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ORIGINAL

Decision No. 88876 MAY 31 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company, a corporation, for authority to raise rates in its Village District. Application No. 56966 (Filed December 23, 1976)

Eugene L. Freeland, Attorney at Law, for applicant.

Thomas F. Grant, Attorney at Law, for the Commission staff.

O P I N I O N

Applicant California-American Water Company seeks authority to increase rates for water service in its Village District. The proposed rates would increase annual revenues by a total of \$287,200, or 11.94 percent. Public hearing was held before Administrative Law Judge Main in Thousand Oaks on October 18, 1977. Notice of hearing was published, mailed to customers, and posted in accordance with this Commission's Rules of Practice and Procedure. The matter was submitted on November 15, 1977 upon the receipt of late-filed Exhibit 12.

Testimony on behalf of applicant was presented by its vice president. No customers testified. The Commission staff presentation was made through three accountants and three engineers.

Applicant, a California corporation, is a wholly owned subsidiary of the American Water Works Company, Inc. (AWWC) of Wilmington, Delaware, and operates public utility water systems in portions of the counties of San Diego, Los Angeles, Ventura, and Monterey. Applicant's Village District provides public utility water service to about 11,000 customers in an area of

approximately 20 square miles, located in the Conejo Valley of southern Ventura County: (a) in and adjacent to the unincorporated community of Newbury Park; (b) a portion of, and territory contiguous to, the city of Thousand Oaks; and (c) a small area adjacent to the city of Camarillo known as "Country Club".

Rates

Applicant proposes to change from its present block-rate type structure to a service charge plus uniform commodity charge type for its general metered service, to increase rates for that service, to discontinue a 15-percent discount applicable to off-peak golf course irrigation service (Schedule V-3ML), to increase rates for temporary flat rate service (Schedule V-9FL), and for metered construction service (Schedule V-9MC). Present and proposed rates for general metered service are as follows:

Item	Present Rates	Proposed Rates
Quantity Rates		
First 500 cu.ft. or less	\$5.60	\$6.00
Next 2,500 cu.ft., per 100 cu.ft.	.470	.436
Next 2,000 cu.ft., per 100 cu.ft.	.436	.399
Next 5,000 cu.ft., per 100 cu.ft.	.399	.379
Over 10,000 cu.ft., per 100 cu.ft.	.379	.349
Per 100 cu.ft.		0.449
Type of Charge		
	Minimum	Service
For 5/8 x 3/4-inch meter	\$5.60	\$4.14
For 3/4-inch meter	6.75	5.20
For 1-inch meter	9.30	6.20
For 1 1/2-inch meter	15.70	8.70
For 2-inch meter	22.75	11.20
For 3-inch meter	38.50	20.70
For 4-inch meter	60.00	28.15
For 6-inch meter	113.00	46.80
For 8-inch meter	177.00	69.55
For 10-inch meter		86.10
For 12-inch meter		97.30

- 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 applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates.

At the proposed rates, users of 2,500 cubic feet per month, which is an average residential consumption, would receive a 2.6 percent increase. For lesser monthly usages the percentage increases are higher, e.g., for 500 cubic feet there is a 14.1 percent increase. Applicant is not requesting increased rates for private or public fire protection.

Results of Operation: Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in the following Table I are the estimated results of operation, taken from applicant's Exhibit 2 and the staff's Exhibit 10 for test year 1977 under present water rates and those proposed by applicant. For comparison, this table also shows the results of operation at rates authorized herein.

Table I
Estimated Results of Operation
(Test Year 1977)

Item	- Present Rates		Proposed Rates		Authorized Rates
	Applicant (a)	Staff (b)	Applicant (c)	Staff (d)	Adopted Results (e)
Operating Revenues	\$2,334.7	\$2,404.7	\$2,548.3	\$2,691.9	\$2,565.0
<u>Operating Expenses</u>					
Oper. & Maintenance	1,158.5	1,221.8	1,158.8	1,222.2	1,222.0
Admin. & General	212.8	218.7	212.8	218.7	218.7
Taxes, Except Income	213.2	203.4	216.0	207.1	205.5
Depreciation	169.8	168.4	169.8	168.4	168.4
Amort. of Losses	0.0	13.1	0.0	13.1	13.1
Subtotal	1,754.3	1,825.4	1,757.4	1,829.5	1,827.7
Taxes on Income	194.0	198.3	305.0	347.4	278.1
Total Oper. Exps.	1,948.3	2,023.7	2,062.4	2,176.9	2,105.8
Net Operating Revenue	386.4	381.0	485.9	515.0	459.2
Depreciated Rate Base	4,821.8	4,783.2	4,821.8	4,783.2	4,783.2
Rate of Return	8.01%	7.97%	10.08%	10.77%	9.60%

The staff study (Exhibit 10) was based on later information than that available when applicant prepared its study (Exhibit 2). At the hearing applicant stated that it agreed with and accepted the staff estimates as set forth in Exhibit 10. Our adopted operating results shown in the last column of Table I at the rates authorized herein reflect this staff showing modified to accommodate cost changes, including income taxes, associated with changes in revenues. One further modification increased the interest deduction used by the staff in computing income taxes from \$163,100 to \$169,600, consistent with the debt ratio of 50 percent and the debt cost factor of 8.60 percent associated with the fair rate of return determination of 9.60 percent specified hereinbelow. It can be seen by comparing the entries for operating revenues in Table I that the rates to be authorized yield additional annual operating revenues of \$160,300 representing a 6.67 percent increase.

Rate of Return

The appropriate rate of return for applicant's operations is discussed in detail in Decision No. 88875 dated MAY 31 1978 in Application No. 57087 relating to applicant's San Marino District. In that decision, we concluded that a 9.60 percent return on rate base and 10.60 percent return on common stock equity strikes a reasonable balance between consumer and investor interests and that it comports with applicant's equity ratio being higher than that of other major water utilities under our jurisdiction as well as with the presence of a parent/applicant relationship.

Staff Rate Design Recommendations

Although the staff supported applicant's proposed conversion from a minimum charge rate schedule to a service charge rate schedule for general metered service, it opposed applicant's proposal to establish a uniform quantity rate for that schedule.

The staff recommended that a two-quantity-block structure be established instead, with no increase in rates for the first 300 cubic feet in keeping with staff policy. That staff recommendation on lifeline rates comports with current Commission policy and results in an inverted rate structure.

With regard to Schedule V-3ML the staff recommended that applicant not be permitted to cancel this off-peak schedule for golf courses as requested. The staff contended that "the use of this schedule will decrease peak demand on the water system and result in better service. Another important benefit is the resulting conservation effect by having less evaporation during the off-peak hours of 9 p.m. to 5 a.m."

This schedule for off-peak service presently provides for a 15 percent discount from the quantity rates for general metered service but not for restricting golf course irrigation service unequivocally to this schedule if curtailment of the growing peak demand on this water system is necessary. The schedule requires change in both these respects.

Its Special Condition 5 should be expanded (i.e., the underlined portion) as shown below:

5. The Utility may, at its option, require the installation of such facilities at the point or points of service at the cost of the customer, as will restrict the use of water off-peak hours as set forth herein. Such cost shall not be subject to refund. If the Utility exercises this option, all water supplied to the customer for golf course watering must be provided pursuant to this schedule (i.e., the customer's option to take service for golf course watering in non-off-peak hours under the general metered service schedule would be eliminated).

A discount under this off-peak schedule should be retained but lowered to 5 percent. Lowering the discount is consonant with increases in units of variable costs including those of purchased water, pumping, and similar items, and with a potential for some price-induced conservation.

Findings

1. Applicant's water quality, conservation program, and service are satisfactory.
2. Applicant is in need of additional revenues.
3. The adopted estimates, previously discussed herein, of operating revenues, operating expenses, and rate base for the test year 1977 reasonably indicate the probable results of applicant's operations for the near future.
4. A rate of return of 9.60 percent on applicant's rate base is reasonable. An increase in gross operating revenues of \$160,300, or 6.67 percent, is required to reach the 9.60 percent rate of return. Such an increase is justified and will be produced by the rates authorized herein.
5. The rates authorized herein for general metered service are based on the staff recommended rate design. (That design is appropriate and proper.)
6. The schedule for off-peak golf course service should be retained but modified as prescribed in Appendix A to this decision.
7. The proposed rates for temporary flat rate service (Schedule V-9FL) and for metered construction service (Schedule V-9MC) are reasonable.
8. 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.

ORDER

IT IS ORDERED that, after the effective date of this order, applicant California-American Water Company is authorized to file for its Village 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 each 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 31st day of MAY, 1978.

Robert Buttrick
President

Vermon L. Sturgeon
Charles D. Howell

Commissioners

*I concur in part
and dissent in part.
William Agueros Jr*

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

APPENDIX A
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Schedule No. V-1

Village District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

RATES

Service Charge:	<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 4.50	(C)
For 3/4-inch meter	4.95	(I)
For 1-inch meter	6.75	
For 1-1/2-inch meter	9.00	
For 2-inch meter	12.15	
For 3-inch meter	22.50	
For 4-inch meter	30.60	
For 6-inch meter	50.85	
For 8-inch meter	75.60	
For 10-inch meter	93.60	
For 12-inch meter	105.75	(I)
Quantity Rates:		
0-500 cu.ft., per 100 cu.ft.	\$ 0.35	(C)
Over 500 cu.ft., per 100 cu.ft.	0.431	(C)

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

(C)
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(C)

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Schedule No. V-3ML
VILLAGE DISTRICT

OFF-PEAK GOLF COURSE IRRIGATION SERVICE

APPLICABILITY

Applicable to off-peak golf course irrigation service.

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

RATES

The charges will be made at the monthly quantity rates under Schedule No. V-1, General Metered Service, less 5%. (I)

SPECIAL CONDITIONS

1. Service under this rate schedule will be furnished for golf course irrigation when water is used only during the hours between 9:00 p.m. and 5:00 a.m.
2. The Utility may, at its option, install in the place of one meter, two or more meters, or meters at two or more service connections, for service to a golf course, and the readings of such meters will be combined for billing purposes.
3. The golf course irrigation service connection or connections, or such modifications or changes in service connections as may be required for the benefit of the customer, will be at the cost of the customer. Such cost shall not be subject to refund.
4. If a distribution main of adequate size to serve the golf course irrigation system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of the customer. Such cost shall not be subject to refund.
5. The Utility may at its option, require the installation of such facilities at the point or points of service at the cost of the customer, as will restrict the use of water off-peak hours as set forth herein. Such cost shall not be subject to refund. If the Utility exercises this option, all water provided pursuant to this schedule (i.e., the customer's option to take service for golf course watering in non-off-peak hours under the general metered service schedule would be eliminated). (N)
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(N)

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Schedule No. V-9FL

Village District Tariff Area

FLAT RATE SCHEDULE

APPLICABILITY

This rate is available only to a subdivider building a minimum of fifteen (15) homes within a tract approved by the County of Ventura or City of Thousand Oaks in area served by the Village District.

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

RATE

Monthly Charge per Water Connection \$4.00 (I)

SPECIAL CONDITIONS

1. Service shall be furnished under the above charge at a flat rate per lot as soon as connection has been made to the water system by means of a service pipe or a jumper. Upon occupancy, service will be furnished only in accordance with filed Rules and Regulations and billed at General Metered Service rates.

2. Charges under this rate schedule shall be billed to subdividers only. The subdivider shall be liable for the charge until such time as the new owner or occupant signs an application for metered service, or until the subdivider requests the removal of the service connection or jumper.

3. Where the water usage, in the opinion of the utility, exceeds the amount which would be allowable for the sum of \$4.00 under its General Metered Service Quantity Rates, the utility may install a meter. In such a case, the General Metered Service Schedule minimum and quantity rates will apply. (I)

Village District Tariff Area

METERED CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all water service furnished for construction purposes.

TERRITORY

Portions of Thousand Oaks, Newbury Park, an area adjacent to Camarillo, and vicinity, Ventura County.

RATES

Quantity Rate:	<u>Per Meter</u> <u>Per Month</u>	
For all water delivered, per 100 cu.ft.	\$ 0.74	(I)
Minimum Charge:		
For all sizes of meters	\$13.00	(I)

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

SPECIAL CONDITIONS

1. Construction water service under this schedule will be furnished only when surplus water is available over the requirements for domestic service and under conditions which will not adversely affect domestic service. The utility will be the sole judge as to the availability of such surplus water.
2. Applicants for metered construction service will be required to apply for the service at least 48 hours in advance of the time of delivery of water is requested and to pay the costs and charges as provided in Rule 13, Temporary Service.