

ORIGINALDecision No. 74889

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
the Southern California Water Company
for an order authorizing it to
increase the rates and charges for
water service in its Barstow District.

Application No. 49861
(Filed December 7, 1967)

In the Matter of the Application of
Southern California Water Company for
authority to effect an increase in
water rates in its Barstow District to
offset the increased Federal income
taxes resulting from the 10% Surcharge
imposed by the Revenue and Expenditure
Control Act of 1968.

Application No. 50451
(Filed July 31, 1968)

O'Melveny & Myers, by Donn B. Miller, for applicant.
Cyril M. Saroyan, Counsel, and Chester O. Newman,
for the Commission staff.

O P I N I O N

Applicant Southern California Water Company seeks authority to increase rates for water service in its Barstow District.

Public hearing on Application No. 49861 was held before Examiner Catey in Barstow on July 10 and 11, 1968. Copies of the application had been served and notice of hearing had been published and posted, in accordance with this Commission's rules of procedure. The matter was submitted on July 11, 1968, with the understanding that the effect of a recent income tax surcharge would be considered concurrently if an appropriate pleading were timely filed. Application No. 50451, filed July 31, 1968, covers this issue.

Testimony on behalf of applicant was presented^{1/} by the assistant to its president, its vice-president, its rate and valuation department assistant manager, and its consulting accountant. The Commission staff presentation^{1/} was made through an accountant and two engineers. The Barstow City Manager testified regarding the importance of applicant's water rights to the public in the Barstow area.

Service Area and Water System

Applicant owns and operates water systems in eighteen districts and an electric system in one district, all in California. Its Barstow District includes the City of Barstow, the nearby community of Lenwood, and adjacent unincorporated areas of San Bernardino County.

The Barstow District includes three systems which are not physically interconnected but, except for some historical differences in rates for general metered service, are maintained and operated as a single entity. The area served by those systems has mostly residential and business customers.

All of the water supply for this district now is obtained from applicant's 14 wells. At some future date, an additional supply, consisting of Feather River water to be transported under the California Water Plan, will be available through the Mojave Water Agency.

The distribution systems include about 80 miles of mains, ranging in size up to 16-inch. There are about 5,800 metered services, six private fire protection services and 415 public fire hydrants. Seven reservoirs and storage tanks, with appurtenant booster pumps and pressure regulators, maintain system pressure

^{1/} Testimony relating to overall company operations had been presented by witnesses for applicant and the staff in Applications Nos. 49420, 49681 and 49938, the Southwest, Orange County and Pomona Valley Districts rate proceedings. This testimony was incorporated by reference in the record in Application No. 49861.

and provide storage in eleven zones within the three separate distribution systems. The addition of another reservoir, designated Rimrock Reservoir, is scheduled for the near future. In all of the Barstow District zones, applicant has provided protection against the effects of power failures by having several of its pumps driven by gas engines and the rest driven by electric motors.

Barstow Heights Community Services District

Some 12 to 15 years ago, a group of people living on 1-1/4-, 2-1/2- and 5-acre homesteaded parcels of property adjacent to applicant's service area southeast of Barstow requested applicant to prepare estimates of the amount they would have to advance, under applicant's main extension rule, for facilities to provide them with water service. Applicant estimated that the amount to be advanced would be in the range of \$50,000 to \$75,000, depending upon the number of customers to be served.

The potential customers were unable to raise the necessary cash for the main extension. Applicant's vice-president testified that, in lieu of advancing the maximum of \$75,000 which would have been subject to refund as more customers were added from time to time, the group formed Barstow Heights Community Services District (BHCS D) and subjected the property within the district to assessments for bond indebtedness totalling about \$200,000 for the installation of water distribution facilities to be owned by BHCS D. Applicant then entered into a five-year agreement with BHCS D whereby applicant operates the system, runs the pumps, reads the meters and bills the customers on behalf of BHCS D, for certain specified fees. Applicant was authorized by Decision No. 59843, dated March 29, 1960, in Application No. 41959, to carry out the terms of that agreement. Another five-year agreement, which is essentially an

extension of the original agreement, was filed with the Commission by advice letter on April 18, 1968.

Applicant records revenues and expenses resulting from the BHCSO contract "below the line" as nonoperating revenues. A staff accountant testified that, under the uniform system of accounts prescribed by this Commission, such transactions should be recorded "above the line" in Account No. 785, Merchandise, Jobbing and Contract Work. Applicant concurs and intends to modify its accounting.

Aside from the proper accounting procedure in special situations such as under the BHCSO contract, it is important that other customers in the district not be required to subsidize the service to BHCSO if expenses exceed revenues under the contract. Both applicant and the staff have attempted to avoid such subsidy by treating the revenues and expenses under the contract, for rate-making purposes, as nonoperating revenues and expenses. Another approach would be to treat them as operating revenues and expenses but, for rate-making purposes, to include additional hypothetical revenues as though revenues equalled expenses under the contract. The latter approach would be more consistent with the prescribed accounting procedure, but the end result would be identical with the approach used by applicant and the staff.

Service

Field investigations of applicant's operations in its Barstow District were made by the Commission staff. Plant and facilities were inspected, pressures checked, customers interviewed, and applicant's records examined. Water pressure in the various zones was found to be within the limits prescribed by General Order No. 103 at the time of the inspections.

The Commission's informal complaint file for 1967 and 1968 was reviewed by the staff and no service complaints regarding pressure or quality of water were found. A staff review of the low pressure complaints found in applicant's files indicated that, while pressures at the various complainants' addresses were lower than at other locations in the area, they were all higher than the 25-pound minimum prescribed by General Order No. 103. The staff's interviews with customers and reviews of applicant's complaint file indicate that customers experience low pressure in several of the zones at the time of peak load. Interconnection of several of the zones has improved this situation and completion of the Rimrock Reservoir should overcome any remaining deficiency.

No customers entered an appearance, testified, or even attended the hearing.

Rates

Applicant's present tariffs include separate schedules for general metered service (one for the Westside Tariff Area and one for the rest of the Barstow District), an optional special schedule for essentially off-peak metered service, and two separate but similar schedules for fire hydrant service in the Westside and Barstow Tariff Areas. In addition, applicant's present company-wide schedules for temporary flat rate service, private fire protection service and service to applicant's employees are now applicable to the Barstow District.

Applicant's present general metered service rates for the Barstow District were established in 1964, at which time applicant voluntarily reduced the previous rates in recognition of a reduction in Federal income tax rates.

Applicant proposes to increase and consolidate its Barstow District (Barstow and Westside Tariff Areas) general metered service rates, to increase the off-peak rates, to convert the present minimum charge type schedules for general metered service into the service charge type of rate, to increase private fire protection service rates and to consolidate the present public fire hydrant service rates into a single schedule.

The following Table I presents a comparison of applicant's present general and off-peak metered service rates in the Barstow and Westside Tariff Areas with those proposed by applicant.

TABLE I

COMPARISON OF MONTHLY RATES

<u>Item</u>	<u>Present</u>		<u>Proposed</u> ⁺
	<u>Barstow</u>	<u>Westside</u>	
<u>General Metered Service</u>			
Minimum or Service Charge	\$ 2.75*	\$ 3.10*	\$ 2.15*
First 1,200 cu.ft., per 100 cu.ft.	.00*	.00*	.169
Next 1,800 cu.ft., per 100 cu.ft.	.15	.19	.169
Next 7,000 cu.ft., per 100 cu.ft.	.13	.13	.169
Next 140,000 cu.ft., per 100 cu.ft.	.12	.12	.129
Over 150,000 cu.ft., per 100 cu.ft.	.07	.07	.086
<u>Off-Peak Metered Service</u>			
Minimum or Service Charge	\$35.00#	-	\$20.00#
First 10,000 cu.ft., per 100 cu.ft.	.00#	-	.159
Next 17,900 cu.ft., per 100 cu.ft.	.00#	-	.11
Next 122,100 cu.ft., per 100 cu.ft.	.12	-	.11
Over 150,000 cu.ft., per 100 cu.ft.	.06	-	.076

* Minimum charge or service charge for 5/8 x 3/4-inch meter. A graduated scale of increased charges is provided for larger meters.

Minimum charge or service charge for 4-inch meter. A graduated scale of increased charges is provided for larger meters.

+ Until the 10% surcharge on Federal income tax is removed, bills computed under these rates will be increased by 2.85%.

For the average of about 2,700 cubic feet per month used by commercial customers in this district, through a 5/8 x 3/4-inch meter the monthly charge in the Barstow Tariff Area will increase 34 percent, from \$5.00 under present rates to \$6.72 under the rates proposed in the original application. Because of the presently higher level of rates in the Westside Tariff Area, for a customer using 2,700 cubic feet per month, the monthly charge will increase 13 percent, from \$5.95 under present rates to \$6.72 under the rates proposed in the original application. The operations of the two present tariff areas are now sufficiently integrated that separate rates for the two areas are no longer warranted. The temporary 2.85 percent surcharge will add \$0.19 to the average monthly charges.

Applicant's present "company-wide" private fire protection service schedule excludes five specific districts. In rate proceedings involving those districts, the Commission found that a monthly charge of \$2 per inch diameter of service was reasonable, rather than the \$1 per inch set forth in the "company-wide" schedule. Eventually, when all districts have had rate proceedings, the present "company-wide" schedule can be replaced with a revised schedule. In the meantime, as each district is covered by a rate proceeding, a separate increased schedule is authorized for that district.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table II, from applicant's Exhibit No. 1 and the staff's Exhibit No. 8 are the estimated results of operation for the test year 1968, under present rates and under those proposed by applicant, before considering the additional expenses and offsetting revenue requirement resulting from the ten percent surcharge to Federal income tax. For comparison, this table also shows the corresponding results of operation, modified as discussed hereinafter.

TABLE II
ESTIMATED RESULTS OF OPERATION
TEST YEAR 1968

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Modified</u>
<u>At Present Water Rates</u>			
<u>Operating Revenues</u>			
Excluding Commercial	\$ 65,700	\$ 67,600	\$ 67,600
Commercial	345,500	357,000	357,000
Total	<u>411,200</u>	<u>424,600</u>	<u>424,600</u>
<u>Deductions</u>			
District Oper. & Mtce. Payroll	48,500	47,200	47,200
Other Oper. & Mtce. Expense	89,000	88,600	88,600
Admin. & Gen. Exp. - Direct	19,700	17,200	19,700
Admin. & Gen. Exp. - Allocated	18,600	16,900	16,900
Admin. & Gen. Exp. - BHCS D Adjust.	0	(1,500)	(800)
Depreciation Exp.	73,700	74,400	74,700
Taxes, Excl. Franchise & Inc. Taxes	62,700	62,300	62,300
Subtotal	<u>312,200</u>	<u>305,100</u>	<u>308,600</u>
Local Franchise Taxes	5,300	5,400	5,400
Income Taxes	(1,300)	10,000	8,300
Total Deductions	<u>316,200</u>	<u>320,500</u>	<u>322,300</u>
Net Revenue	95,000	104,100	102,300
Rate Base	2,129,300	2,080,800	2,107,000
Rate of Return	4.46%	5.00%	4.86%
<u>At Rates Proposed by Applicant</u>			
<u>Operating Revenues</u>			
Excluding Commercial	83,100	81,400	81,400
Commercial	452,700	462,400	462,400
Total	<u>535,800</u>	<u>543,800</u>	<u>543,800</u>
<u>Deductions</u>			
Excl. Franchise & Income Taxes	312,200	305,100	308,600
Local Franchise Taxes	6,900	6,900	6,900
Income Taxes	62,200	70,900	69,100
Total Deductions	<u>381,300</u>	<u>382,900</u>	<u>384,600</u>
Net Revenue	154,500	160,900	159,200
Rate Base	2,129,300	2,080,800	2,107,000
Rate of Return	7.26%	7.73%	7.56%

(Red Figure)

From Table II it can be determined that the rates requested by applicant, exclusive of the temporary 2.35 percent increase due to the income tax surcharge, will result in an increase of 28 percent in operating revenues.

The principal differences between the estimated results of operation for the test year 1968 presented by applicant and those presented by the Commission staff are set forth as separate items in Table II, and are discussed hereinafter.

Operating Revenues

The principal differences between the revenue estimates of applicant and the staff for other than commercial customers are due primarily to the fact that the staff had more recent data than was available when applicant's estimates were being prepared. The staff's estimates for other than commercial customers are adopted in Table II.

Witnesses for both applicant and the staff stated that they usually would have projected a normal trend of commercial customers' consumption by eliminating deviations from the apparent normal trend caused by abnormally high or low rainfall and temperatures in each of several prior years. For the desert area of Barstow, neither applicant nor the staff found the usual correlation between consumption and studies of both rainfall and temperature. Applicant therefore based its estimates upon the average recorded consumption per customer in prior years, thus assuming neither an upward nor a downward trend in consumption per customer. The staff, however, did find a correlation between consumption and temperature and determined that, after adjusting for abnormally high daily temperatures, there was a slight upward trend in normal consumption per customer. The staff's basis appears more reasonable and the staff's commercial revenue estimates are adopted in Table II.

Operating Expenses

The difference between applicant's and the staff's estimates of district operation and maintenance payroll results from the staff's inclusion of 1967 actual expenses in projecting 1968

estimates whereas 1966 actual expenses were the most recent used in applicant's estimates. The staff's estimate of payroll expense is adopted in Table II.

The difference between applicant's and the staff's estimates of other operation and maintenance expenses is the net effect of several differences in the independent estimates of the various items making up those expenses. The largest difference in such items wherein applicant's estimate exceeds the staff's is in pumping expense. Here again the staff's use of more recent data warrants adoption of the staff's estimate in Table II.

Applicant's estimate of direct administrative and general expense exceeds that of the staff almost entirely because of applicant's proration of rate case expenses over a three-year period as contrasted with the staff's five-year proration of those expenses. As discussed hereinafter under trend in rate of return, it appears that the rates authorized herein will not produce a reasonable return for much longer than 2-1/2 years. Applicant's estimate is adopted in Table II.

Staff Exhibit No. 9 in Application No. 49681, which has been incorporated by reference in this proceeding, sets forth amendments to the staff's original estimates of general office administrative and general expenses which had been presented in an earlier proceeding. The amendments incorporated the changes which were found to be appropriate by the Commission in Decision No. 73827, dated March 12, 1968, in that earlier proceeding, Application No. 49420. The allocation of those expenditures and general office taxes by the staff on a four-factor basis is adopted in Table II.

When applicant projected estimates of expenses related to the BHCS D contract, no administrative and general expenses were

included. When the staff prorated the total Barstow District and BHCSO administrative and general expenses to the two operations, it apparently did so on the basis of the single factor of relative payroll. Many of the administrative and general expenses bear no relationship to payroll, so the Commission has for many years accepted its staff's recommendation that four factors be considered in allocating administrative and general expenses: gross plant, payroll, customers, and direct expenses. Had all four factors been used by the staff in allocating administrative and general expenses to the BHCSO operation, the amount so allocated would have been only about half of the amount allocated on the one-factor basis. The staff estimate has been modified accordingly in Table II.

Applicant's 1968 estimate of depreciation expense is lower than the staff's because the lower actual beginning-of-year depreciable plant reflected in the staff estimate is more than offset by the staff's "rolling back" of the new Rimrock Reservoir as though it had been completed at the beginning of the two-year test period covered by the staff's studies. Inasmuch as the reservoir is scheduled for completion in 1968 and is not a revenue-producing addition but is primarily to stabilize pressures and improve service, the staff approach is appropriate. The staff's depreciation estimate is adopted in Table II, with a minor estimated adjustment related to a well which was excluded by the staff but is included in the plant figures adopted herein.

The staff included additional ad valorem taxes on the Rimrock Reservoir in 1968 expenses, consistent with its treatment of depreciation expense. The staff's total district ad valorem tax estimate did not differ from applicant's, however, because

actual 1967-68 ad valorem tax rates, which were known by the time the staff's estimates were being prepared, were somewhat lower than had been projected in applicant's earlier estimates.

Applicant's estimate of payroll taxes for 1968 exceeds the staff's primarily because applicant applied a composite rate to district expense payroll whereas the staff computed the tax applicable to each employee involved. The staff's estimate is more accurate and is adopted in Table II.

The differences between the income tax estimates of applicant and the staff are due to the difference in revenues and expenses covered in the foregoing discussion. The income taxes adopted in Table II reflect the revenues and expenses adopted in that table.

Rate Base

Summarized in Table III, from the staff's Exhibit No. 3, supplemented by testimony of staff witnesses, is the development of rate base for 1968 by applicant, by the staff, and modified as discussed hereinafter. The effect of the temporary surcharge to Federal income tax is treated separately, as discussed hereinafter.

TABLE III
DEVELOPMENT OF RATE BASE
TEST YEAR 1968

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Modified</u>
<u>Utility Plant</u>			
Beginning-of-year Barstow Plant	\$3,153,900	\$3,081,100	\$3,081,100
Roll-back of Rimrock Reservoir	0	88,500	88,500
Deduc. for Nonoper. & Retired Plant	0	(19,900)	(9,300)
Deduc. for Begin. 1 Yr. Wtr. Rts.	0	(16,000)	0
Avg. Barstow Net Additions	143,300	124,400	126,200
Avg. Barstow CWIP	19,500	9,400	9,400
Avg. Allocated Common Plant & CWIP	42,300	37,700	37,700
Total	3,359,000	3,305,200	3,333,600
<u>Working Capital</u>			
Materials and Supplies	31,800	31,800	31,800
Working Cash	46,600	41,400	41,400
Total	78,400	73,200	73,200
<u>Modifications</u>			
Contributions in Aid of Construction	(54,700)	(49,600)	(49,600)
Advances for Construction	(625,700)	(618,900)	(618,900)
Depreciation Reserve	(627,700)	(629,100)	(631,600)
Total	(1,308,100)	(1,297,600)	(1,300,100)
Rate Base	2,129,300	2,080,800	2,106,700
Rounded			2,107,000

(Red Figure)

Applicant prepared its estimates in 1967. When the staff prepared its estimates, the actual beginning-of-year figures for 1968 were available as a starting point for development of a rate base. This accounts for the principal difference in beginning-of-year plant, contributions in aid of construction, advances for construction and depreciation reserve. The staff's estimates for these items are adopted in Table III with a minor estimated adjustment to depreciation reserve related to a well which was excluded by the staff but is included in the plant figures adopted herein.

As hereinabove stated in the discussion of depreciation expense, the "rolling back" of the Rimrock Reservoir to the beginning of the test period is appropriate for rate-making purposes. The staff adjustment for this item, and the staff's resulting reduction of average net additions and average construction work in progress during 1968, are adopted in Table III.

The staff excluded from rate base the cost of certain of applicant's lands which the staff considered to be not used nor useful for utility operations, portions of the cost of other parcels which the staff considered to be larger than needed, and the depreciated cost of a pumphouse, two wells, and appurtenant facilities, which have not been in operation for some time. Testimony by applicant's vice-president shows that one of the excluded portions of a well site provides the only legal access to the well and that one of the excluded wells and appurtenant facilities provides an extra measure of reliability as an emergency standby unit. The staff deduction for nonoperative and retired plant, reduced by \$10,600 for the property needed as well access and the well which is useful on a standby basis, is adopted in Table III.

Over a period of years prior to 1968, applicant has expended about \$16,000 in legal expenses and allocated executive salaries for establishing or protecting its rights to ground water in the Barstow area. Further costs of \$3,500 plus a \$3,000 carry-over of applicant's 1967 budget are expected to be incurred during 1968 related to water rights. The staff excluded from rate base all of these expenditures whereas applicant included them.

In connection with applicant's efforts to establish or protect its water rights, a Superior Court action was filed in San

Bernardino County about two years ago by Mojave River Water Agency against some 1,100 users of Mojave River water. Studies of past water use of all producers in the area have been prepared. The plaintiff is in the process of preparing an amended complaint with a stipulated judgment which the parties hope will receive the approval of 80 to 90 percent of the producers of water.

A staff engineer testified that his exclusion of expenditures for water rights from rate base is based upon his understanding that it is the practice of this Commission to exclude such expenditures unless the adjudication is completed. The witness further testified that he did not conclude (1) that any transactions involving the expenditures were less than arms-length, (2) that the expenditures were not validly incurred, (3) that the company's records of expenditures are not accurate, (4) that the amounts spent were excessive or imprudent, nor (5) that the amounts spent were not for the purpose of establishing water rights.

It is true that recorded amounts for intangible plant such as water rights are often subject to close scrutiny by this Commission. There have been instances with other utilities where (1) the recorded amounts included appraised "value" of water rights, rather than original cost as required by the uniform system of accounts prescribed by this Commission, (2) there has been a lack of arms-length dealing between the utility and other parties, (3) the recorded cost has been a "forced" figure representing the difference between the purchase price of an existing water system and the known depreciated original cost of the tangible property involved, (4) funds were imprudently expended to defend an obviously untenable position, and (5) other factors warranted disallowance

of all or part of claimed expenditures for water rights. It cannot be said categorically, however, that costs relating to unadjudicated water rights should always be excluded from rate base.

In the present proceeding, it appears that applicant prudently and in good faith has expended funds with a reasonable expectation of establishing an adjudicated prescriptive water right in the Barstow area at some future date. The expenditures are similar to funds spent for a worthy but necessarily slow construction project upon which no interest during construction is capitalized. Although it is conceivable that, just as construction work may have to be discontinued and abandoned, adjudicated water rights may never result from applicant's expenditures. If that later is determined, applicant can request appropriate amortization of the accumulated expenditures made in anticipation of an adjudicated right. In the meantime, it is appropriate to include, in the 1968 rate base, the \$16,000 expended in prior years and the estimated weighted average of \$1,800 as 1968 plant additions. The staff estimates have been modified accordingly in Table III.

The staff's estimates of working cash and of common utility plant and depreciation reserve allocations follow the principles adopted by earlier decisions relating to other districts in the current series of applicant's rate proceedings. They are adopted in Table III.

Deferred Advances for Construction

An issue concerning deferred advances for construction has come up in several recent proceedings but, because the effect on rate base has been minor, has not been discussed in the related decisions. In this proceeding, applicant requests a resolution of that issue for future guidance.

When the actual cost of a main extension exceeds the amount previously estimated by applicant and advanced by a subdivider, applicant sends a letter to the subdivider giving him the option of providing the additional advance or having it deducted as an offset to refunds as they otherwise would become payable to the subdivider. Only the amounts actually advanced are recorded by applicant under Account 241, Advances for Construction. The staff contends that this entire practice, including the related accounting, is improper. The staff's rate base estimates reflect the level of advances which would have obtained if applicant had collected, rather than deferred collecting, the additional advances.

The first question to be considered is whether or not applicant's procedure is in violation of its tariffs. Section A.6.c. of the uniform water main extension rule prescribed by this Commission states:

"Any difference between the adjusted construction cost and the amount advanced shall be shown as a revision of the amount of advance and shall be payable within thirty days of date of submission of statement." (Emphasis added.)

Section A.6.e. of applicant's main extension rule does not merely permit applicant to collect additional amounts where actual costs exceed original estimates; it requires the additional advance. Were this not so, unwarranted discrimination would result against those subdividers who do advance the full cost. Applicant's practice is in violation of its tariffs.

The determination that a tariff violation is involved renders somewhat moot the question of accounting for any advances which are due but are not collected by applicant. We point out, however, that applicant's books are kept on an accrual basis, not a cash basis, and that advances should be recorded when they become due, not when received.

The third point involves the rate-making treatment to be accorded the advances which applicant fails to collect. Inasmuch as applicant has not attempted to collect the advances due it under its filed tariffs, customers should not be required to provide a return on the additional utility investment which should have been advanced by the subdividers. Applicant indicated that efforts to collect the amounts due could result in expensive litigation, but the main extension contract which each subdivider signs specifically provides for revision of the amount advanced, and it seems unlikely that a large number of subdividers would have defaulted on their contracts if applicant had not offered to let them defer additional advances.

Rate of Return

In a recent rate proceeding involving applicant's Southwest District, the Commission found that an average rate of return of 6.9 percent over the next three years is reasonable for applicant's operations. In Exhibit No. 3 of Application No. 49938, incorporated herein by reference, the staff recommends that the rate of return for the Barstow District be set within the range of 6.75 to 6.90 percent.

Applicant's estimates for the test years 1967 and 1968 indicate an annual decline of 0.72 percent in rate of return at proposed rates. The staff's estimates, including the effect of wage rate changes, show an annual decline of 0.39 percent at proposed rates.

The comparative rates of return for two successive test years, or for a series of recorded years, are indicative of the future trend in rate of return only if the rates of change of major

individual components of revenues, expenses and rate base in the test years, or recorded years, are reasonably indicative of the future trend of those items. Distortions caused by abnormal, nonrecurring or sporadically recurring changes in revenues, expenses, or rate base items must be avoided to provide a valid basis for projection of the anticipated future trend in rate of return.

Testimony of applicant's witnesses shows that many of their expense estimates for 1967 were based upon actual and anticipated expenditures for that year, unadjusted for the average conditions assumed in the 1968 estimates. The trend between applicant's 1967 and 1968 estimates, therefore, is not a valid basis for projection into the future.

Testimony of the staff witnesses shows that the staff did adjust both its 1967 and 1968 estimates to average conditions so that the trends would be reasonably indicative of the future. However, the elimination of the trend in wage rates would understate the attrition in rate of return.

To provide additional information on trend in rate of return, applicant prepared Exhibit No. 2, an analysis of the many changes in recorded items of revenues, expenses and rate base during the years 1963 through 1966. Applicant analyzed and evaluated distortions during those years caused by such factors as changes in (1) consumption per customer, (2) applicant's water rates, and (3) income tax rates and allowances.

Exhibit No. 2 shows that, eliminating the effects of fluctuation in consumption per customer, the 1964 reduction in applicant's water rates and changes in income tax rates and allowances, the average annual decline in rate of return during the period from 1963 through 1966 would have been 0.38 percent at applicant's present water rates and somewhat greater at its proposed

rates. This adjusted decline for the three-year period is less than the 0.58 percent per year at present water rates projected by applicant and more than the 0.26 percent per year at present rates projected by the staff primarily because the average annual increase in rate base per customer from 1963 to 1966 was less than the 1967-68 increase indicated by applicant's estimates and more than the 1967-68 increase indicated by the staff's estimates. The staff's trend estimates, which eliminate distortions caused by the construction of the new Rimrock Reservoir, are more appropriate than applicant's for projecting into the future. There is no reason to believe that the trend in rate of return will level off in the next few years to less than 0.4 percent per year, which is approximately the projection made by the staff after including the trend of wage levels.

In most of the recent decisions in rate proceedings involving other districts of applicant, the apparent future trend in rate of return has been offset by the authorization of a level of rates to remain in effect for several years and designed to produce, on the average over that period, the rate of return found reasonable. That same approach is adopted for this proceeding.

The rate increase authorized herein will not be in effect for any significant portion of the year 1968. With the indicated future trend in rate of return, the 7.56 percent return under applicant's proposed rates for the test year 1968 should produce an average rate of return of 6.9 percent for the next 2-1/2 years, approximately 7.2 percent for the year 1969, 6.8 percent for 1970, and 6.4 for 1971.

Surcharge to Federal Income Tax

Subsequent to the filing of Application No. 49861, a ten percent surcharge to Federal income taxes was imposed by the Revenue and Expenditure Control Act of 1968. The surcharge is retroactive for the full year 1968 and, unless extended, expires June 30, 1969. Application No. 50451 shows that a 2.56 to 2.85 percent surcharge on bills computed under the metered service rates requested in the original application will be required to offset the effect of the income tax surcharge and produce the same net revenues indicated hereinbefore in Table II. Based upon the revenues and taxes adopted herein, the appropriate surcharge to applicant's metered service rates is 2.85 percent. This surcharge on its bills will offset only the approximate future effect of the tax surcharge and is not designed to recoup any of the increased taxes on net revenue produced prior to the effective date of the increased water rates authorized in this proceeding.

Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues.
2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the test year 1968, and an annual decline of 0.4 percent in rate of return, reasonably indicate the probable range of results of applicant's operations for the near future.
3. An average rate of return of 6.9 percent on applicant's rate base for the next 2-1/2 years is reasonable.

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

The Commission concludes that the application should be granted.

O R D E R

IT IS ORDERED that, after the effective date of this order, applicant Southern California Water Company is authorized to file for its Barstow District the revised rate schedules attached to this order as Appendix A, and concurrently to cancel its present Schedules Nos. BA-1, BA-1M, BA-5, WS-1 and WS-5, and also concurrently to file a revised schedule No. AA-4 to remove its applicability to the Barstow District. Such filings shall comply with General Order No. 96-A. The effective date of the new and revised schedules shall be four days after the date of filing. The new and revised schedules shall apply only to service rendered on and after the effective date thereof.

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

Dated at San Francisco, California, this 29th day of OCTOBER, 1968.

William Lyons Jr.
President

Lawyer

Commissioners

I concur except for the increases to cover the surtax.

William Lyons Jr.

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

APPENDIX A
Page 1 of 7

Schedule No. BA-1

Barstow Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Barstow and vicinity, San Bernardino County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 2.15	(C)
For 3/4-inch meter	2.50	
For 1-inch meter	3.00	
For 1 1/2-inch meter	4.00	
For 2-inch meter	8.00	
For 3-inch meter	10.00	
For 4-inch meter	20.00	
For 6-inch meter	35.00	
For 8-inch meter	40.00	(C)

Quantity Rates:

First 10,000 cu.ft., per 100 cu.ft.	\$ 0.169	(C)
Next 140,000 cu.ft., per 100 cu.ft.	0.129	
Over 150,000 cu.ft., per 100 cu.ft.	0.086	(C)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates. (T)

SPECIAL CONDITIONS

1. For The Atchison, Topeka and Santa Fe Railway Company, all meter readings will be combined for the purpose of computing monthly bills at the Quantity Rates, and there will be a monthly service charge in the (T)

(Continued)

Schedule No. BA-1

Barstow Tariff Area

GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS (Contd.)

amount of the sum of the Minimum Charges for all of that customer's meters. (T)
(T)

2. Until the 10 percent surcharge to federal income tax is removed, bills computed under the above tariff will be increased by 2.85 percent. (I)
(I)

Schedule No. BA-4

Barstow Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Barstow and vicinity, San Bernardino County.

RATE

Per Month

For each inch of diameter of service connection \$ 2.00 (I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard

(Continued)

Schedule No. BA-4

Barstow Tariff Area

PRIVATE FIRE PROTECTION SERVICE
(Continued)

SPECIAL CONDITIONS (Contd.)

detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

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

Schedule No. BA-5

Barstow Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

Barstow and vicinity, San Bernardino County.

RATE

Per Month

For each hydrant \$ 2.00

SPECIAL CONDITIONS

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

2. The cost of installation and maintenance of hydrants shall be borne by the utility except as otherwise provided in the utility's Rule No. 15, Main Extensions. (T)
(T)

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

4. Hydrants shall be connected to the utility's system upon receipt of written request from the public authority which is to be responsible for payment of monthly charges. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size.

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

Schedule No. BA-9

Barstow Tariff Area

OPTIONAL SPECIAL METERED SERVICE

APPLICABILITY

Applicable to all optional special metered water service.

TERRITORY

Barstow and vicinity, San Bernardino County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Service Charge:	
For 4-inch meter	\$20.00
For 6-inch meter	35.00
For 8-inch meter	40.00
Quantity Rates:	
First 10,000 cu.ft., per 100 cu.ft.	\$ 0.159
Next 140,000 cu.ft., per 100 cu.ft.	0.11
Over 150,000 cu.ft., per 100 cu.ft.	0.076

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

SPECIAL CONDITIONS

1. Service under this schedule will be furnished only when 75% of the water used is taken between the hours of 12:00 midnight and 10:00 a.m. Utility will provide adequate controls to conform with this condition.

2. This schedule applies only to service furnished through a 4-inch meter or its equivalent capacity, or larger meter.

(Continued)

Schedule No. BA-9

Barstow Tariff Area

OPTIONAL SPECIAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS (Contd.)

3. For The Atchison, Topcka and Santa Fe Railway Company, all meter readings will be combined for the purpose of computing monthly bills at the Quantity Rates, and there will be a monthly service charge in the amount of the sum of the Minimum Charges for all of that customer's meters.

4. Until the 10 percent surcharge to federal income tax is removed, (I)
bills computed under the above tariff will be increased by 2.85 percent. (I)