

Decision 93687 NOV 3 1981

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )	
of PARK WATER COMPANY, a California )	
Corporation, for Authority to )	Application 60498
Increase Rates Charged for Water )	(Filed April 29, 1981)
Service in Its Vandenberg Water )	
Division as Authorized in NOI 43-W. )	

Chris S. Rellas, Attorney at Law, for Park Water Company, applicant.  
 Cavaletto, Webster, Mullem & McCaughey, by Arthur A. Henzell, Attorney at Law, for Vandenberg Village Association, interested party.  
Philip Weismehl, Attorney at Law, for the Commission staff.

INTERIM OPINION

Park Water Company (Park) seeks authority to collect through increased rates additional revenues for its Vandenberg Water Division (Division) of \$430,577 (15.1%) for test year 1980, \$63,822 (8.9%) for 1981, and \$138,799 (17.8%) for 1982. The proposed increases would allow Park to earn a 13.5% return on equity for the three-year period and would raise its overall rate of return from a minus 10.81% in 1980 to 11.96% in 1980, 12.04% in 1981, and 12.19% in 1982.

The Division serves approximately 1,900 customers in Vandenberg Village, an unincorporated area of Santa Barbara County located about three miles north of the City of Lompoc. The last general rate adjustment for the Division was authorized by Decision (D.) 82612 dated March 19, 1974, in Application (A.) 53609.

A public hearing was held in Lompoc on September 1, 1981 before Administrative Law Judge Robert T. Baer. About 75 customers attended, of which two presented their views. Park, the Revenue Requirements Division (staff), and the Vandenberg Village Association (Association) offered evidence and the case was submitted without oral argument or briefs.

Park's Evidence

Park's evidence was presented through its Vice President - Revenue Requirements, Daniel M. Conway. He explained that the large percentage increase in revenues sought over revenues at present rates was due in general to the inflation of costs and interest rates experienced since the last general rate increase in 1974. He listed seven specific items as the principal reasons for seeking the large rate increase:

- "1. A decrease in average water usage per residential customer from the adopted amounts used to establish present rates.
- "2. A loss of approximately 130,000 Ccf in annual water sales due to Vandenberg Village Country Club drilling their own well.
- "3. Payroll expense on a per customer basis has increased as a result of adding two employees since test year 1973 as well as wage increases.
- "4. Operation and maintenance expenses are expected to increase on a per customer basis of 200.3 percent.
- "5. Taxes other than income show an increase of 163.8 percent.
- "6. Depreciation expense is shown to increase on a per customer basis by 120 percent.
- "7. Taxes on income are projected to increase 961 percent." (Exhibit 1, p. i.)

Conway accepted the staff's entire showing except for the following items:

1. He differs with the staff on the proper method for estimating water consumption.
2. He believes the staff's estimate of payroll expense for 1981 is too low, since it did not recognize that a portion of its payroll expense for 1980 was allocated to Mission Hills Utility Company (Mission Hills) after Park was ordered to manage and operate the system. (D.90359, dated May 30, 1979, in A.54023.)
3. The staff's estimate of payroll taxes was too low.
4. His rate design should be preferred over the staff's.

These items will be considered below after a discussion of the staff's and the Association's evidence.

#### Staff's Evidence

The staff presented evidence through three witnesses. Two of the witnesses, Donald Yep and Jerry H. Shiu, collaborated on a report on the results of operations of the Division for test years 1981 and 1982. The report used as present rates those in effect January 2, 1979 so that its report would be comparable to Park's application. In addition, the staff prepared revised tables showing Park's results of operations using its currently effective rates (July 29, 1980) and purchased power rates effective July 14, 1981. Since Park has accepted the staff showing except for the items mentioned above, this discussion will be limited to the staff's revised tables.

The following table shows that even on the staff basis, Park will suffer rates of return of minus 4.9% and minus 6.04% in 1981 and 1982 at present rates. However, at the rates proposed by Park, its rate of return will exceed the levels found reasonable by staff witness Terry R. Mowrey.

TABLE 1

Staff Results of Operations for 1981 and 1982  
 At Present (July 29, 1980) and Proposed Rates  
Using July 14, 1981, Purchased Power Rates

<u>Item</u>	<u>1981</u>		<u>1982</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
	(Dollars in Thousands)			
Operating Revenues	\$ 322.1	\$ 806.5	\$ 329.8	\$ 958.4
<u>Operating Expenses</u>				
Operation & Maintenance	300.3	301.0	317.7	318.6
Administrative & General	72.2	72.2	79.3	79.3
General Office Prorated	<u>32.9</u>	<u>32.9</u>	<u>36.1</u>	<u>36.1</u>
Subtotal	405.4	406.1	433.1	434.0
Depreciation Expense	84.5	84.5	88.0	88.0
Taxes Other Than Income	25.6	25.6	27.9	27.9
State Corp. Franchise Tax	(23.2)	23.3	(25.6)	34.7
Federal Income Tax	<u>(103.8)</u>	<u>97.3</u>	<u>(113.0)</u>	<u>148.0</u>
Total Operating Expenses	388.5	636.8	410.4	732.6
Net Operating Revenues Adjusted	(66.4)	169.7	(80.6)	225.8
Rate Base	1,355.2	1,355.2	1,333.9	1,333.9
Rate of Return	(4.90)%	12.52%	(6.04)%	16.93%

(Red Figure)

In contrast to the returns that Park's proposed rates would produce, the staff's rate of return witness recommended a constant 12.09% rate of return for the test years 1981 and 1982. Park accepted the staff's rate of return showing; and, therefore, it is clear that Park's proposed rates are excessive and will produce more revenues than are necessary to provide a reasonable rate of return to Park. Once the issues raised by Park and those raised by the Association are resolved, Table 1 will be revised to show the adopted results of operations for 1981 and 1982.

#### Association's Evidence

Association produced oral testimony through a registered professional engineer. He took exception to Park's and staff's water consumption estimates, arguing that they were both too low. He argued that depreciation expense was overstated because the useful lives adopted for wells and water tanks were too short. He recommended that the tax consequences of the Economic Recovery Tax Act of 1981, effective August 13, 1981, should be reflected in the results of operations adopted by the Commission. Finally, he argued that Park should not be allowed to "catch-up" to a reasonable rate of return in a single step. Each of these points will be discussed separately below.

#### Water Consumption

Water consumption is one of the most significant factors contributing to estimates of revenue as the staff notes in its report. Consequently, it is not surprising that consumption proved to be the foremost contested issue in this proceeding. Park used recorded monthly water sales and weather data from 1976 through 1978. These data were analyzed using multiple-regression techniques. Park's computations are allegedly comparable to the Modified Bean

Method of climatological normalization which the staff uses, except that Park used monthly data instead of annual data. Park's method produced the following estimates:

	<u>Water Sales Per Residential Customer, Ccf</u>				
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Park	270	265	259	253	248
Staff*	-	-	-	259.1	259.1
Association*	-	-	-	-	272

\* Staff and Association estimates are included here for ease of comparison.

Park explains its use of 1976 through 1978 data as follows:

"Data from years 1976 through 1978 was used for the prediction of water consumption in order to incorporate into the equation the conservation effect experienced by the Division beginning in 1976. Data from years prior to 1976 which did not include this conservation effect were found to be unrepresentative of present consumption patterns." (Exhibit 1, p. 11.)

Park does not dispute the staff's estimate for 1981, since it is close to its own, but believes that the estimate for 1982 should be lower consistent with the pattern established in the drought years of 1976 through 1978.

In conjunction with the traditional Modified Bean Method, the staff used the so-called Committee Method to estimate residential water consumption for 1981 and 1982. This method produced an estimate of 259.1 Ccf per residential metered customer for each year. The staff's method employs 30 years of weather data (1951-1980) to obtain a weather normalized estimate of the last recorded year. In making its estimate the staff excluded recorded annual consumption data for the years 1977 and 1978, since these data included the effects of: (1) drought-related conservation in 1977 and (2) residential conservation in 1978.

The Association's estimate for 1982 was derived by averaging recorded residential consumption per customer for years 1976 through 1980 with a 1981 figure derived from the last eight months recorded consumption for 1980 and the first four months recorded consumption for 1981, as follows:

<u>Year</u>	<u>Recorded</u>
1976	300.5 Ccf
1977	284.5
1978	244.3
1979	255.8
1980	271.9
1981	275.2*

Average  $1,632.2 \div 6 = 272$  Ccf

\* Fiscal year May 1980 through April 1981.

For many years the Commission has consistently normalized recorded data to reflect the three independent variables which so significantly affect water consumption: time, precipitation, and temperature. We perceive no rationale which would justify abandoning this method in favor of the averaging method recommended by the Association. Accordingly, the Association's estimate is rejected as unreasonable. Similarly, we believe that Park has intentionally adopted as its data base the years 1976-1978 which were greatly influenced by a severe drought and residual conservation effects in succeeding years. According to Park's witness, the declining consumption trend will continue indefinitely into the future until consumption reaches a plateau at 50 Ccf, the minimal consumption required for residential customers. We view this result as extremely unlikely. Accordingly, the staff's method, which excludes recorded consumption for the extraordinary years 1977 and 1978, is more reasonable and its estimates of residential consumption for 1981 and 1982 are adopted.

Payroll Expense

Operation, maintenance, and administrative payroll estimates are:

	<u>1981</u>	<u>1982</u>
Park	\$102,200	\$112,500
Staff	76,500	84,100

The staff used 1980 recorded data, which were not available when Park prepared its report. However, as Park points out, the staff did not take into account that during part of 1980, Park allocated a portion of its payroll expense to Mission Hills, which it was managing by order of the Commission. (D.90359, dated May 30, 1979, in A.54023.) The Commission relieved Park of its duty to manage and operate Mission Hills in D.91927, dated June 17, 1980, in A.59559. Since Park's duty to manage and operate Mission Hills ceased in 1980, it would be more reasonable in estimating payroll expense for 1981 and 1982 to adjust 1980 payroll expenses by including those dollars allocated to Mission Hills and then to increase the adjusted amount by 10%, the inflation rate that both Park and staff use. Since Park's estimates more nearly approximate the estimates to be derived from the foregoing procedure, they will be adopted.

Payroll Taxes

Park and the staff estimated payroll taxes as follows:

	<u>1981</u>	<u>1982</u>
Park	\$5,433	\$5,941
Staff	6,300	6,900

Staff estimates exceeded Park's, but Park accepted the staff position with one caveat. Park did not agree that the staff used the proper salary base for the computation of payroll taxes. Park pays payroll taxes on wages, including vacation and sick leave compensation. This gives some of its employees a slightly higher wage base for calculating Social Security pension benefits. In estimating payroll taxes, the staff excluded sick leave from the wage base, arguing that payroll taxes are not paid on such benefits. It did not explain its position on the record.



In view of the staff's failure to explain its adjustment of payroll expense and its payroll tax computation or to rebut Park's critique of those positions, we believe it is reasonable to adopt Park's position. Accordingly, payroll taxes should be calculated by including sick leave benefits in the staff's payroll estimates.

Depreciation

Association argued that depreciation expense was overstated because the useful lives adopted by Park and accepted by the staff for wells and water tanks were too short. Park rebutted Association's recommendation with testimony that the water is so corrosive that well casings, in Park's actual experience, last only 10 years on the average. New wells have been equipped with casings made from different materials which Park hopes will last longer than 10 years, but only experience will show whether this expectation will be achieved. The same problem exists with Park's steel reservoirs. The aeration of water inside the tanks releases hydrogen sulfide gases, which together with the damp environment corrode the steel tops of the reservoirs, reducing their useful lives to 10 years. Park has treated its new reservoir covers with anticorrosive coatings in an attempt to prolong their useful lives, but only time will tell whether that process will be successful.

Since the staff concurs with the useful lives adopted by Park, and since Association did not recommend any other specific useful lives, the record is devoid of any evidence of reasonable useful lives for the contested items except those used by Park and the staff. We conclude that Park's useful lives for its wells and reservoirs are reasonable and should be adopted.

Economic Recovery Tax  
Act of 1981 (Act)

Association recommended that the effects of the Act should be reflected in the results of operations adopted by the Commission. Since Park's and the staff's reports were prepared before the Act was passed, the record does not contain any evidence of the financial effects of the Act. However, we

believe that this record should be kept open to receive evidence of those effects and so we will issue the order in an interim opinion. We caution all parties that the Act could result in an increase in revenue requirement for Park.

"Catch-up"

Association contended that Park should not be allowed to "catch-up" to a reasonable rate of return in a single step. Apparently, Association believes the Commission should authorize Park to increase its rates in part now and in part later, though it made no specific proposal to accomplish this result. The rationale for this proposal seems to be that since Park has neglected to file a rate increase application since 1973 and has allowed its rates to become unreasonably low over the last eight years, it should suffer further unreasonably low rates for some indefinite future period as a penalty for its neglect. Thus, the customers, who have benefited from paying depressed rates during the same period, would receive further benefits by paying depressed rates in the future. If this is truly the rationale for Association's proposal, it seems one-sided and not in the best interests of the customers. A public utility in perpetual financial trouble is not a good public servant. Accordingly, we will not adopt Association's proposal.

Adopted Results of Operations

Table 1 has been adjusted to reflect our conclusions on the disputed issues discussed above and the staff's rate of return recommendations, as follows:

TABLE 2

Staff Results of Operations for 1981 and 1982  
 At Present (July 29, 1980) and Adopted Rates  
Using July 14, 1981, Purchased Power Rates

<u>Item</u>	1981		1982	
	<u>Present Rates</u>	<u>Adopted Rates</u>	<u>Present Rates</u>	<u>Adopted Rates</u>
	(Dollars in Thousands)			
Operating Revenues	\$ 322.1	\$ 814.4	\$ 329.8	\$ 848.6
<u>Operating Expenses</u>				
Operation & Maintenance	315.7	316.4	334.7	335.6
Administrative & General	75.1	75.1	82.9	82.9
General Office Prorated	32.9	32.9	36.1	36.1
Subtotal	423.7	424.4	453.7	454.6
Depreciation Expense	84.5	84.5	88.0	88.0
Taxes Other Than Income	27.3	27.3	29.7	29.7
State Corp. Franchise Tax	(25.1)	22.1	(27.7)	22.0
Federal Income Tax	(112.2)	92.3	(122.4)	93.0
Total Operating Expenses	398.2	650.6	421.3	687.3
Net Operating Revenues Adjusted	(76.1)	163.8	(91.5)	161.3
Rate Base	1,355.2	1,355.2	1,333.9	1,333.9
Rate of Return	(5.62)%	12.09%	(6.86)%	12.09%

(Red Figure)

For test year 1981, operating revenues will increase \$492,300, or 153%; for test year 1982, operating revenues will increase an additional \$34,200, or 4.2%. Since this order will be effective late in 1981, we will set rates based upon the revenue requirement adopted for the 1982 test year. This will avoid two rate increases within less than three months.

Operational Attrition and Step Rates

The staff's estimated rates of return at present rates show an operational attrition of 1.11% in rate of return between 1981 and 1982. The staff, therefore, recommends that the Commission authorize Park to file advice letters in late 1982 and 1983 which would result in rate increases based on operational attrition. However, attrition based on the adopted results of operation is a better indicator of what will happen in the future. The attrition at adopted rates for 1981 and 1982 will be .81% in the rate of return. A .81% attrition allowance would provide an approximate increase in gross revenues for 1983 of \$22,200, based on the staff's 1982 estimated rate base. This recommendation will be adopted. The utility should be authorized to file an advice letter with supporting work papers on or after November 15, 1982 and to justify an increase in rates for 1983 by using 12 months of recorded data for the year ending September 30, 1982. Step rates for 1984, reflecting the same operational attrition rate, should be set in a similar fashion.

Rate Design

Park's recommendations

Park's present rate design for general metered service has two parts: a service charge, varying between \$3 and \$62 depending on size of meter, to which is added these quantity rates:

First	500 cf, per Ccf	\$0.314
Next	2,000 cf, per Ccf	0.421
Over	2,500 cf, per Ccf	0.355

For 1980 Park proposes a service charge ranging between \$11.14 and \$1,067.92 for 5/8 x 3/4-inch up to 10-inch meters. To these, service charges would be added a single quantity charge of \$0.54 per 100 cf.

To derive its proposed rates, Park applies James C. Bonbright's<sup>1/</sup> three primary objectives of rate design, which are:

- a. The revenue-requirement objective;
- b. The fair-cost-apportionment objective, i.e., the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and
- c. The optimum-use or consumer-rationing objective, i.e., the rates are designed to discourage the wasteful use of public utility services, while promoting all use that is economically justified in view of the relationship between costs incurred and benefits received.

Park first establishes the usage block rate (quantity charge) which would best meet the optimum-use or consumer-rationing objective. Park sets the range for this quantity rate by calculating a maximum rate which would produce the total revenue requirement, or \$1.20 per Ccf. A minimum rate designed to defray only purchased power expense, chemical expense, and pump taxes would be \$0.196 per

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<sup>1/</sup> James C. Bonbright, "Principles of Public Utility Rates".

Ccf. Neither of these approaches was deemed satisfactory so Park adopted a quantity rate of \$0.54 per Ccf, a 43% increase over the highest block of present rates. The \$0.54 quantity rate would produce 45% of the revenue requirement leaving 55% to be captured through service charges.

The next factor was designed to recoup customer accounts expense and the portion of main office expenses attributable to billing operations. This charge would be the same irrespective of meter size. These expenses, divided by the number of customers, produced a fixed charge of \$22.48 per customer per year or \$1.87 per month.

The last factor, or capacity charge, must produce 49% of the revenue requirement. Park first determined the capacity of each of its various size meters in gallons per minute. Then it expressed each of these capacities as a ratio of its smallest meter (5/8 x 3/4 inch). Thus, its smallest meter has a ratio of one and its largest (10 inches) a ratio of 115. Multiplying the number of meters in each category times the ratio for that meter produced meter equivalents, which were then added together and divided into the revenue requirement to be produced by the capacity charge. This operation produces an annual revenue requirement for the smallest meter, which, when divided by 12 months, results in a capacity charge of \$9.27 for the smallest meter. For the other sizes, the \$9.27 charge was multiplied times the meter ratios for the various meters. The total service charge is the sum of the customer charge (\$1.87) and the meter capacity charge. The following table demonstrates the computation of the service charge:

Computation of Proposed Service Charges for Test Year 1980

Meter Size. inches	Meter Capacity. gpm	Meter Equivalent Ratio	Number of Meters	Meter Equivalents a)	Meter Capacity Charge b)	Customer Charge	Total Service Charge
5/8 x 3/4	20	1.0	1,248	1,248	9.27	1.87	11.14
3/4	30	1.5	1	2	13.91	1.87	15.78
1	50	2.5	560	1,400	23.18	1.87	25.05
1 1/2	100	5.0	16	80	46.35	1.87	48.22
2	160	8.0	27	216	74.16	1.87	76.03
3	300	15.0	9	135	139.05	1.87	140.92
4	500	25.0	3	75	231.75	1.87	233.62
6	1,000	50.0	0	0	463.50	1.87	465.37
8	1,600	80.0	0	0	741.60	1.87	743.47
10	2,300	115.0	0	0	1,066.05	1.87	1,067.92
Total			1,864	3,156			

a) Number of meters x meter equivalent ratio

b) Meter equivalent ratio x  $\frac{\$351,094}{3,156 \text{ meter equiv.} \times 12}$

Park believes that the proposed service charges combined with the single block usage charge will meet the fair-cost-apportionment objective.

In support of its rate design, Park sponsored Exhibit 3, entitled "Water Utility Rate Design", a monograph prepared by the Rate Design Committee (Committee) of the California Water Association. This document was also presented to the Commission at a special meeting on August 25, 1981. Park's witness Conway was a member of the Committee which prepared and presented the monograph. The Committee reports that its chief concern is that present Commission rate design policy results in an ever-decreasing percentage of total revenues being derived from service charges. This occurs because revenue increases in offset proceedings are applied entirely to the quantity charges while revenue increases in general rate increase proceedings are applied proportionately to quantity and

service charges. Over time the percentage of revenue derived from service charges inevitably declines. According to the Committee, this phenomenon has a much more adverse effect upon water utilities than it does upon gas and electric utilities for reasons that it explains in detail but which can only be summarized here. First, the Committee compares water with energy utilities using data from 10 water, 2 electric, and 2 gas utilities. It finds that:

1. Variable costs represent 53% of total revenue requirements for electric utilities, 75% for gas utilities, but only 32% for water utilities. Therefore, a change in sales does not affect the costs of water utilities to the same degree as it affects the costs of energy utilities.
2. Water sales to residential customers represent 63% of total water sales, while electric and gas sales to residential customers represent only 28% each of total electric and gas sales. Water revenues are, therefore, much more dependent upon sales to residential customers than are sales of either gas or electric utilities.
3. Water companies are subject to a much greater potential for sales fluctuations than electric utilities. The average annual variation in sales for water utilities is 3.8% and only 1.3% for the 2 electric utilities. Sales fluctuations for water utilities (which predominantly serve residences) are greater than the sales fluctuations of the residential classes of energy utilities.
4. The net effect of the above three factors is that under full commodity-type rates, water utilities will experience greater changes in net income than energy utilities. (See Appendix A.)



5. Water utilities differ from energy utilities in that they have large investments in plant which also provides fire protection services. The flows required for fire protection are usually in excess of the flows needed for normal water service. Therefore, water utilities have sizable investments in facilities on which a return must be earned, taxes paid, depreciation charged, and maintenance expenses incurred, but which have historically provided little revenue, and since AB 1653 produce even less.
6. For its 10 water utilities, the Committee contrasts the nature of their costs with the source of their revenues, as follows:

	<u>Costs</u>	<u>Revenues</u>	<u>Recommended*</u> <u>Revenues</u>
Variable (Quantity rates)	32%	74%	55%
Fixed (Service charges)	68%	26%	45%

\* Assumes 2/3 of fixed costs recovered through fixed (service) charges.

Since service charges account for only 26% of total revenues and fixed costs are 68% of total costs, only 38% ( $26 \div 68$ ) of the water utility's fixed costs are assured of being recovered, while recovery of the other 62% of fixed costs is subject to the weather. Accordingly, the Committee recommends that 2/3 of fixed costs be recovered in service charges. Thus, 45% of the revenue requirement would be recovered through service charges.

The advantage and disadvantages of water rates with high commodity rates and low service charges, when fixed costs are a large proportion of total costs, are summarized by the Committee as follows:

Advantages

Some reduction in water consumption due to inverse price elasticity, which in turn results in some reductions in energy consumption.

Disadvantages

1. Volatility in earnings resulting from normal sales fluctuations as variation in revenues is several times that of cost variation for a given change in sales volumes.
2. Under extreme conditions, such as the 1977 statewide drought, earnings can drop to critically inadequate levels without prompt and large percentage rate increases.
3. Water users who consume large quantities of water in a beneficial manner (industrial, business, government, schools, multi-residential, and hospitals) are unfairly penalized by high commodity rates.
4. Large variations between summer and winter bills can result in budgeting difficulties for many customers.

Staff's Recommendations

The staff finds Park's rate design unacceptable due to the large percentage increases in service charges, i.e., from 355% for a 5/8 x 3/4-inch meter to over 2,000% for a 10-inch meter. While Park's service charges would generate 55% of the revenue requirement, the staff's proposal maintains the status quo as to the proportion of revenue derived from the service charge. The staff recommends a two-part (service charge and quantity charge) design with two quantity blocks. (See Appendix B for staff proposed Schedule VN-1, General Metered Service.) The first block would charge for 300 cf at a lifeline rate, while the second block would be at a higher charge. Increases in

revenue would be allocated equally between service charge and quantity charge components to maintain the present ratios (29% service charge and 71% quantity charge) of these two components to the total revenue requirement for general metered service. Thus, if revenues authorized increase 100%, service charges and quantity charges would increase 100% in both blocks since the accumulated increase in revenues authorized since January 1, 1976 has exceeded 25%.

Discussion

Currently, the trend in water utility rate design, due to the combined effect of rate design policies in general and offset proceedings, is to recover a declining proportion of the revenue requirement in service charges over time. As the disparity between fixed costs and revenues from fixed charges increases, so does earnings volatility (the tendency to over- or undershoot the authorized rate of return) increase, as well as unfairness (as large users pay fixed costs that they did not necessarily cause the utility to incur).

In view of the evidence presented in this case, it would be proper to send the trend in rate design in a different direction, but not to the extent recommended by Park. Thus, the rates in Appendix C will have the following features:

1. Adopted rates will recover 31% of the total revenue requirement from the service charge, in contrast to 29% under present rates.

2. Revenue increases to be recovered through service charges should be spread in proportion to the current service charges.
3. The quantity rates for general metered service shall have two blocks, a lifeline block of 300 cf and a tail block.
4. Revenue increases to be recovered through quantity rates shall be applied proportionately to both blocks.

The effect of the rate design we adopt is illustrated in the following table:

Sample Bills for Residential Customers  
Using 5/8 in. x 3/4 in. Meter

	<u>Current Rates</u>		<u>Staff Proposed Rates</u>		<u>Adopted Rates</u>	
	<u>Amount of Bill</u>		<u>Amount of Bill</u>	<u>% Increase</u>	<u>Amount of Bill</u>	<u>% Increase</u>
0	3.00		7.70	156.7	8.90	197
300	3.94		10.12	156.9	11.15	183
500	4.57		12.10	164.8	13.02	185
1,000	6.68		17.03	154.9	17.68	165
1,500	8.78		21.96	150.1	22.35	154
2,000	10.89		26.89	146.9	27.01	148
2,500	12.99		31.82	144.9	31.68	144
3,000	14.77		36.75	148.8	36.34	146
4,000	18.32		46.61	154.4	45.67	149
5,000	21.87		56.47	158.2	55.00	151

It should be noted that for the average residential customer, using 2,000 cf per month, the difference, either in dollars or percent, between the staff proposed rate and the adopted rate is insignificant.

Findings of Fact

1. The staff's estimates of water consumption for 1981 and 1982 are reasonable and should be adopted.

2. Park's estimates of payroll expense are reasonable and should be adopted.

3. The staff's estimates of payroll taxes are reasonable, except that they should be increased to reflect sick leave benefits which the staff deleted from payroll expense.

4. The useful lives adopted by Park for its wells and reservoirs reflect Park's actual experience with the corrosive properties of its water supply and are, therefore, reasonable and should be adopted.

5. There is no financial evidence in the record which would allow us to reflect the consequences of the Act in our adopted results of operations.

6. Association's recommendation that Park should not be allowed to "catch-up" to a reasonable rate of return in one step is unsupported by evidence, is unreasonable, and should be rejected.

7. Attrition should be based on adopted results of operations.

8. Park will suffer operational attrition of .81 percentage point in rate of return between 1981 and 1982.

9. Greater emphasis should be placed on revenue to be derived from the service charge. Accordingly, 31% of the revenue requirement should be recouped through service charges. Otherwise, the staff's rate design is reasonable.

10. A rate of return of 12.09% on applicant's rate base for 1981 and 1982 is reasonable. The related return on common equity each year is 13.5%. This will require an increase of \$518,800, or 157% in annual revenues for 1982, a further increase of \$22,200, or 2.6% in 1983, and a further increase of \$22,200, or 2.5% in 1984.

11. The further increases authorized in Appendix D 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, 1982 and/or September 30, 1983, 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) 12.09% for 1982 and 12.09% for 1983.

Conclusions of Law

1. A revenue increase of \$518,800 or 157% based on the results of operations for test year 1982 is reasonable and should be authorized.
2. Park should be authorized to file the revised rate schedules attached as Appendix C.
3. Park should be allowed to file advice letters in 1982 and 1983 to counteract the effects of operational attrition.
4. This proceeding should remain open to receive evidence of the financial effects of the Economic Recovery Tax Act.
5. The staff's rate design for schedules other than general metered service is reasonable and should be adopted.
6. The adopted rates are just, reasonable, and nondiscriminatory.
7. Because of the immediate need for additional revenues, the following order should be effective the date of signature.

INTERIM ORDER

IT IS ORDERED that:

1. After the effective date of this order, Park Water Company (Park) is authorized to file for its Vandenberg Water Division the revised rate schedules in Appendix C. The filing shall comply with General Order 96-A. The effective date of the revised schedules shall be 4 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

2. 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 D, or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix D in the event that the Vandenberg Water Division 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, 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) 12.09%. Such filing shall comply with General Order 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 30 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, 1983 applicant is authorized to file an advice letter with appropriate work papers, requesting the step rate increases attached to this order as Appendix D or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix D in the event that the Vanderberg Water District 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, 1983, 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) 12.09%. Such filing shall comply with General Order 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, 1984, or 30 days after the filing of the step rates, whichever is later.

This order is effective today.

Dated NOV 3 1981, at San Francisco, California.

JOHN E. BRYSON  
President  
RICHARD D. GRAVELLE  
LEONARD M. GRIMES, JR.  
VICTOR CALVO  
PRISCILLA C. GREW  
Commissioners

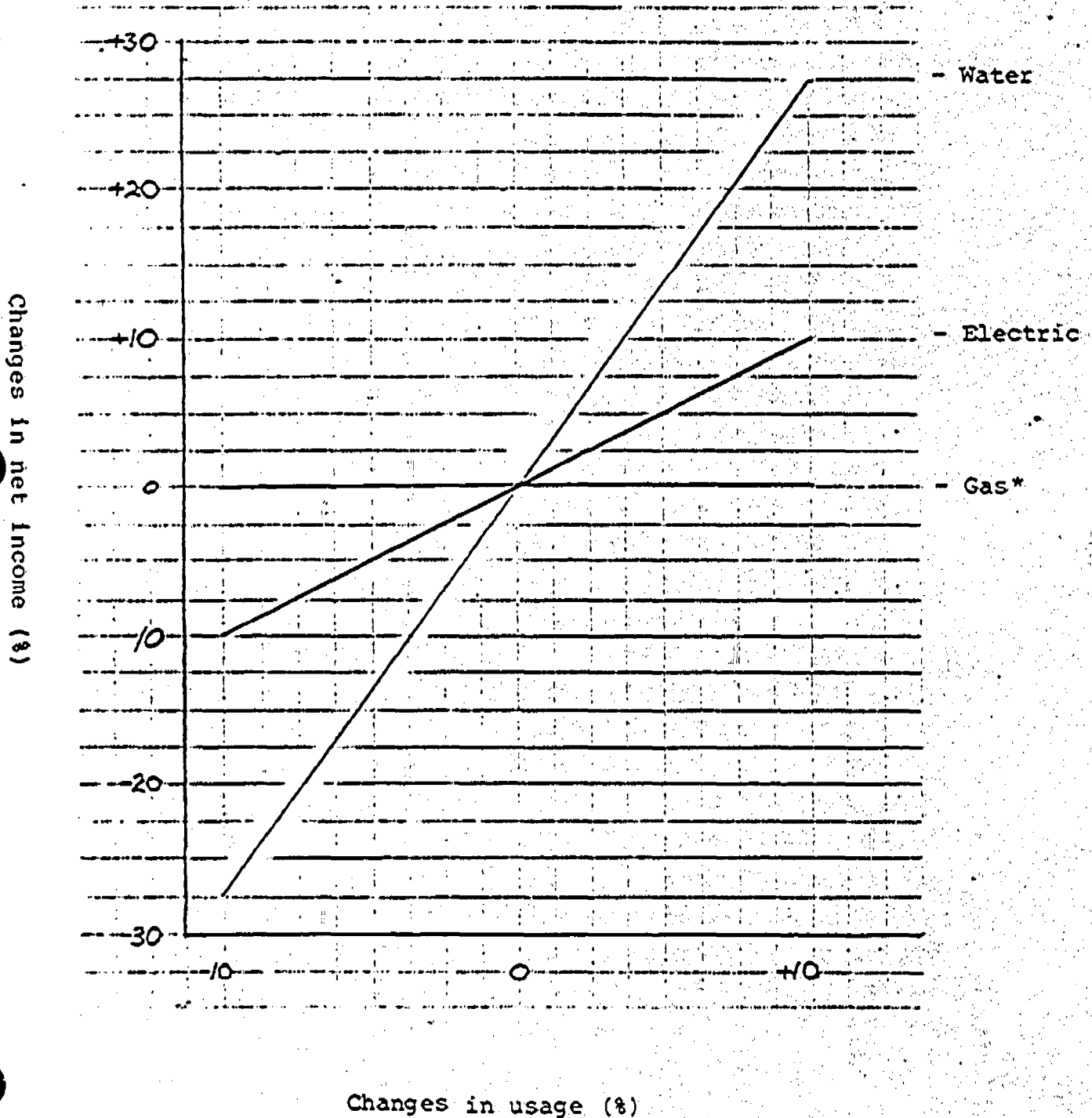
*I certify that this decision was approved by the Labor Commissioners today.*





APPENDIX A

Comparison of Change in Net Income Resulting From Change in Residential Usage Under Commodity Rate - by Type of Utility



\* Assumes operation of sales adjustment mechanism (SAM).

APPENDIX B

STAFF RECOMMENDATION

Schedule No. VN-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to general metered water service.

TERRITORY

Vandenberg Village and vicinity, three miles north of Lompoc, Santa Barbara County.

RATES

Service Charge:

Per Meter  
Per Month

For 5/8 x 3/4-inch meter .....	\$ 7.70	(I)
For 3/4-inch meter .....	8.50	
For 1-inch meter .....	11.60	
For 1 1/2-inch meter .....	15.40	
For 2-inch meter .....	21.00	
For 3-inch meter .....	39.00	
For 4-inch meter .....	51.00	
For 6-inch meter .....	87.00	
For 8-inch meter .....	129.00	
For 10-inch meter .....	160.00	

Quantity Rates:

First 300 cu.ft. per 100 cu.ft. ....	\$0.808	(I)
Over 300 cu.ft. per 100 cu.ft. ....	0.986	

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

APPENDIX C  
Page 1

ADOPTED

Schedule No. VN-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to general metered water service.

TERRITORY

Vandenberg Village and vicinity, three miles north of Lompoc, Santa Barbara County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 8.90	(I)
For 3/4-inch meter .....	9.80	
For 1-inch meter .....	13.40	
For 1½-inch meter .....	17.90	
For 2-inch meter .....	24.00	
For 3-inch meter .....	45.00	
For 4-inch meter .....	60.00	
For 6-inch meter .....	101.00	
For 8-inch meter .....	149.00	
For 10-inch meter .....	185.00	
Quantity Rates:		
First 300 cu.ft. per 100 cu.ft. ....	\$0.750	(I)
Over 300 cu.ft. per 100 cu.ft. ....	0.933	

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

APPENDIX C  
Page 2

Schedule No. VN-3-M  
METERED IRRIGATION SERVICE

APPLICABILITY

Applicable to measured irrigation service.

TERRITORY

Vandenberg Village and vicinity, three miles north of Lompoc,  
Santa Barbara County.

RATES

Per Meter  
Per Month

Quantity Rates:

For all water delivered, per 100 cu.ft. .... \$ 0.633 (I)

Minimum Charge:

For all meter sizes ..... 100.00

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

(END OF APPENDIX C)

APPENDIX D

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

<u>Schedule VN-1</u>	<u>Effective Dates</u>	
	<u>1-1-83</u>	<u>1-1-84</u>
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft. ....	\$0.033	\$0.033
For all over 300 cu.ft., per 100 cu.ft. ....	0.035	0.035