

ORIGINAL

Decision No. ~~98092~~ NOV 8 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA-AMERICAN WATER COMPANY for an order authorizing it to increase the rates for water service in its MONTEREY PENINSULA DISTRICT to offset a predicted shortfall in revenues during 1977 substantially below those projected by the Commission in its determination of revenue requirements.

Application No. 57211
(Filed April 8, 1977;
amended July 11, 1977)

Dinkelspiel, Pelavin, Steefel & Levitt, by David M. Wilson, Attorney at Law, for California-American Water Company, applicant.

Ed F. Catey, for California Water Service Company; Chickering & Gregory, by Allen J. Thompson and Ronald L. Murov, Attorneys at Law, for Pebble Beach Corporation; Steve Slatkow, Attorney at Law, for Mayor of Seaside, Oscar Lawson; John M. Lotz, for Standex International Corp.; and John Logan, Ray B. Jepperson, and David L. Hughes, for themselves; interested parties. Thomas F. Grant, Attorney at Law, and Ernst G. Knolle, for the Commission staff.

O P I N I O N

Application for Offset Relief

California-American Water Company (Cal-Am) requests authority to temporarily surcharge its water rates in its Monterey Peninsula District for a consecutive twelve-month period to offset the shortfall in revenues being experienced because of the effects of drought conditions prevailing in the Monterey Peninsula area.

Cal-Am bases its request for offset relief on the test year 1975 as adopted in Decision No. 86249 dated August 17, 1976 in Application No. 54942, the last general rate case involving the Monterey Peninsula district. According to the application, the shortfall in revenues caused by drought-related effects is \$990,000 on the 1975 test-year basis. Cal-Am proposes to recoup this revenue shortfall by means of a uniform surcharge of 29 cents per hundred cubic feet (ccf) applied to all general metered service sales over the lifeline quantity of 300 cubic feet.

Three months after filing the original application, Cal-Am filed an amendment seeking ex parte interim relief. The amendment states that the original request was based on the assumption that all water available to the system would be consumed. Because of the effects of rationing, however, Cal-Am states that revenue losses will be greater than it had anticipated when it filed the application and that the proposed 29 cents per ccf surcharge will not yield the full \$990,000 increase as originally estimated. The amendment does not, however, ask for a greater surcharge than proposed in the original application.

Cal-Am's Operations

Cal-Am's Monterey Peninsula district provides water service to the cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, portions of Seaside, and the adjacent areas known as Carmel Valley, Carmel Highlands, Pebble Beach, and Robles del Rio. All of the water supplied by Cal-Am to the district is produced from two sources: (1) the impounded runoff and surface flow of the Carmel River watershed and the Carmel River; and (2) 30 wells in the Carmel Valley and Seaside areas. No water is imported. As of June 30, 1977 the Monterey Peninsula district served over 30,000 general metered service customers.

In addition to its Monterey Peninsula operation, Cal-Am operates water systems in the following districts in California: Coronado, Sweetwater,^{1/} Baldwin Hills, Duarte, San Marino, and Village. Cal-Am is a wholly owned subsidiary of American Water Works, Inc., the largest water utility holding company in the United States.

Critical Water Supply

Severe drought has prevailed in the Monterey Peninsula area for two consecutive years. Surface water available for impoundment and subsequent use has been nearly nonexistent. Water levels in the two well fields have declined to the point where it has become more costly to pump decreasing quantities.

On April 3, 1973, the Commission instituted Case No. 9530, an investigation on its own motion into the water supply of Cal-Am's Monterey Peninsula district. Since then the Commission has issued ten interim opinions in this matter, the most recent being Decision No. 87715, dated August 16, 1977. Earlier this year, as a result of drastically declining water supplies, the Commission issued its Emergency Eighth Interim Opinion, Decision No. 86987. This emergency decision ordered Cal-Am to institute a stricter rationing program than the one established in 1976 by the Fifth Interim Opinion.

Public Hearings

This application was heard before Administrative Law Judge James F. Haley in Seaside on July 25, 26, 28, and 29, 1977. The matter was taken under submission on receipt of late-filed exhibits on August 8, 1977.

^{1/} Cal-Am's Sweetwater District is in the process of being condemned by South Bay Irrigation District. A successful bond election has been held.

More than one hundred customers of Cal-Am attended the hearings, and a large number of them actively participated throughout the four days. The extent and nature of the public participation indicates that there is a broadly based dissatisfaction with Cal-Am and its Monterey Peninsula operations. The local citizens presented a wide spectrum of complaints, the foremost being the acute water scarcity, together with its many attendant problems, such as loss of landscaping, economic adversities, social inconveniences, and the outright physical difficulties associated with trying to maintain normal lifestyles on the meager allotments of water.

A well-organized presentation was made by Lot Owners Without Benefit of Land or Water (Lot Owners), an association of residential property owners who have not been able to build on their lots because of water restrictions imposed by Decision No. 86807 in Case No. 9530. The thrust of the Lot Owners' presentations is that the problem is not a lack of water, but a failure of Cal-Am to provide the necessary capital to adequately develop the water resources of the area.

A local businessman stated that Cal-Am had twenty years to get ready for the drought by increasing storage and that water users should not be asked to pay more because of Cal-Am's "shortsightedness". A number of other persons expressed the view that Cal-Am should be denied an increase so that it, too, would bear a share of the financial burdens of the water shortage they alleged it had helped create.

Recent Rate History

Current basic rates were established in 1976 by Decisions Nos. 86249 and 86359, which authorized rates to produce a 9.2 percent rate of return. Effective April 10, 1977, Cal-Am was authorized by Resolution No. W-2090 to apply a surcharge for one year in the Monterey district to offset \$94,800 in costs incurred in 1976 in connection with the distribution of water conservation material and

devices. Subsequently, by Resolution No. W-2137, effective June 1, 1977, Cal-Am was authorized to increase its rates by \$168,800 to offset the higher costs of pumping power resulting from increased electric rates.

Results of Operations

It is Cal-Am's position that it is entitled to recoup the total amount of revenue shortfall resulting from all drought-related effects - diminished water supply, conservation by the public, and the mandatory rationing program. However, this Commission has consistently fixed rates for water utilities, including Cal-Am, on a climatically normalized basis. The method of normalization involves adjusting the utility's results of operations to an average-year climatic basis. The rate-fixing concept underlying this method is that when the effects of weather produce greater than normal sales, profits rise, and, conversely, when weather depresses sales, earnings drop. The intention is that, on the average insofar as weather is concerned, the utility will realize its authorized rate of return. On this basis Cal-Am would be entitled to recover in this proceeding only that part of the revenue shortfall resulting from the voluntary conservation the public has been encouraged to make and that part of the shortfall resulting from the mandatory conservation program. Presumably, it would not be entitled to recover that part of the shortfall resulting solely from effects induced by the prevailing weather, namely, the diminished water supply.

This issue does not have to be resolved in this proceeding because Cal-Am, in requesting only 29 cents per ccf, would not realize its authorized rate of return of 9.2 percent even if it were able to sell all of the water available to its Monterey Peninsula system. From the following tabulation of adopted results of operation for the test year 1977, it is seen from column (C) that Cal-Am would realize a return of only 8.17 percent by selling all available water,

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10,184 acre feet. Column (D) of the tabulation shows that, with the reductions in consumption now being realized from voluntary conservation and the mandatory rationing program, Cal-Am will realize only a 5.08 percent return from the proposed surcharge on water sales of 7,290 acre feet.^{2/} On a normalized-year basis, as shown in Column (A) Cal-Am would register sales of over 16,600 acre feet.

ADOPTED RESULTS OF OPERATIONS
Test Year 1977

	<u>At Present Rates</u>		<u>With Proposed Surcharge</u>	
	<u>Normalized</u> (A)	<u>Conservation and Rationing</u> (B)	<u>All Available Water</u> (C)	<u>Conservation and Rationing</u> (D)
	(Dollars in Thousands)			
<u>Operating Revenues</u>				
Metered Revenues	\$ 3,876.0	\$ 1,957.7	\$ 3,655.8	\$ 2,699.8
Flat Rate Revenues	140.5	140.5	140.5	140.5
Total Revenues	<u>4,016.5</u>	<u>2,098.2</u>	<u>3,796.3</u>	<u>2,840.3</u>
<u>Operating Expenses</u>				
Purchased Power	560.7	385.9	539.8	385.9
Chemical	59.0	27.8	38.9	27.8
Uncollectibles	13.0	6.9	12.3	9.4
All Other Expenses	1,299.5	1,299.5	1,299.5	1,299.5
Depreciation Expenses	364.6	364.6	364.6	364.6
Taxes Other Than Income	336.3	336.3	336.3	336.3
Income Taxes	<u>350.0</u>	<u>(591.2)</u>	<u>262.3</u>	<u>(169.7)</u>
Total Expenses	<u>2,983.1</u>	<u>1,829.8</u>	<u>2,853.7</u>	<u>2,253.8</u>
Net Operating Revenues	1,033.4	268.4	942.6	586.5
Depreciated Rate Base	11,538.5	11,538.5	11,538.5	11,538.5
Rate of Return	8.96%	2.33%	8.17%	5.08%
Water Consumption	16,608 A.F.	7,290 A.F.	10,184 A.F.	7,290 A.F.

(Red Figure)

^{2/} The figure of 7,290 acre feet includes an adjustment to reflect the increase in water sales which will occur as a result of Decision No. 87715 dated August 16, 1977 in Case No. 9530. This decision eases certain rationing and service connection restrictions.

Certain public participants, in particular Lot Owners, contended that Cal-Am would have had greater amounts of water available, and thus would not require an offset, if Cal-Am had developed more wells and if the projected Begonia Iron Removal Plant and La Canada Pipeline were now in operation. The evidence is conclusive that the Monterey Peninsula aquifers cannot safely produce significantly greater amounts of water under prevailing conditions resulting from the prolonged drought. The record also shows that, if the iron removal plant and pipeline were in operation at this time, Cal-Am could not now deliver to its customers greater amounts of water.

Duration of the Offset

Cal-Am requests that the 29 cents per Ccf surcharge be applied to water sales for a consecutive twelve-month period. Cal-Am proposes to establish an appropriate reserve account to balance the revenues collected through the surcharge against revenues actually lost. Cal-Am stated on the record that its intention under this proposal would be to operate the balancing account prospectively, i.e., in a manner which would not undertake to recoup revenue shortfalls incurred prior to establishment of the account.

There is next to no likelihood that Cal-Am will receive surcharge revenues in excess of those actually lost. Furthermore, the amount of actual revenue shortfall which should be recovered by surcharge does not lend itself to any workable method of determination that would be sufficiently accurate for rate-fixing purposes. Therefore, we will not require a balancing account. We will, however, specify an eight-month period for the duration of the surcharge.

Process
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Findings

1. Cal-Am requires additional revenues to offset the effects of the revenue shortfall which its Monterey Peninsula District is experiencing as a result of water conservation and the mandatory rationing program.

2. The proposed surcharge of 29 cents per Ccf will no more than partially offset the revenue shortfall resulting from the mandatory rationing program.

3. The surcharge should be authorized for an eight-month period only, subject to such review and modification as the Commission may direct when changes occur in the rationing program.

4. The adopted 1977 test-year estimates of operating revenues, operating expenses, and rate base reasonably indicate the probable near future results of operations of Cal-Am's Monterey District under mandatory rationing.

5. The proposed surcharge will produce an increase in operating revenues of about \$375,000 for an eight-month period under the mandatory rationing program as now in effect.

6. The interim surcharge authorized herein is justified and reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

Conclusions

1. Cal-Am should be authorized to surcharge its rates for general metered service by 29 cents per Ccf for a period of eight months.

2. Because the mandatory rationing program is now in operation, the order herein should become effective immediately.

ORDER

IT IS ORDERED that after the effective date of this order, California-American Water Company is authorized to file for its Monterey Peninsula District the interim rate surcharge schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the schedule shall be five days after filing. The schedule shall apply only to service rendered on and after the effective date thereof.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 8th day of NOVEMBER, 1977.

*I concur in result
but would have signed
the interim order
William Squares Jr*

Robert Bateman
President

Vernon L. Sturgeon
Richard D. Howell

Commissioners

Commissioner Claire E. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. MO-1-S-1

Monterey Peninsula Tariff Area

General Metered Service Surcharge

APPLICABILITY

Applicable to all water furnished on a metered basis.

TERRITORY

Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, Sand City, and a portion of Seaside, and vicinity, Monterey County.

RATES

Quantity Rates:		Surcharge			
		Per Meter Per Month			
		<u>Gravity Zone</u>	<u>1st Elevation Zone</u>	<u>2nd Elevation Zone</u>	
First	300 cu.ft. or less....	None	None	None	
Next	1,700 cu.ft, per 100 cu.ft.	\$0.29	\$0.29	\$0.29	(I)
Next	18,000 cu.ft, per 100 cu.ft.	0.29	0.29	0.29	1
Over	20,000 cu.ft, per 100 cu.ft.	0.29	0.29	0.29	(I)

SPECIAL CONDITION

This surcharge is additive to all bills rendered at General Metered Service rates (Schedule No. MO-1) for a period of eight months from the effective date of this schedule.