

**ORIGINAL**Decision No. 54328

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
 VALLECITO WATER COMPANY, a corpo-  
 ration, for authority to increase  
 its rates for services.

Application No. 43581  
 (Filed July 6, 1961)

William M. Lassleben, Jr., for applicant.

Mildred Werner and Perry R. McCarty, in propriae  
 personae.

Richard Entwistle and C. Newman, for the Commission  
 staff.

O P I N I O N

By this application Vallecito Water Company requests authority to increase water rates for service rendered by it. After due notice, public hearings were held in La Puente on November 15 and 16, 1961, and on January 23 and 24, 1962, before Examiner Rowe.

All present rates for service to the several classes of customers were established in 1956 in connection with the company's initial proceeding before this Commission for authority to operate as a utility. Applicant herein requests authority to increase rates and charges for general metered service, irrigation service, tank truck service, and construction and other temporary flat rate service. No change is requested for fire protection service. Based upon the level of business for 1962, applicant's revenues would be increased from \$181,700 at present rates to \$260,000 at proposed rates, or an over-all increase of approximately 50%. According to applicant, such increase would yield a 7% return on its total operations.

Applicant relied primarily upon the year 1961 for test period purposes. The tabulation below shows applicant's summary of earnings for that year at its present and proposed rates:

<u>Item</u>	<u>Year 1961</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$155,477	\$221,800
Operating Expenses	<u>153,880</u>	<u>182,080</u>
Net Operating Revenue	1,597	39,720
Rate Base	564,189	564,189
Rate of Return	0.3%	7.0%

The staff presented results of operations for two test years, 1961 and 1962. The following presents the staff's figures at applicant's present and proposed rates:

<u>Item</u>	<u>Year 1961</u>		<u>Year 1962</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$161,400	\$230,100	\$181,700	\$260,000
Operating Expenses	<u>154,130</u>	<u>186,680</u>	<u>166,920</u>	<u>207,070</u>
Net Operating Revenue	7,270	43,420	14,780	52,930
Rate Base	546,700	546,300	547,200	547,200
Rate of Return	1.3%	7.9%	2.7%	9.7%

The staff takes the position that the proposed irrigation rate of 7.65¢ per 100 cubic feet is not sufficient to recover even the commodity cost of irrigation water. In applicant's Exhibit 1 an average commodity cost of 15.3¢ per 100 cubic feet is developed. This amount includes an allowance of \$19,113 for income taxes and \$25,380 for return on investment, but even if these two items were to be excluded, the average commodity cost per 100 cubic feet would be approximately 11¢; this would still exceed the proposed irrigation rate of 7.65¢ per 100 cubic feet. According to applicant's

exhibit, consideration of demand factors would increase still further the costs assignable to irrigation water.

The staff further takes the position that if increases in all but the general metered rates were granted as requested, applicant would experience a rate of return on over-all operations in the order of  $4\frac{1}{2}$  percent. Moreover, the staff contends, if irrigation rates were fixed at a level high enough merely to offset the commodity costs assignable to irrigation service, and if no increases in any other rates were granted, applicant's over-all rate of return would be approximately 5.6 percent for the test year 1962 (Staff Brief p. 3). It is pointed out that under the latter conditions, no return would be produced by the irrigation customers; consequently, the return produced by the nonirrigation class, based upon its allocated portion of the rate base, would necessarily be at a rate in excess of 5.6 percent.

The record herein does not contain a full cost of service study. However, based upon developed ratios of (1) water usage as between irrigation and nonirrigation classes of customers and (2) the number of customers in each class (Exhibit 3, p. 19) and applying each of such ratios to the appropriate items of expense and rate base, it appears that under applicant's proposed irrigation rates, the nonirrigation operations would have to produce a rate of return of approximately 10 percent in order to provide applicant an over-all rate of return of 6 percent on total rate base. Using the same basis of allocating rate base and expense items, and assuming that only the proposed increases in irrigation rates were granted, on a test year basis applicant would experience an over-all rate of return of about 4.1 percent and 7.5 percent on the nonirrigation operations.

Based upon the evidence, we find that applicant's existing irrigation rates are unreasonably low; that the proposed irrigation rates will be noncompensatory; that the present earnings being realized from applicant's nonirrigation operations are sufficient to provide applicant with a fair return on the non-irrigation portion of its operations; and that applicant has not justified an increase in its nonirrigation rates.

The staff report shows that, for the two test years, 1961 and 1962, applicant's rate of return is on the uptrend as a result of irrigation load being replaced by domestic load. The annual per-acre water requirements of domestic and irrigation loads are approximately the same; consequently, the continuing replacement of irrigation load with domestic load, as a result of the development of applicant's service area, does not require an increase in water supply nor additional investment in transmission, storage or booster facilities. Further, increases in utility plant for distribution facilities are normally offset by advances from subdividers; therefore, no appreciable increase in rate base occurs with residential development. Because residential water service revenues at present rates yield approximately triple the irrigation revenues for the same acreage, the net result of the changes occurring in the character of applicant's load is an increasing rate of return, offsetting to an increasing degree the losses being sustained from irrigation service.

Due to the upward trend in rate of return disclosed by the evidence in this proceeding, we find the single test year 1961 to be unsuitable for rate fixing purposes. We find as reasonable the staff results as presented for the two test years,

with modification only as to rate base. The record shows that certain plant being held for future use included in rate base by the staff should be excluded therefrom. This exclusion produces the adopted rate base of \$542,500 for the year 1962.

The Commission finds that the present nonirrigation rates will for the future produce in excess of a seven percent return on applicant's nonirrigation operations and that applicant's overall operations will also approach that rate of return as the non-compensatory irrigation load diminishes.

The Commission further finds that the increase in rates and charges requested for irrigation service is justified and that existing rates and charges for such service, insofar as they differ from those herein authorized, are for the future unjust and unreasonable. As to the request for increases in rates for other than irrigation service, the Commission finds that no increase has been shown to be justified.

O R D E R

Based upon the evidence and upon the findings contained in the foregoing opinion,

IT IS ORDERED that Vallecito Water Company, a corporation, is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96-A, the schedules of rates and charges for irrigation service set forth in Appendix A attached hereto and, after not less than five days' notice to the Commission and to the public to make said schedules effective for service

rendered on and after November 1, 1962. In all other respects  
Application No. 43581 is denied.

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

Dated at San Francisco, California, this  
9<sup>th</sup> day of OCTOBER, 1962.

*[Signature]* President  
*[Signature]*  
*[Signature]*  
*[Signature]*  
*[Signature]* Commissioners

Commissioner C. Lyn Fox, being  
necessarily absent, did not participate  
in the disposition of this proceeding.

APPENDIX A  
Page 1 of 2

Schedule No. L-3M (T)

IRRIGATION SERVICE

LOWER ZONE

APPLICABILITY

Applicable to all measured irrigation service. (T)

TERRITORY

The lower zone of the area located in the Puente Hills approximately 2 miles northeast of Whittier, Los Angeles County. (T)

RATES

Per Service Connection

Quantity Rates:

First 1,800 cu.ft. or less .....	\$3.40	(I)
Over 1,800 cu.ft., per 100 cu.ft. ....	.067	

Minimum Charge:

For each irrigation delivery .....	3.40	(I)
------------------------------------	------	-----

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

APPENDIX A  
Page 2 of 2

Schedule No. U-3M (T)

IRRIGATION SERVICE

UPPER ZONE

APPLICABILITY

Applicable to all measured irrigation service. (T)

TERRITORY

The upper zone of the area located in the Puente Hills, approximately 2 miles northeast of Whittier, Los Angeles County. (T)

RATES

Per Service Connection

Quantity Rates:

First 1,800 cu.ft. or less .....	\$4.10	(I)
Over 1,800 cu.ft., per 100 cu.ft. ...	.095	

Minimum Charge:

For each irrigation delivery .....	4.10	(I)
------------------------------------	------	-----

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