

Decision No. 87334

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 Palos Verdes District.      }

Application No. 56159  
(Filed December 29, 1975)

McCutchen, Doyle, Brown & Enersen, by Crawford  
Greene, Attorney at Law, for applicant.  
Teena Clifton, for City of Rolling Hills, interested  
party.  
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 Palos Verdes District. The proposed rates would increase revenues by a total of \$762,000, or 15 percent.

Public hearing was held before Examiner Gilman in Rolling Hills on October 6, 1976 and in Los Angeles on October 7, 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 proposed decision draft within thirty days and filing by the staff and the city of Rolling Hills 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<sup>1/</sup> was presented by its vice president. The city Attorney of Rolling Hills Estates, the city manager of Rolling Hills, a councilman of Rancho Palos Verdes, and six customers appeared and made statements regarding the proposed rate increases. The Commission staff presentation<sup>1/</sup> was made through an engineer. Some portions of the staff presentation were accepted without need for testimony by the expert witnesses who prepared them.

Service Area and Water System

Applicant owns and operates water systems in 22 districts in California. Its Palos Verdes District is located on the Palos Verdes Peninsula, in Los Angeles County. Included in the area are the incorporated cities of Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills, Rolling Hills Estates, a portion of Lomita, and adjacent unincorporated areas. Elevation of the area varies from a few feet above sea level to elevations in excess of 1,450 feet. Numerous pressure zones and sub-zones are required to serve the territory. Total population served is estimated at 77,800.

All water for the Palos Verdes District is purchased from the West Basin Municipal Water District. There are two separate connections to the facilities of the Metropolitan Water District of Southern California (MWD). One is on the inlet line to the MWD Palos Verdes Reservoir, and the other is on the outlet line. Delivery of this source of supply is obtained at an elevation of approximately 290 feet above sea level and lifted to a maximum elevation of

---

<sup>1/</sup> Testimony applicable to overall company operations was presented by witnesses for applicant and the staff in Application No. 56134, the East Los Angeles District rate proceeding. This testimony was incorporated by reference in Application No. 56159.

A.56159 km

approximately 1,550 feet by a system of booster pumps, storage reservoir, transmission mains, and regulating valves into the distribution mains.

The transmission and distribution system includes about 300 miles of mains, ranging in size up to 37-inch, and approximately 31 million gallons of storage capacity. There are about 21,400 metered services, 90 private fire protection services, and 2,200 public fire hydrants on the system.

#### Service

An investigation of applicant's operations, service, and facilities in its Palos Verdes District was made by the Commission staff. The staff reported that there were 25 informal complaints to the Commission from this district during the period from January 1974 through June 1976, with only five concerning service. The rest were disputed bills. Utility records indicate that customer complaints received at applicant's district office were quickly resolved. The number of complaints does not appear excessive. None of the six customers who appeared at the hearing presented any service complaints, but two of them requested that applicant check their premises for leaks and test their meters. Service is satisfactory.

#### 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:

A.56159 km

"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

<u>Minimum Charge<sup>a/</sup> (Present Rates) or Service Charge<sup>b/</sup> (Proposed Rates)</u>	<u>Present</u>	<u>Proposed</u>		<u>Authorized</u>
		<u>For 1977</u>	<u>After 1977</u>	
For 5/8 x 3/4-inch meter .....	\$ 4.24	\$ 4.24	\$ 4.34	\$ 3.00
For 3/4-inch meter .....	5.11	4.66	4.77	4.77
For 1-inch meter .....	7.00	6.36	6.51	6.50
For 1 1/2-inch meter .....	10.30	8.90	9.11	9.12
For 2-inch meter .....	17.49	11.45	11.72	11.73
For 3-inch meter .....	25.63	21.20	21.70	21.70
For 4-inch meter .....	43.73	28.83	29.51	29.51
For 6-inch meter .....	99.74	47.91	49.04	49.04
For 8-inch meter .....	133.49	71.23	72.91	72.91
For 10-inch meter .....	-	88.19	90.27	90.27

Quantity Rates

First 400 cu.ft. or less (present minimum charge rates) .....	\$ 4.24	\$ -	\$ -	\$ -
First 400 cu.ft., per 100 cu.ft. (proposed service charge rates) .....	-	.736	.751	.528
Next 100 cu.ft., per 100 cu.ft. ....	.859	.736	.751	.528
Next 1,500 cu.ft., per 100 cu.ft. ....	.859	.736	.751	.794
Next 3,000 cu.ft., per 100 cu.ft. ....	.723	.736	.751	.794
Next 5,000 cu.ft., per 100 cu.ft. ....	.613	.736	.751	.794
Next 20,000 cu.ft., per 100 cu.ft. ....	.530	.736	.751	.794
Next 20,000 cu.ft., per 100 cu.ft. ....	.530	.529	.541	.528
Over 50,000 cu.ft., per 100 cu.ft. ....	.478	.529	.541	.528

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

b/ 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 27,300 cubic feet of water per year, or 23 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 \$20.15 per month. At applicant's proposed rates for the year 1977, the corresponding monthly charge would be \$21.17, or 5 percent higher than under present rates. At applicant's proposed rates for subsequent years, the corresponding monthly charge would be \$21.61, or 7 percent higher than under present rates. At the rates authorized herein, the corresponding monthly charge will be \$19.93, or a slight decrease from the charge under present rates. Because of the transition from a minimum charge type rate structure to a service charge type rate structure, the percentage increases for uses other than average will vary from the increases for average use.

#### 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 for 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. That left only one issue to be resolved with respect to summary of earnings, as shown on Table II.

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 (e)
	Original (a)	Change (b)	Modified (c)		
<u>PRESENT RATES</u>					
Operating Revenues	\$ 5,153.9	\$ 253.9	\$ 5,407.8	\$179.8	\$ 5,587.6
<u>Operating Expenses</u>					
Operation & Maint.	2,520.1	13.5	2,533.6	72.8	2,606.4
Admin. & Gen. Misc.	65.2	6.4	71.6	-	71.6
Taxes Other Than Income	567.0	24.3	591.3	1.7	593.0
Depreciation	415.6	1.6	417.2	-	417.2
Amortiz. SCFT	9.3	(9.3)	-	-	-
G.O. Prorated Expenses	330.8	(17.1)	313.7	-	313.7
Income Taxes	67.0	116.7	183.7	55.5	239.2
Total Expenses	3,975.0	136.1	4,111.1	130.0	4,241.1
Net Operating Revenue	1,178.9	117.8	1,296.7	49.8	1,346.5
Deprec. Rate Base	14,686.7	(118.5)	14,568.2	-	14,568.2
Rate of Return	8.03%	0.87%	8.90%	0.34%	9.24%
<u>PROPOSED RATES</u>					
Operating Revenues	\$ 5,772.7	\$ 240.0	\$ 6,012.7	\$180.6	\$ 6,193.3
<u>Operating Expenses</u>					
Operation & Maint.	2,520.1	13.9	2,534.0	72.8	2,606.8
Admin. & Gen. Misc.	65.2	6.4	71.6	-	71.6
Taxes Other Than Income	573.0	24.1	597.1	1.7	598.8
Depreciation	415.6	1.6	417.2	-	417.2
Amortiz. SCFT	9.3	(9.3)	-	-	-
G.O. Prorated Expenses	330.8	(17.1)	313.7	-	313.7
Income Taxes	389.8	109.3	499.1	55.9	555.0
Total Expenses	4,303.8	128.9	4,432.7	130.4	4,563.1
Net Operating Revenue	1,468.9	111.1	1,580.0	50.2	1,630.2
Deprec. Rate Base	14,686.7	(118.5)	14,568.2	-	14,568.2
Rate of Return	10.00%	0.85%	10.85%	0.34%	11.19%

(Red Figure)

(Footnotes continued on next page)



TABLE II  
(Footnotes)

- (a) Applicant's estimates, summarized on staff's Exhibit 16, 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) Staff's estimates, summarized in staff's Exhibit 16, Page 1, Lines 15-27.

Consumption Per Commercial Customer

After modification by applicant of its 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 268.8 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 273.3 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 twelve trial runs extending as far back as 1960-1975.

The staff's corresponding estimate for commercial customers is 285.3 Ccf per year. For this district, the staff witness did not divide the commercial estimates into residential and business. The span of years used by the staff in estimating commercial use is 1966-75. For this district, the staff estimate is the ten-year average consumption, not adjusted for weather conditions. The staff witness used the ten-year unadjusted average because the end result of using the results of the computer run with the best correlation gave a total of about 273.6 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 is thus: 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?

The issue stems from different interpretations by applicant and staff witnesses of 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 of 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 computer run which gives almost exactly the same result as the staff's ten-year average is 3.6 percent and is the third-best fit of all twelve runs, whereas the corresponding error for applicant's estimate was only 0.9 percent. The first page of that exhibit also shows that the third-best 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 agree that an estimator's judgment should be influenced by the fact that recorded consumption for a single year, not adjusted to average weather conditions, shown on staff Exhibit 17, 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.

Rate of Return

The appropriate rate of return for applicant's operations is discussed in detail in the decision on Application No. 56134, relating to applicant's East Los Angeles District. In that decision, we concluded that the staff recommendation of a 9.85 percent return on rate base and 12.78 percent return on common stock equity strikes a reasonable balance between (1) consumer interests in the lowest rates possible consistent with the rendering of good water service and (2) applicant's financial needs.

Trend in Rate of Return

Applicant's Exhibit 12 shows that, for a test period from 1975 through 1978, 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 0.22 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 16 shows a decline of 0.38 percent between the test years 1976 and 1977 at present rates and a corresponding decline of 0.42 percent if applicant's 1977 proposed rates were applied to both years. The staff recommended against step rates but recommended that a 0.30 percent attrition in the rate of return attributed to large increases in rate base be considered 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 10.15 percent return for the test year 1977 under the level of rates authorized herein should produce rates of return of 10.15 percent, 9.85 percent, and 9.55 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 now pending. 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 III 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 III  
Summary of Earnings - Test Year 1977  
 (Dollars in Thousands)

<u>Item</u>	<u>Applicant @ Present Rates</u>	<u>Authorized Changes</u>	<u>Adopted Rates</u>
<u>Operating Revenues</u>			
Metered	\$ 5,291.7	\$418.2	\$ 5,709.9
Fire Protection & Miscellaneous	116.1	(39.1)	77.0
Total Revenues	5,407.8	379.1	5,786.9
<u>Operating Expenses</u>			
Oper. & Maint., Admin. & Genl., & Misc.			
Purchased Water	1,310.2	-	1,310.2
Purchased Power	630.1	-	630.1
Payroll - Union Contract	282.8	-	282.8
- Other	77.5	-	77.5
- Total Payroll	360.3	-	360.3
Other Oper. & Maint.	271.2	(3.6)*	267.6
Other Admin. & Genl. & Misc.	33.4	-	33.4
Total Oper. & Maint., Admin. & Genl., & Misc.	2,605.2	(3.6)	2,601.6
Taxes Other Than On Income			
Ad Valorem	514.6	-	514.6
Local Taxes	52.5	3.7	56.2
Payroll Taxes	24.2	-	24.2
Total Taxes Other Than On Income	591.3	3.7	595.0
Depreciation	417.2	-	417.2
G.O. Prorated Expenses			
Payroll - Union Contract	55.3	-	55.3
- Other	63.5	(5.7)#	57.8
- Total Payroll	118.8	(5.7)	113.1
Payroll Taxes	8.7	-	8.7
Other G.O. Prorated Expenses	186.2	-	186.2
Total G.O. Prorated Expenses	313.7	(5.7)	308.0
Subtotal	3,927.4	(5.6)	3,921.8
Income Taxes			
Income Taxes Before Invest. Cr.	281.0	202.7	483.7
Invest. Tax Credit @ 10 Percent	(97.3)	-	(97.3)
Total Income Taxes	183.7	202.7	386.4
Total Operating Expenses	4,111.1	197.1	4,308.2
Net Operating Revenues	1,296.7	182.0	1,478.7
Depreciated Rate Base	14,568.2	-	14,568.2
<u>Rate of Return</u>			
Before Attrition Adjustment	8.90%	1.25%	10.15%
Attrition Adjustment	-	(0.30)	(0.30)
After Attrition Adjustment	8.90%	0.95%	9.85%

(Red Figure)

(Footnotes continued on next page)



TABLE III  
(Footnotes)

- \* Net amount of \$3,900 fire hydrant maintenance expense to be assumed by fire agencies and \$300 increase in uncollectibles resulting from the general rate increase.
- # Adjustment recommended by staff witness on compensation.

The more detailed breakdown in Table III 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 \$78.60 per acre-foot which went into effect 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 non-union employees have been reasonably consistent over the years, the 1977 wage rates for non-union 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 2.906 percent of the dollars of beginning-of-year net plant plus materials and supplies is that applicable to the fiscal year 1975-76. The payroll tax rates and coverages are the current ones which became effective January 1, 1976.

Los Angeles County Consolidated Fire Protection District has availed itself 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. That fire protection agency serves essentially all of applicant's Palos Verdes District except for the city of Palos Verdes Estates. This will result in the loss of \$39,100 in 1977 revenues and a partly offsetting decrease in operation and maintenance expenses of \$3,900. This is reflected in the "Authorized Changes" column of Table III. The agreement provides that it shall become effective concurrently with the effective date of the rate increases authorized in this proceeding.

Minimum Charge Rates vs. Service Charge Rates

Applicant's present general metered service rates for this district include minimum charges and quantity rates. Under this form of rates, no charges are added to the minimum charge until the customer has used more water than the minimum charge will purchase at the quantity rates. Applicant's proposed general metered service rates include service charges and quantity rates. Under this form of rates, all use is paid for at the quantity rates, in addition to the service charge.

Applicant's witness described two significant inequities inherent in the minimum charge type of rates: (1) It does not give proper recognition to the actual commodity cost of the water delivered, and (2) it does not give proper recognition to the difference in investment required for the various sizes of metered services. In contrast to those inequities, the results of the service charge type of rates are: (1) For any given size of meter, the customer who conserves water and thus makes the utility's expenses lower will always pay less than a customer who does not, and (2) for any given monthly consumption, the customer who receives service through a smaller meter and thus makes the utility's plant investment lower will always pay less than a customer with a larger meter.

Initially, in Exhibit 16, the Commission staff recommended that the minimum charge rate be continued, with the present five quantity blocks reduced to not more than three blocks. After applicant's presentation on the relative merits of minimum charges and service charges, however, the staff's position was modified. Staff counsel, in his closing statement, explained that the staff basically is concerned with the impact on a low-use customer of a change to the service charge type of rate. He stated further that if some means could be adopted to mitigate that impact, then, perhaps the staff would not be quite as opposed to the imposition of service charge rates as was stated in the staff exhibit.

The staff filed an exception to the proposed decision, arguing that the applicant's rate spread violated the concept of minimizing rate increases for lifeline usage customers. The exception included a table showing that the greatest percentage increases were imposed on those customers using between 400 and 600 cubic feet per month, whereas customers using between 2,000 to 3,000 cubic feet experienced virtually no increase; for consumption between 600 and 2,000 or more than 10,000 cubic feet the percentage increase was substantial.

We think there is some merit to the staff's position, in that applicant's proposal would cause too much of the increase to fall on those who use small amounts of water. We will, therefore, decrease the rate for the smallest size meter, compensating for this by an additional increase in the quantity rate applied to consumption over 500 cubic feet per month. We will, however, adopt a rate structure based on a service charge concept.

### Lifeline Rates

The staff suggested in Exhibit 16 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. As shown in Table I, we have reduced the charge for the smallest meter, and pending further study, utilized a 500 cubic foot lifeline block.

### Findings

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

2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1977, and an annual decline of 0.30 percent in rate of return, reasonably indicate the probable range of results of applicant's operations for the near future.

3. 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 on common equity over the three-year period is 12.78 percent.

4. 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.

5. The service charge type of rate is more equitable for this district than is the minimum charge type of rate.

6. The increase in rates is approximately \$379,100.

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

### 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 Palos Verdes 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 17<sup>th</sup> day of MAY, 1977.

I will file a  
disput as to bfehir  
only.  
William Lyons-J  
Commissioner

Robert B. Balm  
President

Leslie L. Ferguson  
Richard D. Howell

Commissioners

APPENDIX A  
Page 1 of 4

Schedule No. PV-1

Palos Verdes Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Palos Verdes Estates, Rolling Hills, Rolling Hills Estates,  
Lomita, Rancho Palos Verdes, and vicinity, Los Angeles County.

RATES

		Per Meter Per Month	
Service Charge:			
For	5/8 x 3/4-inch meter .....	\$ 3.00	(I)
For	3/4-inch meter .....	4.77	
For	1-inch meter .....	6.50	
For	1 1/2-inch meter .....	9.12	
For	2-inch meter .....	11.73	
For	3-inch meter .....	21.70	
For	4-inch meter .....	29.51	
For	6-inch meter .....	49.04	
For	8-inch meter .....	72.91	
For	10-inch meter .....	90.27	(I)

(Continued)

APPENDIX A  
Page 2 of 4

Schedule No. PV-1

Palos Verdes Tariff AreaGENERAL METERED SERVICERATES—Contd.Per Meter  
Per Month

## Quantity Rates:

For the first 500 cu.-ft.,		
per 100 cu.-ft. ....	.528	(I)
For the next 29,500 cu.-ft.,		
per 100 cu.-ft. ....	.794	—
For all over 30,000 cu.-ft.,		
per 100 cu.-ft. ....	.528	(I)
The Service Charge is a readiness-to-serve charge		(T)
which is applicable to all metered service and to		—
which is to be added the monthly charge computed		—
at the Quantity Rates.		(T)

APPENDIX A  
Page 3 of 4

## Schedule No. PV-5

Palos Verdes Tariff AreaPUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, incorporated fire districts, or other political subdivision of the State.

TERRITORY

The Cities of Palos Verdes Estates, Rolling Hills, Rolling Hills Estates, Lomita, Rancho Palos Verdes, and vicinity, Los Angeles County.

(T)  
|  
(T)

RATES

		<u>Per Hydrant Per Month</u>	
		<u>Within L.A. County</u>	<u>Remainder</u>
		<u>Consol. Fire</u>	<u>of</u>
		<u>Protection Dist.</u>	<u>Territory</u>
For fire hydrant			
service .....	No Charge	\$2.00	(R)

(Continued)



APPENDIX A  
Page 4 of 4

Schedule No. PV-5

Palos Verdes Tariff Area

PUBLIC FIRE HYDRANT SERVICE  
(Continued)

SPECIAL CONDITIONS

1. Within the Los Angeles County Consolidated Fire Protection District, that agency is 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 pipelines 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 reestablishment of service); mechanical maintenance or adjustment of the hydrant; painting; and clearing of weeds. (T)
2. Outside of the Los Angeles County Consolidated Fire Protection District, the cost of installation of hydrants will be borne by the utility (except that the customer shall furnish the hydrant head and bear the cost of resurfacing or replacing of pavement) and the cost of maintenance, repair, or enlargement of hydrants will be borne by the customer.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.
4. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. PV-1, General Metered Service. (T)
5. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.

A. 56134 D.  
A. 56159 D. 87334  
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