

Decision No. 89114 JUL 25 1978

ORIGINAL

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
Baldwin Hills District.

Application No. 56935
(Filed December 13, 1976)

Eugene L. Freeland, Attorney at Law,
for applicant.
Thomas F. Grant, Attorney at Law,
Francis S. Ferraro, and I. B. Nagao,
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 Baldwin Hills District. The proposed rates would increase annual revenues by a total of \$113,800, or 13.58 percent. Public hearing was held before Administrative Law Judge Main in Inglewood on August 3, 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 September 19, 1977 upon the filing of briefs.

Testimony on behalf of applicant was presented by its vice president. One customer testified, urging the introduction of lifeline rates. The Commission staff presentation was made through three accountants and two 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 Baldwin Hills District provides public utility water service to about 6,000 customers in a service area of approximately 2,000 acres located in the rolling hills southwest of the

"Crenshaw District" shopping and business center in the southwestern portion of Los Angeles County. With the exception of a small portion located in the city of Inglewood, all of the area served is unincorporated. According to the staff exhibit, applicant's water quality, conservation program, and service are satisfactory.

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, and to discontinue a 15 percent discount available to applicant's employees (Schedule CA-1). Present and proposed rates for general metered service are as follows:

Item	Per Meter Per Month	
	Present Rates	Proposed Rates

Quantity Rates

First 500 cu.ft. or less.....	\$ 3.25	\$ -
Next 1,500 cu.ft., per 100 cu.ft..	.540	-
Next 3,000 cu.ft., per 100 cu.ft..	.391	-
Over 5,000 cu.ft., per 100 cu.ft..	.341	-
Per 100 cu.ft.....		.405

Type of Charge

	<u>Minimum</u> ^{a/}	<u>Service</u> ^{b/}
For 5/8 x 3/4-inch meter.....	\$ 3.25	\$ 3.50
For 3/4-inch meter.....	4.80	3.85
For 1-inch meter.....	8.25	5.25
For 1-1/2-inch meter.....	16.00	7.35
For 2-inch meter.....	23.00	9.45
For 3-inch meter.....	41.00	17.50
For 4-inch meter.....	65.00	23.80
For 6-inch meter.....	116.00	39.55
For 8-inch meter.....	180.00	58.80
For 10-inch meter.....	270.00	72.80
For 12-inch meter.....	-	86.80

^{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 2,000 cubic feet per month, which is an average residential consumption, would receive a 2.2 percent increase. For lesser monthly usages the percentage increases are much higher, e.g., for 500 cubic feet there is a 70.2 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 8, 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:	Staff	Applicant:	Staff	Adopted Results
	(a)	(b)	(c)	(d)	(e)
Operating Revenues	\$ 830.7	\$ 838.2	\$ 944.9	\$ 952.0	\$ 952.0
<u>Operating Expenses</u>					
Oper. & Maintenance	459.0	453.8	459.4	453.8	453.8
Admin. & General	105.6	104.0	105.6	104.0	104.0
Depreciation	61.6	64.9	61.6	64.9	64.9
Taxes, Except Income	67.1	65.6	67.5	65.6	65.6
Income Taxes	17.3	35.5	77.1	95.5	94.0
Total Expenses	710.6	723.8	771.2	783.8	782.3
Net Operating Revenue	120.1	114.4	173.7	168.2	169.7
Average Rate Base	1,723.9	1,786.0	1,723.9	1,786.0	1,786.0
Rate of Return	6.97%	6.41%	10.08%	9.42%	9.50%

The staff study (Exhibit 8) 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 8. Our adopted operating results in the last column of Table I reflect this staff showing modified to accommodate a minor change in the income tax computation and reflect authorized rates which, although yielding the same total revenues as the rates proposed by applicant, are designed with a lifeline feature.

Rate of Return

The appropriate rate of return for applicant's operations is discussed in detail in Decision No. 88875 dated May 31, 1978 on 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.

Lifeline Rates

The staff recommended in Exhibit 10 that a 300-cubic-foot lifeline block be established and that the charge for a 5/8 x 3/4-inch meter be reduced. The result is an inverted rate structure. Applicant argued that the staff proposal runs contrary to the conventional cost-of-service concept, that the question it raises is one of a welfare nature, and that any solution is a function of government. The rates authorized herein implement the staff recommendations. A comparison of existing rates with proposed and adopted rates for 5/8" x 3/4" meter and 1" meter are set forth in Tables II and III below.

Table II

Existing Rate vs. Proposed and Adopted Rates

Ccf	<u>5/8" x 3/4" Meter</u>			Adopted	<u>% Diff.</u>
	<u>Existing</u>	<u>Proposed</u>	<u>% Diff.</u>		
0	\$ 3.25	\$ 3.50	+ 7.7	\$ 2.75	-15.4
1	3.25	3.91	+20.3	2.97	- 8.6
2	3.25	4.31	+32.6	3.19	- 1.9
3	3.25	4.72	+45.2	3.41	+ 4.9
4	3.25	5.12	+57.5	3.73	+14.8
5	3.25	5.53	+70.2	4.05	+24.6
6	3.79	5.94	+56.7	4.37	+15.3
7	4.33	6.34	+46.4	4.69	+ 8.3
8	4.87	6.75	+38.6	5.01	+ 2.9
9	5.41	7.15	+32.2	5.33	- 1.5
10	5.95	7.55	+26.9	5.65	- 5.0
20	11.35	11.60	+ 2.2	10.29	- 9.3
50	23.08	23.75	+ 2.9	24.21	+ 4.9
60	26.49	27.80	+ 5.0	28.85	+ 8.9
80	33.31	35.90	+ 7.8	38.13	+14.5
100	40.13	44.00	+ 9.6	47.41	+18.1
150	57.18	64.25	+12.4	70.61	+23.5
200	74.23	84.50	+13.8	93.81	+26.4
300	108.33	125.00	+15.4	140.21	+29.4
400	142.43	165.50	+16.2	186.61	+31.0

Table III

Existing Rate vs. Proposed and Adopted Rates

Ccf	<u>1-Inch Meter</u>			Adopted	<u>% Diff.</u>
	<u>Existing</u>	<u>Proposed</u>	<u>% Diff.</u>		
10	\$ 8.25	\$ 9.30	+12.7	\$ 8.15	- 1.2
11	8.25	9.71	+17.7	8.61	+ 4.4
12	8.25	10.11	+22.6	9.08	+10.1
13	8.25	10.52	+27.5	9.54	+15.6
14	8.25	10.92	+32.4	10.01	+21.3
20	11.35	13.35	+17.6	12.79	+12.7
50	23.08	25.50	+10.5	26.71	+15.7
60	26.49	29.55	+11.6	31.35	+18.4
80	33.31	37.65	+13.0	40.63	+22.0
100	40.13	45.75	+14.0	49.91	+24.4
150	57.18	66.00	+15.4	73.11	+27.9
200	74.23	86.25	+16.2	96.31	+29.8
300	108.33	126.75	+17.0	142.71	+31.7
400	142.43	167.25	+17.4	189.11	+32.8

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. Applicant's proposed rates yield a 9.50 percent rate of return and represent an increase of \$113,800, or 13.6 percent in gross operating revenues. Such an increase is justified.
5. The rates authorized herein, which also yield a 9.50 percent rate of return, are based on the staff recommended rate design. That design is appropriate and proper.
6. The 15 percent discount available to applicant's employees under Schedule CA-1 should be discontinued as requested.
7. 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.
8. The increase in rates to be authorized herein should be subject to the timely filing by applicant of an advice letter for a rate reduction based on the estimated 1978-79 ad valorem tax decrease. The 1978-79 estimate shall use the market values adopted by the County Assessor or the State Board of Equalization on or after May 24, 1978. The utility should be directed to establish a tax initiative account pursuant to Commission OII 19, issued June 27, 1978.

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:

1. After the effective date of this order, applicant California-American Water Company is authorized to file for its Baldwin Hills District the revised rate schedule attached to this order as Appendix A and to cancel its company-wide Schedule CA-1 by an appropriate filing. Such filings 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.

2. Applicant is directed to establish a tax initiative account pursuant to Commission OII 19, issued June 27, 1978.

3. The increase in rates ordered herein is subject to the filing of an advice letter on or before September 23, 1978 requesting a rate reduction based upon the estimated reduction in ad valorem taxes on utility property as of July 1, 1978. In the absence of such a filing, the rate increase hereby authorized shall automatically terminate on September 23, 1978. The rates in effect immediately

prior to the increase ordered herein shall apply thereafter and the utility shall immediately file appropriate tariffs in compliance with General Order No. 96-A.

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

Dated at San Francisco, California, this 25th day of JULY, 1978.

Robert Batistoni
President
William S. Quinn, Jr.
Yuan L. S. Tzeng
Richard W. Charley
Clare J. DeWitt
Commissioners

APPENDIX A

Schedule No. EH-1

Baldwin Hills District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Baldwin Hills, Windsor Hills, View Park, Ladera Heights, and vicinity, Los Angeles County.

RATES

Per Meter
Per Month

Service Charge:

			(C)
For 5/8 x 3/4-inch meter	\$ 2.75	(C)(I)	
For 3/4-inch meter	3.85		
For 1-inch meter	5.25		
For 1 1/2-inch meter	7.00		
For 2-inch meter	9.45		
For 3-inch meter	17.50		
For 4-inch meter	23.80		
For 6-inch meter	39.55		
For 8-inch meter	58.80		
For 10-inch meter	72.80		
For 12-inch meter	86.80	(C)(I)	

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.	\$ 0.220	(C)(I)
Next 700 cu.ft., per 100 cu.ft.	0.320	
Over 1,000 cu.ft., per 100 cu.ft.	0.464	(C)(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. (C)