

**ORIGINAL**Decision No. 69489

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of SAN GABRIEL VALLEY WATER COMPANY  
for authority to increase rates for  
water service in its Fontana  
Division.

Application No. 46970  
(Filed September 11, 1964)

Donald D. Stark and John E. Skelton,  
for applicant.  
Henry F. Rager, for the City of Fontana,  
and Samuel Brender, in propria persona;  
interested parties.  
Mesdames William K. Davis, Kathryn Sarick,  
Charles E. Gude, Sarah Manuel, Hazel L.  
Tucker, Frank Hermanns, Rose Sherman,  
Pauline L. Howard, in propria personae,  
Margaret Johnson, for Civic and Political  
League and North Fontana Women's Club, and  
Messrs. Stephan Frankem, W. A. Thomley,  
Louis L. Larson, and Joseph Nunn, in  
propria personae; protestants.  
Cyril M. Saroyan, Robert W. Beardslee, and  
Raymond E. Heytens, for the Commission staff.

O P I N I O N

San Gabriel Valley Water Company seeks authority to increase the rates for water service in its Fontana Division, presently consisting of its Fontana and Highland Limited Temporary and Highland tariff areas, by an annual amount of approximately \$296,000 based on its estimates of operations for the year 1964. This would be an over-all increase of 37.3 per cent. Authority to combine the tariff areas into one schedule is also requested.

Public hearings were held before Examiner Warner on October 28, 1964, February 24, 25 and 26, and March 18 and 19, 1965, at Fontana. Several customers appeared to protest the

application, and petitions containing some 455 signatures and one letter have been received protesting the application, and their receipt was noted on the record. A petition containing the signatures of 14 members of the North Fontana Women's Club requesting service by applicant thereto has also been received and its receipt noted for the record. One of applicant's customers, who is a former director of Fontana Union Water Company, the mutual water company from which applicant obtains its water supplies, moved that the Commission investigate the mutual. The matter and the motion were submitted on the last named date subject to the filing of briefs by counsels for applicant and the Commission staff, which were received on May 10, 1965. The City of Fontana filed a memorandum on May 25, 1965, taking the position that proposed improvements should be put in service before being considered as a part of rate base; treatment costs of water from Lytle Creek are excessive; the cost of the extension of water lines to the City's Southwest Industrial Area, development of which by the City is proceeding, should be included; and an investigation of Fontana Union is warranted.

Applicant alleged, as the basis for its application, that a number of varied factors have contributed to continuing attrition of the rate of return in its Fontana Division, making it necessary for said Division's revenues to be augmented by increased rates. As of April 1, 1964, the cost of water supplied by Fontana Union Water Company was increased 25 per cent from 3 cents per miner's inch hour (\$18.15 per acre foot) to 3-3/4 cents per miner's inch hour (\$22.69 per acre foot). Other factors contributing to increased expenses have been continued rising wages, taxes, and cost of many services, materials and supplies. Applicant further

alleged that pursuant to orders contained in Decision No. 64574, dated November 27, 1962, in Application No. 44053, the last Fontana Division rate case, it has made substantial capital investment in facilities which do not produce commensurate increased revenues.

As of December 31, 1964, total utility plant in applicant's Whittier, El Monte, and Fontana Divisions amounted to \$14,429,423.43, with related depreciation reserve of \$2,824,686.67. Total operating revenues for the year 1964 were \$3,005,342.56. Water service was being furnished to 49,026 commercial and 316 industrial metered customers. There were also five commercial flat rate, 156 private fire connections, and 2,895 public fire hydrants on applicant's systems. There were 133 employees.

As shown in Exhibit No. 3, water service was being furnished in the Fontana Division to 13,380 active services as of December 31, 1964. This was an increase of 411 during the year. The Commission staff estimated in said exhibit that there would be an average of 12,972 bimonthly commercial, 94 monthly industrial, and 13 large industrial active services in the Fontana tariff area, and 440 commercial bimonthly active services in the Highland tariff area, for an average total of 13,519 active services during the year 1965.

The Fontana Division service area is sparsely settled and requires large amounts of distribution mains for the number of customers served. It slopes downward from north to south with an elevation differential of approximately 800 feet, which requires the division of the water system into three pressure zones. Applicant purchased the Fontana Water Company's water system in the year 1945 and added the Highland tariff area system through the acquisition of Highland Eaven Mutual Water Company in the year 1955.

Each system was poorly constructed with many long, small-diameter, steel distribution pipes which have deteriorated and leaked and have required, and will require, repairs and replacement. Recognizing this, the Commission in Decision No. 64574, supra, directed applicant to submit a plan of system-wide improvement specifically detailed for the three years following 1962, and also directed applicant to take steps necessary to bring water service in the Highland tariff area up to standards required by General Order No. 103.

Applicant obtains its water supplies, solely, from Fontana Union Water Company, of whose 15,000 outstanding shares of stock, as of September 22, 1964, 3,788-8/12 shares or 25.26 per cent were owned by applicant. The mutual's sources of water supply are a portion of the runoff from Lytle Creek, wells, and 2 connections with the Chino Basin Municipal Water District, a member agency of the Metropolitan Water District of Southern California (MWD). Exhibit No. 12 shows that in the year 1964, 73.45 per cent of Fontana Union's water was produced by wells; 13.62 per cent was obtained from gravity sources; and 12.93 per cent from MWD. In the years 1961 through 1964, said percentages varied from 82.31 per cent to 35.92 per cent from wells; 60.45 per cent to 10.62 per cent from gravity; and 3.63 per cent to 12.93 per cent from MWD.

Fontana Union's costs of operation vary with the availability of sources of supply. Water from well sources is substantially cheaper than that purchased from MWD (\$8.72 per acre-foot for the former versus \$30 per acre-foot for the latter). Sources of supply are controlled and affected by weather conditions, primarily snowfall and rainfall, and by ground water basin levels. There may be some limit to Fontana Union's ground water production rights. The most economical source is utilized to its capacity.

Over the past several years, the mutual has assessed stockholders \$7.00 per share, annually, the proceeds of which have been used to finance capital improvements and service and retire debt, but more recently to defray operating costs.

Exhibit No. 16 is Fontana Union's annual report for the year January 1, 1964 to December 31, 1964. It shows no debt. It shows assessment revenues of \$105,000 and excess of revenues over expenses of \$69,497.34. Prior to the year 1958, when the Commission studied the subject in connection with San Gabriel's Fontana Division rate increase Application No. 39866, the entire assessment had been included as an operating expense for rate-making purposes. Since 1958, and in Decision No. 57326, dated September 10, 1958, in said application, the excess of assessment revenues over the mutual's operating expenses has been considered to be a capital item and additive to rate base.

Applicant's present rates became effective January 1, 1963, and they are compared in the following tabulation with the rates proposed in the application and with those authorized hereinafter:

COMPARISON OF PRESENT, PROPOSED, AND AUTHORIZED RATES

Item	Present Rates		Fontana Division	
	Fontana Tariff and Highland Limited Temporary Tariff	Highland Tariff	Proposed Rates	Authorized Rates
<u>Per Meter Per Month</u>				
<b>Quantity Rates:</b>				
First 800 cu.ft. or less	\$ 2.30	\$ 2.70	\$ 3.35	
Next 1,700 cu.ft., per 100 cu.ft.	.16	.18	.21	
Next 2,500 cu.ft., per 100 cu.ft.	.14	.15	.18	
Over 5,000 cu.ft., per 100 cu.ft.	.11	.13	.15	
First 800 cu.ft. or less				\$ 2.90
Next 4,200 cu.ft., per 100 cu.ft.				.18
Over 5,000 cu.ft., per 100 cu.ft.				.14

The present rates contain a temporary tariff for the Highland area limited to customers not receiving water service meeting the requirements of General Order No. 103.

At the present rates, the charge for monthly consumption of 2,500 cu. ft. in the Fontana and Highland Limited Temporary tariff areas is \$5.02; under the proposed rates this charge would be \$6.92, an increase of \$1.90, or 37.3 per cent; and at the authorized rates such charge will be \$5.96, an increase of \$0.94, or 18.7 per cent. The present charge for 2,000 cubic feet of water usage in the Highland tariff area is \$4.86; at the proposed rates, such charge would be \$5.87, an increase of \$1.01, or 20.8 per cent; and at the authorized rates such charge will be \$5.06, an increase of \$0.20, or 4.1 per cent.

The Commission staff concurred in applicant's request

to combine the two general metered service schedules into one schedule and to retain the limited temporary general metered service schedule until the few remaining customers are transferred to mains with adequate pressure.<sup>1/</sup> In addition, the staff recommended that the general metered service rate schedule be simplified by combining the 1,700 cu. ft. block and the 2,500 cu. ft. block into one 4,200 cu. ft. block.

Exhibit C attached to the application, submitted by applicant's consulting engineering witness, is a report on applicant's system-wide operations for the year 1963 recorded and adjusted and for the year 1964 estimated at present and proposed rates. Said Exhibit shows total company rate of return for the estimated year 1964 at present rates of 4.64 per cent, and at rates proposed in the instant application of 6.04 per cent.

Exhibit D attached to the application, submitted by applicant's consulting engineering witness, is a report on applicant's operations in its Fontana Division for the year 1963 recorded and adjusted and for the year 1964 estimated at present and proposed rates. Exhibit No. 3, submitted by a Commission staff accountant and Commission staff engineers, is a report on applicant's operations in the Fontana Division for the years 1964 and 1965 estimated at present and proposed rates. Applicant submitted no estimate of its 1965 operations. Staff recommended the use of the estimated year 1965 as the test year for the setting of rates in the Fontana Division.

The following tabulation summarizes the earnings data contained in Exhibit No. 3 for the years 1964 and 1965, estimated:

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<sup>1/</sup> By letter applicant stated that adequate distribution facilities have now been installed and requested that Schedule No. FOH-11X, pertaining to limited temporary general metered service, be withdrawn.

SAN GABRIEL VALLEY WATER COMPANY  
FONTANA DIVISION

SUMMARY OF EARNINGS  
(Per Exh. No. 3)

Item	Year 1964 Estimated			
	Present Rates		Proposed Rates	
	Company	Staff	Company	Staff
	(Thousands of Dollars)			
Oper. Rev.	\$ 794.8	\$ 873.3	\$ 1,091.0	\$ 1,194.7
Oper. Exp.	644.8	639.6	647.0	639.6
Deprec.	80.8	76.8	80.8	76.8
Taxes	(4.5)	72.2	147.2	205.9
Subtotal	721.1	788.6	875.0	922.3
Net Rev.	73.7	84.7	216.0	272.4
Rate Base	3,317.9	3,064.0	3,317.9	3,064.0
Rate of Return	2.22%	2.76%	6.51%	8.89%
	Year 1965 Estimated			
Oper. Rev.	-	897.1	-	1,227.0
Oper. Exp.	-	667.2	-	667.2
Deprec.	-	81.6	-	81.6
Taxes	-	75.2	-	198.9
Subtotal	-	824.0	-	947.7
Net Rev.	-	73.1	-	279.3
Rate Base	-	3,289.0	-	3,289.0
Rate of Return	-	2.22%	-	8.49%

(Red figure)

The principal differences in earnings' estimates between applicant and the staff are in methods used and results obtained in estimating operating revenues, the estimates of Fontana Union over-assessments to be charged to operating expense or added to rate base, maintenance and repair of meters expenses, rate base, and rate of return.

In estimating revenues, applicant made no weather adjustment to recorded data for the years 1955 through 1963 and



lowered 1963 recorded sales by applying the 9-year average unaccounted for water to the 1963 production. The staff, in Exhibit No. 3, utilized applicant's basic data for the years 1955 through 1963 and eliminated variations due to rainfall and temperature by a graphical method described as the "Bean Method of Graphic Multiple Correlation", which method was adopted by the Commission as reasonable in several decisions in applications to increase rates for water service in the years 1964 and 1965. The staff revenue estimates for the year 1964 exceed applicant's by \$78,400 at present rates and \$103,700 at proposed rates. In Exhibit No. 14, applicant submitted a revised revenue estimate for the year 1964 at present and proposed rates based on 1964 recorded data.

The following tabulation compares revenue estimates at present and proposed rates for the years 1964 and 1965 contained in Exhibit D, and in Exhibits Nos. 14 and 3:

COMPARISON OF OPERATING REVENUE ESTIMATES

		1964		1965	
Company	Co. Revised	Staff Per	Recorded	Staff Per	
Per Exh.D	Per Exh. 14	Exh. 3	Per Exh.3	Exh. 3	
(Thousands of dollars)					
<u>Present Rates</u>					
\$ 794.8	\$ 826.2	\$ 873.3	\$ 889.9	\$ 897.1	
<u>Proposed Rates</u>					
1,091.0	1,132.6	1,194.7	-----	1,227.0	

The staff made an adjustment for rate-making purposes to rate base for overassessments levied on applicant's holdings of Fontana Union Water Company stock following the principle adopted by the Commission in Decision No. 64574, supra. On receipt, during the course of the hearings, of recorded data for the year 1964, applicant contended that the staff's percentage of overassessment ratio was excessive and that there should be an additive adjustment of \$17,390 in the staff expenses for 1964. The staff, in rebuttal, contended that its estimates were sound having been based on a normal period, (years 1958 through the first 10 months of the year 1964), rather than a single year, and depended on normal use of water flows from Lytle Creek. Exhibit No. 17 was submitted by the staff to support its estimates. The staff further contended that, if applicant's arguments were upheld, the need for installation and operation of micro strainer equipment on Lytle Creek water sources and other phases of Lytle Creek water production operations would require a study which, he testified, he had not made.

The difference in estimates of meter repair expense submitted by applicant and the staff for the year 1964 is \$9,140. This is primarily accounted for by the fact that applicant included not only programmed meter repair expense, but casualty inspection and repair expense, whereas the staff normalized recorded expenses based on a 10-year meter test program, using one-tenth of the 1964 meters to be tested and repaired at applicant's experienced costs.

Exhibit No. 5 and testimony thereon by the company indicate that the company proposes to make a timely filing with the Internal Revenue Service requesting permission for a change in accounting methods which, in effect, will allow the company to

take liberalized depreciation on plant additions installed since 1954. Both the company and the staff utilized the liberalized depreciation method in estimating income taxes for 1964 and the staff did so for 1965. A staff witness testified that should the company's request be granted it would increase the estimated rate of return at proposed rates by .42 per cent for 1965. The company will be ordered to notify the Commission promptly, should this eventually take place, so that an appropriate adjustment to rates may be made.

The difference between applicant's and the staff's rate base estimates for the year 1964 is \$253,920 and amounts to 8.3 per cent. It is caused by applicant's having included \$865,450 of plant on a rollback basis, whereas the staff included \$568,500. Applicant contended that the Commission in Decision No. 64574, supra, had ordered it to improve its system so substantially that its 1964 budget of \$505,169 (Exhibit No. 9) and its 1965 budget of \$631,400 (Exhibit No. 6), totaling net transmission and distribution plant additions for the years 1964 and 1965 of \$1,136,569, were required. The staff included normalized additions of \$200,000 for each of the years 1964 and 1965, plus rollback plant of \$310,000, for total additions to Account 343, Transmission and Distribution Mains, for the years 1964 and 1965 of \$710,000. The record shows that gross additions to Account 343 since 1958 have been as follows: 1958, \$103,000; 1959, \$97,000; 1960, \$26,000; 1961, \$38,000; 1962, \$78,000; and 1963, \$167,000. While conceding the desirability of upgrading the transmission and distribution system, the staff contended that such upgrading was not required to be accomplished within the short period claimed by applicant (and therefore totally includable in rate base).

Another item of difference, although not large dollarwise but involving a principle, is the staff's inclusion of the estimated cost of the lot adjoining the El Monte general office in utility plant. Applicant included the cost at the current market price paid by applicant to Vesco, whereas the staff included this item at the original cost to Vesco, since the latter had purchased it and rented it to applicant as a parking lot for many years, and Vesco's former chairman had also been and is applicant's chairman.

Applicant contended that a rate of return of 6.5 per cent on its Fontana division operations is required. A staff accountant in Exhibit No. 3 recommended a rate of return of 6.10 per cent, without having taken into consideration a declining trend in rate of return. Such decline between the years 1964 and 1965 estimated is shown in Exhibit No. 3 to be .4 per cent. He recommended a 10 per cent return on that portion of applicant's common stock equity applicable to Fontana, and Exhibit No. 3 shows that such return on equity would require a rate of return of 6.02 per cent on Fontana rate base, assuming that rate base and capitalization are identical.

Exhibit No. 3 shows that applicant has made considerable improvements to eliminate excessively high or low pressures; many present low pressure complaints result from customers on inadequate piping; there are some complaints regarding dirty water and said problem is usually temporarily unavoidable because of a sudden change in stream flow or well pumping characteristics; the installation of additional proposed water treatment equipment will help alleviate turbid water problems as well as some occasional taste and odor problems; and some localized substandard conditions will slowly improve with applicant's continuing overall improvement program.

Some customers in the Highland tariff area complained of what they considered to be excessively high bimonthly water bills, some of which were submitted as samples in Exhibit No. 1. A record of the experience of each bill was submitted, as part of said Exhibit, by applicant at the Commission's request.

Members of the North Fontana Women's Club have been advised by applicant that an extension to serve the club would cost \$3,250. At the direction of the presiding officer, the club had been advised to contact applicant and if not satisfied, refer the matter to the Commission in writing. This has been done by a letter from the club secretary, received on May 25, 1965.

The Commission has reviewed the evidence and considered the petitions of customers protesting the application, the petition of North Fontana Women's Club members for water service to their club, the motion of a customer for an investigation of Fontana Union Water Company, the memorandum of the City of Fontana, the sample bills in Exhibit No. 1, and the arguments of counsel.

We find that:

1. San Gabriel Valley Water Company is a public utility water corporation under the jurisdiction of this Commission furnishing water service to some 49,000 customers in its over-all system and to some 13,380 customers in its Fontana Division, which comprises two separate tariff areas.

2. The rate of return for the years 1964 and 1965 estimated, which would be produced by the revenues received from applicant's presently filed rates for water service in the Fontana Division, is deficient and applicant is entitled to financial relief. However, the rate of return which would be produced by the rates proposed in the application, based on the staff's estimates of operations for the test year 1965, hereby adopted, as set forth in Exhibit No. 3, would be excessive.

3. Applicant's method of estimating operating revenues is deficient because it does not adjust for weather conditions. The staff's revenue estimate for the test year 1965 is based on a sound graphical method heretofore adopted as reasonable by the Commission and applicable to substantial areas in both northern and southern California. Said method is reasonably applicable to the Fontana area, and the staff has reasonably applied it.

4. The staff's estimate of Fontana Union Water Company over-assessments added to rate base for the test year 1965 is based on Fontana Union's normal operations over a period of years and is reasonable.

5. The staff's estimate of meter repair expense for the test year 1965, based on a 10-year meter test program, including casualty inspection and repairs, is reasonable. Applicant should not be permitted to burden present and future customers with

deferred expenses of meter testing and repair. Average recorded casualty inspection and meter repair expenses trended over a 10-year period and included in total meter repair expense are representative.

6. It is laudable that applicant has budgeted extensive transmission and distribution system improvements for the years 1964 and 1965, and the Commission has recognized the need for such improvements and has, in fact, required applicant to develop a program therefor. It would be unreasonable to include the entire amounts budgeted for the future in the rate base for the test year 1965. The staff's position is reasonably taken. Not only will applicant's present customers benefit by improved service, but also, growth will be accommodated.

7. It is clear that Vesco acted as applicant's agent in the acquisition of the lot adjoining applicant's El Monte office. The Commission, in prior proceedings, has found that Vesco purchased equipment for applicant at bargain prices and that Vesco resold it to applicant at increased prices, and adjustments have been agreed to by applicant's management to reflect the lowest costs of such acquisitions on applicant's books. Consistently, land now acquired by applicant from Vesco should reflect the original cost to Vesco, only. The staff's inclusion of the parking lot in the rate base for the test year 1965 on that basis is reasonable.

8. A rate of return of 6.1 per cent on applicant's operations in its Fontana Division is reasonable. Applicant can expect attrition in the future, depending to a large extent on how it programs its budgeted capital improvements, of as much as .4 per cent. A rate of return of 6.5 per cent will enable applicant to gauge its transmission and distribution water system improvements to the growth and earnings of the Fontana Division. Said rate of return on the staff's estimated rate base for the test year 1965, and the earnings' components thereof set forth in Exhibit No. 3, are adopted as reasonable for this proceeding. Such rate of return will provide for and meet applicant's financial requirements.

9. An investigation at this time of Fontana Union Water Company is not warranted.

10. There are no irregularities in the bills submitted as Exhibit No. 1; nor are they exorbitant. Highland tariff area customers' land, in most cases, is sandy and rocky. Where water is used for gardens, trees, and lawns there is usually high water absorption and low retention.

11. Applicant's proposal to combine the two general metered service schedules is reasonable, as is also staff's recommendation that the general metered service rate schedule be simplified by combining the second and third blockages into one 4,200 cubic foot block. Retention of the limited temporary general metered service schedule is no longer necessary.

It is concluded that applicant should be authorized to file new schedules of rates which will produce a rate of return of 6.5 per cent on the estimated rate base of \$3,289,000 after taking into account other rate of return components shown in Exhibit No. 3. Such authorized rates will produce estimated gross annual operating revenue of \$1,091,600 for the test year 1965, which will be an increase of \$194,500, or 22 per cent, over the revenues estimated to be derived from the presently filed rates, but \$135,400 less than the revenues estimated to be derived from the rates sought in the application to be authorized.

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



An investigation of the costs of supplying water to the North Fontana Women's Club should be made by the Commission staff, and report thereon should be submitted to the Commission and to the parties.

The motion for an investigation of Fontana Union Water Company should be denied.

O R D E R

IT IS ORDERED that:

1. San Gabriel Valley Water Company is authorized to file the schedule of rates applicable to its Fontana Division, attached hereto 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 September 1, 1965. Concurrently with the filing authorized herein, applicant is authorized to cancel by appropriate advice letter its presently effective general metered service Schedules Nos. FOF-1 and FOH-1 for the Fontana and Highland tariff areas and its limited temporary general metered service Schedule No. FOH-1LX for the Highland tariff area.

2. San Gabriel Valley Water Company shall inform the Commission promptly, by letter, when it has been advised by the Internal Revenue Service regarding its request for authorization to change its accounting methods in respect to computation of Federal income taxes on a liberalized depreciation basis, and shall indicate the effect of any such change authorized on the test year results herein adopted.

3. The Commission staff shall investigate the costs of furnishing water service to the North Fontana Women's Club and

shall, within thirty days after the effective date hereof, submit a report thereon, in writing, to the Commission and to the parties. Upon the receipt of such report, the Commission will take further action.

4. The motion for an investigation of Fontana Union Water Company is denied.

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

Dated at San Francisco, California, this 3rd day of August, 1965.

Fredrick B. Halaloff  
President

Arthur E. Mitchell

Augustus

William B. ...

Commissioner George G. Grover, being necessarily absent, did not participate in the disposition of this Commission's

APPENDIX A  
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Schedule No. FO-1

(T)

FONTANA DIVISION

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Fontana and vicinity, San Bernardino County.

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 800 cu.ft. or less .....	\$ 2.90	(I)
Next 4,200 cu.ft., per 100 cu.ft. ....	.18	
Over 5,000 cu.ft., per 100 cu.ft. ....	.14	(I)
Minimum Charge:		
For 5/8 x 3/4-inch meter .....	\$ 2.90	(I)
For 3/4-inch meter .....	3.70	
For 1-inch meter .....	5.40	
For 1 1/2-inch meter .....	9.60	
For 2-inch meter .....	14.00	
For 3-inch meter .....	24.00	
For 4-inch meter .....	37.00	
For 6-inch meter .....	75.00	
For 8-inch meter .....	120.00	
For 10-inch meter .....	170.00	(I)

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