ORIGINAL

Decision No. 91910 JUN 17 1980

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 its rates for water service in its Village District. NOI No. 7W.	Application No. 59238 (Filed October 24, 1979)

Lenard G. Weiss, Attorney at Law, for applicant.
Ellen LeVine, Attorney at Law, and A. V. Garde, for the Commission staff.

O P I N I O N

California-American Water Company (Cal-Am) seeks authority to increase rates for water service in its Village District (Village) to produce annual revenue increases of $355,800 (or 10.66 percent) in 1980 and an additional $288,900 (or 7.82 percent) in 1981. The Commission staff recommends that rates be set for a three-year period in keeping with this Commission's notice to Class "A" water companies that a district of a water utility will not file for a general rate increase more often than once in three years.

After due notice, public hearings were held before Administrative Law Judge B. Patrick in Los Angeles on February 26 and 27, 1980, and the matter was submitted on March 25, 1980 upon receipt of concurrent briefs.

Testimony was presented on behalf of Cal-Am by its treasurer-vice president of finance, Robert W. Bruce, and by a consulting engineer, John Housiaux, and on behalf of the Commission staff by Financial Examiner Terry R. Mowrey and by utilities engineers A. V. Garde, David K. Fukutome, and Donald Yep.

Although no customers testified at the hearing, five members of the public attended an informal meeting where both utility and Commission staff members were present to answer questions from the public regarding the rate increase application. The meeting was held in Thousand Oaks on Thursday, December 6, 1979, at 7:00 p.m. Notice was given to all customers through a bill insert and news releases to the local newspaper and radio station. Questions raised by the public included: (1) reduction of water pressure to 55 psi for 10 customers following the discontinuance of a booster pump as an energy saving measure; (2) reduced rates for senior citizens; and (3) inability of the utility to use ground water to supplement purchased water. There were no complaints regarding service.

Issues

The two major issues addressed at the hearing were: (1) what is a fair and reasonable rate of return for Cal-Am, and (2) what is a fair and reasonable estimate of normalized water consumption per customer for calculating test year operating revenues.

Other issues raised by Cal-Am are: (1) the staff's deletion of dues for the local Chamber of Commerce, and (2) the staff's recommendation that "any costs of upgrading the fire protection service should not be borne by ratepayers".

Service Area and Water System

Cal-Am, a California corporation, is a wholly owned subsidiary of the American Water Works Company, Inc. of Wilmington, Delaware, and operates public utility water systems in portions of the counties of San Diego, Los Angeles, Ventura, and Monterey.

Village provides public utility water service to about 14,000 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". Elevations served vary from 300' to 1,050' above sea level. All water is purchased from Calleguas Municipal Water District (Calleguas), a member agency of the Metropolitan Water District of Southern California. Village receives water from Calleguas through 12 separate connections throughout its service area.

Present Operations

The testimony related to the efficiency of system operations and quality of service is summarized below.

Conservation

The staff's report (Exhibit 12) states that Cal-Am has continued its program to promote water conservation and has prepared a very innovative program to educate the public regarding the need for water conservation.

Cal-Am's witness, John Housiaux, testified that the city of Thousand Oaks adopted an ordinance (Exhibit 21) that mandates the use of mechanical suppression devices (low-flush toilets, low-use shower heads, etc.) for all new and remodeled housing. He stated that because this is a rapidly developing service area, the ordinance has had an impact on 20 percent of Cal-Am's present customers.

Unaccounted-For Water

In order to reduce rather high unaccounted-for water percentages recorded for several years, Village undertook a program of leak detection and testing of all large meters. This resulted in a 4 percent recorded figure for 1979. Cal-Am believes it can maintain this percentage and stipulates to its use for computing test year expenses. Since Village purchases all water at a relatively high price, this program will benefit all customers in general.

Pump Efficiency

Seven of the eight large booster pumps in the Village service area were tested. The tests showed that three pumps were in the "excellent efficiency" range, two were in the "fair efficiency" range, and two were in the "low efficiency" range. One pump could not be tested because the piping arrangement in the station does not permit testing. Cal-Am has since overhauled the two pumps in the "fair efficiency" range. The staff recommends that Cal-Am improve the efficiency of the two pumps which are in the "low efficiency" range (Los Robles No. 1 and No. 2) and make the necessary piping changes to test the last of eight units (Mayfield No. 1). We will require Cal-Am to follow through with the staff's recommendations.

Customer Service

The staff's review indicates that customer complaints made either directly to the district office or the Commission's Consumer Affairs Branch are resolved in a satisfactory manner. The number of complaints is relatively small and they generally involve disputed charges or water leaks.

Conclusions

Based on the evidence, we conclude that the Village water system is operated in an efficient manner and customers are receiving a good level of service. Management's approach to reducing unaccounted-for water losses and water conservation is commendable.

Rates

Cal-Am's present tariffs for this district consist of schedules for general metered service, public fire hydrant service, golf courses, private fire protection, and construction.

Cal-Am proposes to increase its rate for general metered service. The following Table I presents a comparison of Cal-Am's present and proposed general metered service rates along with those authorized herein.

TABLE I

VILLAGE DISTRICT

COMPARISON OF MONTHLY RATES

GENERAL METERED SERVICE - SCHEDULE NO. V-1

	Present Rates*	Proposed Rates** 1980	Proposed Rates** 1981	Adopted Rates*** 1980	Adopted Rates*** 1981	Adopted Rates*** 1982
Service Charge						
For 5/8 x 3/4-inch meter	$ 4.50	$ 4.75	$ 4.90	$ 4.94	$ 4.94	$ 4.94
For 3/4-inch meter	4.95	5.20	5.35	5.43	5.43	5.43
For 1-inch meter	6.75	7.10	7.30	7.40	7.40	7.40
For 1-1/2-inch meter	9.00	9.50	9.80	9.90	9.90	9.90
For 2-inch meter	12.15	12.80	13.20	13.35	13.35	13.35
For 3-inch meter	22.50	23.70	24.50	24.70	24.70	24.70
For 4-inch meter	30.60	32.25	33.30	33.60	33.60	33.60
For 6-inch meter	50.85	53.60	55.30	55.80	55.80	55.80
For 8-inch meter	75.60	79.70	82.25	82.95	82.95	82.95
For 10-inch meter	93.60	98.65	101.80	102.70	102.70	102.70
For 12-inch meter	105.75	111.50	115.10	116.70	116.70	116.70
Quantity Rates						
0-300 cu.ft., per 100 cu.ft.	$ 0.35	$ 0.41	$ 0.43	$ 0.35	$ 0.35	$ 0.36
300-400 cu.ft., per 100 cu.ft.	0.35	0.41	0.43	0.35	0.35	0.494
400-500 cu.ft., per 100 cu.ft.	0.35	0.41	0.43	0.35	0.486	0.494
Over 500 cu.ft., per 100 cu.ft.	0.484	0.563	0.566	0.484	0.486	0.494

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.

*From Tariff Sheet 1281-W, effective July 1, 1979.

**Exhibit 1.

***Reflects Fire Protection Revenue Loss Surcharge, Tariff Sheet 1319-W, dated January 1, 1980.

In this district, an average commercial (business and residential) customer will use about 25 Ccf (hundreds of cubic feet) per month. The following Table II presents a comparison of monthly charges for an average commercial customer with a 5/8 x 3/4-inch meter under present rates, Cal-Am's proposed rates, and the rates authorized herein.

TABLE II

Comparison of Monthly Charges
Average Commercial Customer (business and residential)
Using 25 Ccf Per Month

	1980	1981	1982
At Present Rates #	$15.93	$15.93	$15.93
At Cal-Am's Proposed Rates #	18.06	18.37	-
Amount of Increase	2.13	2.44	-
% Increase	13.4%	15.3%	-
Authorized Rates *	16.37	16.55	16.87
Amount of Increase	.44	.62	.95
% Increase	2.8%	3.9%	6.0%

*Includes Fire Protection Revenue Loss Surcharge of $0.44 for a 5/8" x 3/4" meter (Commission Resolution No. L-213).

#Excludes surcharge.

RATE OF RETURN

General

Cal-Am has filed this and four[1/] other applications for rate relief in five of the six individual districts served by the company. In this proceeding we will consider one rate of return for all five districts.

The following tabulation sets forth a summary of the respective rates of return requested by Cal-Am and recommended by the Commission staff. The staff-recommended rate of return coincides with its recommendation which was found reasonable by the Commission in Cal-Am's last rate proceeding for Coronado District in D.90925 dated October 23, 1979.

Recommended Rate of Return

Component	Capital Ratios	Cost Factors	Weighted Cost
Cal-Am			
Long-Term Debt	48.38%	8.62%	4.17%
Common Equity	51.62	13.50	6.97
Total			11.14%
Staff			
Long-Term Debt	47.10	8.73	4.11
Common Equity	52.90	11.25	5.95
Total			10.06%

Cal-Am's Position

Cal-Am believes that a 13.50 percent return on its adjusted common equity is a necessary, justified, and reasonable return to its common shareholder. This is particularly so given Cal-Am's very poor financial history and inability to come even

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1/ Monterey A.58850 filed May 8, 1979.
Baldwin Hills A.59418 " February 4, 1980.
Duarte A.59419 " " "
San Marino A.59420 " " "

close to earning its previously allowed rates of return, given the realities of today's rapid and continuing inflation and escalating interest rates, given Cal-Am's Commission-imposed (50 percent) debt-equity ratio, and, finally and perhaps most importantly, given the rates of return recently allowed by this Commission to comparable California Class "A" water utilities.

Cal-Am takes exception to the staff's assertion that no change is necessary in the staff's rate of return recommendation made by witness Mowrey in August 1979 in its Coronado proceeding. Cal-Am argues that by the time a decision is issued in this proceeding, rapid changes in the economy will have taken place. Reference is made to staff Exhibit 14, Table 1, which shows a climb in the prime interest rate from 11.5 percent in December 1976 to 15.5 percent one year later. Cal-Am points out that the prime interest rate now is in excess of 18 percent and predicted to go over 20 percent this year (which has since briefly occurred, followed by a substantial decline in that rate).

Finally, Cal-Am argues that: (1) the obvious impact of regulatory lag should not be totally ignored; (2) despite its dismal financial returns, Cal-Am's shareholders have injected large sums of new capital into operating plant and the company has an excellent service record, which facts should be reflected positively in rate of return, just as they would be reflected negatively if the facts were reversed; and (3) as an absolute minimum, they seek treatment no worse than accorded Del Este Water Company.[2/]

Staff's Position

The staff contends that Cal-Am's capital structure is a significant consideration underlying its recommendation. Both Cal-Am's estimates and the staff's estimate show that the equity portion comprises over 50 percent of the capital structure. In light of

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2/ D.91120 dated December 18, 1979. The Commission found a rate of return on rate base of 11.40 percent producing a return on common equity of 13.00 percent reasonable.

this debt-equity ratio, the staff then evaluated the risk to the shareholder in investing in a company such as Cal-Am. The staff, in particular, relied on Commission decisions which recognize that the greater the amount of equity in the capital structure, the lesser degree of risk there is to the investor. This is simply because the investor is assured that if sufficient earnings are available to pay a return, then the lower the interest expense the greater the amount of funds will then remain to pay the equity investor. The staff argues that for those companies which had more equity than debt in their capital structure, the Commission authorized a lower rate of return on equity than for those companies where the converse was true. This is illustrated in the following tabulation based on Exhibit 14, Table II, for 1979.

Company	Rate of Return on Rate Base	Equity Ratio	Return on Equity
Group I - More Than 50% Equity			
Jackson Water Works	9.10%	64.17%	10.21%
Park Water Company	9.90	57.01	10.25
Azusa Valley Water Company	10.35	53.76	12.54
Average	9.78%		11.00%
Group II - Less Than 50% Equity			
California Water Service Company	10.00%	41.47%	13.00%
San Gabriel Valley Water Company	9.57	42.40	13.25
Average	9.83%		13.13%

The staff points out that for the above two groups the average rate of return on rate base is about the same, i.e., 9.8 percent, whereas the average return on equity is lower for Group I - utilities which have more than 50 percent equity, and conversely higher for Group II - utilities which have less than 50 percent equity.

The staff disagrees with Cal-Am's assertions that its requested rate of return is reasonable considering the Commission's allowed returns on equity for: (1) Southern California Water Company, (2) California Water Service Company, (3) San Jose Water Works Company, and (4) Del Este Water Company.

The staff points out that, significantly, the first three utilities cited all have equity ratios of less than 50 percent. Turning to the fourth utility cited, Del Este Water Company, notwithstanding its greater than 50 percent equity factor, the staff submits there were special circumstances which the Commission recognized and consequently authorized a rate of return higher than generally allowed so that Del Este Water Company could obtain additional debt financing. This situation does not apply to Cal-Am.

Finally, the staff argues that:

1. Cal-Am could apply to the Commission to have the restriction on its capital structure imposed by D.86249 dated August 17, 1976 removed, since Cal-Am has met the Commission's objectives and there is no longer any need for such a restriction.

2. The Commission must recognize that additional income is currently derived from temporary investments of the Sweetwater District proceeds which has an impact on its earnings picture.. Notably, Cal-Am's financial exhibits do not account for the additional earnings which shareholders are receiving.

3. Cal-Am will have the ability to attract capital at a reasonable rate under the staff's recommendation.

4. A rate of return should not be set to compensate for past deficiencies.

5. Cal-Am has previously failed to realize authorized revenues primarily because of regulatory lag. This situation will fortunately not continue because of implementation of the Commission's Regulatory Lag Plan.

Cal-Am's Testimony

Robert W. Bruce, vice president of finance, treasurer, and secretary of Cal-Am, testified that since its inception Cal-Am has earned a substandard rate of return. He said that earnings started a dramatic decline in 1974 and did not bottom out until 1977 when new rates came into effect for its seven districts, some 27 months after they filed for a general rate increase (Exhibit 4). He further testified that after the new rates came into effect, the statewide drought started and this resulted in reduced water sales while expenses remained constant. He stated that there was some recovery in 1978, followed by additional recovery in 1979, resulting in a rate of return of less than 4 percent on common equity. He contrasted Cal-Am's earnings with a steady 9 to 10 percent return on common equity earned over the last 14 years by three[3/] of the major water utilities (Exhibit 4). He pointed out that Cal-Am's book value per share over the period 1966 through 1977 had only risen from $102 to $111 per share, which represents an increase of 8.2 percent over a 14-year period.

Regarding rate of return on rate base, Bruce testified that the company has not achieved the rate of return authorized since new rates were effective in September 1976, even allowing for the fact that 1977 was a substandard year for all water utilities. He referred to a 33 percent gap (Exhibit 6) between realized and allowed rate of return for the period after 1976 and attributed the shortfall to revenue decline and inflation. However, he did agree that the rate of return (10.06 percent) on rate base allowed in the last proceeding[4/] was higher than that allowed most other utilities.

3/ Southern California Water Company, California Water Service Company, and San Jose Water Works Company.

4/ D.90925 dated October 23, 1979 - Coronado District.

Bruce stated that in 1976 the Commission ordered[5/] Cal-Am to maintain a debt-equity ratio of 50 percent and the reason for that was to force the parent, American Waterworks, to inject equity into the California systems. He disagreed with the staff's recommendation that an 11.25 percent rate of return on equity is adequate because of the asserted reduced risk in such a capital structure. He pointed out that notwithstanding this capital structure and the staff's assertions, there is no assurance the shareholders will receive any return as demonstrated by the fact that Cal-Am's shareholders did not receive any dividends for a period in excess of three years (September 1975 through December 1978) for their investment of $27 million. He added that dividends paid out from December 1978 through 1979 were almost wholly attributable to interest income on the proceeds of the Sweetwater District condemnation. However, he did agree that if Cal-Am could earn the return on common equity recommended by the staff, then the return would compare favorably with other major water utilities.

Bruce testified that if it were necessary for Cal-Am to go into the bond market, it would not be possible to sell any bonds because Cal-Am's first mortgage bond indenture holder, Pacific Mutual, requires coverage to be 1.75 times interest earned after issuance of any additional first mortgage bonds.

5/ D.86249 dated August 17, 1976, Ordering Paragraph 4, mimeo. page 36:

> "4. Until further order of the Commission, California-American Water Company shall maintain a capital structure in which long-term borrowings from non-affiliates shall not represent more than 50 percent of its total capital structure."

He said that in only one of the last 10 years has Cal-Am had an interest coverage in excess of 1.75. He attributed the low times interest coverage to Cal-Am's inability to generate adequate utility operating income. He referred to a letter dated July 22, 1977 from Pacific Mutual to P. L. Boneysteele of the Commission's Finance Division (Exhibit 7), which set forth Pacific Mutual's concerns for Cal-Am's financial straits. When asked to explain why Pacific Mutual has not expressed further concerns since 1977, Bruce pointed out that Cal-Am now has $10 million cash in the bank from the proceeds of the condemnation of its Sweetwater District.

Turning to the events which followed the forced condemnation and sale of its Sweetwater District in 1977, Bruce stated that Cal-Am received approximately $19 million cash as compensation. With this money Cal-Am retired its most expensive debt issues and committed $7 million of the proceeds to installation of plant in the California-American system. He pointed out that the Commission[6/] ordered Cal-Am to install $3.5 million in facilities in Monterey which was accomplished and, in addition, Cal-Am spent $1 million on major improvements in its other districts, approximately half of which was spent in Village. He said that at the present time Cal-Am proposed to install four new wells and a treatment plant on the Monterey peninsula at a cost of $2.5 million.

6/ D.86807 dated January 5, 1977 and D.87431 dated June 7, 1977 in C.9530.

Staff's Testimony

The staff's position on the cost of capital and recommended rate of return was presented by Financial Examiner Terry R. Mowrey. He recommends an earnings allowance on common equity for test years 1980 and 1981 of 11.25 percent which on the staff's adopted capital structure produces a rate of return of 10.06 percent, or 1.06 percent below the 11.14 percent rate of return requested by Cal-Am. His recommendation, while the same as last allowed by the Commission in D.90925 dated October 23, 1979 for Coronado District, is based upon an updated analysis.

In arriving at his recommendation staff witness Mowrey was guided by the traditional standards set forth by U.S. Supreme Court decisions and prior decisions of this Commission, which he summarizes as follows:

> The return to the equity holders should be commensurate with the returns on investments in other enterprises having similar risks.
>
> The return should be sufficient to enable the utility to attract capital at reasonable rates and to assure confidence in the utility's financial integrity.
>
> The return should balance the interests of both the investors and consumers.

Additional factors which he considered in arriving at his recommendation on common equity are:

> Cal-Am is a regulated public utility engaged in a business which affects the public interest and it must provide its services at reasonable rates.
>
> Rates must give consideration to both consumer as well as investor interests.
>
> Interest coverage requirements.
>
> Cal-Am's recorded earnings experience.
>
> Income from other sources - primarily Sweetwater District condemnation.
>
> Cal-Am's capital structure and financial history.

The staff's exhibit on the cost of capital (Exhibit 14) includes 12 tabulations setting forth statistics on Cal-Am's common stock for the period 1969 through 1978, estimated capital structure at year-end 1980, prime interest and discount rates from October 1976 through December 1979, estimated effective interest rate as of year-end 1980, comparative reported earnings on average total capital and data relating to average net plant investment for regional and California Class "A" water utilities, rates of return recently authorized for Class "A" water utilities by this Commission, the rates of return on common equity, and the staff-recommended rate of return and capital structure.

Staff witness Mowrey contends his recommendation reflects a broad cross section of rates of return for Class "A" water utilities recently authorized by the Commission, takes into account the higher equity ratio in applicant's projected capital structure (viz. 52.9 percent versus less than 42 percent for California Water Service Company, San Jose Water Works, and Southern California Water Company), and is consonant with little or no need for outside financing. He testified that Cal-Am's capital structure has remained fairly constant due to lack of external financing and closely approximates the ratios found reasonable for Cal-Am in D.90925 - Coronado District dated October 23, 1979, utilizing a 1980 test year. He emphasizes that Cal-Am plans no outside financing in the near future and the only movement in the equity rate of return would come about because of amortization of the utility plant adjustment[7/] and the further retirement of certain debt outstanding. In his opinion this movement would not affect the risk to the equity holder and, therefore, would not cause him to recommend any change in the rate of return found reasonable in Cal-Am's last

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7/ D.70418 (65 CPUC 281 at 286) - rate treatment of purchase price in excess of original cost less depreciation.

proceeding. He further testified that if Cal-Am would earn the staff-recommended rate of return, it could meet any interest requirement needed for future financing and its earnings would be comparable to the three major utilities cited above.

In contrast to Cal-Am's witness, Mowrey believes that the higher the equity investment, the less risk to the equity holder. He points out that with more leverage in the capital structure, that is more debt, certain payments have to be made on the debt before the equity holder can receive any dividends; therefore, there is more risk to the equity holder. He disagrees with Cal-Am's contention that the above philosophy penalizes Cal-Am because it is required by the Commission to have a 50-50 debt-equity ratio.

Mowrey agrees that Cal-Am's earnings in the past have been poor but believes the past cannot be made up for. He is sure his recommendation is fair and reasonable going forward into the future. He emphasizes that in a rate of return recommendation he would not attempt to make up for the past. He believes a rate of return recommendation is a statement of capital cost and not a catchall for deficiencies in other areas.

He further agrees that Cal-Am's times interest coverage since 1970 never exceeded the 1.75 minimum required by Cal-Am's indenture holder. However, he points out that if Cal-Am does achieve the rate of return he recommends, this equates to a 2.5 times interest coverage which in his opinion is reasonable to attract capital if Cal-Am should have the need.

Turning to the question of regulatory lag and the impact on Cal-Am, Supervising Engineer A. V. Garde testified that the staff made an analysis to determine why Village was not earning the authorized rate of return. He said that rates for Village based on test year 1975 went into effect in September 1976[8] and remained in effect through June 1978. Then, in Cal-Am's next rate proceeding, new rates based on a 1977 test year did not go into effect until the end of June 1978.[9] Staff studies (Exhibit 26) confirm that if the rates had been effective at the commencement of the test years, Cal-Am would have achieved its authorized rate of return. He agreed that Cal-Am was never given the opportunity to earn the authorized rate of return because of regulatory lag. He believes that for the future, with the Regulatory Lag Plan in operation, Cal-Am should earn the authorized rate of return.

Discussion

The record is clear that Cal-Am's earnings in the past have been poor compared to other Class "A" water utilities and one reason is that Cal-Am has been the victim of regulatory lag. This is unfortunate, but we have to agree with the staff witness that a rate of return recommendation is a statement of capital cost for the future and not a catchall for deficiencies in other areas. We believe the newly instituted Regulatory Lag Program for Water Utilities, which provides for the introduction of a utility's new authorized rates at the commencement of the test year, will provide Cal-Am with the opportunity to earn its authorized rate of return for the test years.

8/ D.86249 dated August 17, 1976.

9/ D.88876 dated May 31, 1978.

The record also shows that:

1. Cal-Am is providing a good level of service to its customers.

2. Cal-Am has an active conservation program.

3. Cal-Am is operating its pumping equipment efficiently.

4. Cal-Am has recently invested $4.5 million in plant improvements.

5. Cal-Am is committed to spend $2.5 million for improvements in its Monterey District.

6. Cal-Am has no plans to utilize outside financing in the immediate future; however, the rate of return we are adopting in this proceeding will remain in effect for three years and will apply to five of Cal-Am's districts, and we cannot ignore the possibility of Cal-Am's having to resort to outside financing sometime during the three-year period.

We believe all the above factors deserve recognition and justify some increase in the authorized return on common equity, but not as much as requested. Consequently, we find a return on common equity of 11.50 percent is reasonable to yield a rate of return of 10.19 percent developed as follows:

Adopted Rate of Return

Component	Capital Ratios	Cost Factors	Weighted Cost
Long-Term Debt	47.10%	8.73%	4.11%
Common Equity	52.90	11.50	6.08
Total			10.19%

Based on the subsequently adopted summary of earnings, the rate increase required to provide a 10.19 percent rate of return for test year 1981 is $39,700. No increase in rates for 1980 is justified.

Attrition

Cal-Am has accepted as reasonable the staff's estimate of an annual operational attrition in the rate of return of 0.6 percent. No allowance is made for financial attrition. In keeping with our expectations that the districts of a Class "A" water utility not file a general rate increase more often than once in three years, we will authorize a step increase for 1982 of $69,500 to offset the 0.60 percent attrition rate. Cal-Am will be required to file an advice letter with supporting workpapers on or after November 15, 1981 to justify such an increase. Such rates result in a better matching of the consumers' interests compared to setting a high initial rate which would yield the adopted rate of return for a three-year average. The supplemental filings we will require will permit further review of achieved rates of return.

RESULTS OF OPERATION

With the exception of operating revenues, Cal-Am adopts the staff's estimates which were based on later recorded data and information which Cal-Am had furnished.

Operating Revenues

For purposes of computing operating revenues, Cal-Am accepts the staff's estimate of customers for the test years but disagrees with the staff's estimate of normalized average use per customer.

Commercial Class Consumption

The dispute between Cal-Am and the staff centers around the staff's normalized figures for consumption per customer being higher than recorded for 1979 (305.2 vs. 295.7 Ccf per customer) and prior years through 1977. Cal-Am's position was well summarized by its counsel when he asked "...how does the company reach an authorized rate of return when it can't get revenues based on its experience?"

The following tabulation reflects recorded consumption for 1979 and the test year estimates of Cal-Am and the staff.

Commercial Class - Residential and Business
Average Use Per Customer - Ccf/Cust./Yr.

1979	Average For Test Years 1980 and 1981	
Recorded	Cal-Am	Staff
295.7*	287.4	308.7

*Staff normalized figure is 305.2

Cal-Am claims that it has suffered in large part because of poor revenue and consumption prognostications. Cal-Am points out that no matter how reasonable the allowed rate of return, an overly optimistic estimate of operating revenues which makes it realistically impossible for Cal-Am ever to capitalize on that rate of return "opportunity" will only continue the downward spiral in Cal-Am's economic health.

The staff reminds us that it is important to keep in mind that test year ratemaking for a water utility relies on projections which are based on normalized consumption. Normalized consumption is the average consumption per customer during an average year of temperature and rainfall. On a recorded basis consumption may be below average in some years, thereby generating less revenue to the company, while in other years consumption may be above average, thereby producing more revenue. Over a period of time, however, revenues balance, consistent with the test year concepts.

Cal-Am's witness, John Housiaux, testified that his estimate of normalized average annual consumption per customer was derived by using the Modified Bean Method as prescribed in Standard Practice U-25 in conjunction with the Statistical Package Extended SPX Computer Program. He combined the consumption of the Commercial Class (residential and business) together with the Public Authority Class. He adjusted for monthly rainfall and temperature. He added a Customer Density Factor based on number of customers per mile of main. The result was then apportioned to the various classes on the basis of the 1978 water-use analysis.

Cal-Am's witness, John Housiaux, further testified that he included consumption for the Public Authority Class along with residential and small business because it gave better mathematical correlation. We have difficulty rationalizing this approach since a residential customer does not consume water as much as a school or hospital. Usage patterns are not similar. Also, temperature, rainfall, or even a drought do not affect public authority and residential customers the same way.

The staff too used the Modified Bean Method described in Standard Practice U-25. Recorded data for the year 1977 was excluded for the reason that it includes the effect of the 1977 drought-related conservation. Since the staff used recorded data for 1974 through 1979, elimination of 1977 data reduced the total historical experience to five years. The staff included two independent variables: time and rainfall, not temperature. The staff made no separate adjustment for conservation and claims the effect of conservation is inherent in the data used which covers three pre-drought and two post-drought years.

Staff witness A. V. Garde disagreed with Cal-Am's inclusion of 1977 drought-year data in the calculations. He testified that an extraordinary drought year such as 1977 should not be given weight in arriving at estimated consumption for ratemaking purposes because it can unduly distort the development of an estimate of a normal year's consumption for the future period rates are to be in effect. He pointed out that the staff excluded 1977 data because the recorded consumption in that year includes drought-related conservation and does not reflect the usual relationship of higher consumption resulting from below normal rainfall. He further testified that by using consumption data for the years following the drought, the residual effects of the drought on consumption will be reflected in an implicit way in the test year estimate.

We do not have any difficulty with the staff's rationale for excluding 1977 data from the calculations, but we are concerned that the staff did use a minimal number of years data (5), which has a bias (3 to 2) in favour of pre-drought consumption which does not fully reflect today's consumption or use patterns resulting from growing conservation awareness by customers.

The witnesses for Cal-Am and the staff are both well qualified and experienced experts in estimating water consumption. However, it is apparent from the testimony that there is no formula which will yield a precise answer in estimating test year water consumption. It is also apparent that the Modified Bean Method, which worked reasonably well up to the time of the 1977 drought, should be used with some modification to reflect residual conservation following the drought, impact of utility conservation programs, changes in building codes, and growing conservation awareness by customers.

After careful review of the evidence, we believe that the 1979 recorded normalized consumption will more closely approximate test year consumption; therefore, we will adopt 305 Ccf as reasonable for average use per customer for the Commercial Class for the two test years. 1979 is the latest recorded year and it reflects the consumption or use pattern resulting from a growing conservation awareness by customers. Normalizing 1979 recorded consumption variables produces an annual per customer consumption estimate reliable and reflective of anticipated future conditions for rate-setting purposes.

Industrial Class Consumption

For the Industrial Class, Cal-Am's and the staff's estimates of average use per customer for the test years are 2,800 and 3,452.5 Ccf per customer per year, respectively. Cal-Am's estimate is based on a graphical projection of recorded results, whereas the staff's estimate is based on a regressional analysis of normalized consumption. We believe that the last year's recorded data will more closely approximate test year consumption and will adopt 3,200 Ccf per customer per year as reasonable for average use per customer for the Industrial Class for the two test years.

Public Authority and Golf Course Consumption

The staff found Cal-Am's estimate of consumption per public authority customer reasonable. We agree.

For golf course consumption per customer, the staff used the five-year average from 1972 to 1976 because the later recorded data is unreliable due to defective meters (which have since been corrected). We will adopt the staff's estimate.

Dues and Donations

Cal-Am disagreed with the staff's exclusion of $900 from general office expenses (Exhibit 13). The adjustment covers 100 percent of dues to the Chamber of Commerce and 30 percent of dues to the California Water Association (for political advocacy). Memberships in the Southern California Water Utilities Association and the Association of California Water Agencies were included in the staff's estimates. We will adopt the staff's adjustment since it is the law that dues and donations should be excluded from operating expenses for rate-fixing purposes; however, dues in industrial organizations do not constitute dues or donations which should be excluded from operating expenses.[10] While conceding the worthiness of the donees and benefits in goodwill reaped by the utility, the Commission has observed[11] that:

> "'. . . Dues, donations and contributions, if included as an expense for rate-making purposes, become an involuntary levy on ratepayers, who, because of the monopolistic nature of utility service, are unable to obtain service from another source and thereby avoid such a levy. Ratepayers should be encouraged to contribute directly to worthy causes and not involuntarily through an allowance in utility rates. /Pacific/ should not be permitted to be generous with ratepayers' money but may use its own funds in any lawful manner.'"

10/ Southern California Edison Company (1973) 75 Cal PUC 641 at 672.

11/ Pacific Tel. & Tel. Co. v Public Util. Com. (1965) 62 C 2d 634 at 668, 44 Cal Rptr 1.

Fire Hydrant Agreements

Cal-Am is concerned with the staff's recommendation that "any costs of upgrading the fire protection service should not be borne by ratepayers" (Exhibit 12, para. 16.2, p. 19). The staff witness made it clear that the staff's purpose was to assure that the fire districts, or "other sources", but not the ratepayers, would pay for such "upgraded" fire service. Cal-Am's only remaining concerns following that testimony are to define "upgrading" and to be assured that Cal-Am (or any water utility) can, in fact, decline a fire department or district request to "upgrade" fire service at Cal-Am's own expense when all other potential sources decline. Cal-Am then wants to know if a complaint is filed with the Commission against the company, will the company be in a position legitimately to rely upon the staff's position in this case, and, if so, whether the issue disappears? We will address this issue when there is a concrete case before us.

Assembly Bill No. 1653 prohibits, in the absence of a written agreement, a water utility from charging fire protection agencies within its service territory for any fees heretofore collected in connection with the furnishing of fire protection services. The Commission, by Resolution No. L-213 (dated December 18, 1979), authorized water utilities to recover the loss of fire protection revenues through a surcharge based on the service charge or flat rate. Cal-Am is currently recovering fire protection revenues through a surcharge in Village (Advice Letter No. 198, effective January 28, 1980). We will require the surcharge to be included in the General Metered Service Charge beginning 1981. Cal-Am will continue to notify customers of the surcharge for fire protection through 1980 (Commission Resolution No. L-213).

Wage and Price Standards

By Resolution No. M-4704 dated January 30, 1979, the Commission ordered all utilities requesting general rate increases to submit an exhibit to show whether the requested increase complies with the Voluntary Wage and Price Standards issued by the Council on Wage and Price Stability (COWPS). Cal-Am's Exhibit 3 shows that (1) wage increases granted by it and (2) the requested rate increases are within the established guidelines.

The staff in its estimates had included wage increases (including benefits) of 8.5 percent for 1980 and 8.2 percent for 1981. These increases were within the COWPS guidelines. Cal-Am had informed the staff that its employees were being paid considerably lower wages than their counterparts in the water utility industry and that the then ongoing negotiations with the unions may result in wage increases well in excess of COWPS guidelines. The staff had informed Cal-Am that in order for the staff to include wage increases in excess of the COWPS guidelines a waiver from the COWPS will be necessary. Cal-Am obtained such a waiver from COWPS on February 14, 1980. Cal-Am has filed Advice Letter No. 204 dated April 16, 1980 requesting that wage increases of 10.0 percent for 1980 and 9.5 percent for 1981 be considered for setting rates in this decision.

We will take notice of Advice Letter No. 204 and include additional expenses of $17,100 for 1980 and $23,800 for 1981 in arriving at the adopted results of operation.

Summary of Earnings

Summarized on the following tables are the results of operation derived from Cal-Am's Exhibit 23 and the staff's Exhibit 12-A, both adjusted to reflect Southern California Edison Company's power rates in effect on February 3, 1980. In addition, adopted and authorized rates are based on results of operations which reflect Advice Letter No. 204 dated April 16, 1980 covering Cal-Am's latest negotiated wage increase effective January 1, 1980, which comports with the Voluntary Wage and Price Standards issued by COWPS.

TABLE III
CALIFORNIA-AMERICAN WATER COMPANY - VILLAGE DISTRICT
Estimated Results of Operation
Test Year 1980

Item	Present Rates			Authorized Rates
	Applicant	Staff	Adopted Results	Adopted Results
	(Dollars in Thousands)			
	(a)	(b)	(c)	(d)
Operating Revenues	$3,268.0	$3,425.7	$3,386.3	$3,353.8
Operating Expenses				
Purchased Water	1,468.3	1,506.2	1,482.4	1,482.4
Purchased Power	34.5	35.7	35.2	35.2
Uncollectibles	3.6	3.7	3.7	3.6
Other O & M	348.1	348.1	355.4	355.4
Local Franchises	49.0	51.3	50.8	50.3
Other A & G	209.2	209.2	216.0	216.0
Gen. Off. Prorated	161.3	161.2	163.4	163.4
Amortization of Losses	13.1	13.1	13.1	13.1
Subtotal	2,287.1	2,328.5	2,320.0	2,319.4
Depreciation Expense	214.3	214.3	214.3	214.3
Taxes Other Than Income	102.8	102.8	103.6	103.6
CCFT @ 9.6%	34.2	45.4	42.4	39.3
FIT @ 46%	119.5	167.8	154.7	141.4
Total Oper. Exp.	2,757.9	2,858.8	2,835.0	2,818.0
Net Operating Revenue	510.1	566.9	551.3	535.8
Rate Base	5,257.7	5,257.7	5,257.7	5,257.7
Rate of Return	9.70%	10.78%	10.49%	10.19%

TABLE IV

CALIFORNIA-AMERICAN WATER COMPANY - VILLAGE DISTRICT
Estimated Results of Operation
Test Year 1981

Item	Present Rates			Authorized Rates
	Applicant	Staff	Adopted Results	Adopted Results
	(Dollars in Thousands)			
	(a)	(b)	(c)	(d)
Operating Revenues	$3,472.0	$3,605.3	$3,564.5	$3,604.2
Operating Expenses				
Purchased Water	1,564.2	1,586.7	1,562.0	1,562.0
Purchased Power	36.8	37.6	37.0	37.0
Uncollectibles	3.8	3.9	3.9	3.9
Other O & M	380.8	380.8	391.9	391.9
Local Franchises	52.1	54.0	53.5	54.1
Other A & G	226.7	226.7	235.9	235.9
Gen. Off. Prorated	174.3	174.2	176.4	176.4
Amortization of Losses	13.1	13.1	13.1	13.1
Subtotal	2,451.8	2,477.0	2,473.7	2,474.3
Depreciation Expense	233.9	233.9	233.9	233.9
Taxes Other Than Income	117.8	117.8	119.1	119.1
CCFT @ 9.6%	34.5	44.8	41.1	44.9
FIT @ 46%	120.0	165.0	148.9	165.1
Total Oper. Exp.	2,958.0	3,038.5	3,016.7	3,037.3
Net Operating Revenue	514.0	566.8	547.8	566.9
Rate Base	5,563.3	5,563.3	5,563.3	5,563.3
Rate of Return	9.24%	10.19%	9.85%	10.19%

The adopted results of operation, Table III, column (c), for 1980 show that at present rates on a test year basis the estimated rate of return exceeds the presently authorized 10.06 and adopted 10.19 percent rates of return on rate base.

Staff witness Garde testified that the main reason for the high estimated rate of return shown at present rates is due to a change in treatment of interest cost for computing income taxes. For this proceeding the staff used the estimate of total company debt for computing interest cost for income tax expense. The interest cost was allocated to each district on the basis of the January 1, 1979 rate base. The reason for the change in method of computing interest expense is that rate of return in this proceeding is based on total company capital structure. Therefore, the staff is not recommending a rate reduction for the year 1980; however, the staff is recommending that when Village experiences increases in cost items which can be recovered through the offset procedure, the next offset be reduced by an appropriate amount. We agree with the recommendation and Village will reduce its next offset by the product of the difference in rate of return between estimated-adopted, Table III, column (c), and authorized rate of return for 1980, times net to gross multiplier, times 1980 adopted rate base which is $32,500.

Rate Spread

The staff generally agrees with the present rate structure for General Metered Service, which consists of a service charge and a two-block quantity rate (0-500 and over 500 cubic feet). However, the staff recommends that:

1. The lifeline quantity of 500 cubic feet should be reduced to 300 cubic feet. The changeover should be gradual and should be done in a manner that no rate block gets a disproportionate increase in rates.

2. Rates for lifeline should go up only after the overall rate increase for the district exceeds 25 percent over the rates in effect on January 1, 1976. (The utility's current rates exceed January 1, 1976 rates by approximately 33 percent.)

Since Cal-Am stipulates to the staff's rate design recommendations and we find the recommendations reasonable, we will adopt the staff's recommendations.

Findings of Fact

1. Cal-Am's programs for reducing unaccounted-for water losses and water conservation in Village are commendable.

2. The Village system is being operated in an efficient manner and customers are receiving a good level of service.

3. The adopted estimates of operating revenues, operating expenses, and rate base for the test years 1980 and 1981 and an annual fixed-rate decline of 0.60 percent in rate of return into 1982 due to operational attrition reasonably indicate the results of Cal-Am's operations for the near future.

4. A rate of return of 10.19 percent on the adopted rate base for 1980 and 1981 is reasonable. The related return on common equity is 11.50 percent. This rate of return is adopted for the Village District and will be adopted for the Monterey, Baldwin Hills, Duarte, and San Marino Districts.

5. The adopted results of operation for test year 1980, Table III, column (c), show that present rates will yield the authorized rate of return on a normalized basis and no change need be made to present rates, except for offsettable increases in expenses, for the year 1980.

6. Offsettable increases in expenses for the year 1980 should be reduced by $32,500 to reflect the difference between adopted operating revenues at present and authorized rates for test year 1980 (shown on Table III, columns (c) and (d)).

7. The adopted results of operation for test year 1981, Table IV, column (c), show that on a normalized basis present rates will not allow Cal-Am to earn the authorized rate of return in Village. An increase of $39,700, or 1.11 percent, will allow Cal-Am to earn the authorized rate of return for test year 1981.

8. An allowance of 0.6 percent in rate of return to compensate for operational attrition in the year 1982 is reasonable. This will require an increase of $69,500, or 1.93 percent, in annual revenues for 1982. This step-rate increase for 1982 should be adjusted so that the authorized 10.19 percent rate of return will not be exceeded for the 12 months ended September 30, 1981.

9. The staff's rate spread proposal is reasonable.

10. The increase authorized herein is in compliance with the President's guidelines on Wage and Price Stability.

11. 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.

12. Appendix B contains information regarding adopted data for this proceeding.

Conclusion of Law

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

O R D E R

IT IS ORDERED that:

1. California-American Water Company's (Cal-Am) Village District rates shall remain unchanged for 1980.

2. On or after November 15, 1980, Cal-Am is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increases attached to this order as Appendix B or

to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the Village District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ended September 30, 1980, exceeds the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the then most recent rate decision or (b) 10.19 percent. Such filing shall comply with General Order No. 96-A. The requested step rates shall be reviewed and, if appropriate, approved by the staff prior to becoming effective. The effective date of the revised schedule shall be no sooner than January 1, 1981, or thirty days after the filing of the step rates, whichever comes later. The revised schedule shall apply to service rendered on and after the effective date thereof.

3. On or after November 15, 1981, Cal-Am is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increases attached to this order as Appendix B or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix B in the event that the Village District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ended September 30, 1981, exceeds the lower of (a) the rate of return found reasonable by the Commission for Cal-Am during the corresponding period in the then most recent rate decision or (b) 10.19 percent. Such filing shall comply with General Order No. 96-A. The requested step rates shall be reviewed and, if appropriate, approved by the staff prior to becoming effective. The

effective date of the revised schedule shall be no sooner than January 1, 1982, or thirty days after the filing of the step rates, whichever comes later. 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 JUN 17 1980, at San Francisco, California.

John E. Bryson
President
Vernon L. Sturgeon
Claire T. Dedrick
Leonard M. Grimes, Jr.
Commissioners

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Village Tariff Area

Authorized Increase in Rates

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rates which would otherwise be in effect on that date.

	Rates to be Effective 1-1-81	1-1-82
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft. ...	0.000	0.010
For the next 100 cu.ft., per 100 cu.ft. ...	.000	.144
For the next 100 cu.ft., per 100 cu.ft. ...	.136	.008
For all over 500 cu.ft., per 100 cu.ft. ...	.002	.008

APPENDIX B

A-59233 /ALJ/ks *

TABLE I
California-American Water Company
Village District

REQUESTED AND AUTHORIZED INCREASES

Item	Utility's Application		Authorized		
	1980	1981	1980	1981	1982
Total Operating Revenues					
Present Rates ($ x 10^3)	$3,338.0	$3,472.0	$3,386.3	$3,564.5	$3,564.5
Proposed Rates ($ x 10^3)	3,693.8*	3,982.7*	3,386.3**	3,604.2**	3,673.7**
% Increase Over Present Rates	10.64%	14.71%	0.0%	1.11%	3.06%
% Step Rate Increase		7.82%		6.43%	1.93%
Typical Residential Bill (25 Ccf)					
Present Rates	$ 16.37	$ 16.37	$ 16.37	$ 16.37	$ 16.37
Proposed Rates	18.50*	18.81*	16.37**	16.55**	16.87**
% Increase Over Present Rates	13.01%	14.91%	0.00%	1.10%	3.12%
% Step Rate Increase		1.67%		1.10%	1.99%
Rate of Return on Rate Base	11.14%	11.14%	10.19%	10.19%	10.19%
Return on Equity	13.50%	13.50%	11.50%	11.50%	11.50%

* At utility's proposed rates.
** At new rates authorized in this decision.

APPENDIX 3
Page 1 of 6

TABLE II

CALIFORNIA-AMERICAN WATER COMPANY

VILLAGE DISTRICT

COMPARISON OF MONTHLY RATES

GENERAL METERED SERVICE - SCHEDULE NO. V-1

	Present Rates*		Proposed Rates**		Adopted Rates***		
	Surcharge#	(1)	1980 (2)	1981 (3)	1980 (4)	1981 (5)	1982 (6)
Service Charge							
For 5/8 x 3/4-inch meter	$ 0.44	$ 4.50+	$ 4.75+	$ 4.90+	$ 4.94	$ 4.94	$ 4.94
For 3/4-inch meter	0.48	4.95+	5.20+	5.35+	5.43	5.43	5.43
For 1-inch meter	0.65	6.75+	7.10+	7.30+	7.40	7.40	7.40
For 1-1/2-inch meter	0.90	9.00+	9.50+	9.80+	9.90	9.90	9.90
For 2-inch meter	1.20	12.15+	12.80+	13.20+	13.35	13.35	13.35
For 3-inch meter	2.20	22.50+	23.70+	24.50+	24.70	24.70	24.70
For 4-inch meter	3.00	30.60+	32.25+	33.30+	33.60	33.60	33.60
For 6-inch meter	4.95	50.85+	53.60+	55.30+	55.80	55.80	55.80
For 8-inch meter	7.35	75.60+	79.70+	82.25+	82.95	82.95	82.95
For 10-inch meter	9.10	93.60+	98.65+	101.80+	102.70	102.70	102.70
For 12-inch meter	10.95	105.75+	111.50+	115.10+	116.70	116.70	116.70
Quantity Rates							
0-300 cu.ft., per 100 cu.ft.		$ 0.35	$ 0.41	$ 0.43	$ 0.35	$ 0.35	$ 0.36
300-400 cu.ft., per 100 cu.ft.		0.35	0.41	0.43	0.35	0.35	0.494
400-500 cu.ft., per 100 cu.ft.		0.35	0.41	0.43	0.35	0.486	0.494
Over 500 cu.ft., per 100 cu.ft.		0.484	0.563	0.566	0.484	0.486	0.494

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.

*From Tariff Sheet 1281-W, effective July 1, 1979.

**Exhibit 1.

***Reflects Fire Protection Revenue Loss Surcharge, Tariff Sheet 1319-W, dated January 1, 1980.

#Public Fire Protection revenue surcharge to be added to service charges in Columns (1), (2), and (3).

TABLE III

ADOPTED QUANTITIES

Name of Company: California American Water Company District: Village

Application No.: 59238

Prepared By: Jay Johnson

		Name	Initials
Project Manager		A. V. Garde	AVG
Witnesses	1.	Dave Fukutome	DKF
Engineer	2.	Jay Johnson	JBJ
	3.		

Net-to-Gross 2.082 Special Remarks

Federal Tax Rate 46%

State Tax Rate 9.6% (for both test years)

Local Franchise Tax Rate 1.5%

Business License -

Uncollectibles Rate .1085%

Offset Items	Test Years 1980	1981
1. Purchased Power: Witness A.V.G.- J.B.J.		
(Amount in A.F.)		
Electric Pumped Ccf	5,292,906 Ccf	5,577,175 Ccf
A.F.	12,150.84 A.F.	12,803.43 A.F.
Electric:		
Demand Cost (Fixed)	$	$
Variable Cost	$	$
Total Cost	$ 35,200	$ 37,000
KWhr @ .10553 kwh/Ccf	558,560	558,559
Eff. Sch. Date	2/3/80	2/30/80
$/KWhr used	$ .06393	$ .06393

So. Cal. Edison	$/kwh
Im effect on	2/3/80
ECAC	.03915
Fuel Bal. Act	-.00107
TCAC	.00000
CIMAC	.00003
State Eng. tax	.00015

2. Purchased Water: Witness A.V.G.

Source	Cost $/A.F.		Amount in A.F. 1980	Amount in A.F. 1981	Cost in $(1,000) 1980	Cost in $(1,000) 1981
Calleguas Municipal Water District	122.00	Effect 7/1/79	12,150.84	12,803.43	1,482.4	1,562.0
Total	122.00					

(Continued)

Name of Company: California American Water Company District: Village

3. Pump Tax - Replenishment Tax: Witness None

4. Expense Payroll: Witness DKF	1980	1981
Operation & Maintenance	$198,600	$219,000
Administrative & General	$ 64,300	$ 70,500
Total	$262,900	$289,500
Expensed Payroll Taxes	$ 19,700	$ 23,200
Composite Payroll Tax Rate	7.51%	8.02%

5. Employee Benefits: Witness DKF	1980	1981
Pension & Benefits	$ 53,500	$ 59,800

6. Ad Valorem Taxes: Witness DKF		1980	1981
Amount		$ 84,200	$ 96,300
	1979-80	1980-81	1981-82
Tax Rate	1.226%	1.226%	1.226%
Assessed Value -	$6,467,792	$7,271,030	$8,431,150

Metered Water Sales used to design rates Witness: A.V.G.

	Range-Ccf	Usage-Ccf 1980	1981	
Block 1	0-3	494,256	522,760	Lifeline
Block 2	3-4	157,737	166,837	
Block 3	4-5	153,510	162,358	
Block 4	>5	4,247,687	4,474,131	
Block 5		-	-	
Total Usage		5,053,190	5,326,086	

Metered Customers

	No. 1980	No. 1981	Usage - Ccf 1980	Usage - Ccf 1981	Avg. Usage - Ccf/yr 1980	Avg. Usage - Ccf/yr 1981
Residential & Small Business Commercial	13,987	14,796	4,266,035	4,512,780	305.0	305.0
Public Authority	73	75	253,755	260,708	3,476.1	3,476.1
Industrial	112	118	358,400	377,600	3,200.0	3,200.0
Other Golf Course	2	2	175,000	175,000	87,500	87,500
Subtotal	14,174	14,991	5,053,190	5,326,088		
Flat Rate	20	20	28,000	28,000		
Private Fire Protection	75	80	-	-		
Public Fire Protection	1,458	1,477				
Subtotal			28,000	28,000		

(Continued)

Name of Company: California American Water Company District: Village

Total	15,727	16,568	5,081,190	5,354,088
4% Water Loss			211,716	223,087
Total Purchased Water			5,292,906	5,577,175

TABLE IV
California-American Water Company
Village District

ADOPTED TAX CALCULATION

Line No.	Item	Test Year 1980 CCFT	Test Year 1980 FIT	Test Year 1981 CCFT	Test Year 1981 FIT
		(Dollars in Thousands)			
1	Operating Revenue	$3,386.3	$3,386.3	$3,604.2	$3,604.2
	EXPENSES:				
2	Operation & Maintenance	1,876.7	1,876.7	1,994.8	1,994.8
3	Administrative & General	266.8	266.8	290.0	290.0
4	General Office @ 15.68%	163.4	163.4	176.4	176.4
5	Taxes Other	103.6	103.6	119.1	119.1
6	CCFT	-	42.4	-	44.9
7	Subtotal	2,410.5	2,452.9	2,580.3	2,625.2
	Deductions from Taxable Income:				
8	Tax Depreciation	236.7	244.7	257.7	267.0
9	Amortization	-	-	-	-
10	Debt Expense	2.9	2.9	2.9	2.9
11	Capitalized Overhead	10.3	10.3	11.5	11.5
12	Interest	284.7	284.7	284.1	284.1
13	Subtotal Deductions	534.6	542.6	556.2	565.5
14	Net Taxable Income (CCFT)	441.2		467.7	
15	CCFT @ 9.6%	42.4		44.9	
16	Net Taxable Income (FIT)		390.8		423.5
17	FIT @ 46%		179.8		190.2
18	Less Grad. Tax Adj. @ 15.68%		(3.3)		(3.2)
19	ITC		(21.8)		(21.8)
20	Net FIT		154.7		165.1

(Red Figure)