

ORIGINALDecision No. 74200

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 VILLAGE WATER COMPANY for authority)
 to increase its rates and charges)
 for water service, and for interim)
 emergency rate relief.)

Application No. 49463
 (Filed June 14, 1967)

Bacigalupi, Elkus, Salinger & Rosenberg, by
Claude N. Rosenberg, for applicant.
Earl R. Bennett, for Las Posas Estates Property
 Owners Association, Inc.; John T. Conlan and
N. P. Michaleczko, for Ventura County Board
 of Supervisors; Donald W. Mansfield and
Burke, Williams & Sorensen, by George W.
Wakefield, for City of Camarillo; Agnes M.
Montalto, for residents of Conejo Hills,
 Shadow Oaks and Lynn Ranch areas and for
 herself; and David White, for Las Posas
 Village Tract Homeowners, protestants.
William V. Johnston, for himself, interested
 party.
Raymond E. Heytens and Chester O. Newman, for
 the Commission staff.

O P I N I O N

Applicant Village Water Company seeks authority to increase rates for water service.

Applicant also had requested a 23.7 percent interim emergency increase pending final disposition of this proceeding. Based upon Staff Exhibit No. 1, a 7.0 percent interim increase^{1/} was authorized by Decision No. 73181, dated October 10, 1967.

Public hearing was held before Examiner Catey in Thousand Oaks on December 27, 1967 and in Camarillo on December 28, 1967, and on January 15, 16, 17, 18 and 19 and February 1 and 2, 1968. Copies of the application had been served, and notice of

1/ To avoid confusion the rates in effect at the time the application was filed are designated herein as "prior rates" rather than by the customary designation "present rates".

hearing had been published and posted in accordance with the Commission's rules of procedure. The matter was submitted on February 2, 1968.

Testimony on behalf of applicant was presented by its president, its consulting engineer, and an officer of Janss Corporation, which was originally an affiliate of applicant and of the developers of much of the land served by applicant. The Commission staff presentation was made by an accountant and two engineers. The participation by other parties consisted of opening and closing statements and cross-examination of witnesses.

Service Area and Water System

Applicant owns and operates water systems serving two areas in Ventura County. The larger of the two is in the Thousand Oaks-Newbury Park area and is designated by applicant as its Conejo Valley System. The smaller of the two is in and near Camarillo and is designated by applicant as its Las Posas system. The two systems are about twelve miles apart and are interconnected only to the extent that each area receives part of its water supply from a common source, the transmission main of Calleguas Municipal Water District (CMWD), a member agency of Metropolitan Water District of Southern California (MWD).

The Conejo Valley System is divided into three separate subsystems. The largest of these serves geographical areas designated by applicant as the Industrial, Moorpark, North Mesa and Los Robles Areas. The two smaller subsystems serve, respectively, the Potrero and Conejo Oaks Areas.

The Las Posas System is divided into two separate subsystems. The larger of these serves the Country Club Area. The

smaller subsystem serves the Las Posas Area. The service area of Crestview Mutual Water Company (Crestview) lies between the two subsystems.

Applicant's sources of supply consist of its own eleven wells, four emergency or standby connections with Crestview, and MWD water purchased from CMWD through nine connections made at strategic points where the CMWD transmission mains pass through applicant's service areas. Applicant plans to add another well during 1968.

Because of the variation in elevations throughout applicant's service area and the physical separation of various portions of the system, numerous pressure zones have been established. Seven booster stations and thirteen reservoirs and tanks provide pressure and storage for the various zones.

There are about 21 miles of transmission and distribution mains, ranging in size from 4-inch to 18-inch. Those mains serve about 4,300 metered services, 20 private fire protection services and 670 public fire hydrants.

Field investigations of applicant's operations, service and facilities were made by the Commission staff. Pressures and service were found to be satisfactory. Also, a staff review disclosed that no informal complaints were directed by customers to the Commission during 1967, and only two during 1966. Representative customers were interviewed by the Commission staff and, except for two temporary sand problems solved by flushing, no service deficiencies were reported.

History

The various prior formal proceedings involving applicant are incorporated by reference in this proceeding. Exhibit D

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attached to Application No. 42911, applicant's original certificate proceeding, shows that from 1957 through 1960 various subdividers advanced the cost of water facilities in areas to be served by Rockwood Mutual Water Company. A comparison of three maps, Exhibit "A" in Application No. 42911 and Figures B and C of Exhibit No. 2 in the current proceeding, shows that the Rockwood Mutual areas include parts of applicant's Las Posas and Moorpark Areas and essentially all of applicant's Conejo Oaks Area.

The aforementioned Exhibit D also shows that in 1959 two subdividers advanced the cost of water facilities in areas to be served by Country Club Mutual Water Company and Rancho Conejo Mutual Water Company. These areas are portions of applicant's Country Club and Industrial Areas.

In Application No. 42911, filed November 29, 1960, applicant stated that when the development of the areas then being served by the three mutual water companies was initiated, the most feasible and convenient method of supplying water thereto was through the medium of mutual water companies. Later, the subdividers and the managers of the mutuals concluded that a single consolidated public utility would provide better service and be more efficient. Applicant was therefore formed and the assets and liabilities of the mutuals were transferred to applicant, in accordance with Decision No. 62583, dated September 19, 1961, in Application No. 42911. The liabilities were modified somewhat to provide for refund of subdividers' advances, without interest, on the basis of 22 percent of gross revenue until full payout. This was in lieu of the mutuals' original agreements, which called for refund of 40 percent of gross revenue for a maximum of 15 years, with total refunds not

to exceed total advances, without interest. The new agreements also provided that the amount of refunds in any one year would not exceed 75 percent of applicant's cash profit from operations.

Applicant paid \$36,175 in cash and relieved the mutuals of their liability to refund \$349,957 of subdividers' advances, all in exchange for plant having a net book cost originally estimated as \$103,957 greater, but subsequently determined to be \$63,609 greater, than the total of cash paid plus refund obligations assumed.

Subparagraph 3.d. of Decision No. 62583 directed, in regard to this acquisition adjustment:

"That the applicant, for accounting purposes, shall account for the excess of net assets over purchase price as capital surplus as of the effective date of the sales agreement."
(Emphasis added.)

Decision No. 62583 also granted, in part, applicant's request for a certificate to construct water systems or extensions to serve other nearby territory in what is now its Las Posas, Industrial, Moorpark, North Mesa and Los Robles Areas. The decision also authorized applicant to issue common stock in exchange for certain wells, tanks and other facilities owned by subdividers. Under the authorized financing and accounting, applicant's indicated initial capital structure was as set forth in the following Table I.

TABLE I
INDICATED INITIAL CAPITALIZATION

<u>Item</u>	<u>Amount</u>	<u>Percent</u>
Capital Stock	\$ 582,025	56%
Misc. Long-Term Debt*	349,957	34
Capital Surplus#	<u>103,954</u>	<u>10</u>
Total	1,035,936	100

* The description of Ac. 241, Advances for Construction, in the Uniform System of Accounts for Water Utilities, prescribed by this Commission, includes: "This account shall include such advances made in accordance with the utility's rules and regulations, as are to be refundable in whole or in part." (Emphasis added.) The advances were refundable under terms which deviated slightly from applicant's rules and thus were designated "long-term debt".

Of this, \$25 represented premium on capital stock, the rest was related to estimated difference between actual cost and purchase price of systems from the mutuels.

Several additional areas were later certificated to applicant. Decision No. 66230, dated October 29, 1963, in Application No. 45225 authorized a rather large expansion but expressed concern regarding applicant's plan to finance the utility's share of cost of facilities entirely by other than equity capital. The in-tract facilities were to be financed by construction advances provided by subdividers, in accordance with applicant's tariffs. Paragraph 12 of the order in that decision states:

"Village Water Company shall refund advances and terminate refund agreements, in accordance with its filed main extension rule, [2/] and limit acceptance of new advances and debt financing, so that, at no time, will the combined debt and liability under advances exceed 60 percent of total capitalization."

2/ Under that rule, a utility may request authority from the Commission to terminate a refund agreement, provided, among other things, (1) the discounted termination price does not exceed the present worth, at six percent interest, of assumed future refunds, and (2) the holders of the agreement are willing.

Staff Exhibit No. 44 in Application No. 45225 (consolidated with other proceedings) shows that applicant's year-end 1962 adjusted balance sheet items indicated about 57 percent combined debt and advances but that applicant's then proposed future financing would have increased this to more than 77 percent by 1965, whereas substitution of equity for the future debt financing would have resulted in about 64 percent debt plus advances by 1965.

Decision No. 65963, dated September 10, 1963, in Application No. 45527 authorized applicant to carry out the terms and conditions of a contract with nearby Conejo Valley Water Company (Conejo). The essential terms of that contract are:

(1) Applicant was to sell to Conejo up to 500,000 gallons of water per day, as available from five specific wells, the cost of which was advanced to applicant and one of its then affiliates, Janss Investment Corporation (JIC), by Conejo. The water was to be produced and delivered by means of other facilities, the cost of which was advanced by Conejo. The cost of all of these facilities was \$110,724.

(2) Conejo was to advance the cost of any additional facilities which Conejo and applicant mutually agreed were to be installed.

(3) All plant financed by Conejo pursuant to the contract was to be the property of applicant.

(4) The amounts advanced by Conejo were to become contributions if the contract were terminated by lapse of time on January 1, 1972 or earlier by Conejo's delinquency in payment of mutually agreed advances, minimum and quantity charges for water, and repair and other costs related to the plant.

In 1962, California Lutheran College (Lutheran) had installed a water distribution system to serve Ventura County Tract No. 1241. That tract was a portion of Lutheran's property then immediately adjacent to applicant's Moorpark Area system. Lutheran's wells were not adequate to serve the tract so Lutheran and applicant agreed that the tract would be served by and the distribution system sold to applicant, subject to Commission authorization. Decision No. 66797, dated February 18, 1964, in Application No. 46081 granted applicant authority to serve Tract No. 1241. Decision No. 67143, dated April 28, 1964, authorized applicant to purchase the distribution system, with the cost payable in five equal installments, with 5 percent interest payable on the declining balance. The decision also removed previous restrictions on applicant's expansion into contiguous territory.

Applicant's annual report to this Commission for the year 1963 shows the following capitalization.

TABLE II
INDICATED 1963 YEAR-END CAPITALIZATION

<u>Item</u>	<u>Amount</u>	<u>Percent</u>
Common Stock Equity	\$ 529,886	25%
Long-term Debt Plus		
Loans from Affiliates	1,303,525	61
Advances for Construction	<u>310,411</u>	<u>14</u>
Total	2,143,822	100

From the foregoing table, it appears that applicant's debt financing of the Lutheran acquisition was in violation of the still outstanding order prohibiting debt financing when applicant's combined debt and liability under advances exceeds 60 percent of total capitalization. Paragraph 2 of Decision No. 67143 continued the restriction.

In Application No. 46869, applicant requested authority to issue common stock having an aggregate par value of \$550,000 to affiliates in exchange for the \$349,957 interest-free debt shown in Table I of this opinion, \$92,043 of demand notes and open-account indebtedness, and \$108,000 of short term notes. Decision No. 67823 granted the application, pointing out that the revised capital structure would reduce debt plus advances to 53 percent of capitalization.

Decision No. 67823 states that applicant alleged that a stronger common stock equity would enable it to negotiate successfully for future borrowings from financial institutions and would permit it to execute additional main extension advance contracts. The decision did not comment on the lack of prudence evidenced by applicant's eliminating interest-free debt by issuing common stock at dollar-for-dollar and subsequently borrowing money upon which it must pay interest. The decision did, however, place applicant and its shareholders on notice that the authorization was not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

In Applications Nos. 46976 and 47118, applicant requested authority to issue and sell \$1,600,000 of bonds and to issue capital stock with an aggregate par value of \$365,000. The stock was to be issued to raise \$200,000 of working cash and for use, at dollar-for-dollar, in lieu of \$165,000 in cash refunds to affiliated subdividers, as such refunds became due under applicant's main extension rule during 1965, 1966 and 1967. Decision No. 68313, dated December 9, 1964, granted the authorization requested. Decision No. 68313 pointed out that, on a pro forma basis under the financing authorized,

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applicant's debt plus outstanding advances would be 58 percent of capitalization. Applicant did not, however, issue the capital stock authorized to pay refunds of advances when due. The debt plus advances, on a revised pro forma basis, thus became 63 percent of capitalization.

Decision No. 72611, dated June 9, 1967, in Application No. 49214 authorized applicant to issue common stock with an aggregate par value of \$940,650 to retire \$908,650 in demand notes and to raise \$32,000 in cash. Applicant indicated in that proceeding that part of the demand notes were payment of \$96,799 in refunds on advance contracts.

On July 10, 1967, all of applicant's stock was acquired by American Water Works Company, Inc. (American), a Delaware corporation. American is a holding company for 88 water utilities throughout the United States. In California these include California-American Water Company (Cal-American), Pollock Water Service, Inc., and applicant. Cal-American's officers now manage and operate applicant as a separate entity.

Rates

Applicant's present tariffs include schedules for general metered service, private fire protection service, public fire hydrant service, metered construction water service and temporary flat rate service. At the time of filing this application the rates were those authorized in applicant's original certificate proceeding in 1961. In September, 1967, applicant filed its schedule for temporary flat rate service and in October, 1967, applicant filed revised metered service schedules, authorized by

the Commission, which provided for a temporary seven percent surcharge, pending final disposition of this proceeding.

Applicant proposes to increase its rates for metered service. The following Table III presents a comparison of applicant's prior metered service rates (before the temporary surcharge), those requested by applicant, and those authorized herein:

TABLE III

COMPARISON OF MONTHLY RATES

<u>Item</u>	<u>Prior</u>	<u>Proposed</u>	<u>Authorized</u>
<u>General Metered Service</u>			
Minimum Charge	\$4.00*	\$4.25*	\$3.50*
First 500 cu.ft., per 100 cu.ft.	.00*	.00*	.00*
Next 1,000 cu.ft., per 100 cu.ft.	.00*	.43	.33
Next 2,500 cu.ft., per 100 cu.ft.	.20	.43	.33
Next 6,000 cu.ft., per 100 cu.ft.	.20	.39	.30
Over 10,000 cu.ft., per 100 cu.ft.	.18	.34	.28
<u>Metered Construction Service</u>			
Minimum Charge per Day	\$5.00#	\$10.00#	\$9.00#
First 1,667 cu.ft. daily, per 100 cu.ft.	.00#	.00#	.00#
Next 333 cu.ft. daily, per 100 cu.ft.	.30	.00#	.00#
Over 2,000 cu.ft. daily, per 100 cu.ft.	.30	.50	.45

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

For all sizes of meters.

In regard to the blocking and relative charges for different meter sizes and different monthly consumption, the Commission staff recommends in Exhibit No. 3 that the rates authorized herein be designed to:

- a. Provide for meter minimums related to meter capacities for meters larger than 5/8 x 3/4-inch.
- b. Provide that any increase be uniformly distributed over all blocks of the rate structure.

The staff recommendation as to relative minimum charges for various sizes of meters is reasonable and has been adopted. A staff witness conceded that it is not possible, in correcting the existing inappropriate blocking, to provide for uniform percentage increases for all levels of use. Neither applicant nor the staff presented a cost-of-service study upon which to base the relationship between minimum charges and quantity rates. That relationship in the rates authorized herein is therefore based upon judgment, recognizing that, among other considerations, a large proportion of applicant's water supply must be imported at a relatively high unit cost.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table IV, from Exhibits Nos. 2 and 3, are the estimated results of operation for the test year 1967, under prior rates and under those proposed by applicant. For comparison, this table also shows the corresponding results of operation, modified as discussed hereinafter, at prior rates, at those proposed by applicant, and at those authorized herein.

From Table IV it can be determined that the rates requested by applicant would have resulted in an increase of 84 percent in operating revenues, whereas the rates authorized herein should produce an increase of 47 percent. The bill for average monthly residential use of 2,500 cubic feet would increase from \$6.00 at prior rates to \$10.10 at authorized rates, an increase of 68%. Applicant's requested rates would have resulted in an increase of 114% for this usage.

TABLE IV

Estimated Results of Operation
(Test Year 1967)

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Modified</u>
<u>At Prior Rates</u>			
Operating Revenues	\$ 493,630	\$ 478,300	\$ 478,300
<u>Deductions</u>			
Purchased Water	193,730	181,800	174,900
Pumping Expense	37,070	38,600	38,100
Water Treatment	8,960	9,800	9,500
Transmission and Distribution Expense	40,810	36,800	38,800
Customer Accounts Expense	19,580	14,000	14,000
Regulatory Commission Expense	6,700	2,000	3,300
All other Operating Expense	57,460	58,000	57,700
Depreciation Expense	111,080	94,700	96,200
Taxes other than on Revenue and Income	71,030	66,300	68,300
Amortization Expense	2,810	0	2,800
Subtotal	549,230	502,000	503,600
County Franchise Tax	8,600	8,300	8,300
Income Tax	100	100	100
Total	557,930	510,400	512,000
Net Revenue	(64,300)	(32,100)	(33,700)
Rate Base	3,241,800	2,518,000	2,658,000
Rate of Return	Loss	Loss	Loss
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	\$ 873,400	\$ 877,500	\$ 877,500
<u>Deductions</u>			
Increase in Uncollectibles	540	0	500
All other Deductions Exclusive of Franchise and Income Taxes	549,230	502,000	503,600
County Franchise Tax	16,000	16,000	16,000
Income Taxes	96,900	79,900	81,300
Total	662,670	597,900	601,400
Net Revenue	210,730	279,600	276,100
Rate Base	3,241,800	2,518,000	2,658,000
Rate of Return	6.50%	11.1%	10.4%
<u>At Rates Authorized Herein</u>			
Operating Revenues	\$ -	\$ -	\$ 705,000
<u>Deductions</u>			
Increase in Uncollectibles	-	-	300
All other Deductions Exclusive of Franchise and Income Taxes	-	-	503,600
County Franchise Tax	-	-	12,500
Income Taxes	-	-	2,400
Taxes	-	-	518,800
Net Revenue	-	-	186,200
Rate Base	-	-	2,658,000
Rate of Return	-	-	7.0%

(Red Figure)

Operating Revenues

The staff's estimates of operating revenues are based upon more recent and more complete data than were available to applicant's engineer at the time he prepared his estimates. The staff basis for revenue estimates is adopted in Table IV.

Purchased Water

Consistent with the differences in estimates of water consumption, the estimates presented by applicant and by the staff differ as to total water production for the year 1967. In addition, the proportions estimated to be produced from local wells differ significantly.

The staff assumed that applicant will be successful in its proposed drilling of a new well in the Hill Canyon Area, that the new source will provide water of such quality, and in such quantity, that applicant can pump water from the new source an average of 12 hours per day and produce 100,000 Ccf. (hundreds of cubic feet) of water per year. Applicant contends that the staff estimate of production from the proposed new source is overly optimistic, in view of the history of "dry holes" and forced abandonment of once-usable wells experienced by applicant. Testimony of a staff engineer shows that applicant's present four wells in the Hill Canyon Area have averaged from 22,000 to 93,000 Ccf. per well per year during the years from 1962 through 1966 that they have been in use. The direct average per well per year is about 43,000 Ccf. and the weighted average is about 53,000 Ccf. For the purpose of this proceeding, we will assume that the new well, had it been completed prior to the test year 1967, would have produced 50,000 Ccf. during that year.

Another difference in estimates results from the staff's inclusion of about 43,000 Ccf. additional production from two wells

in the North Mesa Area. These sources temporarily have not been fully utilized, due to subdivision activity in the area. This portion of the staff estimate appears reasonable and is adopted.

Applicant's estimates of cost of purchased water are based upon the CMWD rate in effect during the test period, whereas the staff adjusted the cost to reflect the higher rate which is effective for the period from July 1, 1968 through June 30, 1969. As pointed out hereinafter in the discussion of trend in rate of return, it is more appropriate to use the rates actually in effect. The expenses adopted in Table IV reflect this.

Pumping and Water Treatment Expense

Consistent with the assumption of 50,000 Ccf. more purchased water than estimated by the staff, 50,000 less pumped water is assumed in the pumping and purification expenses adopted in Table IV.

Transmission, Distribution and Other Operating Expense

The direct testimony and cross-examination of witnesses for applicant and the staff do not provide any explanation for the \$4,000 difference in estimates of transmission and distribution expense. Under the circumstances, we assume the two estimates represent a reasonable range of expenses and adopt the approximate midpoint of that range in Table IV.

Similarly, the estimates grouped under the heading "All Other Operating Expenses" in Table IV are nearly identical and the approximate midpoint of the two estimates is adopted.

Customer Accounts Expense

Applicant's estimates of customer accounts expense fail to give proper recognition to applicant's recent change from monthly to bimonthly billing. The staff estimate is adopted in Table IV.

Regulatory Commission Expense

Applicant's estimate of regulatory commission expense is based upon an estimated \$20,000 cost of the current proceeding, spread over a three-year assumed period between rate proceedings. The staff does not dispute that the current proceeding will cost applicant at least \$20,000 but contends that \$10,000 is a more reasonable normal cost of a rate proceeding for this size of utility, and that a five-year period between proceedings is more likely. There were numerous errors and omissions of astonishing magnitude in applicant's books, and there can be no doubt that, as a result, the cost of developing data for presentation in this rate proceeding was higher than it would otherwise have been. It is difficult to determine how much of the actual cost is excessive, but the staff's estimate of a reasonable total cost appears more appropriate to use than the actual cost. In this instance, however, applicant's three-year period for spread of rate case expense appears reasonable, so one-third of the staff's estimate of total reasonable cost is adopted as an annual expense in Table IV.

Depreciation Expense

The estimates of depreciation expense presented by applicant and by the staff differ primarily because (1) the staff allowances for plant additions in 1967 are considerably less than estimated by applicant, (2) the staff derived a depreciation reserve requirement in lieu of the under-accrued reserve used by applicant, and (3) the staff excluded depreciation on its estimated cost of excess capacity of source of supply plant and supply mains. These items are covered hereinafter in the discussion of rate base. The depreciation expense adopted in Table IV is consistent with the related rate base components adopted in that table.

Taxes Other Than On Income

The principal difference between applicant's and the staff's estimates of payroll taxes is due to applicant's inclusion of all payroll taxes as an expense, whereas the staff included only that part which arises from expensed payroll. Taxes applicable to construction payroll are not chargeable to operating expense. The staff estimate is adopted in Table IV.

The principal difference between applicant's and the staff's estimates of ad valorem taxes is due to the staff's exclusion of taxes on plant investment which the staff excluded from rate base. The ad valorem taxes adopted in Table IV are consistent with the related rate base components adopted in that table.

Amortization Expense

Prior to the time when supplemental imported water was available to the area, applicant engaged in a program of ground water exploration. Expenditures in the amount of \$53,339 are being treated as Extraordinary Property Losses, amortized over a 20-year period for accounting purposes, pursuant to a letter from the Commission. Applicant has included the \$2,810 annual amortization as chargeable to operations and the staff has not.

Additional expenditures in the amount of \$388,043 were made by applicant in unproductive efforts to develop an additional local water supply. Applicant has started to amortize part of these expenditures but, pursuant to a letter from the Commission, is absorbing the loss, rather than charging it to operations. Inasmuch as this results in applicant's absorbing about 88 percent of the total losses of this nature, it appears that the amortization of the other 12 percent by \$2,810 annual charges to operations is reasonable

for rate-making, as well as accounting purposes, and is adopted in Table IV.

Income Taxes

The various differences between applicant's and the staff's estimates of revenues and expenses affect the corresponding estimates of income taxes at applicant's proposed water rates. The income tax estimates also were affected by the treatment of various other items which enter into the income tax calculation.

Applicant's witness did not know whether applicant had used or will use liberalized depreciation methods for its income tax returns, but applicant's Exhibit No. 2 states that the depreciation expense used in applicant's derivation of estimated income tax is computed "using the double declining balance" method. Testimony of applicant's witness shows that, instead of using double the straight-line rate applied to declining balances, the computation was based upon 1-1/2 times the straight-line rate applied to original balances. This would be approximately correct for the older plant because, for plant having a total life of 50 years, 1-1/2 times the original balance equals twice the declining balance when the plant is about seven years old. The staff basis of using 1-1/2 times the straight-line rate applied to original balances of plant installed prior to 1967 and double the straight-line rate for recent installations should result in a reasonable approximation of the depreciation deduction which would result from a detailed double-rate declining balance computation. The staff method is used in the calculation of the income taxes adopted in Table IV.

In computing estimated income tax deductions, applicant also excluded depreciation on plant financed by advances for

construction. Applicant's main extension rule removes the "contingent liability" stigma from refunds of advances as soon as 80 percent saturation of customers to be served by the extension is reached, by guaranteeing full refund within 25 years after the extension was installed. In the absence of evidence to the contrary, it may reasonably be assumed that applicant, for income tax purposes, may properly claim depreciation on plant financed by advances to the extent that 80 percent saturation is achieved, as assumed by the staff. The income taxes adopted in Table IV reflect that assumption.

Applicant's calculation of estimated 1967 income taxes under proposed water rates apparently uses an interest deduction of \$82,102, whereas the staff used \$98,400. Applicant apparently overlooked the interest on a note issued to Janss Investment Corporation. The staff used the total interest payable, reduced to adjust for the hypothetical advances for construction included in the rate base, but failed to correct for the nonoperative plant adjustment made to rate base. The income taxes adopted in Table IV reflect an interest deduction of \$98,200, based upon the application of the adjusted debt of 65.5% of total capitalization and composite interest rate of 5.64% shown in Staff Exhibit No. 7, applied to the rate base adopted in Table IV.

Both applicant and the staff included as an income tax deduction the portion of the amortization of water development costs which applicant is absorbing. Consistent with the elimination of this portion of the amortization from operating expense, it is eliminated from the deductions used in deriving the income taxes adopted in Table IV.

At the time applicant's original estimates were prepared, the State Corporation Franchise Tax rate was 5-1/2 percent and the Federal Investment Tax Credit was temporarily limited to \$700. The staff used the current franchise tax rate of 7 percent and utilized

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the current investment tax credit. The current rate and credit also are reflected in the income taxes adopted in Table IV.

Rate Base

Summarized in Table V, from applicant's and staff's Exhibits Nos. 2 and 3, are the estimated rate bases for the test year 1967. For comparison, this table also shows the corresponding modified components used in developing the rate base adopted in Table IV.

TABLE V
RATE BASE, TEST YEAR 1967

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Modified</u>
<u>Before Deductions</u>			
Beginning-of-year Plant:			
Recorded	\$4,436,530	\$4,436,530	\$4,436,530
Adj. for Unrecorded Items	397,360	397,360	397,360
Adj. for Hill Canyon Well & Trans. Main	0	27,600	27,600
Adj. for Plant Held for Future Use	0	(143,100)	(143,100)
Adj. for Est. Orig. Cost of Land	0	(54,000)	0
Adj. for Orig. Exp. & Unused Engines	0	(9,200)	(9,200)
Adj. for Customer Density	0	(130,800)	(60,600)
Adjusted	4,833,890	4,524,390	4,648,590
Average Net Additions	314,418	259,600	259,600
Average Gross Plant	5,148,308	4,784,000*	4,908,000*
Materials & Supplies	6,558	6,560	6,600
Working Cash Allowance	70,000	50,000	50,000
Total	5,224,866	4,840,560	4,964,600.
<u>Deductions</u>			
Beginning-of-year Constr. Advances:			
Recorded	1,115,097	1,115,097	1,115,097
Adj. for Unrecorded Items	387,360	387,360	387,360
Adj. for Lutheran College	0	14,980	0
Adj. for Mutuals	0	218,150	254,520
Adjusted	1,502,457	1,735,587	1,756,977
Average Net Additions	112,288	171,800	171,800
Average Constr. Advances	1,614,745	1,907,400*	1,928,800*
Beginning-of-year Contributions:			
Recorded	28,790	28,790	28,790
Adj. Unexplained	(791)	0	0
Adj. for Conojo Contract	0	45,980	0
Adjusted	27,999	74,770	28,790
Average Depreciation Accrual	(805)	(835)	(805)
Average Contributions	27,194	73,930*	28,000*
Beginning-of-year Depr. Reserve:			
Recorded	278,119	278,119	278,119
Adj. Unexplained	(9,306)	0	0
Adj. for Underaccruals	0	56,320	56,320
Adj. for Plant Held for Future Use	0	(17,700)	(17,700)
Adj. for Customer Density	0	(16,000)	(7,400)
Adjusted	268,813	300,739	309,339
Average Net Additions	42,295	40,100	40,850
Average Depr. Reserve	311,138	311,000*	350,000*
Net Deductions	1,983,066*	2,322,560*	2,306,600
Rate Base	3,241,800*	2,518,000*	2,658,000*

(Red Figure)

* Minor differences in totals, due to rounding.

Average Gross Plant

Both applicant and the staff started with recorded beginning-of-year plant of \$4,436,530, to which each added a correction of \$397,360 for plant which applicant had neglected to enter on its books. Despite this extraordinarily large correction determined by applicant after extensive auditing by recognized competent auditing firms, testimony presented by applicant in relation to Exhibit No. 26 indicates that the cost of at least four more main extensions and the related advances have not been entered on applicant's books. The effect of such further inaccuracies in recorded plant and advances cannot be determined from the record. The recorded plant and \$397,360 correction are used in determining the average gross plant adopted in Table V.

The staff added \$27,600 for the proposed new Hill Canyon Well, hereinbefore discussed under "Purchased Water", and a related relining of a transmission main. Consistent with the assumption of water production from this well in 1967, the plant investment is included in the average gross plant adopted in Table V.

The staff deducted \$152,300 for applicant's Well No. 5, its Lynn Reservoir, and various well sites and equipment, all of which were classified by the staff as plant held for future use. None of these facilities are now being used. The water from Well No. 5 is of poor quality. The elevation of Lynn Reservoir is too far below the hydraulic gradient in the area to be readily and efficiently used at this time. None of the wells and equipment on the sites excluded by the staff are in use. The staff adjustment is incorporated in the derivation of the average gross plant adopted in Table V.

The staff deducted \$54,000 as an adjustment to applicant's recorded cost of five parcels of land acquired from developers, with

whom it was affiliated at the time of acquisition of the parcels. This adjustment is to reflect the staff's estimate of a reasonable "original cost" for rate-making purposes. In general, the basis used by applicant's affiliate, in determining the sale price of land to applicant, was to estimate the market value of the property for non-utility use and to deduct from that market value the estimated prorated cost of street improvements, drainage, and utility facilities. A staff engineer testified that the staff estimate was based upon the fact that applicant had purchased some other reservoir sites in 1961 at a cost of \$200 per acre, which the staff increased to \$500 per acre for its estimates.

The situation with which we are normally concerned is where a land developer purchases land, promptly subdivides it, and sells portions of the land to an affiliated utility to use as tank and pump sites. In such a situation, it would not be unreasonable for the developer to increase his original cost per acre to spread the total original cost over the acreage remaining after dedication of public streets and easements. In addition, the land cost may reasonably include a pro rata portion of the cost of such overall tract improvements as street grading, paving, drainage, sewage facilities, and any unrefundable expenditures for utility plant.

Unfortunately, the record does not include sufficient basic data to determine what the resultant cost of land would be on the basis outlined in the preceding paragraph. However, for applicant's Potrero Zone I land, a 4.29 acre parcel to which over one-third of the staff land adjustment is related, the record shows that the bare cost of the land to the developer was \$3,250 per acre. If we assume a 25^{3/} percent increase in price per acre to cover

^{3/} For example, in the case of a subdivision with streets 50 feet wide, having lots 100 feet deep on each side of the street, and having no cross streets.

dedication of part of the acreage for streets, the raw cost of the land becomes \$4,060 per acre. Applicant's booked cost of this parcel is \$5,010 per acre, leaving less than \$1,000 per acre for allocated street and related improvements. Although the basis that was used by applicant's affiliate in establishing the sale price of this parcel is not necessarily a valid approach, the end result appears reasonable in this instance and is included in the average gross plant adopted in Table V.

Three of the other parcels for which the staff adjusted the book costs were acquired by applicant's former affiliate in 1913 for \$20 per acre, and a fourth parcel was acquired in 1949 for \$700 per acre, as compared with an average booked cost to applicant of \$4,400 per acre. With a long lag between purchase and sale by the affiliate, the original cost per acre to the affiliate is not a reasonable starting point for book cost, unless holding costs such as interest and ad valorem taxes are considered. No data on probable holding costs is available in the record. The average book cost per acre for the four parcels is less than for the Potrero Zone I parcel and is used in the average gross plant adopted in Table V.

The staff deducted \$130,800 as an adjustment to applicant's plant, to exclude a prorated portion of the cost of certain production and transmission plant. The proration is based upon the staff's estimate of the water supply requirements in the Industrial Park-Moorpark, Potrero, and Las Posas Country Club areas for the next five years, as compared with the water supply actually now available from production and transmission facilities in those areas. The ratio of excess capacity to total capacity was applied to the plant costs to determine the adjustment.

Applicant contends that it is more efficient and sometimes obligatory to install initially production and storage facilities which will fit in with the ultimate development of an area. We agree, but there is a limit to the extent that existing customers should be assessed for capacity which temporarily is not needed and which presently is of little benefit to the customers. The staff's criterion of supply requirements for the next five years appears reasonable, but the staff's implied assumption that plant costs vary in direct proportion to capacity is not supported by the record. Testimony of applicant's engineer indicates that land and well costs are relatively independent of capacity, and the cost of other water works facilities varies more nearly as the square root of the capacity. The staff adjustment is modified accordingly in the average gross plant adopted in Table V.

In Exhibit No. 3, the staff suggested that additional adjustment of an undetermined amount should be made to reflect oversizing of certain transmission and distribution mains. At the staff's request, applicant prepared Exhibit No. 26, showing data on the 31 mains throughout applicant's system for which the staff's reviews of applicant's maps had indicated a possibility of oversizing. Upon review of the data, the staff stipulated that no adjustment was appropriate for 26 of these mains. Testimony by applicant's engineer shows that the sizes utilized for the other five mains are reasonably justified on the basis of the next five years' needs and the development of a logical grid system. No additional adjustment is warranted.

Working Cash Allowance

Staff Exhibit No. 3 states that applicant and the staff used the same method in estimating working cash, but different

amounts for expenses upon which the allowance is based. The total of the expenses adopted in Table IV which affect working cash is almost the same as the staff estimate, so the staff's working cash estimate is adopted in Table V.

Advances for Construction

There are three basic differences between the estimates of advances for construction presented by applicant and those presented by the staff. The differences relate to (1) net additions during 1967, (2) acquisition of the Lutheran College distribution system, and (3) acquisition of the systems of various mutual water systems.

The staff estimate of net additions to advances for construction during 1967 is about \$59,000 higher than applicant's. The staff had available the recorded net additions for a major portion of the year, whereas applicant's estimates were prepared before such data were available. The staff estimate of net additions is used in deriving the advances for construction adopted in Table V.

The staff treated the purchase by applicant of the Lutheran College distribution system as though the \$15,000 balance owed by applicant as of December 31, 1966 were the average outstanding balance during 1967 of an advance for construction. In Exhibit No. 3, the staff states that applicant could have acquired this plant by a water facilities refund agreement. Applicant contends that there is nothing in the history of the transaction to indicate that applicant could have induced the college to accept payment in the form of interest-free refund of the cost of the system over a period of years. Further, there is no indication that the transfer of the properties was not an arm's-length

transaction, nor that the construction of the facilities by the college and their subsequent transfer to applicant had been planned to circumvent the water main extension rule prescribed by this Commission. Under the circumstances, the staff adjustment is not included in the advances for construction adopted in Table V.

The staff increased advances by \$218,000 to treat the acquisition of the water systems of the various mutual water companies as though applicant had not converted the refund agreements to common stock at dollar for dollar. The staff apparently assumed that full refund of advances for any given tract would have been due immediately when the customer density in that tract reached 80 percent. The situation here differs materially from that of the Lutheran College system: (1) the distribution system not only could have been, but was, financed by subdividers' funds which applicant was to have refunded, without interest, over a period of years; (2) the conversion of the future refund obligation to an immediate stock issue, without discount, was a transaction between applicant and its affiliated subdividers. The customers should not be penalized for the conversion. Also, there is no valid reason for excluding tracts with over 80 percent customer density in determining the level of advances which would have obtained under the refund agreements which applicant converted to common stock. The hypothetical balance of advances relating to all refund agreements involved in applicant's acquisition of the water systems from the mutuals is included in the advances for construction adopted in Table V.

Contributions in Aid of Construction

The difference between applicant's and the staff's estimates of contributions is caused primarily by the staff's addition of about \$46,000, representing the difference between book cost of plant and recorded contributions relating to facilities which

provided water temporarily to Conejo Valley Water Company (Conejo). Implicit in the staff's adjustment is the assumption that applicant or its affiliates should have, or did, receive additional contributions from Conejo. Exhibit No. 20 shows that the portions of the facilities recorded as having been paid for by applicant are about \$14,000 less than estimated by the staff and appear to be more related to applicant's needs than to the former service of water to Conejo. There is no evidence that either applicant or its affiliates were reimbursed by Conejo for the portions of the facilities allegedly paid for by applicant. The staff adjustment is not included in the contributions in aid of construction adopted in Table V.

The \$63,609 of capital surplus resulting from the difference between the purchase price and book cost of the facilities purchased from the mutual water companies should, for rate-making purposes, be treated as a contribution from the former members of the mutuals. However, it may reasonably be assumed that the purchase price was lower than the book cost because some of the facilities, such as the Lynn Reservoir, could not conveniently be utilized in the integrated system or were otherwise unsuitable. For the purpose of this proceeding we will assume that the contributed plant cost is part of the \$152,300 which already has been excluded from rate base as plant held for future use.

Average Depreciation Reserve

The principal difference between the estimates of average depreciation reserve presented by applicant and the staff are due to the staff's substitution of a computed reserve requirement for the recorded reserve. The staff study indicates that the reserve was

considerably underaccrued in relation to the life expectancies currently assigned to existing plant. Much of the underaccrual appears to have developed from the early retirement of plant which had only been partly depreciated on applicant's books.

Applicant contends that the staff's treatment of the depreciation reserve is inappropriate because (1) applicant is, and has been, accruing depreciation using remaining-life instead of total-life depreciation accruals, and (2) one of the primary purposes of the remaining-life method is to avoid continual restatement of the book reserve. We might agree with applicant if its plant records had been maintained with reasonable accuracy.

However, the errors and omissions amounting to literally hundreds of thousands of dollars of plant previously discussed herein, cast doubt upon the reasonableness of the depreciation accruals related to the recorded plant. During the period when applicant was affiliated with land developers in the area and was already sustaining large annual losses from the water operations, there was little incentive to increase those losses by increasing the depreciation accruals. Under the circumstances, the staff estimate of average depreciation reserve, modified to conform with the related plant adopted in rate base, is adopted in Table V.

Trend in Rate of Return

Applicant presented estimated results of operations for the year 1966 as well as 1967. It does not contend that the trend of the various components between the two years is necessarily indicative of future trends. In fact, applicant's engineer testified that the level of estimates of several items for the two years definitely was not indicative of the future trend.

The staff presented estimated results of operation for the year 1968 as well as 1967. The trend of many of the components between the two years is reasonably indicative of the future trend. For example, the staff made a comprehensive study to separate the effect of climatic conditions on consumption per customer and determined the apparent trend in normal usage. The staff's 1968 estimated rate of return at applicant's proposed rate is 0.5 percent higher than the staff's corresponding estimate for 1967.

There are several factors which distort the relative rates of return for 1967 and 1968 in the staff's estimates. The most apparent are:

(1) The staff used the same level of wages for both test years, whereas applicant's 1968 wage levels are about five percent higher than its 1967 levels.

(2) The staff used the same unit cost for purchased water for both test years, whereas the rate has been increasing annually in increments of \$3 per acre-foot. The next incremental increase is scheduled for July 1, 1968.

(3) The staff used the same "saturation adjustment" for both test years, whereas the saturation adjustment should decline as new customers are added.

(4) The staff used a lower composite ad valorem tax rate for 1968 than for 1967 without determining whether or not this represented a reasonably well-defined long-term trend.

(5) The staff used a lower investment tax credit for income tax purposes in its 1968 estimates than in 1967, whereas a staff witness stated that the trend in plant construction will probably be upward.

It is difficult to evaluate with any precision the overall magnitude of the distortion in apparent trend in rate of return caused by factors such as those cited in the foregoing paragraph. The first two factors alone account for about half of the 0.5 percent upward trend indicated by the staff estimates. For the purposes of this proceeding, we will use 1967 for the test year and assume neither an upward nor a downward trend in rate of return.

Rate of Return

In Exhibit No. 7, the staff recommended a 6.28 percent rate of return on rate base. The exhibit states that the recommendation was based upon judicious consideration of certain factors. These factors are that applicant has:

(1) Consistently been expected by its entrepreneurs to earn a rate of return on invested capital of 6.5% or less.

(2) Not been operated under its new management for a sufficient length of time to fully develop its real rate of return potential.

(3) Not employed accounting practices conforming with this Commission's prescribed uniform system of accounts.

(4) Not complied with the rules and regulations of this Commission.

In regard to the first item, the rate cited by the staff is an interest rate and we do not agree that the interest rate accepted on borrowed money by applicant's former affiliates is indicative of a reasonable return on equity or composite return on rate base. In regard to the second item, the staff estimates are based upon the operation by the new management and include future

efficiencies, such as the use of a proposed new well, which that management plans to effect. In regard to the third item, the extra cost of correcting applicant's erroneous books has not been passed on to the customer in the expenses estimated by the staff. In regard to the fourth item, the noncompliance is related to the entering into a water exchange agreement with Crestview Mutual Water Co. without Commission authorization, adjustment of applicant's depreciation reserve without Commission authorization, and the accounting deficiencies covered by the foregoing Item (3). None of these items of noncompliance appears to have resulted in higher staff estimates of expenses or rate base.

In Exhibit No. 23, applicant's president derived 7.47 percent as the rate of return he deemed reasonable as a composite rate of return on debt and equity. This is based upon a 5.58 percent average rate of interest on debt and an allowance of 10 percent return on equity.

In determining the return that should be provided by applicant's ratepayers, we must consider the hypothetical utility envisioned by the numerous adjustments adopted in this proceeding. Such a utility would have a total investment equal to the adopted rate base, and a capital structure of about 65 percent debt and 35 percent equity. Under these conditions, a 7 percent return on rate base would produce about 9-1/2 percent return on equity. The rates authorized herein are designed to produce a 7 percent return on rate base. Deducting actual annual interest payable on applicant's debt from the total net revenues leaves earnings of about 4-1/2 percent on book equity.

Position of Protestants

On December 27, 1967, the first day of hearing, the County of Ventura and the City of Camarillo asked that the hearing be held

in abeyance for 30 days to allow the county and the cities of Thousand Oaks and Camarillo to study the matter. On December 27, 1967 the City of Camarillo adopted a resolution stating that it intended to acquire the Las Posas portion of applicant's system. On December 28, 1967, the city renewed its request for a 30-day continuance. On January 16, 1968, the Ventura County Board of Supervisors adopted a resolution, a copy of which is Exhibit No. 8, asking that a more detailed review and study be made by the Commission to insure that any rate increase granted will be equitable and uniformly distributed over all blocks of the rate structure. On February 2, 1968 the City of Camarillo asked that the hearing be continued for at least six months. Inasmuch as the application had been filed on June 14, 1967 and nine days of hearing had been held over a period of more than a month, during which all parties were given an opportunity to present evidence, the requests for further delay were not granted. The matter was submitted, however, subject to reopening by the Commission if a review of the record indicated such action to be appropriate. Upon careful review, we have concluded that the record is sufficiently complete and that reopening of the proceeding is not warranted.

The various other protestants either objected to any increase whatsoever or objected to the magnitude and distribution of the increase requested by applicant. In addition, several petitions and over 200 postcards expressing opposition to the rate increase were presented at the hearing. The rates authorized herein are designed to provide a reasonable return, but no more than a reasonable return, on applicant's rate base. The importing of high-cost water since applicant's present rate structure was established makes the present blocking inappropriate but, to the

extent possible under the revised blocking, consideration has been given to equalizing the percentage of increase to all classes of consumers.

Findings and Conclusion

The Commission finds that:

1.a. The modified estimates of operating revenues, operating expenses, and rate base for the test year 1967, as discussed in the foregoing opinion and summarized in Table IV of that opinion, reasonably indicate the probable results of applicant's operations for the near future.

b. Production of 50,000 Ccf. of water per year from applicant's proposed new well is a reasonable estimate based upon the recorded production of nearby wells.

c. Additional production of 43,000 Ccf. of water per year from wells in applicant's North Mesa Area, as estimated by the staff, is a reasonable estimate based upon the full utilization of those wells which have been curtailed because of subdivision activity in the area.

d. A three-year spread of the staff's estimated normal cost of a rate proceeding is reasonable.

e. The plant classified by the staff as being held for future use is of no benefit to present customers nor will it be in the near future.

f. Applicant's book cost of land acquired from its former affiliates is not excessive.

g. Applicant's acquisition of the Lutheran College system did not involve any long-term, interest-free advances by subdividers and, under the circumstances discussed hereinbefore, may not

reasonably be treated for rate-making purposes, as though such advances had been made.

h. Applicant's acquisition of the systems of various mutual water companies did involve long-term, interest-free provision of funds by subdividers and, under the circumstances discussed hereinbefore, may reasonably be treated for rate-making purposes as though the refund agreements had not subsequently been terminated without discount by issuance of common stock.

i. There is no evidence that applicant or its former affiliates received more contributed plant from Conejo Valley Water Company than was recorded in applicant's books.

j. There is no valid showing of either an upward or downward trend in applicant's future rate of return.

2. Applicant's former management did not employ accounting procedures conforming with the uniform system of accounts prescribed by this Commission, and the present management has not yet completed its proposed program of correcting the deficiencies.

The Commission concludes that the application should be granted in part.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant Village Water Company is authorized to file the 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 four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

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2. On or before December 31, 1968 applicant shall complete the revision of its accounting procedures to conform with the Uniform System of Accounts for Class A, Class B, and Class C Water Utilities prescribed by this Commission, and shall file in this proceeding a notice of compliance with this requirement.

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

Dated at San Francisco, California, this 5th
day of JUNE, 1968.

Ed. Mitchell
President
William G. ...
William ...
Commissioners

Commissioner Fred P. Morrissey, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
Page 1 of 2

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Camarillo, Newbury Park, Thousand Oaks, and vicinity, (T)
Ventura County. (T)

RATES

		<u>Per Meter</u>	
		<u>Per Month</u>	
Quantity Rates:			
First	500 cu.ft. or less	\$ 3.50	(R)
Next	3,500 cu.ft., per 100 cu.ft.33	(I)
Next	6,000 cu.ft., per 100 cu.ft.30	(I)
Over	10,000 cu.ft., per 100 cu.ft.28	(I)
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ 3.50	(R)
For	3/4-inch meter	4.25	(R)
For	1-inch meter	6.00	(I)
For	1 1/2-inch meter	11.00	(I)
For	2-inch meter	17.00	(I)
For	3-inch meter	30.00	(I)
For	4-inch meter	45.00	(I)
For	6-inch meter	90.00	(I)
For	8-inch meter	140.00	(I)

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

(D)

Schedule No. 9MC

METERED CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all water service furnished for construction purposes.

TERRITORY

Portions of Camarillo, Newbury Park, Thousand Oaks, and vicinity. (T)
Ventura County. (T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		
For all water delivered, per 100 cu.ft.	\$0.45	(I)
Minimum Charge:		
For all sizes of meters	9.00	(T)(I)

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

SPECIAL CONDITIONS

1. Construction water service under this schedule will be furnished only when surplus water is available over the requirements for domestic service and under conditions which will not adversely affect domestic service. The utility will be the sole judge as to the availability of such surplus water.

2. Applicants for metered construction service will be required to apply for the service at least 48 hours in advance of the time delivery of water is requested and to pay the costs and charges as provided by Rule No. 13, Temporary Service.

(D)