

ORIGINAL

Decision No. 66234

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
MALIBU WATER COMPANY, a corporation,
for authority for an increase in its
rates to offset cost of purchased
water.

) Application No. 43579
) (Filed June 30, 1961)
) (Amended July 27, 1961)
) (Amended August 8, 1962)
) (Amended September 17, 1962)

Trippet, Yoakum & Ballantyne, by F. B. Yoakum, Jr.,
for applicant.
Allan I. Benson, Richard L. Mason, Mrs. Betty Jo
Duquette, in propria personae; and R. Glenn
Osborn, for Carbon Mesa Owners Association,
protestants.
Donald B. Steger and A. L. Gielegem, for the
Commission staff.

O P I N I O N

This application for an increase in rates to offset the cost of water purchased by applicant from Los Angeles County Water Works District.No.29 (District) due to the intrusion of salt water into applicant's wells was originally heard on August 10, 1961, and Interim Decision No. 62547 was rendered on September 12, 1961, increasing the rates. This decision contained a directive to applicant that: "When the time of availability and cost of the permanent Metropolitan Water District supply are known, the applicant shall be prepared to proceed before this Commission with a full showing of the rates to be charged."

In a second amendment to the application, filed on August 8, 1962, applicant stated that a permanent supply of Metropolitan Water District water would become available to its entire system

by April 1963, and became available to a portion of the system August 1, 1962, and that the cost of said water is known. Accordingly, it requested an adjustment of its rates. By said second amendment applicant also requested authority to transfer \$271,000, entered on its books as Contributions in Aid of Construction, to capital surplus at the rate of \$27,100 per year for 10 years.

By Interim Decision No. 64175, dated August 28, 1962, the Commission ordered that applicant reduce its rates to reflect the reduced cost of Metropolitan Water District water.

Public hearings were held in Malibu, California, before Examiner Rogers, on March 25, 26 and 27, 1963.

The applicant serves customers in the northwestern portion of Los Angeles County along the Pacific Ocean. The service area is approximately 19 miles in length extending from Las Flores Canyon on the east to Nicholas Canyon on the west, averages 1.2 miles in width, and contains approximately 14,000 acres. As of December 31, 1962, there were estimated to be 1,935 general metered service consumers, and 32 irrigation consumers served through a separate low pressure gravity system. On March 1, 1963 there were actually 1,887 domestic consumers.

The area is mountainous, ranging in elevation from approximately sea level to 800 feet.

The water supply was formerly received from wells, impounded surface water, and a spring. The spring has been abandoned, and the surface water is now used exclusively for irrigation.

A part of the domestic supply is secured from six wells, with a capacity of approximately 750 gallons of water per minute. The balance of the domestic water is now secured from the District

through two connections, one of which is permanent, and one of which is temporary. Applicant alleges there will be a maximum of four such connections by the end of the year 1963. There are 24 reservoirs in the service area having a total storage capacity of approximately 3.5 million gallons. In addition, irrigation water is impounded in Rindge Dam; with a present capacity of approximately 30 acre-feet.

The entire domestic system is interconnected.

Applicant has five rate schedules. It proposes to increase its rates for general metered service and irrigation service as follows:

GENERAL METERED SERVICE

		<u>Per Meter Per Month</u>	
		<u>Present Rates</u>	<u>Proposed Rates</u>
Quantity Rates:			
First	500 cu. ft. or less	\$ 3.40	\$ 3.60
Next	1,500 cu. ft., per 100 cu. ft.	.53	.54
Next	3,000 cu. ft., per 100 cu. ft.	.46	.47
Over	5,000 cu. ft., per 100 cu. ft.	.38	.38
Minimum Charge:			
For	5/8 x 3/4-inch meter	3.40	3.60
For	3/4-inch meter	5.00	4.90
For	1-inch meter	7.50	7.50
For	1 1/2-inch meter	15.00	14.00
For	2-inch meter	22.00	21.00
For	3-inch meter	40.00	40.00
For	4-inch meter	60.00	60.00
For	6-inch meter	-	100.00

IRRIGATION SERVICE

Quantity Rates:	<u>Per Month</u>
Per 100 cubic feet	.12 .36

The irrigation service annual minimum rate per meter for each size is proposed to remain the same.

Public fire hydrant rates are proposed to be increased from \$1 per hydrant per month to \$1.50 per hydrant per month.

Emergency service to Deer Path Mutual Water Company under applicant's Schedule No. 4 is proposed to be discontinued as no service is being rendered pursuant thereto and the service area has been taken over by the District.

U. S. Government Nike Site service under Schedule No. 5 is proposed to be increased to be identical to the general metered service rates, plus a \$25 per month pumping charge.

A new schedule for private fire protection service is proposed to be added. This rate will be \$2 per month per inch diameter of service.

Results of Operations

The applicant and the staff each estimated the results of operation for the year 1963 at present and proposed rates, both as a complete system and broken down into the domestic and irrigation systems. The staff also estimated such items for the year 1962.

SUMMARY OF EARNING Total Company

Item	S t a f f			
	Year 1962		Year 1963	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$253,090	\$259,020	\$270,560	\$276,850
Operating Expenses				
Oper. & Maintenance Exp.	146,100	146,100	157,265	157,265
Taxes other than Income	17,920	17,920	18,685	18,685
Depreciation	27,385	27,385	29,615	29,615
Taxes Based on Income	8,520	11,760	10,140	13,570
Total Oper. Expenses	199,925	203,165	215,705	219,135
Net Revenue	53,165	55,855	54,855	57,715
Depreciated Rate Base	766,530	766,530	783,280	783,280
Rate of Return	6.9%	7.3%	7.0%	7.4%

SUMMARY OF EARNINGS
Domestic System

Item	S t a f f			
	Year 1962		Year 1963	
	Present:	Proposed:	Present:	Proposed:
	Rates :	Rates :	Rates :	Rates :
Operating Revenues	\$249,940	\$255,640	\$267,410	\$273,470
<u>Operating Expenses</u>				
Oper. & Maint. Expenses	142,910	142,910	153,915	153,915
Taxes Other Than Income	15,980	15,980	16,670	16,670
Depreciation	24,540	24,540	26,770	26,770
Taxes Based on Income	11,800	14,920	13,555	16,865
Total Operating Expenses	195,230	198,350	210,910	214,220
Net Revenue	54,710	57,290	56,500	59,250
Depreciated Rate Base	675,605	675,605	695,170	695,170
Rate of Return	8.1%	8.5%	8.1%	8.5%

SUMMARY OF EARNINGS
Irrigation System

Item	S t a f f			
	Year 1962		Year 1963	
	Present:	Proposed:	Present:	Proposed:
	Rates :	Rates :	Rates :	Rates :
Operating Revenues	\$ 3,150	\$ 3,380	\$ 3,150	\$ 3,380
<u>Operating Expenses</u>				
Oper. & Maint. Expenses	3,190	3,190	3,350	3,350
Taxes Other than Income	1,940	1,940	2,015	2,015
Depreciation	2,845	2,845	2,845	2,845
Taxes Based on Income	(3,280)	(3,160)	(3,415)	(3,295)
Total Operating Expenses	4,695	4,815	4,795	4,915
Net Revenue	(1,545)	(1,435)	(1,645)	(1,535)
Depreciated Rate Base	90,925	90,925	88,110	88,110
Rate of Return	-	-	-	-

Red Figure

SUMMARY OF EARNINGS
(Applicant)
Year 1963

Item	Domestic System		Irrigation System		Total Company	
	Present	Proposed	Present	Proposed	Present	Proposed
	Rates	Rates	Rates	Rates	Rates	Rates
Operating Revenues	\$261,070	\$270,700	\$ 2,000	\$ 6,000	\$263,070	\$276,700
<u>Operating Expenses</u>						
Oper. & Maint. Exp.	164,620	164,620	2,400	2,400	167,020	167,020
Taxes	30,680	36,010	980	1,040	31,660	37,050
Depreciation	27,650	27,650	6,610	6,610	34,260	34,260
Total Oper. Expenses	222,950	228,280	9,990	10,050	232,940	238,330
Net Revenue	38,120	42,420	(7,990)	(4,050)	30,130	38,370
Depreciated Rate Base	574,260	574,260	61,660	61,660	635,930	635,930
Rate of Return	6.6%	7.4%	-	-	4.8%	5.9%

Red Figure ()

Revenues

The irrigation service and revenues are of questionable benefit to the applicant. The record shows that applicant had in January, 1963, 32 irrigation meters, including 15 two-inch and others varying in size from 5/8-inch to four inches. Many of these are nonoperative due to silting, but apparently applicant continues to furnish water through such nonoperating meters without making a charge therefor. Applicant's estimates of irrigation revenues in the future are based on revenues from operating meters only and were arrived at by simply multiplying the quantity used by the rate of 12 cents per 100 cubic feet and multiplying this by three. The staff's figures are based on the meters in place and minimum rates. Obviously the applicant's continued free services perpetuate preferences and cannot be continued nor can its revenue figures be used. The staff's estimates, relative to irrigation revenues, are reasonable and will be used herein.

The staff witness estimated that in 1963, at the present rates, with 2,003 customers, the annual revenue per domestic consumer will be \$130.20 or \$10.85 per month and, at the proposed rates, the annual revenue from such consumer will be \$132.60 or \$11.05 per month.

The applicant's witness estimated that in 1963, with 1,935 consumers, the average revenue per such consumer will be \$132.37 or \$11.03 per month and, at proposed rates, will be \$137.11 per year, or \$11.42 per month. The applicant alleges that the proposed rates will amount to a 3½ percent increase in the cost of general metered service.

The applicant's estimate of revenues from the irrigation service appears clearly erroneous. The estimated revenues of the total company by each party at proposed rates are within \$150 of each other. We find the staff's estimates of revenues in 1963, at present and proposed rates, reasonable and they will be used herein.

Expenses

In order to estimate expenses for 1962 and 1963, applicant's engineer made a detailed study of expenses in 1960 and 1961 and adjusted these to exclude nonrecurring expenses, adjusted expenses to the present level of operations, and normalized expenses for climatological effects on water consumption.

The principal nonrecurring expense adjustments were for the cost of a temporary connection to the County Water System and for unusual expenditures at the Rindge Dam.

In adjusting expenses to the current level, consideration was given to the current cost of purchased water and the cost of power at the rates in effect when the report was prepared. Other adjustments included reallocation of payroll in administrative salaries due to the fact that part of the office personnel served both the Malibu Water Company and the Marblehead Land Company. The applicant had an analysis made of the time spent by the individuals serving in each of the two companies and a new allocation was made of payroll for these persons to allocate to the water company the amount that appeared to be a fair charge thereto.

In addition, an allocation was made for each individual, both in administrative duties and field service, to determine the amount of payroll that would be chargeable to operating expense.

The purchased water and purchased power accounts were normalized to compensate for climatological effects, the same as revenues were normalized.

In preparing its estimate of operating and maintenance expense for 1962 and 1963, the staff reviewed the past records of the utility and estimated operating expenses for 1962 and 1963 considering the following factors:

1. The full-year cost of water purchased from District at the rates effective on February 5, 1963, and assuming the use of two supply connections.

2. The estimated weighted average number of customers for each revenue classification, together with the average water use per customer utilizing climatological corrections for water use based on past experience of the utility's customers.

3. Water produced from the utility's well production facilities as reflected in the applicant's report (Exhibit 4), and the balance of the water requirements for the estimated years 1962 and 1963 purchased from District.

4. Power costs in addition to water production costs were computed based on charges for boosting water during the period from August 1961 to October 1962.

5. A standby power charge of \$187.50 per year for one well at the northwest end of the service area.

6. The payroll was analyzed and the staff's estimate of such was \$46,580.

7. The total payroll was adjusted to reflect 10.6 percent capitalized and 2.5 percent chargeable to Marblehead Land Company. The portion of payroll for operation and maintenance of the irrigation system was estimated as 6 percent of the payroll expenses. The allocations were made from an analysis of a portion of the employees' time reports.

8. An allowance for the testing of meters on a ten-year meter-testing program, considering the weighted average number of meters in service.

A comparison of the applicant's and the staff's estimates of operating expenses for the year 1963 is as follows:

COMPARISON OF STAFF AND COMPANY
OPERATION AND MAINTENANCE EXPENSES
Total Company

Item	Year 1963	
	Staff	Company
<u>Source of Supply</u>		
Labor and Expense	\$ 800	\$ 800
Purchased Water	65,200	52,430
Maintenance Expense	<u>2,915</u>	<u>2,360</u>
Total Source of Supply Expense	68,915	55,590
<u>Pumping Expense</u>		
Operation Expense	3,200	5,600
Power Purchased	13,090	17,040
Maintenance Expense	<u>8,450</u>	<u>9,860</u>
Total Pumping Expense	24,740	32,500
<u>Water Treatment Expense</u>		
Operations Expense	1,675	4,050
Maintenance Expense	<u>1,730</u>	<u>2,400</u>
Total Water Treatment Expense	3,405	6,450
<u>Transmission & Distribution Expense</u>		
Operation Expense	3,880	4,325
Maintenance Expense	<u>17,165</u>	<u>15,950</u>
Total Transmission & Distribution Expense	21,045	20,275
<u>Customer Accounts Expense</u>		
Customer Accounts Expense	9,355	10,820
Uncollectible Accounts	<u>820</u>	<u>1,000</u>
Total Customer Accounts Expense	10,175	11,820
<u>Admin. & Gen. & Misc. Expense</u>		
Administrative & General Salaries	9,405	10,320
Office Supplies and Expense	4,310	4,600
Insurance	2,520	2,700
Employee Benefits	1,710	3,500
Regulatory Expense	2,000	3,500
Misc. General Expense	5,260	11,960
Rents	<u>3,780</u>	<u>3,800</u>
Total Admin. & Gen. & Misc. Expense	28,985	40,380
Total Operating & Maintenance Expense	157,265	167,015

The source of supply and pumping expense estimates differed, the staff's being the greater by \$5,565. The record shows that this difference is largely due to the greater number of customers estimated by the staff. We find the staff's total estimates reasonable and they will be used.

The staff estimated water treatment expense to be \$3,405 for the year 1963. The applicant estimated the expense at \$6,450. The actual expense for 1960 was \$5,623 and for 1961 was \$4,762. This expense relates primarily to the amount of well water produced, which has been substantially reduced because of supplemental water supplies beginning in July, 1961. We find the staff's estimate to be reasonable.

We find the staff's estimate of transmission and distribution expense reasonable and it will be used herein.

There is a difference of \$1,645 between the staff's and the applicant's estimates of customer accounts expense, the applicant's being the larger. The applicant's estimate is below its past experience. We find it is reasonable, and it will be used.

The staff allowed \$28,985 for administrative, general and miscellaneous expenses compared to applicant's estimate of \$40,380. The differences result from variances in estimates for employee benefits, regulatory expenses, miscellaneous general expenses, and administrative salaries.

For employee benefits, the staff allowed \$1,710 and the applicant allowed \$3,500. The applicant's witness stated that there had been an adjustment for reallocation of salaries between

the Marblehead Land Company and the applicant, and that the recorded cost in 1962 was \$2,014. We find that the staff's estimate of \$1,710 is reasonable and it will be used herein.

The record reflects that the staff witness estimated an unreasonably low figure for regulatory expense inasmuch as this proceeding required four days of hearings, plus various petitions. We find the applicant's estimate of \$3,500 reasonable for this item and it will be allowed herein.

The item for miscellaneous general expense was estimated by applicant at \$11,960 and by the staff at \$5,260. This item includes the applicant's legal, accounting, and engineering expenses not related to these particular hearings and some litigation deemed necessary by applicant to defend its water rights. The books show that the recorded miscellaneous expense for 1960 was \$16,149, which was adjusted down to \$12,256, and for 1961 was \$28,169, which was adjusted down to \$10,598. We find that the applicant's estimate of \$11,960 is reasonable and it will be used herein.

Upon the evidence herein, we find that a total figure of \$37,185 is a reasonable sum to allow for administrative and general and miscellaneous expense.

The total operation and maintenance expenses allowed herein for 1963 will be \$167,110.

Rate Base & Adjustment to Capital Surplus

The staff's and the applicant's estimated rate bases for 1963 for the total company are shown below:

RATE BASES
Total Company

Item	Year 1963	
	Company	Staff
Beginning of Year Utility Plant		\$1,529,052
Net Additions		<u>115,900</u>
End of Year Utility Plant		\$1,644,952
Average Utility Plant	\$1,650,080	1,587,002
<u>Modifications</u>		
Contributions in Aid of Construction	286,920	89,040
Advances for Construction	247,750	177,770
Saturation Adjustment		<u>95,550</u>
Total Modifications	534,670	362,360
Materials and Supply	12,000	7,525
Working Cash	31,900	20,995
Deductions for Average		
Depreciation Reserve	<u>523,380</u>	<u>469,880</u>
Average Depreciated Rate Base	635,930	783,282

The differences in the estimates, outside of materials and supplies and working cash, are largely caused by the treatment of certain facilities provided by Marblehead Land Company. By Decision No. 45567, dated April 10, 1951, in Application No. 30713, applicant was instructed to set up on its books, as of 1950, \$271,000 of plant received from Marblehead Land Company as theoretical advances (treated as donations). As of December 31, 1961, the balance of the donations account was \$323,552.40. Applicant now requests that said \$271,000 of the donations be transferred to its capital surplus account at the rate of \$27,100 per year, thus increasing its rate base in a corresponding amount.

The staff financial examiner states that since the entry was placed on the books, the following additional changes have occurred:

Original Entry, January 1, 1951	\$271,000.00
To adjust Reserve for Depreciation at 1-1-51 from weighted average to actual PUC staff reserve determination	(<u>3,431.00</u>)
Additional contribution by associated interests	9,532.71
Contributions by customers	395.19
Amortization since January 1, 1955	(<u>31,916.12</u>)
Balance at December 31, 1961	<u>245,580.78</u>

Red Figure ()

In order to aid the Commission in the disposition of the applicant's request, the Finance and Accounts Division of the staff requested that certain books of Marblehead Land Company be made available to ascertain whether all facilities claimed to have been obtained by applicant as advances or donations from Marblehead were, in fact, so obtained, and did not represent advances or donations from others as a condition of receiving water service. The examination revealed only two instances where funds were contributed by others than Marblehead Land Company for the construction of facilities. Such items totaled \$14,210.19.

The Finance and Accounts Division expressed the opinion that it would be proper to transfer the balance of the above-referred to contribution items, to-wit: \$231,370.59 from Contributions in

Aid of Construction to Capital Surplus, with a proviso that the recommendation is made for accounting purposes only and is not necessarily to be construed as applicable to a determination of the rate base in this proceeding. The staff engineers applied such recommendation when they developed their rate base hereinabove set forth.

The rate base developed by the staff engineers reflects contributions in aid of construction, adjusted, as above set out. The contributions, as computed in 1950 for rate fixing purposes, represented actual advances by Marblehead Land Company and listed as contributions. Conditions existing in 1950 have been changed by the growth of customers and system expansion, and substantial refunds would have been due from such advances. In lieu of the adjustment requested by applicant for rate fixing purposes, the staff made a consumer saturation adjustment in this proceeding to exclude the cost of a portion of certain domestic distribution system facilities, based on a study of the number of consumers in certain areas in relation to the estimated number of customers to be served from these facilities. Depreciation reserves were adjusted to reflect the foregoing.

This saturation adjustment is in conformance with Commission practices. The applicant has made no such adjustment in its forecast.

We find that the staff's estimates of utility plant, depreciation reserve, additions, contributions, and the saturation adjustment for the estimated year 1963 are reasonable and they will be adopted herein.

In addition, the staff's estimates of working cash and materials and supplies are adopted as reasonable.

The Commission hereby finds that a depreciated rate base of \$783,280 is fair and reasonable for the test year 1963. The Commission further finds that applicant may adjust its books to reflect a transfer of \$231,370.59 as of December 31, 1961, from Contributions in Aid of Construction to capital surplus.

Depreciation Expense

In determining its utility plant, applicant used the plant allegedly approved by the Commission in a 1950 rate proceeding, which plant was stated to total \$993,413.79. From this utility plant, plus the additions, retirements and deductions for depreciation, applicant has deducted \$154,318 for certain non-operating plant, including eight acres of land, wells, supplies, transmission mains, a spring, and a treatment plant. The applicant alleges it erred in estimating the number of customers in 1963 and consequently erred in estimating the plant additions. As adjusted by it, applicant figured an end of the year of 1963 gross plant of \$1,754,707. The 1963 average irrigation system plant value is \$195,500, the average domestic system plant is \$1,454,580, and the average total plant is \$1,650,080.

In calculating its depreciation expense for 1963 on the domestic system, the applicant used the aforesaid domestic system value, deducted \$7,420 for organization, franchises and land for an average depreciable plant of \$1,447,160, used a depreciation rate of .0239, thus deriving a depreciation accrual of \$34,590.

It then deducted \$6,940 for depreciation on contributed plant, giving a depreciation expense of \$27,650 for 1963. The applicant calculated depreciation expense of \$6,610 on the irrigation system using various depreciation rates. The total depreciation expense considered by applicant for 1963 was \$34,260.

The staff's estimate of depreciation expense for the year 1963 was \$29,615, including \$26,770 for the domestic system and \$2,845 for the irrigation system. Such figures were based on adjusted end of the year 1961 depreciable utility plant of \$1,223,738 for the domestic system, and \$215,890 for the irrigation system. We find the staff's estimate of depreciation expense in the amount of \$29,615 for 1963, to be reasonable.

Taxes

In computing its taxes other than on income for 1963, the applicant estimated property taxes of \$12,940 at present and proposed rates, payroll taxes of \$2,900 at present and proposed rates, and a County Franchise Tax of \$3,920 at the present rates, and \$4,060 at the proposed rates, thus making the total at the present rates of \$19,760 and \$19,900 at the proposed rates.

The staff estimated the property taxes at \$13,665, the payroll taxes at \$2,100, and the County Franchise tax at \$2,920, at the present and proposed rates, a total for 1963 of \$18,685.

The recorded totals of such taxes for the years 1960 and 1961, respectively, are \$17,601 and \$18,372 (including auto license

fees). The record also reflects a slow rate of growth and certainly not one which would reflect a \$1,000 increase in the franchise tax as estimated by applicant. We find that the staff's estimates of taxes other than on income for the year 1963, at present and proposed rates, are reasonable and they will be adopted herein.

The staff estimated income taxes based on the revenues and operating expenses discussed herein, the applicant's depreciation for Federal income tax purposes, and the interest paid. The applicant used book depreciation and included only interest paid to the Marblehead Land Company, which was \$5,868, whereas the actual interest expense in 1962 was \$8,001. The staff estimated such expense for 1963 at \$8,410.

On April 8, 1963, applicant filed Application No. 45325, wherein it seeks authority to issue \$500,000 of its 5½ percent bonds, a large part of the proceeds of which issue will be used to pay obligations to Marblehead Land Company. Applicant will secure \$325,000 forthwith, and the balance of \$175,000 as needed. This requested authority was granted by this Commission by Decision No. 65378, dated May 14, 1963. As a result, the estimated annual interest charges, including the 1 percent standby fee on the remaining \$175,000, will increase to \$19,625. Using such interest expense, we compute and adopt income taxes in the amount of \$1,515 for 1963, at present rates, and \$3,645, at the proposed rates. These computations reflect a 5.5 percent State income tax rate and a 30 percent Federal income tax rate.

If the taxes on income are segregated between the domestic system and the irrigation system, and the irrigation system revenues and expenses are included solely as estimated by the staff, the total taxes, based on income for the domestic system, will be \$3,630 at present rates and \$5,680 at the proposed rates. This is due, of course, to the fact that the irrigation system operates at a loss.

Summary of Earnings

In recapitulation, using the figures herein adopted, we arrive at the following summary of earnings for the total company for the test year 1963 at present and proposed rates:

SUMMARY OF EARNINGS

Total Company

Item	Year 1963	
	Present Rates	Proposed Rates
Operating Revenues	\$270,560	\$276,850
<u>Operating Expenses</u>		
Operation & Maintenance Expenses	129,925	129,925
Administrative & General Expenses	37,185	37,185
Depreciation	29,615	29,615
Taxes Other Than on Income	18,685	18,685
Income Taxes	<u>1,515</u>	<u>3,645</u>
Total Operating Expenses	216,925	219,055
Net Revenue	53,635	57,795
Depreciated Rate Base	783,280	783,280
Rate of Return	6.85%	7.32%

If the irrigation system is separated from the domestic system, and the irrigation system revenues and expenses, as calculated by the staff, are adopted, the results of operation at present and proposed rates are as follows:

SUMMARY OF EARNINGS

Year 1963

Item	Domestic System		Irrigation System	
	Present	Proposed	Present	Proposed
	Rates	Rates	Rates	Rates
Operating Revenues	\$267,410	\$273,470	\$ 3,150	\$ 3,380
<u>Operating Expenses</u>				
Oper. & Maint. Expenses	163,760	163,760	3,350	3,350
Depreciation	26,770	26,770	2,845	2,845
Taxes Other Than on Income	16,670	16,670	2,015	2,015
Income Taxes	3,630	5,680	(2,115)	(2,035)
Total Operating Expenses	210,830	212,880	6,095	6,175
Net Revenues	56,580	60,590	(2,945)	(2,795)
Depreciated Rate Base	695,170	695,170	88,110	88,110
Rate of Return	8.14%	8.72%	-	-

Red Figure

Rate of Return

Applicant's capital structure as of August 31, 1962, modified to reflect the transfer to surplus of recorded contributions, as specified in the opinion herein, and further modified to allow for the refinancing referred to hereinabove, will reflect equity of \$458,280, or 59 percent, and long-term debt of \$325,000 with interest at 5½ percent per annum, or 41 percent. This latter debt

has fixed charges totaling \$17,875 per year.¹ On this basis, it will require the following amounts to return the following percent on the equity capital:

	<u>Equity Capital</u>	<u>Fixed Charges</u>	<u>Total Requirements</u>
6%	\$27,497	\$17,875	\$45,372
7%	32,080	17,875	49,955
7.5%	34,371	17,875	52,246
8%	36,662	17,875	54,537
8.5%	38,954	17,875	56,829
9%	41,245	17,875	59,120

As can be seen from the foregoing results of operation and resulting tabulated returns on equity, giving effect to the loan requested by applicant and the capital surplus change, applicant has, at present rates for the total company, revenues giving it more than a 7.5 percent return on equity. If the irrigation system loss is disregarded and the domestic system alone considered, applicant will have almost an 8.5 percent return on equity.

¹ For purposes of determining these capital ratios, common stock equity has been computed to include, in addition to common stock, capital surplus and earned surplus, as recorded, an amount of \$120,096, representing that portion of the \$231,370.59 of contributions in aid of construction recommended to be transferred to capital surplus. This amount, being the difference between total adjusted capitalization of \$663,184 and rate base of \$783,280, is considered to be a proper component of equity capital for rate making purposes at this time. This treatment recognizes the stated position of the staff financial witness that the full amount of \$231,370.59 recommended to be transferred from contributions in aid of construction account to capital surplus account is not considered at this time to be a proper basis for full earnings allowance on equity capital.

Upon the evidence herein, the Commission finds that the computed rate of return of 6.85 percent on the depreciated rate base of \$783,280 is adequate and that a further increase in rates is not justified.

The Commission further finds it reasonable that applicant change its rates for water furnished to the U. S. Government Nike Site to the general metered service rates, plus a \$25 per month pumping charge and that applicant add a new schedule for private fire protection of \$2 per inch diameter of service. The Commission further finds that any increases in rates and charges resulting from the change in the U. S. Government Nike Site or private fire protection rates are justified and that such rates and charges as authorized herein are reasonable, and that the present rates and charges

for such service, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable. In addition, the Commission finds that applicant no longer renders service to Deer Path Mutual Water Company and, therefore, applicant may cancel its Schedule No. 4, emergency service to Deer Path Mutual Water Company. In all other respects, the requested increases or charges will be denied.

During their review, the staff personnel investigating the application determined that there were deficiencies in the applicant's records and system and made recommendations relative thereto. The majority of such recommendations are reasonable and the applicant will be required to make certain changes in conformity therewith as set forth in the order herein.

O R D E R

IT IS ORDERED that:

1.a. Malibu Water Company, a corporation, is authorized to file with this Commission, after the effective date of this order and in conformity with General Order No. 96-A, the schedules of rates attached to this order as Appendix A and, upon not less than five days' notice to the Commission and to the public, to make such rates effective for service rendered on and after November 1, 1963.

b. Concurrently with the filing authorized herein Malibu Water Company is authorized to withdraw and cancel by appropriate advice letter its presently effective rate schedules as follows:

Schedule No. 1, General Metered Service,

Schedule No. 4, Deer Path Mutual Water Company Service, and

Schedule No. 5, U.S.Government Nike Site LA-78-L Service.

2. Except as ordered by paragraph 1 herein, the application for rate increases is denied.

3. Within sixty days after the effective date hereof, applicant may transfer \$231,370.59 less amortization from January 1, 1963 to date of said transfer from Contributions in Aid of Construction, Account 265, to Capital Surplus, Account 270.

4. Within sixty days after the effective date hereof, applicant shall institute a work order system as required by the Uniform System of Accounts for Classes A, B and C water utilities and thereby accumulate all components of construction cost chargeable to its utility plant accounts.

5. Within thirty days after the effective date hereof, applicant shall institute appropriate steps to acquire title to the following:

a. Land comprising the sites of all operative wells, booster plants, reservoirs and other water system facilities.

b. All easements conveyed to Marblehead Land Company presently used by the Malibu Water Company in the conduct of its utility operations.

c. Water system facilities installed by Marblehead Land Company on behalf of applicant during the period from August 28, 1938 through December 31, 1952.

6. Within forty-five days after the effective date of the order in this proceeding, applicant shall file with the Commission, in conformity with General Order No. 96-A, and in a manner acceptable

to the Commission, revised rules governing service to customers, a revised tariff service area map and copies of printed forms normally used in connection with customers' services. Such rules, tariff service area map and forms shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

7. Within sixty days after the effective date of the order in this proceeding, applicant shall file with the Commission four copies of a comprehensive map drawn to an indicated scale of not more than 400 feet to the inch, delineating by appropriate markings the various tracts of land and territory served; the principal water production, storage and distribution facilities, and the location of the various water system properties of applicant.

8. Beginning with the year 1963, applicant shall determine depreciation expense, by accounts, for the domestic system and for the irrigation system, using the rates set forth in Exhibit No. 7. Applicant shall review the depreciation rates using the straight-line remaining life method, when major changes in utility plant composition occur and for each plant account, at intervals of not more than three years. Results of these reviews shall be submitted to the Commission.

9. Within ninety days after the effective date of the order in this proceeding, applicant shall submit to the Commission, in writing, a program for the installation of facilities for the removal of debris from water entering the irrigation system in order to minimize the clogging of meters. Applicant shall report to the Commission, in writing, every ninety days thereafter, as to the progress of installation of such facilities until completed.

10. Applicant shall apply Schedule No. 2, Irrigation Service, for provision of water for commercial agricultural, floracultural or horticultural use, and shall render bills in strict accordance with the provisions of the tariff.

11. Applicant shall notify the Commission, in writing, of any change in rates or rate structure applicable to water purchased from Los Angeles County Water Works District No. 29, and of the resulting change in annual cost of purchased water. Such written notice shall be sent to the Commission within thirty days after the adoption of such change by the District.

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

Dated at San Francisco, California, this 29th day of OCTOBER, 1963.

William W. Bonds
 President

George L. Hoover

Frederick B. Holcomb
 Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The area adjacent to the Pacific Coast known as Rancho Topanga Malibu Sequit, and vicinity, Los Angeles County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 500 cu.ft. or less	\$ 3.40
Next 1,500 cu.ft., per 100 cu.ft.53
Next 3,000 cu.ft., per 100 cu.ft.46
Over 5,000 cu.ft., per 100 cu.ft.38
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 3.40
For 3/4-inch meter	5.00
For 1-inch meter	7.50
For 1 1/2-inch meter	15.00
For 2-inch meter	22.00
For 3-inch meter	40.00
For 4-inch meter	60.00
For 6-inch meter	100.00 (N)

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

APPENDIX A
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Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

The area adjacent to the Pacific Coast known as Rancho Topanga Malibu Sequit, and vicinity, Los Angeles County.

RATE

Per Month

For each inch of diameter of service connection \$2.00

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

APPENDIX A
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Schedule No. 7

U. S. GOVERNMENT NIKE SITE LA-78-L

APPLICABILITY

Applicable to all metered water service to the U.S. Government Nike Site LA-78-L. (T)
(T)

TERRITORY

Twelve acres adjacent to Rambla Pacifico, four miles north of Pacific Coast Highway, located outside the Malibu Water Company certificated area, Los Angeles County. (T)
(T)

RATES

Per Month

Quantity Rates:

First 500 cu.ft. or less	\$ 3.40	(I)
Next 1,500 cu.ft., per 100 cu.ft.53	
Next 3,000 cu.ft., per 100 cu.ft.46	
Over 5,000 cu.ft., per 100 cu.ft.38	

Minimum Charge:

For 1-inch meter	\$ 7.50	(I)
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Pumping Charge \$25.00

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

SPECIAL CONDITIONS

1. Water will be furnished at one meter located near the Howard Tank Site within the certificated area. (T)

2. Only surplus water will be supplied and will be limited to 8,000 gallons per day. Service may be terminated on thirty days' notice. (T)