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ORIGINAL

Decision No. 75263

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SAN GABRIEL VALLEY WATER COMPANY
for authority to increase rates charged
for water service in its Fontana Division.

Application No. 50291
(Filed June 6, 1968)

John E. Skelton, for applicant.
Virgil F. Halbig, Mrs. Leon Wells,
Helen M. Wharton, Virginia
Goggin, Ruth Frankie, William
Dillon, Ann Cabral, Claude A.
Wilson, Mavme Mitchell, Jerry
H. Haworth, Vernon J. Unzicker,
Ernest Thomas, Claude C.
Henderson, John Warren, Imon
Parsons, Vera M. Wyatt, Mrs. Lucy
Federico, and Leovardo Viveros;
protestants.
Henry F. Rager, Joseph A. Rowe,
Jim Broncatello, R. L. Gazvoda,
Sidney Belkin, L. F. Moore, Sr.,
and Mrs. Frank Fertig, interested
parties.
Elinore C. Morgan, Counsel and
Robert W. Beardslee for the
Commission staff.

O P I N I O N

San Gabriel Valley Water Company (applicant), seeks authority to increase the rates for water service in its Fontana Division (division) by an annual amount of approximately \$303,425 plus extra revenues of approximately \$25,827 to equalize the ten percent federal surtax. Based on its estimates of operations for the year 1968 this would be an over-all increase of approximately 27.7 percent plus 1.9 percent for the surtax. No change is proposed in schedules other than for general metered service.

Public hearings were held before Examiner Rogers in Fontana on November 19, 20 and 21, 1968, and the application was submitted. Fifteen customers appeared as protestants. Most stated that the authorized rates are excessive. One complained that the minimum meter rates are excessive. Mrs. Lucy Federico testified that she and her husband purchased property in the service area north of Foothill Boulevard in 1950; that one of the applicant's employees told her that it would cost her \$400 to have service extended to her property; that before she could execute an agreement the estimated cost of extension was raised to \$1,500; and that she is informed that at the present time the cost would be approximately \$2,000. She is hauling water.

Fontana Domestic Water Company began operations in the Fontana area in 1924. Applicant, as successor, assumed these operations in 1945. Through construction of new facilities and purchase and transfer of existing water systems the growth of the division has been substantial from 1945 to date. The following tabulation of active service connections of all types illustrates the growth of the division:

<u>Year Ended</u>	<u>Active Service Connections</u>
December 31, 1945	3,651
December 31, 1950	6,942
December 31, 1955	11,156
December 31, 1960	12,547
December 31, 1965	14,230
December 31, 1967	14,596

Functions of the division are carried on principally from an office and a shop in Fontana. Areas served by the division are all or portions of the Cities of Fontana and Rialto and the County of San Bernardino.

All water delivered and sold in the division is obtained from the Fontana Union Water Company, a mutual water company which has as its sources of supply:

1. Lytle Creek surface flow and Lytle Creek tunnel
2. Lytle Creek wells and Fontana wells
3. Colorado River water.

Through ownership of approximately 4,050 shares of Fontana Union stock as of December 31, 1967, applicant is entitled to use a constant flow of 1012.5 miners inches in the division. During peak periods this basic allowance may be doubled subject to limiting conditions.

Water storage is supplied by Fontana Union and water treatment is supplied by applicant. Water treatment consists of microstraining and diatomaceous earth filtration of gravity waters from Lytle Creek, microstraining of Colorado River water at two taking points and chlorination at five points.

Water for division distribution is taken by applicant at 24 primary and secondary service points and delivered to three pressure zones by gravity flow and by boosting. Distribution is made to customers through approximately 1,463,000 feet of distribution mains principally ranging in diameter from two inches to 16 inches.

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The division's present general metered service rates became effective on September 1, 1965 and are compared in the following tabulation with the rates proposed in the application and with those hereinafter authorized.

<u>Comparison of Present, Proposed, and Authorized Rates</u>			
<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates*</u>
<u>Quantity Rates</u>		<u>Per Meter</u>	<u>Per Month</u>
First 800 cubic feet or less	\$2.90	\$3.70	\$3.45
Next 4,200 cubic feet per 100 cu. ft.	.18	.23	.22
Over 5,000 cubic feet per 100 cu. ft.	.14	.19	.16

*These authorized rates will be increased by 1.4 percent via a surcharge.

At the present rates the charge for monthly domestic consumption of 2,300 cubic feet (the division average) is \$5.60. Under the proposed rates this charge would be \$7.15, an increase of \$1.55 or 27.7 percent.

Exhibit No. 2 is a report on the division operations for the adjusted year 1967 and the estimated year 1968 without the federal income tax surcharge. Exhibit No. 3 briefly summarizes the results for the estimated year 1968 at the proposed rates with the surtax. Exhibit No. 5 submitted by the staff (amended by Exhibit 6), is a report of such operations for the year 1967 adjusted and the year 1968 estimated.

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The following tabulation summarizes the earnings data contained in Exhibits Nos. 2 and 5 (as amended by Exhibit No. 6) for the year 1968:

Estimated 1968 Summary of Earnings				
Item	Present Rates		Proposed Rates	
	Company	Staff	Company	Staff
Operating Rev.	\$1,064,817	\$1,092,700	\$1,368,242	\$1,404,600
<u>Operating Exp.</u>				
Operation & Maint. Exp.	562,473	562,200	565,634	562,200
Admin. & Gen. Expenses	146,264	142,610	150,679	147,150
Depreciation Exp.	106,463	107,330	106,463	107,330
Taxes on Other Than Income	99,751	96,220	99,751	96,220
Income Taxes	(35,351)	(17,580)	117,428	140,140
Total Revenue Deductions	<u>879,605</u>	<u>890,780</u>	<u>1,039,955</u>	<u>1,053,040</u>
Net Revenue	185,212	201,920	328,287	351,560
Rate Base	4,241,121	4,211,200	4,241,121	4,211,200
Rate of Return	4.37%	4.79%	7.74%	8.35%

(Red Figure)

The applicant estimated that gross revenues of \$1,394,069 would be required in 1968 (including the revenues required to offset the surtax) to give the same amount of net revenues and a 7.74 percent rate of return (Exhibit 3). It requested that its proposed rates be allowed but that a special condition be added to the effect that until the federal surtax on income is removed, general metered service bills should have an increase in a calculated percentage sufficient to equalize the effect of the surcharge.

Revenues

As of December 31, 1967, the division had 13,644 domestic consumers, 104 industrial consumers, 23 private fire connections, and 325 public fire hydrants. The domestic consumers and the industrial consumers are all served at rates set forth in applicant's Schedule No. FO-1, General Metered Service. The domestic consumers are billed bimonthly. The industrial consumers are billed monthly. The application is for authority to increase the domestic and industrial rates and not the rates associated with fire protection service.

The division has revenues from other sales or service (Account No. 609) which amounted to \$3,330 in 1967, and from miscellaneous service revenues (Account No. 611), which amounted to \$2,975 in 1967. These amounts fluctuate from year to year and applicant used the 1967 recorded amounts as its estimated 1968 revenues from these services. The division's public and private fire protection revenues (Account Nos. 604 and 605, respectively) have been increasing from \$140 to \$700 per year. Accordingly, applicant estimated that its private fire protection revenues will be \$1,610 in 1968, an increase of \$140 over the 1967 recorded amount, and its public fire protection revenues will be \$11,252 in 1968, an increase of \$700 over the 1967 recorded revenues. The total of four revenues as estimated by the applicant for 1968 is \$19,667. The staff used recorded figures for 1967 in its estimates for 1968, but slightly adjusted the revenues from Accounts Nos. 609 and 611 downward.

In estimating the revenues for 1968 from domestic and industrial consumers, the applicant used its sales data for the 10-year period of 1957-1967 to derive its results by a graphical method which, it claims, eliminates the variations due to rainfall and temperature.

The staff adjusted the domestic revenues for average temperature and rainfall conditions. The staff engineer stated that the usage of the industrial consumers was not affected by temperature and rainfall figures and used the recorded 1967 revenue as a basis for computing the estimated 1968 revenues.

We find that the 1968 revenues will be \$1,078,750 at present rates and \$1,386,421 at proposed rates.

Operating and Maintenance Expenses

The applicant's and the staff's estimates of operating expenses for 1968 at present rates are only \$278 apart, the applicant's estimate being the greater. The staff used the same figure for expenses at the proposed rates. The applicant increased the customer accounts expense by \$3,156. The applicant's stated reason for this increase is that uncollectible accounts in the division have been calculated to be 1.4 percent of the metered sales and it added 1.4 percent of the metered revenues for 1968 at present rates to determine the revenues at the proposed rates.

We find that the staff's estimates of operation and maintenance expenses for the year 1968 are reasonable and they will be adopted.

Administrative and General Expenses

The differences between the applicant's and the staff's estimates of administrative and general expenses for 1968 at

present and proposed rates are \$3,654 and \$3,529, respectively, the applicant's estimates being the greater.

The staff's estimates of both the direct and allocated expenses appear reasonable with the exception of the allowance for health and accident insurance (Account No. 795). The applicant's records reflect an increase of 54 percent on December 1, 1967. The 1967 recorded cost was \$3,124. The 54 percent increase for 1968 would bring the cost to \$4,811, an added cost of \$1,687.

We find that at existing rates, the administrative and general expenses for 1968 will be \$144,297 and at the proposed rates they will be \$148,837.

Depreciation Expense

There is a difference of \$927 in the applicant's and the staff's estimates of depreciation expense for 1968, the staff's being the greater.

We find that the staff's estimate of depreciation expense for the year 1968 is reasonable and it will be adopted.

Non-Income Taxes

The staff's estimate of taxes other than taxes based on income for the year 1968 at present and proposed rates is reasonable and will be adopted for the purposes of this decision. We find that such taxes will total \$96,220 at the present and proposed rates.

Income Taxes

We find that income taxes at present rates for the year 1968 will be a negative figure of (\$25,655) and \$129,883 at the proposed rates.

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Rate Base

The applicant's estimated 1968 rate base is \$4,241,121. The staff's estimated rate base is \$4,211,200.

The difference in the utility plant estimates for 1968 (\$60,139) is that the applicant averaged the beginning and end of 1968 plant additions (approximately \$225,240), whereas the staff used the weighted average additions, the method consistently used by the Commission.

The staff's computation of depreciation reserve is consistent with past practice.

Both the applicant and the staff used the same amounts for advances for construction and contributions in aid of construction. The staff's total of allowances for materials and supplies and working cash is greater than applicant's.

Since 1958, the applicant has, in accordance with Commission decisions, included in its rate base a portion of the assessments paid by applicant to Fontana Union Water Company. The staff estimated the 1968 amount chargeable to rate base as \$3,693. The applicant estimated the amount to be \$4,816, a difference of \$1,124. We will add \$562 to the staff's estimate and include the amount of \$4,255 for 1968 for the total sum of \$123,262 to be included in the rate base.

We find that the 1968 rate base will be \$4,211,762.

Adopted Summary of Earnings for 1968 at Present and Proposed Rates

The following summary of earnings at present and proposed rates, exclusive of the surtax, is adopted for the purposes of this decision;

Item	<u>1968</u>	
	Present Rates	Proposed Rates
Revenues	\$1,078,750	\$1,386,421
<u>Expenses</u>		
O & M	562,200	562,200
A & G	144,297	148,837
Depreciation	107,330	107,330
Non-Income Taxes	96,220	96,220
Income Taxes	<u>(25,655)</u>	<u>129,883</u>
Total	\$ 884,392	\$1,044,470
Net Revenues	194,358	341,951
Rate Base	4,211,762	4,211,762
Rate of Return	4.62%	8.12%

(Red Figure)

Rate of Return

In 1965 the Commission found that a rate of return of 6.5 percent was reasonable for the division and established rates calculated to give such return (Decision No. 69489 dated August 3, 1965, in Application No. 46970).

Applicant requested a return of 7.74 percent on its adjusted Fontana Division rate base of \$4,241,121. The staff

recommends a rate of return of between 6.70 percent and 7.00 percent.

Applicant's capitalization as of September 30, 1968, was as follows:

Long Term Debt	\$ 8,500,000	53.1%
Preferred Stock	1,337,500	8.4
Common Stock and Surplus	3,385,935	21.2
Advances for construction	1,656,144	10.3
Contributions	<u>1,127,780</u>	<u>7.0</u>
Totals	\$ 16,007,359	100.0%

Table 1 in Exhibit 7 shows that between 1957 and September 30, 1968, the book value per share of applicant's common stock showed a steady increase.

Table 6 shows that for the five years 1963-1967, applicant's average common equity ratio was 28.88 percent, its return on average total capital was 5.55 percent and its return on average common equity was 8.09 percent.

Table 10 shows that an applicant's current equity return of 9.39 percent, its over-all cost of capital is 6.21 percent based upon the factors indicated in the table.

Table 11 shows that as of June 30, 1969, applicant's return on total capital would be 6.69 percent based on an assumed allowance on common stock equity of 11.75 percent.

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

- (a) Applicant is operating in a growth area of California with resulting need for construction funds.
- (b) The increase in debt costs which results in increased imbedded costs of debt from 4.32 percent as of December 31, 1967 to 4.88 percent as of June 30, 1969.
- (c) The fact that any additional financing in the near future will result in an increased imbedded cost of debt or in a higher common equity ratio.
- (d) The relative decrease in financing by means of advances for construction and contributions in aid of construction.
- (e) The fact that the applicant has a lower common equity ratio than most other comparable companies on a five-year average basis.

We find that a rate of return of 6.80 percent is reasonable for the future. Said rate of return will be adequate to service the present and anticipated division fixed capital and provide a return on equity within the range of 12 to 12.5 percent. Between 1967 and 1968 estimated, the applicant's rate of return in the division declined from 4.91 percent to 4.79 percent. With the indicated trend in rate of return, a rate of return of 7.0 percent for the test year 1968, when applied to the 1968 estimated average rate base of \$4,211,762, should produce an average future rate of return of 6.80 percent into the next three years. We find a rate of return of 7.0 percent when applied to the 1968 estimated average rate base of \$4,211,762 for the Fontana Division to be fair and reasonable.

The foregoing calculated results of operations at present and proposed rates do not consider the 10 percent surcharge to federal income taxes. The surcharge is applicable

to the full year 1968 and unless extended, will expire on June 30, 1969. The applicant has requested revenues sufficient to give it a 7.74 percent rate of return in the division with the surtax included. The application states that a 1.9 percent surcharge on bills computed under the general metered service rates requested in the application will be required to offset the effect of the surcharge and produce the net revenues requested by the applicant. Based on the modified results of operation adopted herein, the surcharge for the future will be 1.4 percent. We find the request for the surcharge is reasonable and it will be authorized.

Findings

The Commission finds that:

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

	1968	
	<u>Present Rates</u>	<u>Proposed Rates</u>
Revenues	\$1,078,750	\$1,386,421

2. Operating and maintenance expense, administrative and general expense for the year 1968 will be as follows:

	1968	
	<u>Present Rates</u>	<u>Proposed Rates</u>
O & M Exp.	\$ 562,200	\$ 562,200
A & G Exp.	144,297	148,837
Total	\$ 706,497	\$ 711,037

3. Depreciation expense for the year 1968 will be \$107,330.
4. Taxes other than on income will be \$96,220 for the year 1968.

5. Income taxes for the year 1968 will be a negative \$25,655 at the present rates and an expense of \$129,883 at the proposed rates.

6. Applicant's rate base will be \$4,211,762 in 1968.

7. The rates of return using the figures listed in Findings 1 through 6 will be 4.62 percent at present rates and 8.12 percent at proposed rates in 1968.

8. The rate of return for the year 1968 estimated at present rates at 4.62 percent for the Fontana Division is insufficient and applicant is in need of financial relief; however, the estimated rate of return of 8.12 percent which would be produced by rates proposed in the application is excessive.

The application should be granted in part and denied in part.

9. Filings of new schedules of rates for General Metered Service should be authorized. The order which follows will authorize the filing of new schedules of rates which will produce \$1,286,510 of gross annual revenues, excluding revenues required for the 10 percent federal surtax; an increase of \$207,760 or approximately 19.26 percent of the gross annual revenues which would be produced at present rates. This increase is \$95,665 less than the increase sought in the application. When the authorized revenues are related to the rate base of \$4,211,762

which is just and reasonable, after deducting operating expenses, depreciation and taxes, a rate of return of 7.0 percent for the test year 1968 will produce, with an annual decline of .20 of a percent, an average rate of return of 6.8 percent over the next three years. We find such rate of return to be reasonable.

10. The increase in rates and charges authorized herein are justified and reasonable. The present rates and charges insofar as they differ from those herein described, are for the future, unjust and unreasonable.

11. In addition to the increased rate found reasonable, applicant should be authorized to recover sufficient funds in the future to compensate for the 10 percent federal surtax. Such additional increase is justified and is reasonable. The rates and charges and the rate increase authorized by this decision should be further modified by the addition of 1.4 percent to permit applicant to recover said surtax hereafter, and insofar as the presently authorized rates differ from the total authorized, they are for the future, unjust and unreasonable.

The Commission concludes that the application should be granted to the extent herein set forth.

O R D E R

IT IS ORDERED that:

After the effective date of this order, applicant San Gabriel Valley Water Company, is authorized to file for its Fontana Division the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.

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

Dated at San Francisco, California, this 28th day of JANUARY, 1969.

William Lyons, Jr.
President

August
Fred P. Morrissey
V. M. ...

Thomas ...
Commissioners

Appendix A

Schedule No. FO-1

FONTANA DIVISION

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Fontana and vicinity, San Bernardino County.

RATES

Quantity Rates:	Per Meter Per Month	
First 800 cu.ft. or less	\$ 3.45	(I)
Next 4,200 cu.ft., per 100 cu.ft.22	
Over 5,000 cu.ft., per 100 cu.ft.16	(I)
 Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 3.45	(I)
For 3/4-inch meter	4.40	
For 1-inch meter	6.50	
For 1 1/2-inch meter	11.50	
For 2-inch meter	16.60	
For 3-inch meter	28.50	
For 4-inch meter	44.00	
For 6-inch meter	90.00	
For 8-inch meter	145.00	
For 10-inch meter	200.00	(I)

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

SPECIAL CONDITION

Until the 10 percent surcharge to federal income tax is removed, (I) bills computed under the above tariff will be increased by 1.4 percent.(I)