

ORIGINAL

Decision No. 92241 SEP 16 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)	Application No. 58850
it to increase its rates for)	(Filed May 8, 1979)
water service in its MONTEREY)	
PENINSULA DISTRICT.)	

Dinkelspiel, Pelavin, Steefel & Levitt, by
Lenard G. Weiss, Attorney at Law,
 for applicant.

Chickering & Gregory, by David R. Pigott,
 Attorney at Law, for Pebble Beach
 Corporation; Ed F. Catey, for himself; and
Bruce Buel, for Monterey Peninsula Water
 Management District; interested parties.
Ellen LeVine, Attorney at Law, and
Arthur Mangold, 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 Monterey District to produce annual revenue increases of \$2,543,900 (or 75.1 percent) in 1979, an additional \$706,900 (or 19.1 percent) in 1980 and an additional \$254,000 (or 5.9 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. Cal-Am was last authorized to adjust its rates by Decision No. 86249 dated August 17, 1976.

After due notice, public hearings were held before Administrative Law Judge Burt Banks in Monterey on March 6 and 7, 1980, in San Francisco March 13, 14, and April 10 and 11, 1980. The matter was submitted April 11, 1980 with concurrent briefs to be filed May 19, 1980.

Testimony was presented on behalf of Cal-Am by Chairman and Chief Executive Officer, C. M. O'Day, by its vice president-general manager of its Monterey District, Richard T. Sullivan, by its treasurer-vice president of finance, Robert W. Bruce, and by a consulting engineer, John Housiaux. Testimony on behalf of the Commission staff was presented by utilities engineers Arthur Mangold, Donald Yep, and Gregory Wilson.

Prior to the public hearing, an informal public meeting was held in Monterey on January 21, 1980 to receive customer comments relative to water service.^{1/} The meeting was sponsored jointly by Cal-Am and the staff and was attended by approximately 65 persons. Of those in attendance 23 offered comments. Although each customer comment was a response to an individual experience, they can be categorized as follows:

Opposition to the magnitude of the requested increase	13
Complaints regarding service	12
Complaints regarding water quality	7
Proposal for rate incentive to achieve conservation	4
Concern of long range supply	3
Concern regarding ground water deterioration	<u>1</u>
Total	40

^{1/} A detailed report of the meeting was attached as an appendix to staff Exhibit No. 24.

At the hearing held March 6 and 7 at Monterey, approximately 50 customers were in attendance. A summary of those making statements or testifying follows.

Jack Sassard, representing the Board of Directors of the Carmel Valley Property Owners Association stated that Cal-Am should provide the Monterey Peninsula Water Management District (MPWMD) with funds to establish an adequate well monitoring system and participate financially in seeking additional water supplies. Mr. Sassard also recommended establishment of a lifeline rate and no discount for large users.

Paul Eng stated he did not like the quality of water provided by Cal-Am. Carl Silva stated, as did Tom Upton, that the water pressure was poor and questioned whether the meters were ever read.

Frank Fulton stated that the Commission should review and question Cal-Am's dividend policy. Bill Hambara stated that he supported the staff exhibit but questioned whether service was adequate and the price break afforded golf courses. Finally, Herbert Browning stated that he questioned whether the rate-making process was fair and equitable.

Testifying or making a statement in support of Cal-Am's plans to proceed with the development of four wells for lower Carmel Valley were the following:

John Williams, member of the Board of Directors
of MPWMD.

Bruce Buel, general manager of the MPWMD.

Carl Hooper, an independent consulting engineer.

Kevin LaGraff, staff assistant to Assemblyman
Henry Mello.

Michael Moore, chairman of the Monterey County Regional Sanitation District and chairman of the Monterey County Board of Supervisors.

William G. Peters, member of the Monterey County Planning Commission.

Nancy McClintock, member of the MPWMD.

Sam Farr, member of the Monterey County Board of Supervisors.

Finally, Herbert Scales, fire chief of the city of Monterey, testifying on behalf of the Cities of Monterey and Pacific Grove, stated that the two cities were not opposed to Cal-Am's recovering its costs, but were fearful that with the Commission's adoption of Resolution No. W-2590 dated January 29, 1980,^{2/} Cal-Am would recover its loss of revenue while providing lesser service.

^{2/} Resolution No. W-2590 relates to the recovery of lost revenue for fire protection service resulting from the passage of AB 1653. That bill 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 Monterey (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).

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Issues

The two major issues addressed at the hearing were:
(1) whether Cal-Am should proceed with the development of four wells to increase supply for its Monterey District, and
(2) what is a fair and reasonable estimate of normalized water consumption per customer for calculating test year operating revenues. One minor issue was the amount of expense to be allowed for a cost of service study requested by the staff.

Service Area and Water System

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

Cal-Am's Monterey District provides public utility water service to approximately 30,000 customers in the cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, and Sand City; portions of the city of Seaside and unincorporated areas of Monterey County known as Carmel Valley, Carmel Highlands, Pebble Beach, and Robles Del Rio. Elevations vary from approximately sea level to 1,200 feet above sea level with the topography such that it requires several lift zones in widely separated territories within the service area. Water supply is from the surface and sub-surface flow of the Carmel River and wells in both the Carmel Valley and Seaside areas. ✓

Rate Design

Cal-Am's only proposed change in its rate structure is the elimination of Rate Schedule No. MO-M3, off-peak golf course irrigation. This schedule now provides for a 15 percent discount below general metered service rates for irrigation between 9:00 p.m. and 5:00 a.m.^{3/}

MPWMD proposes that Cal-Am's rates be restructured to promote conservation by: (1) instituting a uniform commodity rate structure with a minimum lifeline rate for limited usage, and (2) instituting a seasonal rate structure with higher rates for customers using over a base amount of water during the summer and fall months.

The staff recommends: (1) conversion from the minimum charge type schedule to a service charge schedule, (2) retention of a 300 cubic feet lifeline quantity block with the rates designed such that any increase for lifeline consumption as a result of this proceeding be approximately 25 percent less than would be indicated by a fully allocated cost of service analysis, and (3) two quantity blocks in addition to the lifeline block with the tail block designed such that any increase for golf course customers be approximately the same as for other customers using over the lifeline allowance.^{4/} The staff supports Cal-Am's proposal to eliminate the 15 percent discount to golf courses stating that such is consistent with Cal-Am's practice for its other districts in addition to having the advantage of keeping all metered service under one rate schedule.

^{3/} The 15 percent was established by Decision No. 86249. Prior to that decision the discount was 25 percent.

^{4/} In direct testimony the staff witness altered this recommendation in recommending a 2-quantity-block rate structure.

The staff opposes MPWMD's proposal for seasonal rates stating: (1) there is insufficient evidence to support the contention that there is a significant cost differential in providing service from different sources, and (2) any reallocation of costs to achieve water conservation through seasonal rates would result in phantom revenues for Cal-Am.

The staff proposal is reasonable, consistent with our views of the evidence, in agreement with our rate treatment for the other districts of Cal-Am, and should be adopted.

Service

The staff report (Exhibit 24) states that service is approaching normal following the service restrictions imposed following Case No. 9530 and by the recent drought. The report states that the improvement is made possible by a more reliable water supply and a more efficient transmission system. The additions making this possible include three wells in the Carmel Valley, the Canada de La Segunda pipeline to transmit water from the Carmel Valley to Seaside, expansion of the Rancho Boulevard pumping station to increase the rate at which Carmel Valley water can be transmitted, and a 5-million-gallon reservoir at Forest Lake area with a 30-inch pipeline to transmit water from Forest Lake to Pacific Grove and Monterey.

Although there are some continuing complaints regarding poor water quality, unpleasant taste, and odors, the staff reports state that with the above improvements Cal-Am has alleviated many of these problems and with improvement programs currently in operation the service will continue to improve. The staff concluded that the current level of service is satisfactory.

Present Operations

Conservation

The staff report (Exhibit 24) states that Cal-Am is continuing to remind customers to conserve and to avoid non-beneficial water use. During the 1977-78 drought, water conservation kits (water closet displacement bottles and shower head restrictors) were furnished to every residential customer and will continue to have an effect on conservation.

Cal-Am's filed tariff Rule 11-A is a water rationing plan formulated during the drought by the MPWMD^{5/} that allocates water to all users by phases. The quantity of water allocated on a specific phase is dependent on well production.

Rate of Return

Cal-Am filed this and four^{6/} other applications for rate relief in five of the six individual districts served by the company. Decision No. 91910 dated June 17, 1980 in Application No. 59238 includes an extensive discussion of the rate of return issue. As noted in that decision, the rate of return (10.19 percent) and return on equity (11.50 percent) adopted therein will be applied to all five districts.

5/ By Decision No. 86907 dated February 18, 1977, the MPWMD was designated as the agency to administer and enforce the rationing program.

6/ Village, A.59238 filed October 24, 1979.
Baldwin Hills, A.59418 filed February 4, 1980.
Duarte, A.59419 filed February 4, 1980.
San Marino, A.59420 filed February 4, 1980.

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 expectation that the districts of Class "A" water utilities not file a general rate increase more often than once in three years, we will authorize a maximum step increase for 1982 of \$211,800 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 step 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 Operations

With the following exceptions, Cal-Am adopts the staff's estimates since they were based on later recorded data and information furnished by Cal-Am:

- (a) Test year revenues - average use per customer.
- (b) Rate base item - four new wells and related plant.
- (c) Expense item - cost-of-service study.

Operating Revenues

While Cal-Am and staff agree on customer estimates, they disagree on estimates of average use per customer for the test years. The differences in average-use-per-customer estimates are not large, but because Monterey District has over 30,000 customers, there is a significant impact on test year revenues.

Both Cal-Am and staff used the Modified Bean Method to estimate average use per customer; however, there were differences in the methodology used. The estimates of average use per customer and total consumption are set forth in the following tabulation along with the estimates we adopt for the test year.

TABLE I

Average Use Per Customer - Ccf/Cust./Yr.*Test Year 1980

Customer Class	Cal-Am	Staff	Adopted
<u>Normal Users</u>			
**Residential	98.8	104.6	104.6
**Business	344.2	364.5	364.5
Public Authority	431.0	454.1	345.0
<u>Large Users - (Over 4,800 Ccf/Yr.)</u>			
Business	11,000.0	11,500.0	11,000.0
Public Authority	32,000.0	28,740.0	32,000.0
Industrial	5,000.0	4,900.0	5,000.0
Other	1,326.1	1,326.1	1,326.1
Golf Course	23,076.9	29,061.5	27,369.0
**Res. & Bus. combined	134.9	142.9	142.9

Total ConsumptionTest Year 1980

Customer Class	Average Customers	Consumption - KCCF/Yr.		
		Cal-Am	Staff	Adopted
<u>Normal Users</u>				
Residential	25,716	2,539.7	2,689.5	2,689.5
Business	4,446	1,530.2	1,620.6	1,620.6
Public Authority	378	162.9	171.6	130.4
<u>Large Users</u>				
Business	48	528.0	552.0	528.0
Public Authority	15	480.0	431.1	480.0
Industrial	10	50.0	49.0	50.0
Other	23	30.5	30.5	30.5
Golf Course	13	300.0	377.8	355.8
Total	30,649	5,621.3	5,922.1	5,884.8

* Derived from Exhibit 20 and Exhibit 24.

TABLE II

Average Use Per Customer - Ccf/Cust./Yr.*Test Year 1981

Customer Class	Cal-Am	Staff	Adopted
<u>Normal Users</u>			
**Residential	99.0	106.8	104.6
**Business	340.6	367.7	364.5
Public Authority	419.0	454.0	345.0
<u>Large Users - (Over 4,800 Ccf/Yr.)</u>			
Business	11,000.0	11,500.0	11,000.0
Public Authority	32,000.0	28,740.0	32,000.0
Industrial	5,000.0	4,900.0	5,000.0
Other	1,326.1	1,326.1	1,326.1
Golf Course	23,076.9	29,061.5	27,369.0
**Res. & Bus. combined	135.0	145.7	142.9

Total ConsumptionTest Year 1981

Customer Class	Average Customers	Consumption - Cal-Am	Consumption - Staff	Consumption - Adopted
<u>Normal Users</u>				
Residential	25,986	2,572.1	2,776.2	2,718.1
Business	4,550	1,549.7	1,672.9	1,658.5
Public Authority	394	165.1	178.9	135.9
<u>Large Users</u>				
Business	49	539.0	563.5	539.0
Public Authority	15	480.0	431.1	480.0
Industrial	10	50.0	49.0	50.0
Other	23	30.5	30.5	30.5
Golf Course	13	300.0	377.8	355.8
Total	31,040	5,686.4	6,079.9	5,967.8

* Derived from Exhibit 20 and Exhibit 24.

Normal Users

This group consists of residential, business or commercial, and public authority classes.

Cal-Am and staff generally used the same methodology to estimate average use per customer as they did in the recent Village District proceeding. We will not repeat the discussion of the technical details since these are adequately covered in Decision No. 91910 involving Cal-Am's Village District. We will, however, mention the more significant points that have an impact on the adopted results.

Cal-Am combined all three classes: residential, business, and small public authority customer classes. The public authority customers class in Monterey District includes a large number of residential housing units served through master meters (unlike this class in the Village District). Therefore, the reservations we had in the Village proceeding of Cal-Am combining public authority with residential class are not present here since large public authority customers were treated separately. On the other hand, we are not prepared to adopt Cal-Am's estimate because: (1) the conservation factors used in its regression analysis are based only on judgment and severely impact the final result, and (2) Cal-Am's test year 1980 estimate is on the low side compared to the latest available recorded 1979 consumption figures.

Staff combined the residential and small business classes. It excluded recorded data for the last three years (1977, 1978, and 1979) because of the drought's effect. After analyzing multiple regression runs covering spans of five to thirteen years, as described in the supplement of the Standard Practice U-25, Exhibit 14,

staff decided to use the regression run covering the five years 1972 through 1976. They then adjusted the result obtained for the best years downward to reflect post-drought conservation. This adjustment was made graphically and based on judgment. While we do not agree with staff's reasons for excluding 1978 and 1979 consumption data from their regression analysis, we note that their graphical adjustment based on judgment produced a test year 1980 estimate which is compatible with the latest 1979 recorded data. Notwithstanding, we believe staff's test year 1981 estimate reflects too much increase over their 1980 estimate considering the residual effects of the drought, the company's conservation program, and local building codes which mandate water conservation devices on new construction.

Residential and Business/Commercial

We believe that because of the unusual circumstances following the 1977 drought in the Monterey District, the 1979 recorded consumption normalized for weather will be most indicative of expected consumption during the test years. Since 1979 is the latest recorded year available, it necessarily reflects the most current consumption or use patterns resulting from a growing conservation awareness by customers. Normalizing 1979 recorded consumption will produce an annual per customer consumption estimate, reliable and reflective of anticipated future conditions for rate-setting purposes. Accordingly, for the residential and business or commercial classes, we adopt as reasonable for both test years the staff's 1980 estimate of 142.9 Ccf/customer/Yr. since this figure approximates 1979 recorded normalized consumption.

Small Public Authority

For the small public authority class, we will adopt the 1979 recorded consumption (329.3) with some adjustment for weather. We believe an adjustment for weather is appropriate in this instance since many of the customers in this class are residential. Also, since 1979 was a wet year, some upward adjustment of recorded consumption to reflect normal weather conditions is indicated. For this purpose the same percentage (4.65) reflected in staff's weather adjusted recorded 1979 residential consumption is reasonable. Accordingly, for the small public authority class, for test year purposes, a consumption of 345 Ccf/Cust./Yr. is adopted for both test years.

Large Users (Except Golf Courses)

Cal-Am's and staff's estimate of average consumption per customer are close. Cal-Am's Exhibit 21 is a graphical projection of prior recorded consumption through 1979. Based on this exhibit we believe Cal-Am's estimates for the test years are reasonable in relation to 1979 recorded consumption. The staff's estimates are high and do not adequately reflect residual conservation and Cal-Am's ongoing conservation program. Recognizing that consumption in these categories is more sensitive to business and economic conditions with limited sensitivity to weather, no special adjustment for weather is necessary. We will adopt Cal-Am's estimates for the industrial and large user categories.

Golf Courses

Exhibit 21 shows that following the 1977 drought, golf course consumption for recorded years 1978 and 1979 was very similar. Cal-Am's estimate for the test years is significantly lower than 1978 and 1979 recorded while staff's estimate is higher. It appears that the staff estimate does not adequately reflect Cal-Am's ongoing conservation program as well as any possible cost control measures and watering practices put into effect following the 1977 drought. We will therefore adopt 1979 recorded consumption for the test years as we believe this is the most indicative of golf course consumption for the next three years.

Total Consumption

A comparison of Cal-Am's, staff's, and our adopted consumption for the test years is shown on the last line of Tables I and II. Bearing in mind that: (1) the consumption estimates adopted in this proceeding will be built into the rates for the next three years, (2) Cal-Am has an aggressive water conservation program in place, (3) it is not possible to estimate future water conservation in the Monterey District with much certainty, and (4) there are over 30,000 customers in the Monterey District and a small change in consumption per customer has a significant impact on revenues, we believe the total consumption figures adopted for the test year are reasonable. ✓

Rate Base Items - Four New Wells

The biggest issue of controversy in this proceeding was how to treat four new wells Cal-Am is developing in the lower Carmel Valley. A great deal of emotion, time, and energy was expended by the parties to develop their positions.

Cal-Am plans to augment its Monterey District supply by spending approximately \$2,680,000 to construct the four wells and a related water treatment plant in the lower Carmel Valley. It is anticipated that the wells will develop approximately 4,000 acre-feet of new water supply. As of December 3, 1979, expenditures for these wells totaled \$336,637 of which \$146,072 was for land. Applications for use permits are presently pending before the Monterey County Planning Commission. Construction time, after receipt of all permits, is projected at one year. Cal-Am wishes to have the full \$2,680,000 investment in its rate base when the project is completed and on line. It proposes that the addition to rate base be accomplished by advice letter filing when the units go into service.

The Commission staff takes exception to Cal-Am's position that the four wells are needed at this time to assure supply against the possibility of a future drought. It is staff's position that circumstances in the Monterey District have changed since Decision No. 89195 was issued and that the four wells are not needed at this time. To support its position, staff argues that (1) a more than adequate reserve margin exists between total prudent production and normalized demand; (2) back-up drought facilities resulting in the margin Cal-Am proposes are not required; and (3) popular community support is but one consideration in the analysis of determining a test year rate base.

Notwithstanding the staff's well-reasoned position, we believe Cal-Am should go forward with plans to develop its new water supply.

In Decision No. 86807 dated January 5, 1977 we stated in Finding No. 2:

"Cal-Am by not financing and constructing the necessary production, storage, and transmission plant, has failed to furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities as are necessary to promote the safety, health, comfort, and convenience of its patrons and the public, as required by Section 451 of the Public Utilities Code."

That decision also precluded Cal-Am from paying dividends and subjected it to a potential \$2,000 per day penalty for failure to vigorously initiate and complete the construction of the Begonia and Canada projects.^{7/} Various other orders emanating from Case No. 9530 made specific requirements of Cal-Am including Decision No. 84527 which ordered the filing of quarterly "status reports on its progress in augmenting the intermediate term and long-term requirements of its Monterey District." Pursuant to these decisions, Cal-Am proceeded with plans to develop the four new wells and the iron removal plant in the Lower Carmel Valley. The well development in the area selected was recommended by the State Department of Water Resources.

^{7/} The Begonia and Canada projects have been completed and were added to rate base by Resolution No. W-2376 dated May 31, 1978.

In an area where the supply of water is as critical a concern among the community as it is in Cal-Am's Monterey District, we do not agree with the staff that taking measures to secure an estimated surplus of water is not a prudent investment. Neither do we agree that a critical reliance can be placed on production estimates which are so quickly and extremely affected by variation in temperature and rainfall upon which the area is so completely dependent.

The decisions ordering Cal-Am to develop an additional water resource were the result of many years of hearings covering periods of average or better rainfall plus two years of drought. To abandon our orders that Cal-Am proceed with the development of the four wells would be a denial that lessons can be learned from the past as well as a reversal of our prior findings relative to the water supply in the Monterey District. The cost for the additional water supply for insurance from possible rationing due to drought is not excessive. We believe that Cal-Am should pursue its plan to develop the four new wells and should be allowed to place the reasonable costs in rate base by advice letter filing at the time they are placed in service.

The staff witness did an impressive and thorough job of developing his point. However, a higher than usual reserve margin is reasonable primarily because of the community's concerns, which have not abated following its difficult experience during the drought. To a reasonable extent we may balance the concerns and desires of the community affected when setting rates, along with more empirical and objective expert opinion.

Cost of Service Study

Cal-Am paid \$19,000 for the cost of service study ordered by the staff. It is maintained that the total amount should be allowed as an expense. The staff contends \$19,000 is excessive and only \$9,000 should be allowed.

Bruce testified that the only direction given by the staff was a handwritten data request dated January 24, 1980. (Exhibit 32, page 3.) The request reads in part as follows:

"The staff is planning to recommend a rate structure change from the current 'minimum charge' type to a 'service charge' type. We also plan to recommend that rates be designed on the basis of a 1979 water use analysis, cost of service and consideration of the lifeline concept.

"Please prepare a cost of service analysis based on your proposed revenue requirements using Standard Practice U-20, or another appropriate guide, and submit the analysis with supporting workpapers by February 8, 1980. Call me, or Don Yep, if you wish to discuss assumptions or judgments to be used."

In response to the request, Cal-Am retained an outside consultant to prepare the study. A written estimate of \$18,000 to \$20,000 was received and forwarded to the staff. With no further communication from the staff about the study, the consultant's fee of \$19,000 was paid.

Cal-Am's witness Housiaux stated that:

"The usual interpretation of cost-of-service analysis and testing the revenue requirements against that analysis involves a rate design. Without the rate design, it is not possible to determine whether the results of the cost of service analysis will in fact yield the revenue requirements that are being proposed by the company. The study would be incomplete without it, in our view."

The staff contends that no more than \$9,000 should be allowed as an expense item. Staff witness Mangold stated only \$9,000 should be allowed because he thought Cal-Am would do the work in-house and the staff assumed that the study would be an "update of what had been done previously to the current situation". He stated that the \$20,000 estimate of the consultant evidently included such things as rate design, which in his opinion was not a part of the data request. ✓

It appears that both the staff and Cal-Am were somewhat remiss in not communicating with the other in determining what was required. However, a careful reading of the staff's request and the time for response by Cal-Am leads us to the conclusion that Cal-Am's interpretation was not unreasonable. We will therefore allow the total \$19,000 to be recovered. Since it is a non-recurring expense we will authorize recovery of it over a three-year period.

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 wage increases granted by it and 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 are 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. 205 dated April 15, 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. 205 and include additional expenses of \$67,700 for 1980 and \$92,700 for 1981 in arriving at the adopted results of operations.

Summary of Earnings

Summarized on Tables III and IV are the results of operations derived from Cal-Am's Exhibit 22 and the staff's Exhibit 24, both adjusted to exclude PG&E's power rates in effect on February 14, 1980. In addition, adopted and authorized rates are based on results of operations which reflect Advice Letter No. 205 dated April 15, 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, and CPUC Resolution W-2651. Resolution W-2651, dated June 3, 1980 (Advice Letter No. 208) authorized Cal-Am to increase rates by \$193,300 to offset a purchased power increase (PG&E 2-14-1980 and 4-29-80).

TABLE III
 CALIFORNIA-AMERICAN WATER COMPANY - MONTEREY DISTRICT
 Estimated Results of Operations
 Test Year 1980

Item	Present Rates			Authorized Rates	Authorized Rates
	Applicant	Staff	Adopted Results	Adopted Results	(Includes Advice Letter #208)
Operating Revenues	\$3,450.7	\$3,642.0	\$3,620.3	\$5,824.9	\$6,018.2
<u>Operating Expenses</u>					
Payroll	951.6	951.6	999.9	999.9	999.9
Purchased Power	463.6	611.8	486.8	486.8	679.3
Uncollectibles	6.5	6.9	6.9	11.1	11.4
Other O & M	554.4	519.4	519.4	519.4	519.4
Local Franchises	10.7	11.3	11.3	18.1	18.7
Other A & G	406.5	404.8	419.4	419.4	419.4
Gen. Off. Prorated	323.5	355.3	360.1	360.1	360.1
Subtotal	2,716.8	2,861.1	2,803.8	2,814.8	3,008.2
Depreciation Expense	597.1	529.4	529.4	529.4	529.4
Taxes Other Than Income	322.4	266.1	269.5	269.5	269.5
CCFT @ 9.6%	(110.5)	(98.2)	(95.3)	115.3	115.3
FIT @ 4%	(628.5)	(511.3)	(498.4)	413.8	413.7
Total Oper. Exp.	2,897.3	3,047.1	3,009.0	4,142.8	4,336.1
Net Operating Revenue	553.4	594.9	611.3	1,682.1	1,682.1
Rate Base	19,252.2	16,507.5	16,507.5	16,507.5	16,507.5
Rate of Return	2.87%	3.60%	3.70%	10.19%	10.19%

(Red Figure)

TABLE IV
CALIFORNIA-AMERICAN WATER COMPANY - MONTEREY DISTRICT
Estimated Results of Operations
Test Year 1981.

<u>Item</u>	<u>Present Rates</u>			<u>Authorized Rates</u>	<u>Authorized Rates (Includes Advice Letter #208)</u>
	<u>Applicant</u>	<u>Staff</u>	<u>Adopted Results</u> (Dollars in Thousands)	<u>Adopted Results</u>	
Operating Revenues	\$3,502.3	\$3,731.2	\$3,672.1	\$6,232.4	\$6,425.7
<u>Operating Expenses</u>					
Payroll	1,007.8	1,007.8	1,074.7	1,074.7	1,074.7
Purchased Power	473.8	636.7	506.5	506.5	699.0
Uncollectibles	6.6	7.1	7.0	11.8	12.2
Other O & M	600.1	559.6	559.6	559.6	559.6
Local Franchises	10.8	11.5	11.4	19.3	19.9
Other A & G	455.6	453.1	469.0	469.0	469.0
Gen. Off. Prorated	<u>342.7</u>	<u>384.0</u>	<u>388.9</u>	<u>388.9</u>	<u>388.9</u>
Subtotal	2,897.4	3,059.8	3,017.1	3,029.8	3,223.3
Depreciation Expense	617.0	557.5	557.5	557.5	557.5
Taxes Other Than Income	335.7	299.6	304.6	304.6	304.6
CCFT @ 9.6%	(125.2)	(114.9)	(117.1)	127.5	127.5
FIT @ 46%	<u>(697.5)</u>	<u>(584.1)</u>	<u>(593.8)</u>	<u>465.6</u>	<u>465.5</u>
Total Oper. Exp.	3,027.4	3,217.9	3,168.3	4,485.0	4,678.4
Net Operating Revenue	474.9	513.3	503.8	1,747.4	1,747.3
Rate Base	19,664.6	17,148.2	17,148.2	17,148.2	17,148.2
Rate of Return	2.42%	2.99%	2.94%	10.19%	10.19%

(Red Figure)

Findings of Fact

1. Cal-Am's Monterey system is being operated in an efficient manner and the current level of service is satisfactory
2. The Monterey district's conservation program, initiated during the 1977-78 drought, is effective and is expected to continue to be a factor in consumption in the district.
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.
5. To supplement its present water supply, Cal-Am should go forward with plans to develop four new wells in Carmel Valley.
6. Cal-Am should keep the Commission advised of the progress of the development of the four new wells.
7. When the four new wells are completed and in service, Cal-Am can be authorized to place its reasonable costs in rate base by an advice letter filing.
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 a maximum increase of \$211,800 or 3.3 percent, in annual revenues for 1982. This step-rate increase should be adjusted so that the authorized 10.19 percent rate of return will not be exceeded for the 12 months ending September 30, 1981.
9. The staff's rate design is reasonable.

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

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

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

Conclusions of Law

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

2. Because of the immediate need for the increased revenues, the effective date of this order should be the date hereof.

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 Monterey District the revised rate schedule attached to this order as Appendix A. 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.

2. On or after November 15, 1980, applicant is authorized to file an advice letter, with appropriate work papers, 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 Monterey District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ending 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 approved by the Commission 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, applicant is authorized to file an advice letter, with appropriate work papers, 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 Monterey District rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the twelve months ending September 30, 1981, 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 approved by the Commission 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.

4. Applicant shall keep the Commission staff apprised of the progress of its four new wells in the lower Carmel Valley.

5. When the four new wells and related treatment plant in the lower Carmel Valley go into service, applicant is authorized to file an advice letter with appropriate supporting data to adjust its rates to reflect the reasonable costs of this investment.

The effective date of this order is the date hereof.

Dated SEP 16 1980, at San Francisco, California.

John E. Byrne
President
George L. Stegeman
Richard O. Swales
Clair J. [unclear]
Donald W. [unclear]
Commissioners

APPENDIX A
Page 1 of 2

Schedule No. MO-1

Monterey Peninsula Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water furnished on a metered basis.

TERRITORY

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

RATES

	Per Meter Per Month				
	Gravity Zone	1st Elevation Zone	2nd Elevation Zone		
Service Charge:					(N)
For 5/8 x 3/4-inch meter	\$ 3.50	\$ 3.75	\$ 4.00	(I)	
For 3/4-inch meter	5.20	5.70	6.10		
For 1-inch meter	7.50	8.50	9.00		
For 1 1/2-inch meter	13.00	14.00	14.50		
For 2-inch meter	22.00	24.00	26.00		
For 3-inch meter	40.00	44.00	48.00		
For 4-inch meter	60.00	66.00	72.00		
For 6-inch meter	95.00	110.00	125.00		
For 8-inch meter	150.00	170.00	190.00		
Quantity Rates:					
For the first 300 cu.ft., per					
100 cu.ft.	0.550	0.650	0.710		
For all over 300 cu.ft., per					
100 cu.ft.	0.706	0.806	0.866	(I)	(N)

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

SPECIAL CONDITION

The boundaries of the three zones in which the above rates apply are as set forth in the Preliminary Statement and delineated on the Tariff Service Area Maps filed as part of these tariff schedules.

APPENDIX A
Page 2 of 2

Schedule No. MO-7

Monterey Peninsula Tariff Area

STREET SPRINKLING SERVICE

APPLICABILITY

Applicable to water service furnished to municipalities on a metered basis for street sprinkling.

TERRITORY

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

RATE

	<u>Per Month</u>	
For all water used, per 100 cu.ft.	\$0.70	(I)

APPENDIX B

Schedule No. MO-1

Monterey Peninsula 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:

	<u>Rates to be Effective</u>	
	<u>1-1-81</u>	<u>1-1-82</u>
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft.	\$0.055	\$0.000
For all over 300 cu.ft., per 100 cu.ft.	0.055	0.042

ADOPTED QUANTITIES

Company: California-American Water Co.
 District: Monterey

Application No. A-52250
 1980 1981

Project Manager: A. Mangold (AAM)
 Engr. Witnesses: 1. D. Yep (DY)
 2. N. Low (NL)
 3. G. Wilson (GW)

Rate of Return	10.19	10.19
Return on Equity	11.5	11.5
Attrition (1982)		0.6
Rate Base	16507.5	17148.2
Gross Revenue	6018.2	6425.7

	1980			1981		
	Cef. (1000)	MG.	AF	Cef. (1000)	MG.	AF
Water Production:	<u>6,188.0</u>	4,628.9	14,205.7	<u>6,275.3</u>	4,694.2	14,406.1
Wells:	2,676.2	2,001.9	6,143.7	2,763.5	2,067.2	6,344.1
Purch. Water:	0.0	0.0	0.0	0.0	0.0	0.0
Surface Supply:	3,511.8	2,627.0	8,062.0	3,511.8	2,627.0	8,062.0
Electric Power:	<u>3.893</u> Kwhr per Cef.			Supplier: <u>PG&E</u> Date: <u>4-29-80</u>		
Kwhr:	11,713,400			11,971,200		
Cost:	\$ 679,300			\$ 699,000		
Cost per Kwhr:	\$.0580			\$.0580		
Chemical:						
Cost:	\$ 77,700			\$ 82,000		
\$/MG:	\$ 16.786			\$ 17.468		
Ad Valorem Taxes:	\$ 186,400			\$ 208,200		
Tax Rate:	1.05 %			1.05 %		

Metered	Number of Service		Usage-Cef. (1000)		Usage-Avg Cef/Yr.	
	1980	1981	1980	1981	1980	1981
Residential	25,716	25,986	2689.5	2718.1	104.6*	104.6*
Business	4,446	4,550	1620.6	1658.5	364.5*	364.5*
Public Authority	378	394	130.4	135.9	345.0	345.0
Business-Large User	48	49	528.0	539.0	11000.0	11000.0
Pub. Auth-Large User	15	15	480.0	480.0	32000.0	32000.0
Industrial	10	10	50.0	50.0	5000.0	5000.0
Golf Course	13	13	355.8	355.8	27369.0	27369.0
Other	23	23	30.5	30.5	1326.1	1326.1
Subtotal	30,649	31,040	5884.8	5967.8		
Private Fire Prot.	234	254				
Total	30,883	31,294				
Water Loss <u>4.9</u> %			303.2	307.5		
Total Water Production, Cef(1000)			6188.0	6275.3		

*Commercial (Resid. & Bus.)
142.9 142.9

Revenue	1980	1981	1982
Metered	\$ 5,958,000	\$ 6,361,600	\$ 6,569,500
Metered, other	7,400	7,400	7,400
Private Fire Prot.	45,600	49,500	53,400
Misc.	7,200	7,200	7,200
Total	6,018,200	6,425,700	6,637,500
Attrition: <u>0.6</u>			<u>211,800</u>

Average Commercial Usage 142.9 Cef/customer
 Average Bill, monthly \$ 11.50 \$ 12.16 \$ 12.54

Co. California-American Water Co.
 District Monterey

1980

1981

Metered Service	Gravity	Elev.1	Elev.2	Total
5/8"	17,247	7,341	1,734	26,322
3/4	1	0	0	1
1	1,944	904	317	3,165
1 1/2	435	172	33	640
2	280	78	14	372
3	32	14	2	48
4	24	7	2	33
6	18	5	3	26
8	12	5	2	19
Total	<u>19,993</u>	<u>8,526</u>	<u>2,107</u>	<u>30,626</u>

Metered Service	Gravity	Elev.1	Elev.2	Total
5/8"	17,468	7,435	1,756	26,659
3/4	1	0	0	1
1	1,969	916	322	3,207
1 1/2	441	174	33	648
2	283	79	14	376
3	32	14	2	48
4	24	7	2	33
6	18	5	3	26
8	12	5	2	19
Total	<u>20,248</u>	<u>8,635</u>	<u>2,134</u>	<u>31,017</u>

	Quantities, (Ccf, 1000)		(Service Charge)	
3	673.8	295.0	73.3	1042.1
Over 3	<u>3385.4</u>	<u>1186.1</u>	<u>271.2</u>	<u>4842.7</u>
Total	<u>4059.2</u>	<u>1481.1</u>	<u>344.5</u>	<u>5884.8</u>

3	683.3	299.2	74.3	1056.8
Over 3	<u>3433.2</u>	<u>1202.8</u>	<u>275.0</u>	<u>4911.0</u>
Total	<u>4116.5</u>	<u>1502.0</u>	<u>349.3</u>	<u>5967.8</u>

Co. California-American Water Co.
District Monterey

Application No. 58850

INCOME TAX CALCULATION

	1980 (Thousands of Dollars)	1981 (Thousands of Dollars)
Operating Revenues	\$ 6,018.2	\$ 6,425.7
Purchased Power	679.3	699.0
Payroll	999.9	1,074.7
Uncollectible @ <u>0.19%</u>	11.4	12.2
Other: OM & AG	938.8	1,028.6
Payroll Taxes	83.1	96.4
Local Franchise Tax @ <u>0.31%</u>	18.7	19.9
Ad Valorem Taxes	186.4	208.2
GO Allocated Expenses subtotal	<u>360.1</u>	<u>388.9</u>
	3,277.7	3,527.9
Capitalized Overhead	68.1	73.5
Interest	<u>843.6</u>	<u>842.0</u>
Total Deductions	4,189.4	4,443.4
State Tax Depreciation	627.7	654.6
Net Taxable Income	1,201.1	1,327.7
State Corp. Franch. Tax @ 9.6%	<u>(115.3)</u>	<u>(127.5)</u>
Federal Tax Depreciation	664.3	693.0
State Income Tax	115.3	127.5
Net Taxable Income	1,049.2	1,161.8
Federal Income Tax @ 46%	482.6	534.4
Less: Grad. Tax Adj.	- 7.1	- 7.1
Investment Tax Cr.	- 61.8	- 61.8
Total Federal Income Tax	<u>(431.7)</u>	<u>(465.5)</u>

SUMMARY OF EARNING

	1980	1981	Witness
Operating Revenues	6,018.2	6,425.7	(NL)
O&M, A&G	2,648.1	2,834.4	(DY)
GO Office, prorated	360.1	388.9	(DY)
Depreciation	529.4	557.5	(GW)
Ad Valorem Taxes	186.4	208.2	(DY)
Taxes Other Than Income	83.1	96.4	(DY)
Federal & State Income Taxes	<u>529.0</u>	<u>593.0</u>	(DY)
Total Expenses	4,336.1	4,678.4	
Net Operating Revenue	1,682.1	1,747.3	
Rate Base	16,507.5	17,148.2	(GW)
Rate of Return	10.19	10.19	(AAM)
Net-to-Gross Multiplier	<u>2.0588</u>		