

customers objected to the amount of increase requested. The City of San Dimas did not present any evidence but indicated that a study had been made by consultants retained by the city and that, based upon that study, the city does not oppose the increase requested by applicant.

Forest Lawn Company asks that applicant be required to furnish water to Forest Lawn at applicant's irrigation service rate, rather than under the general metered service rate, and that the applicability of the filed irrigation rate to such service be made retroactive to the effective date of the present irrigation rate schedule.

Service Area and Water System

Applicant owns and operates water systems in the Counties of Los Angeles, Orange, and San Bernardino. Its San Dimas Division serves portions of the cities of San Dimas, Covina and LaVerne and the unincorporated community of Charter Oak, in Los Angeles County. Because of the range of elevations, the service area is divided into three principal pressure zones.

Both surface and underground sources have been developed to supply the San Dimas Division service area. Water is extracted from wells in three groundwater basins. Local surface water has been used in the past to help meet applicant's irrigation service requirements. Additional surface water is now imported to the area by the Metropolitan Water District of Southern California (MWD) and is available to applicant through two active service connections.

For irrigation service, applicant has distribution mains which are essentially separate from the rest of the system, although some production, storage and related facilities are used jointly for all service. The distribution systems include 125 miles of

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mains, ranging in size from 2-inch to 30-inch. There are about 6,600 general metered service customers, 34 irrigation customers, 9 private fire protection service customers and 591 public fire hydrants.

Staff Exhibit No. 6 states that no informal complaints involving the service provided by applicant have been filed with this Commission since applicant took over the operations of the system in 1964. A staff review of applicant's service complaint records indicates a number of leaky meters, service lines, and mains; the presence of a milky condition caused by carbon dioxide gas in the water; and discolored water sometimes accompanied by a rusty taste. The staff concludes that applicant is continuing to upgrade its water system in order to alleviate these conditions and to improve service.

Rates

Applicant's present tariffs include rates for general metered service, fire hydrant service, private fire protection service and measure irrigation service. These rates had been established by various predecessor utilities and adopted by applicant when it commenced operation in 1964. The present rates were established in 1952 for general metered service, in 1927 for fire hydrant service, in 1954 for private fire protection service, and in 1958 for measured irrigation service.

Applicant's tariffs provide that the measured irrigation service rate applies only to water used for agricultural purposes, that the irrigation water is not guaranteed to be potable, and that the irrigation service is interruptible. Water for lawn and garden irrigation, such as is furnished to protestant Forest Lawn Company, is not provided from the separate irrigation mains and properly

comes under the general metered service rate. Because of the block rate structure for general metered service, however, large users pay an appropriately lower unit price for water than do small users.

Applicant proposes to increase its rates by about 43 percent for general metered service, 100 percent for private fire protection service, and 40 percent for measured irrigation service. No increase is requested for public fire hydrant service, but the present schedule for such service is nearly forty years old and should be replaced by an up-to-date format. A new schedule is proposed to provide for temporary flat rate construction water service. Applicant did not, however, provide sufficient justification for this new construction water schedule for us to authorize it at this time. Water for construction purposes is available, and has been used heretofore, under the applicable schedule for general metered service.

The following Table 1 presents a comparison of applicant's present rates, those requested by applicant and those authorized herein:

TABLE 1
COMPARISON OF RATES

<u>Item</u>	<u>Per Meter Per Month</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
<u>General Metered Service</u>			
First 500* cu. ft. or less	\$2.00	\$2.85	\$2.75
Next 4,500 cu. ft., per 100 cu. ft.	.20	.29	.27
Next 11,000 cu. ft., per 100 cu. ft.	.15	.21	.20
Over 16,000 cu. ft., per 100 cu. ft.	.12	.17	.15
<u>Private Fire Protection Service</u>			
Per Inch of diameter of service	1.00	2.00	1.40
<u>Measured Irrigation Service</u>			
Per Miners inch hour	.05	.07	.07

* Included in minimum charge for 5/8 x 3/4-inch meter. A graduated scale of increased minimum charges is provided for larger meters.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table II, from Exhibit No. 10 supplemented by details from Exhibit No. 6, are the estimated results of operation for the test year 1967, under present rates and under those proposed by applicant. For comparison, this table also shows the corresponding results of operation when modified as discussed hereinafter.

TABLE II

ESTIMATED RESULTS OF OPERATION, TEST YEAR 1967

<u>Item</u>	<u>Staff</u>	<u>Applicant</u>	<u>Modified</u>
<u>At Present Rates</u>			
Operating Revenues	\$ 490,600	\$ 492,980	\$ 490,600
<u>Deductions</u>			
Maint. of Structures	200	1,200	200
Other Source/Supply Exp.	18,460	18,500	18,500
Pumping & Treatment Exp.	74,530	76,240	74,500
Transm. & Distrib. Exp.	53,730	55,810	53,700
Make-up Assessments	0	0	6,500
Customer Account Expense	44,060	62,620	44,100
Sales Expense	0	510	500
Administrative & Gen'l. Exp.	87,100	94,560	87,100
Depreciation	81,160	86,420	81,200
Taxes Other Than on Income	66,910	70,300	66,900
Subtotal	426,150	466,160	433,200
Income Taxes	330*	100	100
Total	426,480*	466,260	433,300
Net Revenue	64,120*	26,720	57,300
Rate Base	2,035,800	2,211,400	2,036,000
Rate of Return	3.15%*	1.21%	2.8%
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	697,700	699,410	697,700
<u>Deductions</u>			
Excl. Income Taxes	426,150	466,160	433,200
Income Taxes	101,610	83,200	92,600
Total	527,760	549,360	525,800
Net Revenue	169,940	150,050	171,900
Rate Base	2,035,800	2,211,400	2,036,000
Rate of Return	8.35%	6.79%	8.4%

* Corrected for minor error in transferring income tax from page 2 of notes to the top page of Exhibit No. 10.

From Table II it can be seen that applicant's requested rates would result in an increase of forty-two percent in operating revenues, whereas the rates authorized herein will produce a thirty-four percent increase. The percentage increase for individual bills will vary somewhat, depending upon type of service and level of use.

The principal difference between the revenue estimates presented by applicant and those presented by the Commission staff results from the staff's lower estimates of average customer usage, based upon a correlation of past usage and climatic variations. This difference is partly offset by the staff's assumption of a higher normal level of water sold for construction purposes. The staff's revenue estimates are adopted in Table II.

The staff's estimate of expense of maintaining structures reflect the averaging of certain nonrecurring tree removal expense whereas applicant's estimates do not. The staff's estimate is adopted in Table II.

The staff's estimate of expenses for pumping, treatment, transmission and distribution reflect an assumed reduction in overtime pay resulting from the recent installation by applicant of automatic equipment to control and monitor certain production, distribution and storage facilities. Applicant's consulting engineer estimated that the savings in overtime would not be great, because overtime must still be spent by personnel reviewing the telemetering board. It does not appear logical that the time required for surveillance of the telemetered data would approach the time required to travel from place to place throughout the system. The staff estimates, rounded, are adopted in Table II.

Neither the staff nor applicant has included estimates of make-up water assessments in connection with the reimbursement contract entered into with Upper San Gabriel Valley Municipal Water District by all defendants, including applicant, in a lengthy court litigation. There is a lag of about two years in the determination of the assessment rate per acre-foot of water pumped from the basin, but there appears to be no question that some assessment will be applicable to applicant's operations for the test year 1967. The staff recommended that this item be considered in some way in this proceeding. In order reasonably to evaluate applicant's rate proposal, some amount must be included in estimated expenses for the test year. Without prejudice to the disposition of other proceedings wherein the potential amount of assessment is a more significant issue, an assessment rate of approximately \$1.50 per acre-foot has been assumed in the expenses adopted in Table II. This rate is roughly midway between the rates estimated by the district for 1964 and 1965, as shown in the staff's Exhibit No. 6.

Applicant's estimate of customer account expense is predicated upon a potential change from bimonthly to monthly billing, whereas the staff's estimate assumed continuation of applicant's bimonthly basis for billing. Although applicant's vice president and general manager testified that certain advantages would accrue to applicant and its customers under monthly billing, he admitted that no sampling, canvass or other contact had been made with customers to determine their preference. Before changing to the less economical monthly billing, it appears that applicant's management should have available to it at least some indication of its customers' wishes. The staff's estimate, rounded, is adopted in Table II.

The staff's estimates excluded all sales expense, but there is no explanation in the record for this exclusion. Both applicant and staff show \$1,162 for this item during the twelve-month period ended June 30, 1966. Applicant estimates a normal annual expense of \$510. Applicant's estimate, rounded, is adopted in Table II.

The staff's estimates of administrative and general expenses exclude donations, contributions and similar expenditures not considered appropriate as operating expenses for rate-making purposes. The staff also excluded the rental expense for a well which applicant no longer leases. In addition, applicant's estimates erroneously include some expenditures which are applicable to the total company rather than just the San Dimas Division. The staff estimates are adopted in Table II.

The staff's estimate of depreciation expense utilizes a more recent remaining-life accrual study than did applicant's original estimate. Applicant's revised estimate in Exhibit No. 10 uses the later accrual rates, but applies them to higher plant figures than did the staff. Consistent with our adoption of staff plant estimates in rate base, the staff's depreciation estimate is adopted in Table II.

The staff estimates of taxes other than on income differ from applicant's primarily because of the differences in payroll and plant estimates hereinbefore discussed. Consistent with the adoption of the staff's payroll and plant estimates, the staff's estimates of taxes other than on income are adopted in Table II.

Both the staff's and applicant's income tax estimates as shown in Exhibit 10 reflect the suspension of the Investment Tax Credit which had taken place by the time the estimates were being prepared.

At the present time, it is not known when the reinstatement of the credit will take place. Rather than to delay this decision for Congressional action on this point, it is assumed in the calculation of the income taxes adopted in Tables II and III that the Investment Tax Credit will be reinstated in essentially its original form. Since the suspension of that credit is still in effect, however, the revised rate schedule authorized herein will provide for the temporary collection of a surcharge to cover the increase in taxes that will be applicable during the suspension period.

Applicant is not requesting, at this time, any return on its investment in land and intangible plant so neither category is included in rate base by applicant or the staff. There are numerous differences, however, in the development of estimated rate bases by the staff and applicant. The principal differences are in deductions for contributions and advances. The staff estimates are described in Exhibit No. 6 and are supported by the record. The staff's resulting rate base estimate, rounded, is adopted in Table II.

Rate of Return

The Commission staff recommends in Exhibit No. 7 a rate of return of 7.0 percent as a fair return for this utility, based upon a study of capital structures and rates of return of other water utilities and a number of other factors relating to applicant's operations, set forth in detail in the exhibit. The vice president of applicant's bondholder testified that, in his opinion, a rate of return of 8.0 percent would be reasonable, based primarily upon the return required to service applicant's debt and provide a 10 to 11 percent return on common equity.

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Inasmuch as rates are set prospectively, not retroactively, we must consider the trend in rate of return when utilizing a test year wholly or partly in the past. To determine the probable future trend, two test years normally are adjusted on a comparable basis to eliminate abnormal changes which would distort the apparent trend.

The staff has shown the years 1966 and 1967 on a comparable basis, which indicates that an annual decline of about 0.7 percent in rate of return could be expected in the near future at applicant's present water rates. This indicated decline in rate of return is the composite end result of the indicated trends in revenues, expenses and rate base, including:

1. A decline in revenue per customer from year to year, due to the change in character of land use in the area.
2. A decline in maintenance and operation expense per customer and in administrative and general expense per customer, due to the fact that certain of these expenses do not increase proportionately as customers are added.
3. Increases in depreciation expense, ad valorem taxes and rate base, on a per customer basis, due to the fact that plant additions and replacements are requiring a greater percentage increase in investment than the annual percentage increase in revenues.

With so many divergent causes for the annual decline in rate of return, it would not be appropriate to assume that the indicated 0.7 percent attrition under present water rates would necessarily be the same under different water rates. Rather than to project the end result in rate of return, it is more appropriate in this instance to project the adopted 1967 revenue, expense and rate base items individually for the purpose of testing the reasonableness of the rates to be authorized. The following

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Table III incorporates such projections into 1968. The first full calendar year during which the increased rates authorized herein will be in effect, utilizing the trends of the individual items indicated by the staff's 1966 and 1967 estimates:

TABLE III

ESTIMATED RESULTS OF OPERATIONS,
TEST YEAR 1968 AT RATES AUTHORIZED HEREIN.

Operating Revenues	\$ 672,000
<u>Deductions</u>	
Operation and Maintenance Expense	201,000
Administrative and General Expense	88,000
Depreciation	90,000
Taxes Other Than on Income	74,000
Income Taxes	65,000
Total	<u>518,000</u>
Net Revenue	154,000
Rate Base	2,190,000
Rate of Return	7.0%

There are several factors which would make projection of indicated trends beyond 1968 too speculative; these include:

1. If proposed new subdivision development materializes, the increase in advances for construction could reduce the rate base per customer. This could be more or less than enough to offset the new plant's effect on depreciation expense and ad valorem taxes.
2. When the appropriate amounts for land and intangibles are determined and included in rate base, this will affect the rate of return.
3. There will probably be changes each year in the assessment rate for water pumped from the local basin.

The rates set forth in Appendix A are designed to produce a 7.0 percent return on rate base for the 1968 test year adopted herein.

Findings and Conclusion

The Commission finds that:

1.a. Applicant is in need of additional revenues but the proposed rates set forth in the application are excessive.

b. The projected estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the test year 1968 indicate the results of applicant's operations for the near future.

c. A rate of return of 7 percent on applicant's rate base for 1968 is reasonable.

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

2. Potential additions to applicant's depreciable plant require more frequent review of its straight-line remaining-life depreciation rates.

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant California Cities Water Company is authorized to file for its San Dimas Division the new and revised rate schedules attached to this order as Appendix A. Such filing shall comply with

General Order No. 96-A. The effective date of the revised schedules shall be June 16, 1967, or four days after the date of filing, whichever is later. The revised schedules shall apply only to service rendered on and after the effective date thereof. Concurrently, applicant shall cancel its presently effective Tariff Sheets NOS, 0-W, 7-W, 35-W and 62-W.

2. Applicant shall review its depreciation rates for its San Dimas Division at intervals of not less than three years, instead of the five-year interval now in effect.

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

Dated at San Francisco, California, this 23rd day of 1 MAY, 1967.

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

Schedule No. SD-1 (T)

San Dimas Tariff Area (N)

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service. (T)

TERRITORY

San Dimas, Charter Oak, and vicinity, Los Angeles County. (T)

RATES

		<u>Per Meter</u> <u>Per Month</u>		
Quantity Rates:				
First	500 cu.ft. or less	\$ 2.75	(I)	
Next	4,500 cu.ft., per 100 cu.ft.27		
Next	11,000 cu.ft., per 100 cu.ft.20		
Over	16,000 cu.ft., per 100 cu.ft.15		
Minimum Charge:				
For	5/8 x 3/4-inch meter	\$ 2.75		
For	3/4-inch meter	4.00		
For	1-inch meter	6.00		
For	1 1/2-inch meter	10.00		
For	2-inch meter	15.00		
For	3-inch meter	24.00		
For	4-inch meter	36.00		(I)
For	6-inch meter	50.00		(N)

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

SPECIAL CONDITION

Until the Investment Tax Credit is reinstated, bills computed under the above tariff will be increased by 1.7%. (N)
(N)

Schedule No. SD-3M (T)

San Dimas Tariff Area (N)

MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service. (T)

TERRITORY

San Dimas, Charter Oak, and vicinity, Los Angeles County. (T)

RATES

	<u>Per Service Connection Per Month</u>	
Quantity Rate:		
Per miner's inch hour	\$0.07	(I)
Minimum Charge:		
For each turn on	\$4.20	(I)

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. The miner's inch is defined as a rate of flow equal to one-fiftieth of a cubic foot per second.
2. The minimum rate of delivery under this schedule is ten miner's inches.
3. A twenty-four (24) hour advance notice may be required before water is turned on under this schedule.
4. The utility does not represent or guarantee that any water delivered hereunder is potable or of a quality suitable for human consumption. Any customer who uses said water or makes it available to others for human consumption shall take all necessary precautions to make the same potable and shall assume all risks and liabilities in connection therewith.

(Continued)

Schedule No. SD-3M

San Dimas Tariff Area

MEASURED IRRIGATION SERVICE

SPECIAL CONDITIONS - Contd.

5. The utility does not guarantee a continuous and uninterrupted supply under this schedule and reserves the right to temporarily suspend the delivery of water when it is necessary to take the whole or part of the water system out of service for the purpose of cleaning, maintaining and repairing or other essential improvements thereon; or for domestic purposes.

6. Water deliveries to customers will be made and measured at the utility's conduits, or as near thereto as practicable.

7. Until the Investment Tax Credit is reinstated, bills computed (N)
under the above tariff will be increased by 1.7%. (N)

Schedule No. SD-4 (T)

San Dimas Tariff Area (N)

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

San Dimas, Charter Oak, and vicinity, Los Angeles County. (T)

RATE

For each inch of diameter of service connection Per Month
\$1.40 (I)

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. (T)

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. (T)

(Continued)

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Schedule No. SD-4 (T)

San Dimas Tariff Area (N)

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - Contd.

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. (T)
(T)

Schedule No. SD-5

(T)

San Dimas Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, organized fire districts and other political subdivisions of the State.

TERRITORY

San Dimas, Charter Oak, and vicinity, Los Angeles County.

RATE

For each hydrant	<u>Per Month</u> \$1.50
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SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. SD-1, General Metered Service.

2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.

3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size.

4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

(T)