

ORIGINAL

Decision No. 88604 MAR 21 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of the CALIFORNIA CITIES WATER COMPANY for an order authorizing an increase in water rates in its Wrightwood District.

Application No. 57034 (Filed January 25, 1977)

O'Melveny & Myers, by Harold M. Messmer, Jr., Attorney at Law, for applicant.

Elmer Sjostrom, Attorney at Law, for the Commission staff.

O P I N I O N

California Cities Water Company (CCWC) seeks authority to increase its Wrightwood District metered water rates approximately \$114,500 (80.5 percent) annually over the rates established by D.84226 dated March 25, 1975 in A.54284.

CCWC, a wholly owned subsidiary of Southern California Water Company (SCWC), renders public utility water service in various areas in the counties of Lake, Los Angeles, Orange, San Bernardino, San Luis Obispo, and Santa Barbara.

The Wrightwood District's service area includes the community of Wrightwood located just north of the Los Angeles Metropolitan Area on the north slope of the San Gabriel Mountains.

It is approximately three miles long and one-half mile wide and follows State Highway 2 in the Swarthout Valley. As of December 1, 1975 CCWC served 1,749 customers in its Wrightwood District.

The water supply is provided from six wells that have been drilled in the system. At the present time only four of the six wells will produce water because of the falling water table.

Water is served as it comes from the wells, except for treatment for water produced from Well No. 4. The water is distributed through approximately 211,000 feet of mains ranging in size from 3/4-inch to 6-inch pipe. Because of the differences in elevation throughout the service area, it is necessary to maintain five separate pressure zones.

After due notice public hearing was held before Administrative Law Judge N. R. Johnson in Wrightwood on November 29, 1977 and the matter was submitted.

Testimony^{1/} on behalf of CCWC was presented by SCWC's president, senior vice president, one of its vice presidents, one of its assistant vice presidents, and by the chairman of its Finance Committee. The Commission staff presentation was made through a financial examiner and two engineers. Ten of CCWC's customers made statements in general opposition to the amount of the increase and the proposed rate structure.

Rates

Rates presently in effect for metered service are minimum charge type rates with annual quantity rates being the same for all customer classes and for all meter sizes. CCWC proposes that the structure of the annual metered service rate be changed to a service charge type rate with each customer paying a monthly service charge that will vary with meter size and with a uniform quantity rate, to be added to the service charge, for billing usage during each billing period. CCWC

^{1/} Testimony and exhibits relating to the cost of money and rate of return for SCWC's operations had been presented by witnesses for SCWC in A.56157 for the Orange County District. Testimony and exhibits relating to adjustments to the CPUC staff report on general office common revenues and expenses for later information had been presented by witnesses for SCWC in A.56158 for the Central Basin District and A.56440 for the Southwest District. These exhibits, together with related testimony and cross-examination, were included in this record by reference as Exhibits 9, 10, and 10-A and Exhibits 8 and 8-A, respectively.

believes the service charge type rate structure will more equitably distribute revenue requirements in proportion to costs incurred in providing water service and will provide for water charges to be more uniform for customers of all classes who make comparable use of installed facilities.

The following tabulation sets forth the present general service metered rates authorized by D.84226 together with those proposed by CCWC in its application:

<u>METERED SERVICE</u>		<u>Present</u>	<u>Proposed</u>
Monthly Quantity Rate:			
Per 100 cubic feet			\$0.558
Annual Quantity Rates:			
First	5,000 cu.ft., or less	\$ 60.00	
Next	10,000 cu.ft., per 100 cu.ft.	.83	
Over	15,000 cu.ft., per 100 cu.ft.	.45	
		<u>Annual</u>	<u>Monthly</u>
		<u>Minimum</u>	<u>Service</u>
		<u>Charge</u>	<u>Charge</u>
For	5/8 x 3/4-inch meter	\$ 60.00	\$ 8.40
For	3/4-inch meter	78.00	10.75
For	1-inch meter	120.00	16.50
For	1 1/2-inch meter	180.00	25.00
For	2-inch meter	240.00	33.00
For	3-inch meter	360.00	50.00

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

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

For the customer with a 5/8 x 3/4-inch meter the proposed rate represents a 68 percent increase for zero consumption, a 114.5 percent increase for an annual consumption of 50 ccf, a 54.3 percent increase for an annual consumption of 100 ccf, and a 29.0 percent increase for an annual consumption of 150 ccf. Approximately 86 percent of the bills rendered in CCWC's Wrightwood District are for annual consumptions of 150 ccf, or less.

Several of CCWC's customers stated at the hearing that it was their opinion that the proposed rates would result in excessive increases to the small consumer. The Commission staff engineer recommended that CCWC's proposed service charge type rate be adopted and that for the purpose of this proceeding a 300-cubic-foot lifeline block be established with the increase for this block being 25 percent less than the overall increase of nonlifeline quantities.

Results of Operation.

Both the Commission staff and CCWC presented results of operations reports for the test year 1977. In addition, CCWC presented an exhibit setting forth the CPUC staff's estimated test year 1977 summary of earnings at proposed rates adjusted for later information and company position.

The adjustments for later information consist of an increase of \$1,100 to reflect a CPUC authorized electric pumping rate increase; \$9,400 increased payroll expense and taxes to reflect the addition of one more employee for the Wrightwood District; a net decrease in administrative expenses resulting from an increase for the new employee's benefits and a decrease for the elimination of rent for a storage yard no longer available to CCWC; and the related decrease in

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The following tabulation sets forth our adopted revenue, expense, and rate base amounts at present rates for the test year 1977:

<u>Summary of Earnings</u> (Estimated Year 1977)	
<u>Item</u>	<u>Present Rates</u> (Dollars in Thousands)
<u>Operating Revenues</u>	\$148.4
<u>Operating Expenses</u>	
<u>Operation & Maintenance</u>	75.8
<u>Administrative & General</u>	24.2
<u>Taxes, Other Than Income</u>	23.4
<u>Depreciation</u>	26.1
<u>Subtotal</u>	149.5
<u>Income Taxes</u>	(32.2)
<u>Net Operating Revenue</u>	31.1
<u>Depreciated Rate Base</u>	820.1
<u>Rate of Return</u>	3.79%
	(Red Figure)

Rate of Return: The CCWC had included in this record by reference the exhibits, testimony, and related cross-examination presented by the SCWC's witnesses at the hearings in A.56157 for a general rate increase in SCWC's Orange County District. These exhibits, testimony, and related cross-examination were also incorporated by reference at the hearings on A.56158 for SCWC's Central Basin District; A.56181 for its Pomona Valley District; A.56440 for its Southwest District; and A.56339 for its Big Bear District. For all of these, except the Big Bear District, the staff financial examiner recommended a rate of return of 9.15 percent

and a return on equity of 13.33 percent, and we adopted as reasonable a rate of return of 8.85 percent to provide a return on common equity of approximately 12.5 percent. A lesser rate of return of 8.0 percent with a return on equity of 10.34 percent was authorized for the Big Bear District because of the quality of service being rendered.

In D.85553 in CCWC's A.55713 for a general rate increase for its San Dimas District we authorized a rate of return of 9.70 percent to provide a return on equity of 12.41 percent. In this application CCWC requested it be authorized the same 9.70 percent rate of return authorized for the San Dimas District. It will be noted that because of the difference in financial structure between CCWC and CCWC consolidated with SCWC, a rate of return of 9.70 percent on CCWC provided a return on equity of 12.41 percent as contrasted with a return on equity of approximately 15.57 percent for CCWC consolidated with SCWC, or just slightly higher than the 15 percent return on equity supported by the evidentiary material incorporated in this record by reference.

In this proceeding, the Commission staff financial examiner recommended a range of rate of return of 8.85 percent to 9.05 percent which would provide a range on return on common stock equity of 13 percent to 13.62 percent on the present consolidated financial structure. The present financial structure consists of 51.97 percent long-term debt; 3.31 percent bank loans; 12.94 percent preferred stock; and 31.78 percent common stock equity. The staff financial examiner testified that as a result of the acquisition of CCWC by SCWC the common stock equity dropped from its historical 35 percent of the capital to the present 31.78 percent. He believes this to be a temporary position and expects the capital structure to return to the normal 35 percent common stock equity in the near

future. Consequently, he recommends that such a financial structure be used for our computations. Assuming such a financial structure the range of rate of return of 8.85 percent to 9.05 percent will provide a return on equity ranging from 12.40 percent to 12.97 percent. Under the latter assumption, the return on equity will provide an after-tax interest coverage of about 2.5 times and a combined coverage of about 2.0 times for debt interest and preferred stock dividends. It is the staff financial examiner's judgment that a rate of return within the recommended range will provide a balancing of the consumer interest with the benefits accruing to the investor of the company, allow for the servicing of the utility's fixed charges, and provide an opportunity to make moderate additions to retained earnings after the payment of a suitable dividend. We have carefully considered the evidence of record on rate of return and adopt as reasonable a rate of return of 9.0 percent which will provide a return on equity of approximately 13.47 percent with the present financial structure and 12.83 percent with an assumed 35 percent common stock equity.

Service

According to the record, there were three informal complaints for disputed bills and five service-related informal complaints filed with the Commission during the period from January 1975 to June 1977. Customer complaints on file in CCWC's Wrightwood office are as follows:

Type	1975	1976	6 Months Ended June-1977
Billing	61	140	19
Pressure	10	14	10
Dirty Water	2	22	7
	73	176	36

Also, according to the record, during its field investigation the staff received many informal complaints relating to outages, numerous leaks, and the lack of an effective warning system for possible water outage.

CCWC's vice president testified that an additional employee was added to the Wrightwood staff so that leaks, outages, etc., occurring on the weekends could be covered; that additional wells have been drilled and/or activated to increase water supply; that one of the gate valves which should have been closed had incorrectly been left open for an extended period which resulted in the periodic draining of a portion of the system causing partial outages and/or low pressure; and that an alarm system and water level recorder had recently been installed. He stated that these actions are expected to result in a drastic reduction in service complaints. The fact that none of CCWC's customers made a derogatory statement about the quality of service at the public hearing on this matter would appear to indicate that the quality of service rendered in the Wrightwood District is improving. One customer did state that as a result of repairing a leak an open hole was left without even a lighted barrier protecting it. She was informed that the hole was being repaired at that time.

Conservation

In D.86959 in C.10-14, our investigation into water conservation, we found as follows: "9. Rather than requiring detailed compliance reports during the impending water crisis period, the Commission should consider compliance with this decision in connection with requests for rate or other relief from this Commission." (Mimeo page 16.) As a result, one of CCWC's vice presidents presented testimony detailing its present and proposed water conservation programs. The present program, according to the testimony, includes traveling and appearing

before various groups and organizations espousing water conservation, the distribution of water conservation pamphlets, the distribution of landscaping suggestions using plants that consume relatively little water, placing advertisements of water saving tips in local papers, the distribution of water conservation kits, the institution of leak detection and repair programs, and the forecasting of probable availability of water in the area.

CCWC is also presently conducting studies on the placement of additional regulators and the creation of additional pressure zones to effect operating pressures of approximately 80 pounds per square inch. In this witness' opinion the conservation measures listed above fully comply with the requirements of

D.86959. Findings

1. California Cities Water Company is in need of additional revenues for its Wrightwood District, but the proposed rates set forth in the application are excessive.

2. The adopted estimates previously discussed herein of operating revenues, operating expenses, and rate base for the test year 1977 reasonably indicate the results of CCWC's operations in its Wrightwood District in the near future.

3. A rate of return of 9.0 percent on the adopted rate base of \$820,100 is reasonable. Such rate of return will provide a return on equity of approximately 13.47 percent with the present CCWC/SCWC consolidated financial structure and approximately 12.83 percent on the assumption that SCWC will return to its historical capital structure of approximately 35 percent common stock equity.

CCWC's also presented testimony in support of its proposed program. The proposed program included testimony in support of its proposed program.

4. The increases in 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 authorized increase in rates at the 9.0 percent rate of return for the test year 1977 is expected to provide increased revenues of approximately \$90,300 (60.9 percent) for CCWC's general metered service compared to a requested increase of \$114,500 (80.5 percent).

6. The quality of service rendered by CCWC in its Wrightwood District is adequate.

7. CCWC's present and proposed plans for effecting water conservation generally comply with the requirements of D.86959.

8. The establishment of a service charge type rate is reasonable.

9. The establishment of a 300-cubic-foot block is reasonable, but it is not possible to give this quantity an increase 25 percent less than the average increase now that the overall increase granted is 20 percent less than that requested. The rates authorized will result in only a 37 percent increase for 100 cubic feet of water which quantity is often used in this resort community. A water use tabulation indicates that 23 percent of customer bills are for 100 cubic feet of water or less.

The Commission concludes that the application should be granted 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 and cancel its presently effective schedules. 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 thirty days after the date hereof.

Dated at San Francisco, California,
this 21st day of MARCH, 1978.

Robert Bateman
President
William G. Mason, Jr.
Vernon J. Sturgeon
Charles D. Hoyle
Alan T. Schindler
Commissioners

APPENDIX A

Schedule No. WW-1

Wrightwood Tariff Area

METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

Wrightwood and vicinity, San Bernardino and Los Angeles Counties.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>	
First 300 cu.ft. per 100 cu.ft.	\$ 0.85	(I)
Over 300 cu.ft. per 100 cu.ft.	1.06	(I)
 Service Charge:		
For 5/8 x 3/4-inch meter	\$ 6.00	(I)
For 3/4-inch meter	6.60	
For 1-inch meter	9.00	
For 1 1/2-inch meter	12.00	
For 2-inch meter	16.20	
For 3-inch meter	30.00	(I)

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

SPECIAL CONDITION

A new applicant for service shall advance an amount equal to the service charge for a period of twelve months. This advance will be credited to applicant's account against which charges for water service will be debited until the advance is depleted. When no credit remains applicant will be billed at the monthly rate above. No refund will be made upon discontinuance of service if less than twelve continuous months.