

Decision No. 72498

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 )  
charged for water service in its )  
El Monte Division to offset )  
Replenishment Tax and Make-up )  
Water costs. )

Application No. 49061  
(Filed December 30, 1966)

John E. Skelton, for applicant.  
E. W. Bartells, protestant.  
W. C. Welmon, for Southern California  
Water Company, interested party.  
Chester O. Newman, Raymond E. Heytens,  
and Page E. Golsan, Jr.,  
for the Commission staff.

O P I N I O N

San Gabriel Valley Water Company requests authority to increase rates for water service in its El Monte Division by \$88,321 or 6.9 percent based on normalized gross revenues for twelve months ended October 31, 1966. The rate increase is intended to offset increased operating expenses resulting from assessments levied by the Upper San Gabriel Valley Municipal Water District (Upper District)<sup>1</sup> for Make-up Water and for Replenishment Water. The make-up assessment is levied pursuant to Reimbursement Contract

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1 Upper District overlies a major portion of the main San Gabriel Valley Basin. It is now empowered, through Assembly Bill 1685 (1965) which was enacted to become Sections 71682/71689.9 and Section 71757 of the Water Code, to levy assessments for the purchase of water to replenish the basin. As a policy of Upper District, the funds for such purchases are obtained through replenishment assessments on water producers rather than through ad valorem tax on property owners.

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in the Long Beach action and the Replenishment assessment pursuant to Water Code Section 71687.2; both assessments are a consequence of the increase in recent years in water production from the San Gabriel Valley Ground Water Basin.

Public hearings were held before Examiner Main at El Monte on March 8 and 9, 1967. About 20 consumers attended the March 8 hearing, several of whom either protested the application or complained about service conditions. The matter was submitted at the close of the second day of hearing.

Applicant furnishes water service to more than 53,000 customers in its El Monte and Whittier Divisions in Los Angeles County and in its Fontana Division in San Bernardino County. As of December 31, 1965, applicant served more than 24,000 customers in its El Monte Division, where three rate schedules for general metered service are in effect; one of these schedules applies to the El Monte tariff area, another applies to the Watson tariff area and the remaining schedule applies to Rio Hondo Junior College. Only about 500 customers are served in the Watson tariff area.

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Board of Water Commissioners of the City of Long Beach et al vs. San Gabriel Valley Water Company et al,  
Los Angeles Superior Court No. 722647. Judgment made effective as of October 1, 1963.

In Exhibit 5, an earnings and rate of return report for the twelve months' period ended October 31, 1966 - Adjusted, applicant develops rates of return of 5.36 percent and 5.50 percent for the El Monte Division and Total Company, respectively. The adjusted operating expenses for the El Monte Division include as purchased water expenses the sum of \$49,176 which represents an accrual of replenishment and makeup assessment costs. Applicant recast as follows the summary of earnings for the aforesaid period to show the rates of return which would have been realized had its proposed rates been in effect throughout the period and had offset revenues equaled assessment costs:

	<u>El Monte Division</u>	<u>Total Company</u>
Operating Revenues	\$ 1,375,582	\$ 3,333,949
Operating Expenses	741,183	1,923,842
Depreciation	162,362	342,487
Taxes	<u>181,035</u>	<u>414,867</u>
Total Deductions from Operating Revenues	<u>1,084,580</u>	<u>2,681,196</u>
Operating Income	<u>291,002</u>	<u>652,753</u>
Average Rate Base	<u>\$ 5,001,846</u>	<u>\$11,438,696</u>
Rate of Return	<u>5.82%</u>	<u>5.71%</u>

In the recast the changes made for the El Monte Division include an increase in operating revenues of \$88,321, in operating expenses of \$39,145, and in taxes of \$26,121. The increment in operating expenses plus the \$49,176 previously identified as accrued assessment expense equals the increase in operating revenues; thus it would appear that the above tabulation also serves to indicate rates of return realized under present rates for the twelve months ended October 31, 1966 - Adjusted exclusive of the proposed rate increase and the assessments.

Since the most recent authorized rate of return for the El Monte Division excluding the Watson tariff area is 6.5 percent as set forth in Decision No. 64573 dated November 27, 1962 in Application No. 44073, an increase in rates to offset increased operating expenses resulting from the assessments appears reasonable. To determine the extent the rates proposed by applicant accomplish the offset, a comparison of assessment costs and offset revenues has been derived from data contained in <sup>3</sup> Exhibits 9, 13 and 14 and is set forth in the following tabulation:

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Exhibit 9 - Statement on Ground Water Pumping Assessments Upper San Gabriel Valley Municipal Water District.

Exhibits 13 & 14 - Tabulations Illustrating Proposed Accounting, years 1966-1971.

COMPARISON OF ASSESSMENTS  
AND OFFSET REVENUES

YEAR	Rate \$/Acre-Foot	ASSESSMENTS		Payment		OFFSET REVENUES \$
		Assessable Pumpage Acre-Feet (a)	Amount \$	Due		
1966 Jul-Dec	R 2.20	10,391	22,859	(b)		0
1967	M 1.06	17,315	18,360	7-31-67	) 48,700 (c)	
	1.95	17,169	33,558	7-31-67		
Jan-Jun	R 2.20	8,070	17,750	) (b)		
Jul-Dec	3.30	9,900	32,680	)		
1968	M 1.42	18,882	26,810	7-31-68	) 90,020	
Jan-Jun	R 3.30	8,230	27,170	) (b)		
Jul-Dec	4.65	10,100	46,970	)		
	Total		226,157			138,720
	<u>Assessments exceed</u>					
	<u>Offset Revenues by</u>					<u>\$87,437</u>

Abbreviations: M - Makeup Assessment  
R - Replenishment Assessment

- Notes: (a) Assessable pumpage is in phase with replenishment assessments but not with makeup assessments. For the latter, the 17,315, 17,169, and 18,882 acre-feet shown represent production for calendar years 1964, 1965, and 1966, respectively.
- (b) Payment due for each calendar quarter's production, 30 days thereafter.
- (c) Last 6 months only.

Although some estimates necessarily have been used it appears unlikely that the difference between estimated and eventual actual values could be sufficient to reverse the direction of results so that assessment costs would not exceed offset revenues for the periods shown. All of the above assessment rates have been established by Upper District except the \$1.42 makeup rate for 1968 which, although estimated, is based on actual water year 1965/66 conditions and except the \$4.65 replenishment rate for the second half of 1968 which is based on assumed future conditions and is therefore of questionable reliability.

The proposed rate increase is roughly equivalent to \$5 per acre-foot of applicant's annual production from the main San Gabriel Valley Ground Water Basin. Estimated assessment rates under certain assumed future conditions including long-term average rainfall are set forth in Exhibit 9. For years subsequent to 1968 these estimates exceed \$5 per acre-foot. However, the application or usefulness of such estimates is questionable since they can vary substantially, perhaps 25 to 35 percent for the makeup assessment, even under the conditions assumed; moreover the odds are against occurrence of the assumed future conditions in a given single year or narrow band of years. In the more likely event, a departure from the assumed future conditions, the estimated assessments would not appear to serve a useful purpose.

Because representative estimates of future assessments do not appear feasible, applicant proposes through certain accounting procedures to keep a continuing record of the amounts paid for replenishment and makeup water assessments and of offset revenues. These procedures are set forth in Exhibit 4, Method of

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Accounting for Replenishment Tax and Makeup Water Costs to Provide Recovery in Full. Briefly, under the method Account 704, Purchased Water Expense, and Account 230, Other Current and Accrued Liabilities, are utilized to account for assessments as expense on an accrual basis; Account 146-X, Other Deferred Debits-Subaccount, and Account 242-X, Other Deferred Credits-Subaccount, are utilized to record assessments on an as-paid basis and to record offset revenues monthly on an as-billed basis, thus maintaining a cumulative record in which a debit balance in Account 146-X measures the deficiency, or a credit balance the excess, of offset revenues.

Applicant requests that it be permitted so to utilize subaccounts in Accounts 146 and 242. The Commission staff has no objection to the establishment of such subaccounts provided that applicant submit a summary of the accounting therein annually no later than ninety days after the close of each calendar year and provided that at some appropriate future time the Commission require the closing of the subaccounts.

Although the cumulative record-keeping aspects of applicant's accounting proposal are needed in view of the variability of future assessments, its unqualified full recovery feature is objectionable. In essence, one element representing roughly ten percent of the operating expenses is singled out for special treatment and linked directly to a portion of the rate structure for the stated purpose of assuring its full recovery, regardless of whether the remaining operating expenses, or other elements in a summary of earnings, have undergone changes which would compensate for a deficiency in offset revenues.

The Commission finds that:

1. Applicant is in need of a rate increase in its El Monte Division to offset replenishment tax and makeup water costs.
2. The increases in rates proposed by applicant are expected to produce a lesser increase in revenues than the increase in operating expenses resulting from the replenishment and makeup assessments through year 1968.
3. The increases in rates authorized hereinafter are justified, such rates are just and reasonable and insofar as they differ from present rates, the latter are unjust and unreasonable.
4. The accounting procedures proposed in Exhibit 4 can assist the Commission and applicant in evaluating operating results of the El Monte Division.

The Commission concludes that:

1. The application should be granted in the manner set forth in the order which follows.
2. Applicant should be authorized and directed hereinafter to follow substantially the procedures mentioned in Finding 4 and to file appropriate reports thereon. This action should not be construed as implicit approval of the stated intent of such procedures to provide full recovery of replenishment and makeup assessments, without consideration of the overall cost of service. In the exercise of its jurisdiction the Commission may from time to time give appropriate disposition to the balances in Subaccounts 146-X and 242-X.



IT IS ORDERED that:

1. San Gabriel Valley Water Company is authorized to file after the effective date of this order the revised schedules of rates, applicable to its El Monte Division, as set forth in Exhibits C-1, C-2 and C-3 of the application herein. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be July 1, 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.

2. San Gabriel Valley Water Company is authorized and directed to utilize the accounts specified, and to follow substantially the procedures set forth, in Exhibit 4 herein for the accounting of replenishment tax, makeup water costs and offset revenues. Consistent with paragraph 4 of the findings and conclusion in the foregoing opinion, such accounting shall not constitute a commitment as to the extent of recovery of the assessment costs.

3. On or before each March 31st San Gabriel Valley Water Company shall file for the preceding calendar year a resume of

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the accounting required by paragraph 2 of this order, together with a statement setting forth any future assessment rates which may have been established.

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

Dated at San Francisco, California, this 29th day of MAY 1, 1967.

Edward E. Fitzhugh  
President  
William H. ...  
...  
William ...  
John P. ...  
Commissioners