items normally subject to advice letter offsets), an average annual decline of 0.31 percent per year would still be expected. Applicant's exhibit does not show the corresponding decline at the proposed rates because those rates incorporate step increases designed to just offset the decline that otherwise would occur. The staff's Exhibit 17 shows a decline of 0.38 percent between the test years 1976 and 1977 at present rates and a corresponding decline of 0.44 percent if applicant's 1977 proposed rates were applied to both years. The staff recommended against step rates but recommended that a 0.37 percent attrition in the rate of return attributed to increased plant investment per customer without compensating customer growth be taken into consideration in setting rates for this district. Applicant's witness stated that, although he felt the step rates were somewhat more equitable, he took no issue with the staff's recommendation.

The comparative rates of return for two successive test years, or for a series of test years, are indicative of the future trend in rate of return only if the rates of change of major individual components of revenues, expenses, and rate base in the test years are reasonably indicative of the future trend of those items. Distortions caused by abnormal, nonrecurring or sporadically recurring changes in revenues, expenses, or rate base items must be avoided to provide a valid basis for projection of the anticipated future trend in rate of return.

As an indication of the reasonableness of the trend in rate of return which would be derived from using only the two test years 1976 and 1977, applicant prepared Exhibit 12, a comprehensive analysis of the many changes in recorded items of revenues, expenses, and rate base during the years 1970 through 1974 and a corresponding analysis covering the estimated years 1975 through 1978. Applicant analyzed and evaluated distortions during the recorded years caused by such factors as changes in its water rates and changes in income tax rates and allowances.

In some prior decisions in rate proceedings involving other districts of applicant, the apparent future trend in rate of return has been offset by the authorization of a level of rates to remain in effect for several years and designed to produce, on the average over that period, the rate of return found reasonable. In other decisions, it was deemed more appropriate to increase the rates in steps designed to maintain, in each of several future years, the rate of return found reasonable. In view of the staff's stated policy against step rates, and applicant's acquiescence to single-level rates which would produce the same result as step rates over a given period, we will deny applicant's original request for step rates.

The rate increase authorized herein will not be in effect for any of the year 1976. With the indicated future trend in rate of return, the 10.22 percent return for the test year 1977 under the level of rates authorized herein should produce rates of return of 10.22 percent, 9.85 percent, and 9.48 percent, respectively, for 1977, 1978, and 1979, or an average rate of return of 9.85 percent for the three-year period.

Pending Investigation

Comprehensive studies have been and are being made by the Commission staff of officers' salaries and expense reimbursements of many major California utilities. At the time of submission of this application, the staff had commenced, but not yet completed,

such a study applicable to applicant's operations. At hearings held in San Francisco on November 30 and December 2 and 3, 1976, in Application No. 56186, applicant's Chico-Hamilton City District rate proceeding, the staff's studies and applicant's response were presented. The maximum adjustments resulting from this additional evidence would have a minimal effect upon the rates authorized herein. It would therefore not be reasonable to delay this decision to await careful review by the Commission of the additional evidence. Applicant stipulated that the maximum staff adjustment could be reflected in the six rate proceedings pending as of December 1, 1976. If such adjustment is later found to be inappropriate by a final order in Application No. 56186, applicant offered to forego the additional revenue requirement until such time as it must again seek rate relief for other reasons. Pursuant to applicant's stipulation, the minor adjustment recommended by one of the staff witnesses will be incorporated in the summary of earnings at authorized rates.

Summary of Earnings at Authorized Rates

The following Table IV is derived from Column (c) of Table II, modified to reflect the rates authorized herein in lieu of applicant's present rates and expanded to show a more detailed breakdown of the various items of revenues and expenses:

TABLE IV
Summary of Earnings - Test Year 1977
(Dollars in Thousands)

<u>Item</u>	Applicant ① <u>Present</u> <u>Rates</u>	<u>Authorized</u> <u>Changes</u>	<u>Adopted</u> <u>Rates</u>
<u>Operating Revenues</u>			
Metered	\$ 4,516.6	\$495.9	\$ 5,012.5
Fire protection & miscellaneous	99.5	(29.9)	69.6
Total	<u>4,616.1</u>	<u>466.0</u>	<u>5,082.1</u>
<u>Operating Expenses</u>			
<u>Oper. & maint., admin. & gen'l. & misc.</u>			
Purchased water	821.8	-	821.8
Replenishment assessment	220.5	-	220.5
Purchased power	313.6	-	313.6
Payroll - union contract	518.8	-	518.8
- other	79.1	-	79.1
- total payroll	<u>597.9</u>	<u>-</u>	<u>597.9</u>
Other operation & maint.	221.6	(5.3)*	216.3
Other admin. & general & misc.	17.3	-	17.3
Total oper. & maint., Admin. & gen'l & misc.	<u>2,192.7</u>	<u>(5.3)</u>	<u>2,187.4</u>
<u>Taxes Other Than on Income</u>			
Ad valorem taxes	381.2	-	381.2
Local franchise taxes	73.9	7.4	81.3
Payroll taxes	35.5	-	35.5
Total taxes other than on income	<u>490.6</u>	<u>7.4</u>	<u>498.0</u>
Depreciation	325.9	-	325.9
<u>G.O. Prorated Expenses</u>			
Payroll - union contract	58.0	-	58.0
- other	66.5	(5.9)#	60.6
- total payroll	<u>124.5</u>	<u>(5.9)</u>	<u>118.6</u>
Payroll taxes	9.2	-	9.2
Other prorated expenses	195.1	-	195.1
Total G.O. prorated expenses	<u>328.8</u>	<u>(5.9)</u>	<u>322.9</u>
Subtotal	<u>3,338.0</u>	<u>(3.8)</u>	<u>3,334.2</u>
<u>Income Taxes</u>			
Income taxes before invest. cr.	307.6	247.5	555.1
Investment tax credits @ 10%	(63.9)	-	(63.9)
Total income taxes	<u>243.7</u>	<u>247.5</u>	<u>491.2</u>
Total operating expenses	<u>3,581.7</u>	<u>243.7</u>	<u>3,825.4</u>
Net Operating Revenues	1,034.4	222.3	1,256.7
Depreciated Rate Base	12,295.4	-	12,295.4
<u>Rate of Return</u>			
Before attrition adjustment	8.41%	1.81%	10.22%
Attrition adjustment	-	(0.37)	(0.37)
After attrition adjustment	<u>8.41</u>	<u>1.44</u>	<u>9.85</u>

(Red Figure)

* Net amount of \$5,700 fire hydrant maintenance expenses to be assumed by fire agencies and \$400 increase in uncollectibles resulting from the general rate increase.

Adjustment recommended by staff witness on compensation.

The more detailed breakdown in Table IV will provide a basis for review of future advice-letter requests for rate increases or decreases to offset changes not reflected in either the test year 1977 or in the trend in rate of return adopted as the basis for the rates authorized herein.

The purchased water rate used by the staff for the test years 1976 and 1977 is the current \$79 per acre foot which went into effect July 1, 1976. The replenishment tax rate used is the current \$21 per acre foot which became effective July 1, 1976. The purchased power rates are the current rates which became effective December 31, 1975. The wage rates used are the 1977 contract rates already established for union employees and the 1976 wage levels for all other employees. (Although, as applicant's witness testified, the cost-of-living increases for applicant's union and nonunion employees have been reasonably consistent over the years, the 1977 wage rates for nonunion employees technically have not yet been established and will presumably be the subject of part of the expense changes to be offset by future advice-letter requests. Applicant took no exception to this procedure.) The composite effective ad valorem tax rate of 2.861 percent of the dollars of beginning-of-year net plant plus materials and supplies is that applicable to the fiscal year 1975-1976. The payroll tax rates and coverages are the current ones which became effective January 1, 1976.

Los Angeles County Consolidated Fire Protection District, for itself, and Los Angeles County, as agent for the city of Commerce, have availed themselves of the provisions of General Order No. 103 which relieve the fire protection agency from monthly charges for public fire hydrant service under specific conditions set forth in detail in the General Order. This will result in the loss of \$29,900 in 1977 revenues and a partly offsetting decrease in operation and maintenance expenses of \$5,700. This is reflected in

the "Authorized Changes" column in Table IV. The agreements provide that they shall become effective concurrently with the effective date of the rate increases authorized in this proceeding.

Lifeline Rates

The staff suggested in Exhibit 17 that a 500-cubic foot lifeline block be established and that the service charge for a 5/8 x 3/4-inch meter not be increased. Applicant's witness stated that the staff suggestion runs contrary to the conventional cost-of-service concept but, aside from that, applicant apparently has no objection to the staff's suggestion. The rates authorized herein implement that suggestion.

Findings

1. Applicant's water quality conservation program and service are satisfactory.

2. Applicant is in need of additional revenues but the rates requested would produce an excessive rate of return.

3. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1977, and an annual decline of 0.37 percent in rate of return, reasonably indicate the probable range of results of applicant's operations for the near future.

4. An average rate of return of 9.85 percent on applicant's rate base for 1977, 1978, and 1979 is reasonable. The related average rate of return for common equity over the three-year period is 12.78 percent.

5. 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.

The Commission concludes that the application should be granted to the extent provided by the following order.

A.56134 b1

O R D E R

IT IS ORDERED that, after the effective date of this order, applicant California Water Service Company is authorized to file for its East Los Angeles District the revised rate schedules attached to this order as Appendix A. 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 thereof.

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

Dated at San Francisco, California, this 17th day of MAY, 1977.

I will file a dissent
as to this one only.
William Synovus Jr.
Commissioner

Robert Bateman
President

Legend S. Ferguson
Richard A. Powell

Commissioners

APPENDIX A
Page 1 of 3

Schedule No. EL-1

East Los Angeles Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

East Los Angeles, Commerce and vicinity, Los Angeles County.

RATES

	<u>Per Meter</u>	
	<u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 4.22	
For 3/4-inch meter	5.37	(I)
For 1-inch meter	7.32	
For 1-1/2-inch meter	10.26	
For 2-inch meter	13.19	
For 3-inch meter	24.40	
For 4-inch meter	33.18	
For 6-inch meter	55.14	
For 8-inch meter	81.98	
For 10-inch meter	101.50	(I)
Quantity Rates:		
First 500 cu.ft., per 100 cu.ft.	\$.371	
Over 500 cu.ft., per 100 cu.ft. ....	.431	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

APPENDIX A
Page 2 of 3

Schedule No. EL-5

East Los Angeles Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all water service rendered for public fire protection to a public authority, such as a municipality, county, or other political subdivision of the State. (T)

TERRITORY

Within the entire area served by the utility in Los Angeles County, as delineated on the Service Area Map of the East Los Angeles District.

RATES

	<u>Per Hydrant Per Month</u>		
	<u>City of Commerce & L.A. Co. Unincorporated</u>	<u>Remainder of Territory</u>	
For fire hydrant service	No Charge	\$1.50	(R)

SPECIAL CONDITIONS

1. Within the city of Commerce and unincorporated areas of Los Angeles County, the county of Los Angeles, and the Los Angeles County Consolidated Fire Protection District, respectively, are responsible for the hydrant installation and maintenance costs including, without limitation: the capital cost of new hydrant installations starting with the tee in the main and the branch gate valve; any hydrant replacements caused by age, wear, or change in hydrant standards; relocations to accommodate street improvements or changes of grade to the utility's pipeline or changes to the right-of-way; relocations or reconnections of hydrants brought about by replacement of the main by the utility; maintenance (including repairs caused by traffic accidents and the expense of shutting down and re-establishment of service); mechanical maintenance or adjustments of the hydrant; painting; and clearing of weeds. (T)

(Continued)

APPENDIX A
Page 3 of 3

Schedule No. EL-5

East Los Angeles Tariff Area

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS - Contd.

2. Within incorporated areas other than the city of Commerce, the (T)
hydrant heads will be owned by the public authority and will be installed,
maintained, painted, inspected and relocated at the expense of the public
authority. The utility will install and own the tee in the main, the
hydrant branch, the control valve, and the bury.

3. The above rates include use of water for fire protection and
for no other purpose. For water delivered through fire hydrants for any
other purpose, charges will be made therefor at the quantity rate under
Schedule No. EL-1, General Metered Service.

4. The utility will supply only such water at such pressure as may
be available from time to time as a result of its normal operation of
the system. (T)

A. 56134 D. 87333
A. 56159 D.
A. 56186 D.
A. 56208 D.
A. 56225 D.
A. 56251 D.

WATER RATE INCREASE FOR CALIFORNIA WATER SERVICE COMPANY

COMMISSIONER WILLIAM SYMONS, JR., Dissenting,

It is silly to introduce give-away water rates at a time when California is facing the worst drought in recorded history. I am referring to the euphemistically-termed "lifeline" provision which the Commission majority mandates into this water company pricing structure today.

This appears to be a knee-jerk carry-over from "lifeline" installed in our natural gas and electric utility tariffs. But no case for need has been established in the water cases.

It is a plain fact that water prices have not escalated like energy prices have. Water prices are modest. There is no argument for the necessity of welfare via raising prices to non-benefited utility rate payers. Neither has the Legislature in the case of water seen it necessary to mandate subsidy.

A maximum conservation effort is essential in the face of our severe water shortage. To relieve any class of water-users of their fair share of the increased costs to serve them water, has the counter productive effect of preventing natural price signals to encourage reduced consumption. "Lifeline" freezes the first 500 cubic feet of water used for all residential customers. So this confused price signal is sent to all residential users. This is the substitution of nonsense for public policy.

San Francisco, California
May 17, 1977


WILLIAM SYMONS, JR.
Commissioner