

Decision No. 92986 MAY 5 1981

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY, a corporation, for an order authorizing it to increase rates charged for water service in the Chico-Hamilton City District.	) ) ) ) ) ) ) )	Application No. 59661 (Filed May 16, 1980)
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McCutchen, Doyle, Brown, and Enersen, by A. Crawford Green, Attorney at Law, for applicant.  
Robert Cagen, Attorney at Law, Dana Gardner, and Mendi Kadour, for the Commission staff.

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SUMMARY OF DECISION

By this application, the fourth of six in this consolidated rate proceeding, California Water Service Company sought annual step rate increases over the 1981-1983 period of \$529,800 (29.3 percent), \$130,100 (5.4 percent), and \$134,900 (5.3 percent) respectively, for its Chico-Hamilton City District.

In that a final decision was delayed beyond the time limits provided in the Commission's Regulatory Lag Plan, the Commission, pending issuance of a final decision, by Decision No. 92716 on February 18, 1981 granted interim relief in the amount of \$513,100 (27.89 percent).

In Decision No. 92604 (Bakersfield), applicable to all 6 districts, we found reasonable and authorized a rate of return of 10.89 percent, 11.08 percent, and 11.50 percent, respectively, on rate base for 1981, 1982, and 1983, with the related rate of return on common equity remaining constant at 13.7 percent. These returns (which include the February 1981 interim increase) require an increase in annual revenues for the Chico-Hamilton City District of \$522,700 (28.7 percent) in 1981, a further increase of \$83,400 (3.4 percent) in 1982, and a further increase of \$103,700 (4.1 percent) in 1983.

The Commission further found that applicant's capitalization structure and general financial considerations permit reliance upon long-term financing to meet external capital needs during the test period, needs approximating \$43 million. The Commission accepted as reasonable applicant's estimate of 13.1 percent as the anticipated cost of such debt.

Distinct issues were resolved by Commission adoption of (1) applicant's revised estimates of the average number of Flat Rate Commercial services in test years 1981 and 1982, and (2) staff's proposal to delete \$142,500 from applicant's 1981 test year budget, money proposed to construct a second 1981 well.

The existing 3-block rate structure was retained. However, in the interest of promoting conservation as well as the need to obtain adequate revenues, the first block (lifeline) was cut back from 0-5 Ccf to 0-3 Ccf while the existing first block rate and the existing service charge for the basic 5/8 x 3/4-inch meter will remain unchanged until the total of the increases in revenue since January 1, 1976 exceeds 25 percent. Otherwise, the increases in rates and charges will be spread percentagewise equally between the commodity charge and the service charge.

#### FINAL OPINION

##### Statement of Facts

California Water Service Company (Cal-Water), a California corporation with gross operating revenues in 1979 of approximately \$94,000,000, is owned by 7,700 shareholders. It has \$231,000,000 invested in utility plant (including plant under construction). Employing 495 persons statewide, it is engaged in the business of supplying and distributing water for domestic and industrial purposes to 305,000 customers in communities within the State of California.

Operating through 20 local districts, Cal-Water maintains its principal place of business in the city of San Jose. From there it provides centralized billing, accounting, engineering, and water quality control functions to its respective local districts. A central meter repair facility is located in the city of Stockton. Cal-Water's operating districts are not integrated one with another; and except for allocation of general office common expenses and rate base to the respective districts, the revenues and expenses of each district are not affected by operations in the other districts. For ratemaking purposes, therefore, each district is considered a separate entity, and it is the responsibility of this Commission to fix reasonable rates to be applicable to each district (Section 728 of the Public Utilities Code). Rates are reasonable when they provide sufficient revenues to cover the total costs (such as operating expenses, depreciation charges, taxes, and return on investment) properly incurred in furnishing the required service.

Asserting a necessity to offset increases in its operating expenses, rate base, and cost of money, on May 16, 1980, Cal-Water filed separate applications for six of its districts, including the instant application for the Chico-Hamilton City District, seeking authority to increase its rates. In order to minimize the adverse effects of anticipated operational and financial attrition upon the company, Cal-Water proposed annual step increases over the next three years. In the Chico-Hamilton City District these step increases would increase annual gross revenues over those in effect at the time this application was filed by \$529,800 (29.3 percent) in 1981, and by an additional amount of \$130,100 (5.4 percent) in 1982, and \$134,900 (5.3 percent) in 1983.

Pursuant to provisions of the Commission's Regulatory Lag Plan (adopted by Commission Resolution No. M-4705 dated April 24, 1979) and following bill insert notices mailed to each utility customer in the district, an informal public meeting was conducted by our staff in Chico on June 10, 1980 at the senior high school. Two customers attended. They voiced no complaints but were primarily interested only in what costs were considered by the Commission in setting rates. The Commission has received no letters from customers pertaining to this application.

In that the applications for all six districts contained common issues relating to corporate general office expenses, corporate financing, and rate of return on common equity, the six applications were consolidated for hearing. After notice, public hearings were held in San Francisco on September 15, 16, 17, 19, and 22, 1980 before Administrative Law Judge (ALJ) John B. Weiss

At the outset of the hearing on September 15, 1980, Cal-Water presented evidence of compliance with the requirements for notice, service, and publication as set forth in the Commission's Rules of Practice and Procedure relative to this class of application. During the hearings Cal-Water presented testimony and exhibits through its president, three vice presidents, and an assistant chief engineer.

The staff of the Commission presented testimony and exhibits through a staff project engineer, a rate-of-return research analyst, and three utility engineers. The matter was submitted at close of hearing on September 22, 1980, with provision for an October 14, 1980 concurrent filing of closing briefs.

Discussion

Service Territory, System, and Service Quality

The Chico-Hamilton City District is made up of two separate water utility systems situated about 10 miles distant. One system serves the incorporated city of Chico and the adjacent unincorporated areas of Butte County. The other serves Hamilton City (unincorporated) and the adjacent unincorporated areas of Glenn County. Between them, about 50,300 people are served through approximately 13,000 services and a combined total of 188 miles of distribution mains. The two serviced areas are flat or relatively flat. The Chico system is served by 51 wells pumping directly into the interconnected distribution and storage system. Another 3 wells serve the separated system at the Chico Airport. Chico's five storage tanks accommodate 1,350,000 gallons. The Hamilton City system is served by 3 wells which pump directly into its interconnected distribution-storage system. This latter system has one 25,000-gallon storage tank.

During 1979 Cal-Water logged 55 complaints in the district, and during the first four months of 1980, there were an additional 15 complaints. Seventy-six percent of the complaints pertained to water quality. The Commission staff agrees that the complaints were investigated and resolved by the utility within a reasonable period from notification. It appears that service is generally satisfactory in this district.

Conservation

Cal-Water presented evidence of its continuing efforts to promote conservation. Unfortunately, with the ending of the drought during the 1977-1978 winter storms, sales levels in the district returned to the pre-drought levels during 1979. Responsibility has

been delegated to the district manager to speak to school and civic groups. However, this district shares its district manager with Marysville, Oroville, Dixon and Willows and therefore the day-to-day emphasis may not be as strong as desirable. Nonetheless, the district participated in a special public utilities day program presented by the Chamber of Commerce in Chico at the North Valley Plaza, and explained its operations, pointing out that 22 percent of the consumer's water bill goes to pay pumping costs, as well as giving away free water conservation kits. It also distributed imaginative "Meet Your Lawn At Dawn" bill stuffers on lawn watering as part of the "Chico First" conservation campaign. In addition billing information is provided to enable customers to compare current usage with previous term usage.

Pump efficiency reports were provided by Cal-Water to staff as required by Decision No. 88466 dated February 7, 1978 in Case No. 10114. These reports indicated that the Chico-Hamilton City District pumps are within or above the fair range established in that decision. On balance, despite some past imaginative local office efforts, conservation appears to have lost vigor in Chico-Hamilton City. Consumption has jumped back up to pre-drought levels. The generalized testimony of Cal-Water's witness on the subject tends to confirm the impression that perhaps more managerial direction and encouragement is needed to revitalize this important program. We urge management to do just this.

#### Present and Proposed Rates

The Chico-Hamilton District in 1979 served an average of 2,990 residential and business services, 28 industrial services, and 192 public authority services on its metered schedules. In addition, an average of 9,597 residential and business, and 1,264 public and private fire protection services were served by its flat rate schedule. In the Chico-Hamilton City District, the average usage of water per customer is higher than that in any other of Cal-Water's districts. Historically ingrained influences, as well as the hot climate, extensive landscaping, and abundance of water all tend to produce this result.

The last general rate increase authorized the Chico-Hamilton City District was in 1977 (Decision No. 87335, dated May 17, 1977, in Application No. 56186<sup>1/</sup>). Since then, one advice letter offset increase and four (one temporary) advice letter decreases have been authorized. The rates herein used as "present rates" are those filed under Advice Letter No. 716, made effective on March 7, 1980. Cal-Water's tariff for this district consists of General Metered, Residential Flat Rate, and Schools and Public Park Flat Rate Services, as well as Public Fire Hydrant and Private Fire Protection Services. No increases are proposed for the latter two services. A comparison of monthly rates, present and proposed, for general metered, residential flat rate and flat rate public school and park service (the latter for Hamilton City area) follows.

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<sup>1/</sup> Decision No. 87335 authorized rates to be set for Application No. 56186. A subsequent decision in that proceeding, Decision No. 87872, dated September 20, 1977, related to the reasonableness of executive salaries and consulting fees, issues with minor impact on rates.



TABLE A

Cal-Water Service Company - Chico-Hamilton City District  
Comparison of Monthly Rates - Present and Proposed

	Present Rates	Proposed Rates		
		1981	1982	1983
<b>I. <u>General Metered</u></b>				
Service Charge				
For 5/8 x 3/4-inch meter	\$ 3.04	\$ 3.87	\$ 4.08	\$ 4.30
3/4-inch meter	4.15	5.50	6.00	6.50
1-inch meter	5.60	7.50	8.15	8.75
1 1/2-inch meter	7.92	10.50	11.50	12.50
2-inch meter	10.18	13.50	15.00	17.00
3-inch meter	18.85	25.00	27.00	30.00
4-inch meter	25.64	34.00	37.00	40.00
6-inch meter	42.60	56.00	61.00	65.00
8-inch meter	63.34	84.00	91.00	98.00
10-inch meter	78.42	104.00	113.00	122.00
<u>Quantity Rates</u>				
For the first 300 cu.ft., per 100 cu.ft.	.144	.183	.193	.203
For the next 200 cu.ft., per 100 cu.ft.	.144	.241	.251	.261
For the next 29,500 cu.ft., per 100 cu.ft.	.186	.241	.251	.261
For all over 30,000 cu.ft., per 100 cu.ft.	.186	.200	.209	.220
<b>II. Residential Flat Rate Service With Premises of:</b>				
6,000 sq.ft. or less	7.40	9.60	10.10	10.55
6,001 to 10,000 sq.ft.	8.63	11.15	11.75	12.40
10,001 to 16,000 sq.ft.	10.10	13.00	13.70	14.40
16,001 to 25,000 sq.ft.	12.72	17.00	18.00	19.00
Each additional unit	5.33	6.90	7.25	7.60
<b>III. Schools and Public Park Flat Rate Service (Hamilton City &amp; Vicinity, Glenn County) for Each Public School or Public Park</b>				
	33.50	43.00	45.00	47.00

Under Cal-Water's proposed rates, an average metered commercial (business and residential) customer with a 5/8 x 3/4-inch meter, using about 55 Ccf of water per month, would have his monthly bill increased by \$3.89 (29.8 percent) in 1981, \$4.65 (35.6 percent) in 1982, and \$5.42 (41.5 percent) in 1983. An average industrial customer, with a 2-inch meter, using about 170 Ccf of water per month, would have his monthly bill increased \$12.71 (30.6 percent) in 1981, \$15.91 (38.3 percent) in 1982, and \$19.61 (47.2 percent) in 1983. An average flat rate residential customer with premises within the 6,001 to 10,000 square foot bracket, would have his monthly bill increased \$2.52 (29.2 percent) in 1981, \$3.12 (36.2 percent) in 1982, and \$3.77 (43.7 percent) in 1983.

#### Results of Operations

As part of its application Cal-Water submitted summaries of operating revenues and expenses incurred in the Chico-Hamilton City District over the 5-year period 1975 through 1979. From these it then projected estimates for the test years at issue, using the latest data available to it at the time. The staff analyzed these projections, examining both district and general office operations of Cal-Water, and then prepared its own exhibits to be introduced at the hearing. Cal-Water's original estimates were completed in March 1980. Between then and completion of the staff's exhibits, changes took place. For example, the cost of purchased power went up. Instead of amending the estimated summaries of earnings previously submitted each time a change occurred, Cal-Water informed staff of the changes and furnished staff with the new or later data so that staff could incorporate it and reflect the changes in staff's exhibits. Therefore, when staff's completed exhibits were submitted at the hearing, in some instances, based as they were on more recent data and information, they differed from those of Cal-Water. In other instances, the differences were because staff interpreted the information differently or arrived at other conclusions.

Cal-Water checked staff's proposed adjustments and considered staff's conclusions. In most instances Cal-Water took no issue and

adopted staff's estimates. In most other instances Cal-Water did not agree with staff, but to expedite this proceeding or where the impact was insignificant, it elected not to contest staff's estimates.

In two significant instances Cal-Water did not agree to staff's proposals. These relate to (1) the estimated average number of flat rate commercial customers for each of the test years and (2) the number of wells applicant should install by the end of 1982.

Table B which follows, sets forth the Summaries of Earnings originally espoused by each of the parties.<sup>2/</sup>

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<sup>2/</sup> It should be noted that the additional costs derived from the April 29, 1980 PG&E rate increase are not included in the Purchased Power estimates set forth in Table B (see subsequent discussion on Costs of Purchased Power).

TABLE B

Cal-Water Service Company - Chico-Hamilton City District  
Comparison - Applicant and Staff - Summary of Earnings  
(Dollars in Thousands)

	<u>Test Year 1981</u>		<u>Test Year 1982</u>	
	<u>Applicant</u>	<u>Staff</u>	<u>Applicant</u>	<u>Staff</u>
<u>Present Rates</u>				
Operating Revenues	\$ 1,808.9	\$ 1,833.9	\$ 1,863.3	\$ 1,899.6
<u>Operating Expenses</u>				
Purchased Power	383.4	395.5	394.2	409.4
Purchased Chemicals	0.7	0.7	0.7	0.7
Payroll - District	340.0	340.0	368.9	368.9
Other Operation & Maintenance	159.6	159.9	176.2	176.7
Other Admin. & Gen'l. & Misc.	0.8	0.8	1.4	1.4
Ad Valorem Taxes-Dist.	78.7	76.7	92.8	86.2
Payroll Taxes-Dist.	25.0	25.0	27.1	27.1
Business License	11.5	11.5	11.8	11.8
Depreciation	230.0	220.2	264.7	243.0
Ad Valorem Taxes-G.O.	1.0	1.0	1.1	1.1
Payroll Taxes-G.O.	4.8	4.8	5.1	5.1
Other Prorates-G.O.	186.5	184.0	201.9	199.1
Subtotal	<u>1,422.0</u>	<u>1,420.1</u>	<u>1,545.9</u>	<u>1,530.5</u>
Uncollectibles	6.3	6.4	6.5	6.6
Income Taxes Before I.T.C.	(12.0)	23.8	(57.4)	(9.1)
Investment Tax Credit	<u>(61.4)</u>	<u>(51.9)</u>	<u>(68.1)</u>	<u>(58.4)</u>
Total Operating Expenses	1,354.9	1,398.4	1,426.9	1,469.6
Net Operating Revenues	454.0	435.5	436.4	430.0
Rate Base	6,216.0	5,982.9	6,625.7	6,307.1
Rate of Return	7.30%	7.28%	6.59%	6.82%

(Red Figure)

TABLE B - Contd.

Cal-Water Service Company - Chico-Hamilton City District  
Comparison - Applicant and Staff - Summary of Earnings  
(Dollars in Thousands)

	<u>Test Year 1981</u>		<u>Test Year 1982</u>	
	<u>Applicant</u>	<u>Staff</u>	<u>Applicant</u>	<u>Staff</u>
<u>Proposed Rates</u>				
Operating Revenues	\$ 2,338.7	\$ 2,357.8	\$ 2,539.4	\$ 2,573.6
<u>Operating Expenses</u>				
Subtotal	1,422.0	1,420.1	1,545.9	1,530.5
Uncollectibles	8.2	8.3	8.9	9.0
Income Taxes Before I.T.C.	258.2	291.0	287.4	334.7
Investment Tax Credit	<u>(61.4)</u>	<u>(51.9)</u>	<u>(68.1)</u>	<u>(58.4)</u>
Total Operating Expenses	1,354.9	1,398.4	1,426.9	1,469.6
Net Operating Revenues	454.0	435.5	436.4	430.0
Rate Base	6,216.0	5,982.9	6,625.7	6,307.1
Rate of Return	7.30%	7.28%	6.59%	6.82%
(Red Figure)				

In reviewing the estimates making up these summaries, the adjustments proposed by staff and adopted by applicant, and in resolving the issues remaining between applicant and staff after the hearing, we will consider each component of the summary in turn.

Estimates of Operating Revenues

There were initial differences of \$25,000 and \$36,300 respectively in estimating Operating Revenues for 1981 and 1982. The most significant factors contributing to these differences between the parties were their divergent underlying estimates of the average number of Commercial Flat Rate services each test year, and of anticipated water consumption per service in both the Commercial Flat Rate and Public Authority classes. Except for the Commercial Flat Rate class, at the end of the hearing applicant waived the slight differences between the respective estimates of the average number of services each year applicable to the other classes, and adopted staff's estimates. The differences pertaining to the Commercial Flat Rate class are left for our resolution.

Commercial Flat Rate Class: Number of Average Services:

The problem is that while until recently the Chico-Hamilton City area had been experiencing substantial growth, beginning in late 1979 skyrocketing interest costs adversely affected the housing industry. In 1979, for example, 342 customers were added to the Commercial Flat Rate class. Basing its estimates on recorded data through 1979 then available to it, but noting the adverse turn, Cal-Water initially estimated 10,115 and 10,374 average services respectively for 1981 and 1982. The staff's exhibit, based on recorded data through July 1980, estimated 10,275 and 10,614 average services, respectively. By the time of the hearing, with recorded data through August 1980<sup>3/</sup> available (and evidencing a net gain of only 19 actual services over the last 3 months), Cal-Water revised its estimate upward from its original application estimates to finally forecast 10,156 and 10,496 average services respectively for 1981 and 1982.

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<sup>3/</sup> During the first 8 months of 1980 only 165 customers were added to the Commercial Flat Rate class. Of these only 5 were added in August, 1980.

Unfortunately in this instance recorded data just does not fit trend lines. Taking into consideration the low rate of additions recorded for the first eight months of 1980, the fact that the last recorded month, August 1980, saw only 5 actual additions, and weighing these against the backdrop of the current depressed housing construction industry - high inflation, paralyzing interest costs, and a pervading scarcity of construction loan money - it appears that applicant's revised growth projections for the test years are the ones most probable of attainment. Certainly, absent a dramatic, sudden, and substantial improvement in the economic climate accompanied by a commensurate change in the construction industry, it would be virtually impossible to achieve staff's average service estimates in this class for the test years. Accordingly, we adopt Cal-Water's estimate of 10,156 and 10,496 average services respectively for 1981 and 1982 for the Commercial Flat Rate class.

Consumption: Turning to estimates per service of consumption, we see that staff and applicant both estimated normalized consumption of 659.7 Ccf per customer for the Commercial Metered class for test years 1981 and 1982. We have no reason to reject that estimate. Looking next to the areas of initial difference in the original estimates we note that after applicant revised its original estimate of normalized consumption per Commercial Flat Rate class customer from 441.0 Ccf to 450.2 Ccf for each test year, little difference remained between it and staff's comparable 452.0 Ccf estimate. Applicant therefore accepted staff's estimate as do we. Staff's 2,055.2 Ccf per service estimate for Industrial customers was based upon a modification of the 9-year (1971-1979) average of recorded annual sales per service data in light of analysis of 6 months recorded 1980 data. As such it reflects consideration of later data than that used in Cal-Water's estimate based on a 9-year average of total sales (which produced an original estimate of 1920.7 Ccf per customer). Here too, at the hearing applicant agreed to adopt staff's estimate. We do also. The utility's Public Authority estimates of 1392.7 Ccf and 1333.0 Ccf for 1981 and 1982 per service were based on a trend developed from total sales for the class

between years 1972 and 1979 (but excluding 1977 and 1978). Staff, on the other hand, based its 1507.6 Ccf per service estimate for each test year on the recorded April 1980 quantity. We think applicant's estimate was unrealistically low, noting that both years' estimates are below the recorded per service use of any of the past 5 years, including the 2 drought years. For the last recorded year (1979) the use was 1507.8 Ccf, almost exactly equal to staff's 1507.6 Ccf estimate. We see that applicant adopted staff's estimate. We do also.

The end result of these adjustments to Operating Revenues is set forth in Table E, our adopted Summary of Earnings.

Estimates of Operating Expenses

Operating Expenses are those costs which are incurred by a utility in providing service to its customers. They include not only the operation and maintenance costs, administrative and general expenses, depreciation charges, and taxes paid by the district, but also a pro rata share of these same expenses which were incurred by the corporate facilities of the utility in providing support functions to the district. In the instant proceeding staff analyzed applicant's estimates of operating expenses as they related to both the district operations and the corporate general office facilities.

With minor exceptions and adjustments resulting in net lower companywide prorations of \$7,800 in 1981 and \$8,900 in 1982, staff found applicant's General Office estimates reasonable. The adjustments made were to the General Office insurance, office supply, and pension expense estimates. Staff also verified that the share allocated to the Chico-Hamilton City District was properly allocated in accordance with standard four-factor proration procedures accepted by this Commission. Applicant accepted staff's adjustments and made appropriate changes to its Operating Expense estimates for the test years.



Turning next to the detailed Operation and Maintenance Expense Estimates submitted by applicant, we see that the staff analyzed the components making up these projections, and other than for certain exceptions arising out of differing estimates of Purchased Power, staff found applicant's methods and results reasonable.

Costs of Purchased Power will vary depending upon the amount of water that must be pumped from the wells and then boosted to higher elevations. The staff concluded that total power consumption would be 7,269,200 kWh and 7,524,100 kWh for 1981 and 1982 respectively. Based upon its estimates of fewer Commercial Flat Rate services and different average per service consumption in some of the service classes, as discussed under Operating Revenues, applicant obtained lesser total power consumption estimates. In preparing each's estimates, in order to have a common basis for comparison, each party used the February 18, 1980 PG&E rates. Both used an average unit cost of \$0.05441 per kWh. The present power rates were made effective on April 29, 1980 and result in an average unit cost of 0.0678 per kWh. Neither party included the additional cost of this last PG&E increase in its original Estimates of Operation and Maintenance Expenses. Having herein adopted water production estimates less conservative than those of applicant, but more conservative than those of staff (See Operating Revenues and our discussion of the average number of services in the Commercial Flat Rate class, and of our adoption of staff's average consumption per service estimates), our total power consumption estimate for the two test years also must necessarily differ from those of either party. We estimate total power consumption in accord with the foregoing to be 7,214,600 kWh for 1981, and 7,470,100 kWh for 1982. Using the April 29, 1980 average unit derived cost of \$0.0678 per kWh as estimated by the staff, this results in additional Purchased Power costs of \$489,100 for 1981, and \$506,400 for 1982, as set forth in Table E, our adopted Summary of Earnings.

Staff's analysis of applicant's Administrative and General Expenses for both 1981 and 1982 developed no issues. The staff concluded they were reasonable. We find no reason to differ.

The staff and applicant's Estimates of Depreciation costs were close. Both parties used the same methodology and the different results were derived from differing estimates of plant additions. As is discussed elsewhere under Rate Base, applicant accepted staff's proposals on a number of proposed items. These included deletion of a large carry-over to the 1980 budget, deletion from nonspecific budget funds of allocations for new well sites and wells, as well as a reduction in budgeted funds for minor structures. While we adopt these, our adopted Depreciation costs also reflect deletion of a second 1981 well from the budget.

No issues were developed in the staff's analysis of applicant's estimates of Ad Valorem and Payroll Taxes. Differing estimates of Uncollectibles, Business License, and Income Taxes arise out of differing estimates of Operating Revenues derived from the various customer classes, as discussed above, rather than out of differing methodology or philosophy. Applicant's and staff's ad valorem tax estimates are both based on the 1979-1980 full cash value as shown on the utility's property tax bill. The recorded composite rate, 0.956 percent of the full market value, was used. The increased 9.6 percent state corporate franchise tax rate was used for both test years. Both parties used the full flow-through method of computing the depreciation deduction in calculating both federal and state income taxes. The investment tax credit was determined by using a 3-year average at a 10 percent rate for the test years. The net-to-gross multiplier estimated by staff was 2.0557.

Having earlier adopted estimates of Operating Revenues to be derived from consumption higher than applicant estimated, but less than staff estimated, we are now constrained to here adopt concomitant

adjusted estimates pertaining to Operating Expenses except for the Depreciation items noted above. The net results of these adjustments to Operating Expenses are set forth in Table E, our adopted Summary of Earnings.

Rate Base

Applicant used weighted average balances to develop its depreciated rate base projections for the test years under consideration. It based these projections on recorded data for a preceding 5-year period and upon preliminary construction budgets adopted for anticipated additions to plant to be financed by the utility during the test year period. It included in its projections allocated pro rata portions of the corporate general operations plant, and also made adjustments to incorporated applicable weighted average depreciation reserves. After analysis of applicant's projections, staff for the most part found them reasonable, but staff also developed and sponsored certain proposed adjustments. With one major exception, applicant accepted staff's proposals, albeit reluctantly in some instances. But before turning to these we first will consider the Utility-Financed Plant Addition issue on which the parties could not agree - the issue of the number of additional wells to be dug during the 3-year period 1980 through 1982.

Number of New Wells: Applicant prepared its test year estimates based on the assumption that it would construct 5 new wells in Chico during the 3-year period. These were to consist of a 1979 budgeted well to be completed in 1980; a 1980 budgeted well to be completed in 1981; 2 wells budgeted for 1981, and another well budgeted for 1982. The 1979 well east of Highway 99 is being completed in East Chico to serve the Villages development area; the 1980 well (now contracted for) will serve the developing area to the northwest, east of Highway 99; one of the 2 wells budgeted for 1981 was planned to serve a large shopping area being constructed near 20th Street just south of the 1979 well; and the second of the 2 wells budgeted for 1981 was planned for the western end of Sacramento Avenue to augment supplies to the already intensely developed student housing apartments at Chico State.

The 1982 budgeted well is not finally located, but it is anticipated it may well be on the Chico west side near Lassen and Cussick Avenues to serve a developing area which includes an existing unique condominium development. Applicant's chief engineer testified that it was his estimate that his Chico wells normally lose 1 percent of total capacity each year, so that he must look not only to provision of new well capacity to serve new customers, but also make provision to replace loss in equivalent capacity of roughly half a well a year. He concluded that to handle anticipated customers and replacement capacity he would need three wells each 2 years.

On the other hand, staff disputed those requirements, asserting that here 4 wells would be sufficient to meet all anticipated customer needs. Staff estimated a gain in average customers in Chico of 1,460 from 1979 through 1982. Assuming a requirement of 2.5 gallons per minute per customer, staff estimated the additional capacity to be needed would be approximately 3,650 new gallons, a quantity that 4 new wells, not 5, could handle, assuming 900 gallons per minute per well normal capacity and 1,100 gallons per minute per well peak capacity. No mention was made of replacement requirements, but it would appear this could be handled within the normal-to-peak capabilities.

Applicant makes a strong and convincing argument to the point that staff should not substitute its judgment for that of the company's management in determining how best to effectively and efficiently operate a water system. Applicant submits that such questions as timing and needed capacity are all decisions which must be made by applicant's management, particularly in view of its long and successful experience in operating water systems. Applicant asserts that arbitrary cutbacks and planning as proposed by the staff can only lead to a gradual overall deterioration of service and possible catastrophic results in isolated cases.

While we completely agree with the general proposition that it is management's duty and responsibility to manage its utility, including planning for anticipated capacity, we also recognize that it is our fundamental obligation to deny compensation for plant expenditures which are not reasonably useful or necessary at the time they are made. These are unusual times and utility ratepayers are everywhere beset by substantial increases for their utility usage. We must be particularly on guard against overbuilding and avoid approving installation of facilities where usage is not imminent or where those facilities are not absolutely necessary.

We note that Chico has not been immune from the current economic recession. As applicant itself stated in its post-hearing brief, "The unforeseen decline in building will result in fewer customers on the system by the end of 1980 than either party had recognized." At the hearing applicant argued persuasively - and convinced us - that its revised estimates of average Commercial Flat Rate services for the test years 1981 and 1982, estimates substantially lower than staff's, should be adopted. It cannot have it both ways. Fewer services mean lesser demand for water. Growth will not return quickly to the 1979 level. Even given the best of circumstances, it will take time to bring down interest rates and return some measure of confidence to the building industry.

Applicant complains that staff proposes deletion but does not specify which well should be eliminated. Such petulance does not do justice to the competence of applicant's engineering staff. From the testimony presented we conclude that applicant's chief engineer located the 1979 and 1980 budgeted wells in areas of present or imminent development where present water supplies were obviously distant or severely strained. These new wells should handle any growth that might reasonably be expected in their respective intensively developing areas. Whether the 20th Street (the first 1981 proposed well site) shopping area will be completed and fully rented <sup>4/</sup> during the next few years,

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<sup>4/</sup> At the time of the hearing the streets and underground facilities were being constructed, but work on erecting the buildings had not commenced.

considering the presently prevailing economic climate, remains to be seen. Similarly, the presently authorized, federally funded, dormitory expansion on West Sacramento (the second 1981 proposed well site), if indeed it too is still built, will require several years before it can place demand on the system. Meanwhile, as the staff witness noted, the normal summer vacation slump at Chico State will tend to depress demand during the high volume demand period of the summer months. Dropping one or the other of these from the 1981 budget appears to involve little risk. The 1982 budgeted well is nonspecific, and it appears problematical whether construction will recover sufficiently by then to even require a commitment for a Lassen and Cussick Avenue well site that soon. Meanwhile applicant can keep its options open without one of the 1981 budgeted wells.

Concluding discussion on this issue, we will adopt staff's proposal that applicant delete its provision for \$142,500 in its 1981 budget for a second well.

Other Adjustments: Turning now to the other staff-sponsored adjustments to applicant's original estimates in the component accounts which go to make up the rate base calculations (those adjustments which applicant at the hearing agreed to accept), we first examine the elements making up Weighted Average Plant in Service, and lead off with the remaining Utility-Financed Additions.

When it prepared its test year estimates applicant assumed that there would be no major uncompleted projects with unspent funds at the end of each test year. Staff disagreed. In the Chico District carry-over of unexpended funds from year to year appears to be increasing. In fact, during years when wells are built, large carry-overs have been the rule rather than the exception. In recent years the average carry-over was \$60,700. As the well budgeted for 1980 would not be started until almost year's end, it seemed clear that there would be a large carry-over to 1981. Accordingly, staff proposed that the \$128,125

included in the 1980 budget for completion of projects started in 1979 should be deleted from the 1980 budget. Applicant agreed. Aside from the 5 wells budgeted initially by Cal-Water for the years 1980-1982 (of which we approved 4), applicant also originally planned to spend \$4,000 in 1980, \$2,000 in 1981, and another \$2,000 in 1982, to acquire non-specific well sites. Considering the economic outlook, staff proposed to delete these items and the company agreed. Similarly, staff also proposed deletion of \$4,000 allocated in the 1981 and 1982 budget for nonspecific wells and applicant agreed. Finally, the parties agreed to reduce the Structures account by \$1,000 in each of the test years, thus completing the adjustments to the Utility-Funded Additions.

In examining applicant's proposed Advances for Construction accounts, staff had available 6 months recorded 1980 data, and was able to update applicant's figures. This resulted in staff's estimates, accepted by applicant, being \$370,100 lower for 1981, and \$454,500 lower for 1982. Similarly with respect to Contributions, staff's access to 6 months recorded 1980 data resulted in estimates \$2,700 lower than applicants for the test years.

Proceeding with our examination of the components which led the parties to differing rate base determinations we pass from Utility Plant in Service to the following Rate Base components.

Under Working Capital, applicant and staff agreed on estimates for Materials and Supplies, and Minimum Bank Cash Deposits, but differed on Working Cash Allowances. In estimating the latter, applicant and staff used the detailed "lead-lag" method, but staff based its calculations on its figures for revenue, expenses, and rate of return. Applicant agreed to accept staff's estimates, and even though we have adopted revenue and expense figures differing from those of either party, the end differences in this judgmental estimate are so small that we too will retain the staff's estimate.

In determining Adjustments to Utility Plant, applicant and staff agree on Reserves for Amortization of Intangibles and General

Office Allocated Rate Base, but differ on Customer Advances for Construction and Contributions. As noted earlier, staff estimated lower advances in the test years than did applicant. Again, applicant accepted these lower estimates and we have no reason to conclude otherwise. Accordingly, applicant's estimates of Advances for 1981 and 1982, respectively, will be decreased by \$440,800 and \$828,000. Similarly, staff's later data resulted in lower contribution estimates in the test years, and this in turn here results in estimates for 1981 and 1982, respectively, being \$2,800 and \$4,600 lower than applicant's. As noted, applicant accepts these estimates, as do we.

Finally, in computing estimated Depreciation Reserves, there were minimal differences between the determinations arrived at by the parties. Both used 1980 depreciation accrual rates and both used a factor of 50.9 percent in calculating the reserve. Their differences derived out of differing underlying estimates of plant additions and contributed plant. In that applicant at the hearing accepted staff's determinations and we earlier had adopted staff's lower advance estimates, we must here also adopt staff's lower determinations.

After the foregoing review we find the above discussed staff sponsored adjustments to the test year Rate Base components, including the proposed exclusion of funds budgeted for the 1981 well, to be reasonable and proper, and we adopt them. Accordingly, estimated Rate Bases for test years 1981 and 1982 are adjusted to \$5,982,900 and \$6,307,100, respectively, as set forth in Table E.

#### Rate of Return

In Decision No. 92604 dated January 2, 1981 in Application No. 59660 (Bakersfield District), the Commission adopted as reasonable for the six companion districts<sup>2/</sup> of Cal-Water involved in the instant

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<sup>2/</sup> Applications for general rate increases were filed simultaneously on May 16, 1980 for the Bakersfield, Stockton, Visalia, Chico-Hamilton City, Salinas, and San Mateo districts of Cal-Water. In that all contained common issues relating to corporate general office expenses, corporate financing, and rate of return on common equity, the six applications were consolidated for hearing.



consolidated proceeding, rates of return of 10.89 percent, 11.08 percent, and 11.50 percent for the years 1981, 1982, and 1983 respectively. These rates of return were designed to hold return on common equity at 13.7 percent during that 3-year test period.

In that same decision, and equally applicable to the same six companion districts involved in the instant consolidated proceeding, the Commission determined that at this point in time Cal-Water's capitalization structure and general financial circumstances did not preclude reliance upon long-term debt financing through the test period for all financing anticipated herein, and found reasonable Cal-Water's estimate of 13.1 percent as the anticipated cost of such debt financing.

Since we discussed these subjects extensively in Decision No. 92604, we will not repeat that material here but will incorporate it by reference. For immediate reference purposes, however, we attach herein as Table C (Table D in Decision No. 92604), a comparison of the positions of applicant and staff on rate of return, and also, as Table D herein (Table E in Decision No. 92604), our Adopted Rates of Return. These show the effect on rate of return of using long-term debt financing rather than preferred stock, and also show how we derived our adopted rates of return for 1981, 1982, and 1983.

TABLE C  
Rate of Return Comparison

	<u>Applicant</u>			<u>Staff *</u>		
	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Wgt'd. Cost</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Wgt'd. Cost</u>
1981						
Long-term debt	54.1%	9.32%	5.04%	50.0%	8.83%	4.42%
Preferred stock	4.3	6.50	.28	8.0	8.03	.64
Common stock	<u>41.6</u>	15.00	<u>6.24</u>	<u>42.0</u>	13.20	<u>5.54</u>
Total	100.0		11.56	100.0		10.60
1982						
Long-term debt	54.3	9.54	5.18	50.0	8.97	4.49
Preferred stock	4.0	6.46	.26	8.0	8.79	.70
Common stock	<u>41.7</u>	15.00	<u>6.26</u>	<u>42.0</u>	13.20	<u>5.54</u>
Total	100.0		11.70	100.0		10.73
1983						
Long-term debt	54.7	10.86	5.94	50.0	9.39	4.70
Preferred stock	3.7	6.42	.24	8.0	8.79	.70
Common stock	<u>41.6</u>	15.00	<u>6.24</u>	<u>42.0</u>	13.20	<u>5.54</u>
Total	100.0		12.42	100.0		10.94

\*Staff assumed constant capitalization rates throughout the 3-year test period to allow step rates for financial attrition, based on an average for the 3 years.

TABLE D

Cal-Water Service Company - Adopted Rate of Return

<u>Component</u>	<u>Capitalization Ratio</u>	<u>Cost Factor</u>	<u>Wgt'd. Cost</u>	<u>After Tax Interest Coverage</u>
Average Year 1981				
Long-Term Debt	54.2%	9.07%	4.92%	2.21
Preferred Stock	4.2	6.50	.27	
Common Equity	<u>41.6</u>	13.70	<u>5.70</u>	
Total	100.0		10.89	
Average Year 1982				
Long-Term Debt	54.2	9.43	5.11	2.17
Preferred Stock	4.2	6.48	.27	
Common Equity	<u>41.6</u>	13.70	<u>5.70</u>	
Total	100.0		11.08	
Average Year 1983				
Long-Term Debt	54.2	10.20	5.53	2.08
Preferred Stock	4.2	6.44	.27	
Common Equity	<u>41.6</u>	13.70	<u>5.70</u>	
Total	100.0		11.50	

Assumptions:

- (1) To allow undistorted step rates and provide for financial attrition, we assumed a constant capitalization ratio for the 3-year period; computing it as the average of each year's average.
- (2) Average beginning and year-end capital costs were used.
- (3) Financing through long-term debt at 13.1% in the 1981-1983 period.
- (4) Return on common equity was held constant at 13.7%.

Authorized Revenue Increases

Table E, our adopted Summary of Earnings, follows. It reflects our resolution of the issues pertaining to operating revenues and expenses, and includes the impact of external financing through use of long-term debt at 13.1 percent. Further, it sets forth operating revenues which would be provided at present rates, and those which would be required to produce the 13.7 percent rate of return on common equity which we are authorizing for the test years.

TABLE E

Cal-Water Service Company - Chico-Hamilton City District  
Adopted Summary of Earnings  
 (Dollars in Thousands)

	<u>Test Year 1981</u>	<u>Test Year 1982</u>
<u>At Present Rates</u>		
Operating Revenues	\$ 1,820.9	\$ 1,886.8
<u>Operating Expenses</u>		
Purchased Power	489.1	506.4
Purchased Chemicals	0.7	0.7
Payroll - District	340.0	368.9
Other Operation & Maintenance	159.9	176.7
Other Admin. & Gen'l. & Misc.	0.8	1.4
Ad Valorem Taxes - District	76.7	86.2
Payroll Taxes - District	25.0	27.1
Business License	11.5	11.8
Depreciation	220.2	243.0
Ad Valorem Taxes - G.O.	1.0	1.1
Payroll Taxes - G.O.	4.8	5.1
Other Prorates - G.O.	184.0	199.1
Subtotal	1,513.7	1,627.5
Uncollectibles	6.4	6.6
Income Taxes Before I.T.C.	(44.6)	(83.7)
Investment Tax Credit	(51.9)	(58.4)
Total Operating Expenses	1,423.6	1,492.0
Net Operating Revenues	397.2	394.8
Rate Base	5,982.9	6,307.1
Rate of Return	6.64%	6.26%

(Red Figure)

TABLE E - Contd.

Cal-Water Service Company - Chico-Hamilton City District  
Adopted Summary of Earnings  
(Dollars in Thousands)

<u>At Rate Levels Adopted</u>	<u>Test Year 1981</u>	<u>Test Year 1982</u>
Operating Revenues	\$ 2,343.6	\$ 2,511.7
<u>Operating Expenses</u>		
Subtotal	1,513.7	1,627.5
Uncollectibles	8.2	8.8
Income Taxes Before I.T.C.	222.0	235.0
Investment Tax Credit	<u>(51.9)</u>	<u>(58.4)</u>
Total Operating Expenses	1,692.0	1,812.9
Net Operating Revenue	651.6	698.8
Rate Base	5,982.9	6,307.1
Rate of Return	10.89%	11.08%

(Red Figure)

Contrasting the operating revenues set forth in Table E, it is apparent that the rates of return which we are authorizing will produce additional gross revenues of \$522,700 in 1981, an increase of 28.7 percent over the revenues which the existing rates would produce. In 1982 an additional \$83,400 will be produced, an increase of 3.4 percent. These authorized increases also provide for increased power costs derived from the April 29, 1980 PG&E increase. In conformity with the previously stated preference that districts of Class A water utilities not file general rate applications more frequently than once each three years, a third set of rates in the form of a step increase will be authorized for 1983 to allow for attrition, both operational and financial, after 1982. Following methodology used in recent decisions in similar applications (Decisions Nos. 92244 and 91537 in Cal-Water Livermore and Southern Cal-Water Metropolitan, respectively,) the

operations component, as indicated by the decline in the rate of return at present rates from 6.64 percent in 1981 to 6.26 percent in 1982 (see Table E) is 0.38 percent. The financial component is represented by the difference of 0.42 percentage points between the rates of return we adopted (see Table D) for 1982 and 1983, respectively, 11.08 percent and 11.50 percent. To offset this combined 0.80 percent (0.38 percent + 0.42 percent) operational and financial attrition we will authorize a 1983 step rate increase of \$103,700.<sup>6/</sup>

On or after November 15 in the years 1981 and 1982, applicant will be authorized to file advice letters (with appropriate work papers) to justify implementation of the step rate increases herein postulated for each of these years. These supplemental filings will permit review of achieved rates of return before each step rate increase is authorized.

Table E and Appendix C will provide a basis for review of these future advice letter requests. The purchased power rate used is the composite PG&E rate of 6.780 cents per kWh which became effective April 29, 1980. The Chico-Hamilton City effective ad valorem tax rate is 0.956 percent of estimated beginning-of-year net plant plus materials and supplies. The corresponding effective rate for prorated general office ad valorem taxes is 1.109 percent of beginning-of-year net plant plus materials and supplies. The income tax rates are the current 9.6 percent state and 46 percent (with intermediate steps) federal rates. The uncollectible rate used was 0.35 percent, and the net-to-gross multiplier was 2.0557.

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<sup>6/</sup> Using the formula: Rate Base x Rate of Combined Attrition x Net-to-Gross Multiplier = Step Increase, we find \$6,307,100 x 0.80 percent x 2.0557 = \$103,700.

Rate Design

In a rate proceeding, after total revenue requirements have been determined, the next step must be to provide for equitable distribution of the increases found necessary to the components making up the rate schedule. In the Chico-Hamilton City District, as of March 8, 1980 (the cut-off date used by both applicant and staff to determine the "present rates to be used in their reports in this proceeding), the accumulated revenue increases authorized by this Commission since January 1, 1976 had increased rates a total of 22.64 percent.

Both applicant and staff recommend keeping the existing general metered first quantity block rate and the existing service charge for the basic 5/8 x 3/4-inch meter unchanged until the total increase in revenue exceeds 25 percent.<sup>7/</sup> However, both parties also recommend reduction of the first quantity block (lifeline) from 0-5 Ccf to 0-3 Ccf. In the interest of encouraging conservation at all levels of demand while still retaining a basic lifeline allowance, and in order to be able to generate the necessary revenues needed to operate the Chico-Hamilton City system, we agree to the proposals. It should be noted that they are consistent with recent Commission practice in numerous decisions. Applicant would further change the commodity block structure of the General Metered service tariff from the existing 2-block structure to a 3-block structure, using the proposed 3rd block to embrace usage above 30,000 cu.ft. per month.<sup>8/</sup> The reason advanced to support this proposal was that establishment of such a new block would ease the burden of further rate increases to large industrial and public authority consumers who

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<sup>7/</sup> This will occur in 1981.

<sup>8/</sup> The three-block rate structure is currently in use in three of the districts involved in this consolidated proceeding. These districts are Salinas, San Mateo, and Stockton.

assertedly have borne a disproportionate share of recent rate increases. Absent a comprehensive study which would show the potential impact as well as the individual groups and operations which would be affected, staff opposes a change at this time. We agree. For the present we will retain the 3-block structure.

In order to bring about what it asserts would be a better balanced rate structure, applicant next proposed to increase service charge rates (except those for the 5/8 x 3/4-inch meter) by a larger percentage than that which it would make applicable to the commodity rates. It contends that as a consequence of the virtual freeze on readiness-to-serve charges in recent years, with almost all the revenue increases imposed on the commodity charges, revenue stability has suffered. Applicant argues that earnings have thereby been distorted and that there is no true relationship to fixed costs which continue, and indeed increase, whether a customer uses zero water or uses 5,000 cu.ft. Given a situation where most of the revenues are tied to the commodity charge, and very little to the service charge, in a dry hot year earnings will skyrocket. But in a drought year earnings plummet.

While we recognize that much merit underlies applicant's assertions, we are here most immediately concerned with the intent to bend every effort to bring about maximum incentives to promote conservation. As the staff witness pointed up: If you do not give incentive to the customer, he is not likely to conserve. Conservation is one of the primary objectives that we look to in designing rates. We believe that the staff's proposal of spreading the increase percentagewise equally between the service charge and the commodity charge is more likely to achieve our objective than is applicant's proposal to increase the service charge twice as much as the commodity charge. We adopt the staff's proposal.



In fairness it should be noted that applicant, while feeling obligated to state its position, also stated that it was willing to accept any rate design the Commission wishes to authorize as long as that design produces the revenue required to earn the authorized rate of return.

Neither applicant nor staff proposed any increases to be applicable for Public Fire Hydrant or Private Fire Protection services.

Appendix A to this decision sets forth the rate structure approved, to be made effective and applicable to the remainder of 1981. Appendix B contains the step increases in rates authorized for future years. Since rates are very likely to be revised through advice letter offsets during the interim period ahead, it is doubtful that schedules for 1982 and 1983 predicated upon rates to be authorized for 1981 would be the correct rates at the time the step rate filing is to be made. Therefore, the increases contained in Appendix B can be added to the rates that would otherwise be effective on the date the step increase is to go into effect in order to develop the appropriate rates for filing.

#### Other Issues

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 accompany their applications to show whether the requested increases complied with the voluntary wage and price standards issued by the federal Wage and Price Stability Council. As is evidenced by Exhibit No. 6 to this proceeding, applicant complied. However, by Executive Order No. 12288 dated January 29, 1981, the President of the United States terminated the wage and price regulatory program, and Resolution No. M-4704 was rescinded by Commission Resolution No. M-4718 on March 17, 1981. Therefore, the issue of compliance with wage and price standards is no longer cognizable in this proceeding.

Interim Relief Granted: The Commission's Regulatory Lag Plan for water utilities, adopted by Resolution No. M-4705 dated April 24, 1979 contemplated that final decisions in pending rate matters

would be issued within specified time limits. In instances where the time limits set by the plan must be exceeded, the Commission may issue an interim order granting partial rate relief. In the instant proceeding the time limit for a decision under the applicable Lag Plan was exceeded. Accordingly, by Decision No. 92716 issued February 18, 1981, an interim order provided, inter alia, that Cal-Water could immediately institute a partial rate increase to produce additional revenues of \$513,100 (a 27.89 percent increase) and a rate of return of 10.89 percent on rate base in the Chico-Hamilton City District, pending issuance of this, our final order, in the instant proceeding.

Effective Date of This Order: The rates of return found reasonable in this matter were determined and based upon the effect of the rate increase for full year 1981. To preserve as much of that effect as possible, as noted above, interim relief was granted. However, this interim relief provided only a 27.89 percent increase, whereas this final order authorizes a 28.7 percent increase. Accordingly, in order to retain as much of the full-year effect of the full increase as possible, the resulting final order should be effective on the date of signature.

Findings of Fact

1. Applicant's service territory is efficiently served with satisfactory results, and the water quality is satisfactory.
2. Applicant's conservation program shows diminishing results despite some commendable efforts. It should be reinvigorated. Its pump efficiency program meets or exceeds standards.
3. Applicant requires additional revenues, but the rates it proposes would produce an unjustified rate of return.
4. To avoid a duplicity of effort we are providing in the rates we adopt herein for the additional cost of purchased power derived from the April 29, 1980 PG&E increase.

5. Staff's projections of the anticipated average number of services, class by class, for test years 1981 and 1982, except for the estimated average number of Flat Rate Commercial Class services, and insofar as they differ from those of applicant, are the more reasonable, and should be adopted.

6. Applicant's revised estimates of the average number of Flat Rate Commercial Class services for test years 1981 and 1982, respectively 10,156 and 10,496, being based upon later data and being reflective of more recent economic conditions, are more reasonable than staff's estimates. Accordingly, applicant's estimates should be adopted.

7. Staff's projections of anticipated per average service consumption for all classes for test years 1981 and 1982, insofar as they differ from those of applicant, are more reasonable and accordingly should be adopted.

8. Our estimates (set forth in Table E) of estimated operating revenues and expenses at present and proposed rates for the test years, as derived from revised and/or adopted average service and consumption projections, should be adopted over those of applicant and staff.

9. Staff's proposal to delete \$128,125 in carry-over funds from applicant's 1980 Utility-Funded Additions budget is reasonable and should be adopted.

10. Staff's proposal to delete \$142,500, representing a second 1981 well, from applicant's 1981 Utility-Funded Additions budget is prudent and judicious, and should be adopted.

11. Staff's proposed adjustments to applicant's rate base components for the test years 1981 and 1982, as accepted by applicant, are reasonable and should be adopted.

12. The adopted estimates of operating revenues, operating expenses, and rate base for the test years 1981 and 1982, and a decline of 0.38 percent in rate of return into 1983 as a consequence of

operational attrition at the present authorized rate level, reasonably indicates the results of applicant's operations in the immediate future.

13. At this point in time applicant's capitalization structure and general financial circumstances do not preclude reliance upon long-term financing through the test period for all financing anticipated herein.

14. Applicant's estimate of 13.1 percent as the anticipated cost of such debt financing is reasonable.

15. Rates of return of 10.89, 11.08, and 11.50 percent, respectively, on applicant's rate base for 1981, 1982, and 1983 are reasonable. The related return on common equity each year is 13.7 percent. This will require an increase of \$522,700, or 28.7 percent in annual revenues for 1981, a further increase of \$83,400, or 3.4 percent in 1982, and a further increase of \$103,700 or 4.1 percent in 1983.

16. The adopted rate design is reasonable.

17. 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.

18. The further increases authorized in Appendix B should be appropriately modified in the event the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1981 and/or September 30, 1982, exceeds the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the most recent rate decision or (b) 10.89 percent for 1981 and 11.08 percent for 1982.

19. Applicant's private fire protection service rates do not act as a deterrent to the installation of fire sprinkler systems in private buildings, and it would be neither equitable nor reasonable to eliminate all private fire protection service rates with the resulting transfer in costs to applicant's general service customers.

20. The revenues authorized herein, pursuant to provisions of Commission Resolution No. L-213, incorporate the present public

fire protection surcharges offsetting loss of fire hydrant revenues. No refund is necessary.

Conclusions of Law

1. The application should be granted to the extent provided by the following order, the adopted rates being just, reasonable, and nondiscriminatory.

2. The effective date of the following order should be the date of signature since there is an immediate need for the rate increase.

FINAL ORDER

IT IS ORDERED that:

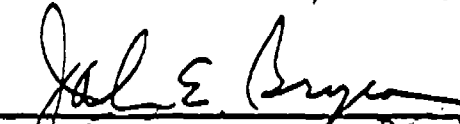
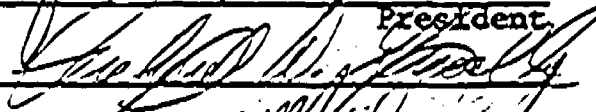
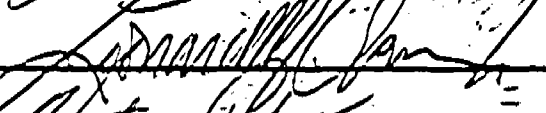

1. After the effective date of this order, applicant, California Water Service Company, is authorized to file for its Chico-Hamilton City District the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing. The revised schedules shall apply to service rendered on and after the effective date hereof.

2. 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 Chico-Hamilton City 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 applicant during the corresponding period in the then most recent rate decision, or (b) 10.89 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 earlier than January 1, 1982, or thirty days after the filing of the step rate, whichever is later. The revised schedule shall apply only to service rendered on and after the effective date thereof.

3. On or after November 15, 1982 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 Chico-Hamilton City District rate of return on rate base, adjusted to reflect the rates then in effect and normal rate making adjustments for the twelve months ended September 30, 1982, 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) 11.08 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 earlier than January 1, 1983, or thirty days after the filing of the step rates, whichever is later. The revised schedule shall apply only to service rendered on and after the effective date thereof.

The effective date of this order is the date hereof.

Dated     MAY 5 1981    , at San Francisco, California.

  
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President  
  
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Commissioners

APPENDIX A  
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Schedule No. CH-1

Chico-Hamilton City Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Chico and vicinity, Butte County, and Hamilton City and vicinity,  
Glenn County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Service Charge:	
For 5/8 x 3/4-inch meter .....	\$ 3.85
For 3/4-inch meter .....	5.35
For 1-inch meter .....	7.30
For 1 1/2-inch meter .....	10.20
For 2-inch meter .....	13.60
For 3-inch meter .....	24.00
For 4-inch meter .....	33.00
For 6-inch meter .....	55.00
For 8-inch meter .....	81.00
For 10-inch meter .....	101.00

Quantity Rates:

For the first 300 cu.ft., per 100 cu.ft. ....	0.276
For all over 300 cu.ft., per 100 cu.ft. ....	0.238

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.

APPENDIX A  
Page 2 of 3

Schedule No. CH-1

Chico-Hamilton City Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Chico and vicinity, Butte County, and Hamilton City and vicinity,  
Glenn County.

RATES

Per Service Connection  
Per Month

For a single-family residential unit,  
including premises having the following  
areas:

6,000 sq.ft. or less .....	\$ 9.50
6,001 to 10,000 sq.ft. ....	11.10
10,001 to 16,000 sq.ft. ....	13.15
16,001 to 25,000 sq.ft. ....	16.40

For each additional single-family residential unit on the same premises and served from the same service connection .....	6.90
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SPECIAL CONDITIONS:

1. The above flat rates apply to service connections not larger than  
one inch in diameter.

2. All service not covered by the above classifications shall be  
furnished only on a metered basis.

3. For service covered by the above classifications, if the utility  
or the customer so elects, a meter shall be installed and service provided  
under Schedule No. CH-1, General Metered Service.



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Schedule No. CH-2L

Chico-Hamilton City Tariff Area

SCHOOLS AND PUBLIC PARK FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on a flat rate basis to schools and public parks.

TERRITORY

Hamilton City and vicinity, Glenn County.

RATES

	<u>Per Month</u>
For each public school or public park .....	\$ 43.00

SPECIAL CONDITIONS

1. Meters may be installed at option of utility or customer for above classifications in which event service thereafter will be furnished only on the basis of Schedule No. CH-1, General Metered Service.

2. Service under this schedule is limited to active services as of January 1, 1977.

## APPENDIX B

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 rate which would otherwise be in effect on that date.

	<u>Effective Dates</u>	
	<u>1-1-82</u>	<u>1-1-83</u>
<u>Service Charge (Per Meter Per Month)</u>		
For 5/8 x 3/4-inch meter	\$ 0.15	\$ 0.15
For 3/4-inch meter	0.20	0.25
For 1-inch meter	0.30	0.30
For 1 1/2-inch meter	0.40	0.40
For 2-inch meter	0.50	0.65
For 3-inch meter	1.00	1.00
For 4-inch meter	1.00	1.00
For 6-inch meter	2.00	2.00
For 8-inch meter	3.00	3.00
For 10-inch meter	3.00	4.00
<u>Quantity Rates:</u>		
For first 300 cu.ft., per 100 cu.ft.	0.005	0.008
For all over 300 cu.ft., per 100 cu.ft.	0.008	0.010
<u>Flat Rates:</u>		
6,000 sq.ft. or less	\$ 0.25	\$ 0.40
6,001 to 10,000 sq.ft.	0.40	0.50
10,001 to 16,000 sq.ft.	0.45	0.55
16,001 to 25,000 sq.ft.	0.60	0.70
<u>Additional Single-Family Residential</u>		
Unit on the same premises and served from the same service connection	0.20	0.30
<u>Schools and Public Park Flat Rates</u>		
For each public school or public park	\$45.00	\$47.00

APPENDIX C  
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ADOPTED QUANTITIES

Company: California Water Service Co.  
District: Chico-Hamilton City

	<u>1981</u> KCCF	<u>1982</u> KCCF		
1. <u>Water Production:</u>	7,746.6	8,020.9		
Wells:	7,746.6	8,020.9		
2. <u>Electric Power:</u>	0.9313 kWh per Ccf	Supplier: PG&E	Date: <u>4-29-80</u>	
kWh:	7,214,650	7,470,125		
Cost:	\$ 489,100	\$ 506,400		
Cost per kWh:	\$ 0.0678	\$ 0.0678		
3. <u>Ad Valorem Taxes:</u>	\$ 77,700	\$ 87,300		
Tax Rate:	0.956%	0.956%		
4. <u>Net-to-Gross Multiplier:</u>	2.0557			
5. <u>Uncollectible Rate:</u>	0.359%			
6. <u>Metered Water Sales:</u>				

	<u>Range-Ccf</u>	<u>1981</u>	<u>Usage-Ccf</u> <u>1982</u>
Block 1 (Lifeline)	0-3	115,682	120,500
2	3	<u>2,420,718</u>	<u>2,514,500</u>
Total Usage		2,536,400	2,635,000

APPENDIX C  
Page 2 of 3ADOPTED QUANTITIES7. Number of Services:

	No. of Services		Usage-KCcf		Avg. Usage-Ccf/yr.	
	<u>1981</u>	<u>1982</u>	<u>1981</u>	<u>1982</u>	<u>1981</u>	<u>1982</u>
Commercial-Metered	3,280	3,425	2,163.8	2,259.5	659.7	659.7
Commercial-Flat	10,156	10,496	4,590.5	4,744.2	452.0	452.0
Industrial	30	30	61.7	61.7	2,055.2	2,055.2
Public Authority	196	197	295.5	297.0	1,507.6	1,507.6
Other	<u>11</u>	<u>12</u>	<u>15.4</u>	<u>16.8</u>	<u>1,400.0</u>	<u>1,400.0</u>
Subtotal	13,673	14,160	7,126.9	7,379.2		
Private Fire Prt.	91	97				
Public Fire Prt.	<u>14</u>	<u>14</u>				
Total	13,778	14,271				
Water Loss 8%			619.7	641.7		
Total Water Produced			7,746.6	8,020.9		

8. Flat Rate Services:

	No. of Services	
	<u>1981</u>	<u>1982</u>
Block 1 6,000 sq.ft. or less	1,748	1,806
Block 2 6,001 to 10,000 sq.ft.	5,234	5,408
Block 3 10,001 to 16,000 sq.ft.	2,444	2,527
Block 4 16,001 to 25,000 sq.ft.	730	755
For each additional residential unit	382	408

9. Revenue

	<u>1981</u>	<u>1982</u>	<u>1983</u>
Metered	\$ 873.1	\$ 938.4	\$ 977.4
Flat	1,457.3	1,559.2	1,623.9
Private Fire Prot.	11.7	12.4	12.4
Misc.	<u>1.5</u>	<u>1.7</u>	<u>1.7</u>
Total	2,343.6	2,511.7	2,615.4

## 10. Attrition (1982-1983)

Operational	0.38%
Financial	<u>0.42</u>
Total	0.80%

11. 1983 revenue increase (based on 1982 rate base): \$103,700

APPENDIX C  
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INCOME TAX CALCULATION

Item	1981	1982
<u>State Franchise Tax</u>		
Operating Revenue	\$2,343.6	\$2,511.7
<u>Expenses</u>		
O&M	1,188.5	1,268.2
Taxes Other Than Income	113.2	125.1
Subtotal	1,301.7	1,393.3
<u>Deductions &amp; Adjustments</u>		
Transportation Depr. Adj.	(14.7)	(17.1)
G.O. Depr. Adj.	(2.7)	(2.7)
Soc. Sec. Taxes Capitalized	4.4	4.8
Interest	294.3	322.1
Subtotal Deduction	281.3	307.1
State Tax Depreciation	329.9	356.0
Net Taxable Revenue	430.7	455.3
CCRT at 9.6%	41.3	43.7
<u>Federal Income Tax</u>		
Operating Revenue	2,343.6	2,511.7
Expenses	1,301.7	1,393.3
Deductions	281.3	307.1
FIT Depreciation	321.5	347.0
Preferred Stock Div. Cr.	1.7	1.7
State Income Tax	41.3	43.7
Taxable Revenue	396.1	418.9
FIT at 46%	182.2	192.7
Graduated Tax Adj.	(0.7)	(0.7)
Adj. for Invol. Conver.	(0.8)	(0.7)
Investment Tax Credit	(51.9)	(58.4)
FIT	128.8	132.9

(Red Figure)