

ORIGINAL

Decision No. 74050

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.)

Application No. 49663
(Filed September 6, 1967)

John E. Skelton, for applicant.
Paul G. Worthy, for property owners
of El Monte; Harry C. O'Dane, for
the people of Baldwin Park (Cosbey
Avenue only) and for himself;
Edwin Elko; Mrs. Gladys J. Kallemeyn;
and Harry Welton; protestants.
Elinore C. Morgan, Counsel; Robert W.
Beardslee; Raymond E. Heytens; and
E. J. Crawford; for the Commission
staff.

O P I N I O N

San Gabriel Valley Water Company (applicant) seeks authority to increase the rates for general metered service in its El Monte Division in the amount of \$262,423 based on its estimated operations for the year 1967.

Public hearings were held before Examiner Rogers in El Monte on January 30 and 31 and February 1, 1968. On the latter date the matter was argued and submitted. Several customers appeared as protestants. Their principal complaint was that applicant had recently received authority to increase its rates and they considered an additional increase as not warranted at this time.

By Decision No. 72498 dated May 23, 1967 in Application No. 49061, this Commission authorized the applicant to increase its rates for its El Monte Division, the Watson Tariff Area of its El Monte Division, and Rio Hondo Junior College¹ to compensate for replenishment taxes and makeup water costs. The applicant alleges that with the authorized increases placed in effect, it realized a return of 5.67 percent in 1966 and 5.61 percent in 1967. It requests increased revenues which would give it a rate of return of 7.99 percent in 1967 on a rate base of \$5,253,166.

Applicant furnishes water to a total of 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, 1966, applicant served more than 26,000 consumers in its El Monte Division where three rate schedules for general metered service are in effect. One of these schedules applies to its El Monte Tariff Area, another applies to its Watson Tariff Area, and the third applies to the Rio Hondo College only.

¹ The rates in effect prior to Decision No. 72498 were authorized by Decision No. 64573 dated November 27, 1962 in Application No. 44073.

The existing rates are as follows:

EL MONTE DIVISION AND RIO HONDO JUNIOR COLLEGE,
EXCLUDING THE WATSON AREA

	<u>Per Meter Per Month</u>
Quantity Rates:	
First 800 cu. ft., or less	\$ 2.22
Next 1,500 cu. ft., per 100 cu. ft.	.15
Next 2,700 cu. ft., per 100 cu. ft.	.12
Over 5,000 cu. ft., per 100 cu. ft.	.11
Minimum Charge:	
For 5/8 x 3/4-inch meter	2.22
For 3/4-inch meter	2.87
For 1-inch meter	4.40
For 1-1/2-inch meter	7.40
For 2-inch meter	10.60
For 3-inch meter	19.00
For 4-inch meter	34.00
For 6-inch meter	64.00

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

WATSON TARIFF AREA

	<u>Per Meter Per Month</u>
Quantity Rates:	
First 800 cu. ft., or less	\$ 1.72
Next 1,200 cu. ft., per 100 cu. ft.	.14
Next 3,000 cu. ft., per 100 cu. ft.	.11
Over 5,000 cu. ft., per 100 cu. ft.	.08
Minimum Charge:	
For 5/8 x 3/4-inch meter	1.72
For 3/4-inch meter	2.35
For 1-inch meter	3.50
For 1-1/2-inch meter	6.00
For 2-inch meter	9.10
For 3-inch meter	17.00
For 4-inch meter	28.00
For 6-inch meter	54.00

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

The Junior College rates include those for 8-inch and 10-inch meters and the condition hereinafter referred to.

As indicated above, customers residing in the Watson Tariff Area receive water service at lower rates than the El Monte Division consumers. Prior to July 1, 1963, water service to this area was furnished by the Burl Watson Domestic Water Company, a public utility, at lower rates than those charged by applicant in the El Monte Division. Since assuming the responsibility of providing water service to the Watson Area, applicant has discontinued use of two wells which previously furnished the only water supply to the area, tied the Watson system into the adjoining San Gabriel system having a combined developed well capacity of approximately 65,000 gallons per minute and storage of approximately 9,500,000 gallons. Applicant alleges that the service to the Watson Area is of higher quality than that formerly provided and that the higher investment in water supply, pumping and storage facilities presently utilized inures to the benefit of the Watson Area customers. It alleges that for this reason there is no justification for a preferential rate tariff for the Watson Area.

The applicant alleges that the need for a separate tariff sheet for general metered service to the Rio Hondo Junior College no longer exists in that the original intention to provide service at several points within the college has not been required, making moot the special tariff condition that "water consumption through the various domestic services within the college site will be accumulated so that one application of the rate blocks will be made at each monthly billing."

Applicant proposes to replace the above schedules with one schedule as follows:

RATES

Quantity Rates:

Per Meter Per Month

First 800 cu. ft., or less	\$ 2.70
Next 4,200 cu. ft., per 100 cu. ft.	.16
Over 5,000 cu. ft., per 100 cu. ft.	.13

Minimum Charge:

For 5/8 x 3/4-inch meter	2.70
For 3/4-inch meter	3.45
For 1-inch meter	5.30
For 1-1/2-inch meter	9.00
For 2-inch meter	13.00
For 3-inch meter	23.00
For 4-inch meter	41.00
For 6-inch meter	78.00
For 8-inch meter	115.00
For 10-inch meter	160.00

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

Charges for private fire protection and public fire hydrants are not to be changed.

Exhibit 1 submitted by the applicant is a general report of operations for the adjusted year 1966 and the estimated year 1967.

Exhibit 2 submitted by the applicant is a report on operations for the El Monte Division for the adjusted year 1966 and the estimated year 1967.

Exhibit 3 is a general report by the Commission staff of applicant's operations for the year 1967 and year 1968 estimated.

Exhibit 4 is a report by the Commission staff on the results of operation for the El Monte Division only for the estimated years 1967 and 1968.

When applicant prepared its reports, it had less than one-half of the year 1967 recorded data before it.

The staff's reports were made later in 1967 and projected into 1968 and it had more accurate 1967 figures on which to base its reports and forecasts. The staff estimates of 1968 expenses referred to hereinafter have been revised to include the effect of the recent general wage increase.

Revenues

The total El Monte Division revenues for the year 1967 as estimated by the applicant and the staff, and for the year 1968 as estimated by the staff, are as follows:

1967				1968	
Present Rates		Proposed Rates		Present Rates	Proposed Rates
Staff	Company	Staff	Company	Staff	
\$1,440,900	\$1,445,537	\$1,702,700	\$1,707,960	\$1,475,400	\$1,743,300

The staff used a slightly larger number of customers as a result of having more recorded 1967 data available when it made its estimates. We find that the revenues for 1968 at present and proposed rates will be as follows:

1968	
<u>Present Rates</u>	<u>Proposed Rates</u>
\$1,475,400	\$1,743,300

Expenses

The operating and maintenance expenses and the administrative and general expenses for the year 1967 as estimated by the applicant and the staff, and for the year 1968 as estimated by the staff, at present and proposed rates, are as follows:

Item	1967				1968	
	Present Rates		Proposed Rates		Present Rates	Proposed Rates
	Applicant	Staff	Applicant	Staff	Staff	
O & M exp.	\$589,805	\$589,150	\$591,904	\$589,150	\$608,050	\$608,050
A & G exp.	204,379	194,270	206,568	196,460	202,120	204,350
Total	794,184	783,420	798,472	785,610	810,170	812,400

We find that for the year 1968 the operating and maintenance expenses and the administrative and general expenses, at present and proposed rates, will be as follows:

	1968	
	<u>Present Rates</u>	<u>Proposed Rates</u>
O & M exp.	\$608,050	\$608,050
A & G exp.	202,120	204,350
Total	810,170	812,400

Depreciation Expense

The straight-line remaining-life depreciation rates of the applicant were reviewed by the staff and found appropriate for purposes of this application. The applicant's estimate of depreciation expense for the year 1967 was \$169,637 and the staff's estimate was \$168,210. The major reason for the difference was the fact

that the staff reduced the estimated 1967 plant additions to conform to the work actually started in the first nine months of 1967. The staff's estimate of depreciation expense of \$176,490 for the year 1968 is reasonable and will be adopted herein.

Taxes

Applicant's and staff's comparison of estimated taxes other than taxes on income for the year 1967 are set out below.

<u>Item</u>	<u>Staff</u>	<u>Company</u>
<u>Taxes Other Than Income</u>		
Ad Valorem:		
Direct	\$151,620	\$149,921
Allocated	3,500	3,531
Social Security	13,210	13,915
State Unemployment Insurance	3,590	4,053
Federal Unemployment Insurance	580	653
Total Taxes Other Than Income	172,500	172,073

We find that taxes other than income taxes for the year 1968 will be \$187,740, the amount estimated by the staff.

Income Taxes

Using the foregoing figures, we find that total income taxes for the year 1968 at present and proposed rates will be as follows:

<u>1968</u>	
<u>Present Rates</u>	<u>Proposed Rates</u>
\$ 2,430	\$134,122

Rate Base

The following is a comparison of the applicant's and the staff's estimated 1967 rate bases:

<u>Item</u>	<u>Staff</u>	<u>Company</u>
Average Utility Plant	\$8,135,670	\$8,184,321
Average Depreciation Reserve	(1,532,210)	(1,535,827)
<u>Other Items</u>		
Advances for Construction	(1,018,060)	(1,021,528)
Contributions in Aid of Construction	(536,590)	(526,996)
Materials and Supplies	73,300	77,500
Working Cash	77,440	79,494
Memorandum Adj. for Excess Plant	(3,800)	(3,798)
Average Rate Base	5,195,750	5,253,166

(Red Figure)

The principal difference is in average utility plant. The staff reduced the company's estimated 1967 plant additions by approximately \$100,000 to reflect the state of the company's construction program for the first nine months of 1967. Materials and supplies and working cash are judgment allowances. The differences in advances for construction and contributions in aid of construction are accounted for by the fact that the staff had later 1967 figures than the applicant.

We find that average depreciated rate base of \$5,484,000 for the year 1962; the amount estimated by the staff, is reasonable.

Adopted Summary of Earnings
for 1968 at Present and
Proposed Rates

The following summary of earnings at present and proposed rates is adopted for the purposes of this decision:

	<u>1968</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
Revenues	\$1,475,400	\$1,743,300
Expenses:		
O & M	608,050	608,050
A & O	202,120	204,350
Depreciation	176,490	176,490
Taxes Other		
Then Income	187,740	187,740
Income Taxes	2,430	134,122
Total Expenses	1,176,830	1,310,752
Net Revenue	298,570	432,548
Rate Base	5,484,000	5,484,000
Rate of Return	5.44%	7.89%

Rate of Return

In 1962 the Commission found that a rate of return of 6.5 percent was reasonable and established rates calculated to give such return (Decision No. 64573 dated November 27, 1962, in Application No. 44073). Subsequently, the Commission authorized increased rates to compensate applicant for replenishment tax and makeup water costs (Decision No. 72498 dated May 23, 1967, in Application No. 49061). The Commission stated that at that time the applicant showed a rate of return in its El Monte Division of 5.36 percent and that if the requested increases were allowed, the rate of return for the Division would be 5.82 percent. The staff has estimated a decline in rate of return at proposed rates of 0.37 percent from estimated 1967 to 1968, on a comparable basis. There is no reason to believe that the trend in rate of return will level off in the next few years to a decline of less than 0.30 percent.

Applicant requests a return of 7.99 percent in 1967 on its adjusted El Monte rate base of \$5,253,166. The staff recommends a rate of return of between 6.55 percent and 6.85 percent on the rate base.

Exhibit 6 is the staff's report on cost of money and rate of return prepared by a financial examiner. The stated purpose of the report is to set forth the investment in properties and capital structure of the applicant and to make a recommendation for a reasonable rate of return for the El Monte Division.

Applicant's capitalization as of January, 1968 (giving effect to a \$2,000,000 bond issue in 1968) was as follows:

Bonds	\$ 8,500,000	54. %
Preferred Stock	1,375,000	8.7%
Common Stock	3,156,357	20.1%
Advances	1,699,529	10.8%
Contributions	<u>1,008,298</u>	<u>6.4%</u>
Total	\$15,739,184	100 %

Table 1 in Exhibit 6 shows that between 1957 and 1967 the book value and book value per share of applicant's common stock showed a steady increase with the exception of the twelve months ended September 30, 1967, in which period there was a decline.

Table 2 shows that the composite cost of applicant's long-term debt, including \$2,000,000 Series J bonds issued in January, 1968 at 6.55 percent, was 4.88 percent.

Table 4 shows that for the five years of 1962-1966, applicant's return on average total capital was 5.67 percent and its return on average common equity was 8.50 percent.

Table 5 shows that the current return on applicant's common equity is 4.23 percent and the overall cost of capital is 4.76 percent.

Table 6 shows that as of December 31, 1967, applicant's cost of capital would be 6.55 percent based on an assumed allowance on common stock equity of 11.5 percent.

The staff witness testified that the allowance on common stock equity is, of necessity, a judgment figure, and is based, among other things, on the following considerations:

- (a) Applicant is operating in an area of California which evidences much growth, which results in continuing need for additional funds to finance new construction.
- (b) Applicant's estimated capital structure at December 31, 1967 indicates a common equity ratio less than the average for the prior five years.
- (c) The company's earnings on total capital have been lower than the average of other comparable companies.
- (d) The company has carried a lower common equity ratio than most of the other comparable companies on a five-year average.
- (e) The relative decrease in financing through advances for construction and contributions in aid of construction.

The staff witness recommended a rate of return of between 6.55 percent and 6.85 percent for the El Monte Division to be applied to the El Monte Division rate base. He stated that he considered that the \$2,000,000 Series J bonds at 6.55 percent had been issued.

The witness stated that he was aware that the Fontana and Whittier Divisions are earning less than the 6.55 percent minimum suggested but stated that, in his opinion, the El Monte Division should not carry any part of the load for the other divisions.

The application here is based on El Monte Division operations only. We find that a rate of return of 6.70 percent is reasonable for the future. Said rate of return will be adequate to service the present and anticipated El Monte Division fixed capital

and provide a return on equity within the range of 12 to 12.5 percent. With the indicated trend in rate of return, a rate of return of 7.0 percent for the test year 1968 should produce an average future rate of return of 6.7 percent into the next three years. We find a rate of return of 7.0 percent, when applied to the 1968 estimated average rate base of \$5,484,000 for the El Monte Division, to be fair and reasonable.

Replenishment Taxes and
Makeup Water Costs

By Decision No. 72498 dated May 23, 1967, in Application No. 49061, applicant was authorized to increase its rates to compensate it, in part, for the increased costs of purchased water due to increased makeup and replenishment assessments levied by the Upper San Gabriel Valley Municipal Water District. In said decision, the Commission found that the applicant's proposed rate increases will produce a lesser increase in revenues than the increase in operating costs resulting from the replenishment and makeup assessments through the year 1968.

The Commission stated:

"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 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."

The revenue earmarked for memorandum accounting purposes is presently derived from 12¢ included in the minimum block and 1¢ per Ccf over 800 cubic feet per Decision No. 72498. The estimated offset revenue is \$94,500 for 1968. The excess of makeup water and replenishment assessment charges over offset revenues in the memorandum account was \$67,797 as of December 31, 1967. The replenishment assessment for the last quarter of 1967 will be paid late in January of 1968. Since it is based on actual water production during the last quarter, this payment should be included to obtain a realistic balance as of December 31, 1967. This payment is estimated to be approximately \$15,000. The balance is therefore estimated as follows:

Company balance 12/31/67	\$67,797
Estimated replenishment assessment for last quarter, 1967	<u>15,000</u>
Offset Revenue Deficiency	\$82,797

All current makeup and replenishment assessment costs were included in the staff's El Monte Division Results of Operation report (Exhibit 4). Nothing was allowed for the \$82,797 deficiency referred to above. The staff recommended that if the Commission finds that the said deficiency is to be recovered, it be amortized over a period of five years at \$16,600 per year. The staff stated that, based on estimated water production for 1968, if the recovery is from the quantity block (over 800 cubic feet), the increase required would be 0.3 cents per ccf per month and if obtained from the minimum block only, the increase would be 5.5 cents.

Findings

On the evidence, the Commission finds that:

1. Customers residing in applicant's Watson Tariff Area of its El Monte Division receive the same service and the same water through the same system as the other general metered customers in the balance of the El Monte Division at lower rates. Such lower rates result in discrimination and preference. No good cause appears for such lower rates. The rates in said area should be increased to be at the same level for other customers therein. The increases in charges herein ordered for the Watson Tariff Area are justified and they are reasonable. The present Watson Tariff Area rates, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

2. There is no longer any need for a separate tariff sheet for general metered service to the Rio Hondo Junior College and such tariff should be cancelled.

3. Revenues for the year 1968 at present and proposed rates will be as follows:

<u>1968</u>	
<u>Present Rates</u>	<u>Proposed Rates</u>
\$1,475,400	\$1,743,300

4. Operating and maintenance expenses and administrative and general expenses for the year 1968 will be as follows:

<u>1968</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>
O & M exp.	\$608,050	\$608,050
A & G exp.	<u>202,120</u>	<u>204,350</u>
Total	810,170	812,400

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5. Depreciation expense for the year 1968 will be \$176,490.

6. Taxes other than on income will be \$187,740 for the year 1968.

7. Income taxes for the year 1968 will be \$2,430 at existing rates and \$134,122 at proposed rates.

8. Applicant's rate base will be \$5,484,000 in 1968.

9. The rates of return using the foregoing figures listed in findings 5 through 8 above will be 5.44 percent at present rates and 7.89 percent at proposed rates in 1968.

10. The rate of return for the year 1968 estimated at present rates at 5.44 percent for the El Monte Division is deficient and applicant is in need of financial relief. However, the estimated rate of return of 7.89 percent, which would be produced by the rates proposed in the application, is excessive. The application should be granted in part and denied in part.

11. Filings of new schedules of rates for general metered service should be authorized. The order which follows will authorize the filing of schedules of rates which will produce \$1,642,200 of gross annual revenues, excluding makeup revenue, an increase of \$166,800 or approximately 11.3 percent over the gross annual revenues which would be produced at the present rates, utilizing the estimates of the staff set forth in Exhibit 4 for the test year 1968, as modified as a basis. This increase in rates is

\$101,100 less than the increase sought in the application. When the authorized revenues are related to the rate base of \$5,484,000, which is reasonable, after deducting operating expenses, depreciation and taxes, an average rate of return of 6.7 percent will result over the next three years. We find such rate of return to be reasonable.

12. 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.

13. In addition to the increased rates herein found reasonable, applicant should be authorized to add to the initial rate block for the rates herein authorized the sum of 5 cents. This sum is to make up amounts referred to in Decision No. 72498 and to be separately accounted for as specified in said decision. Such additional increase is justified and is reasonable. The present rates and charges and the rate increase authorized by this decision should be modified by the addition of 5 cents per meter per month in the minimum block, and insofar as the authorized rates differ from the total authorized rates, they are for the future unjust and unreasonable.

14. Applicant should be authorized to cancel its Watson Tariff Area schedule (Schedule EMW-1) and schedule for service to Rio Hondo Junior College (Schedule EMR-1L).

The Commission concludes that:

1. The application should be granted to the extent set forth in the order herein.

2. The applicant should be authorized to cancel its separate Watson Area and Rio Hondo Junior College Area tariffs.

3. The applicant should be authorized to recover the undercharges referred to in Decision No. 72498 by adding 5 cents per month per general metered consumer to the increased charges herein found to be justified. The money so collected should be accounted for separately as specified in Decision No. 72498.

O R D E R

IT IS ORDERED that:


1. San Gabriel Valley Water Company is authorized to file with this Commission after the effective date of this order and in conformity with General Order No. 96-A the schedule of rates applicable to the El Monte Division attached hereto as Appendix A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof. Concurrently with the placing in effect of the rates authorized herein, San Gabriel Valley Water Company shall withdraw and cancel, by appropriate advice letter, in conformance with General Order No. 96-A, its presently effective tariff schedules EME-1, EMW-1 and EMR-1L.


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2. San Gabriel Valley Water Company shall, for accounting purposes, compute the revenue it recovers from 17.2 cents per month in the minimum block and 1.2 cents from all water sold over 800 cubic feet. Other than the changes in these amounts, ordering paragraphs 2 and 3 of Decision No. 72498 shall remain effective.

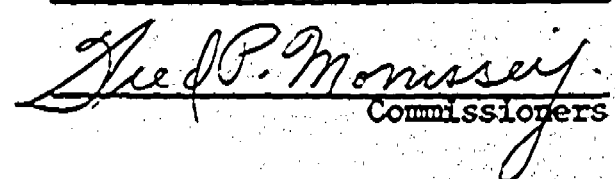
The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 30th
day of APRIL, 1968



President





Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. EME-1

El Monte Division

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of El Monte, Baldwin Park, Industry, La Puente, Montebello, (T) Monterey Park, Rosemead, South El Monte and West Covina, and vicinity, Los Angeles County.

RATES

	<u>Per Meter Per Month</u>
Quantity Rates:	
First 800 cu.ft. or less	\$ 2.60
Next 4,200 cu.ft., per 100 cu.ft.....	.15
Over 5,000 cu.ft., per 100 cu.ft.122

Minimum Charge:

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For 3/4-inch meter	3.35
For 1-inch meter	5.10
For 1 1/2-inch meter	8.50
For 2-inch meter	12.00
For 3-inch meter	22.00
For 4-inch meter	39.00
For 6-inch meter	74.00
For 8-inch meter	110.00
For 10-inch meter	145.00

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

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