

ORIGINAL

Decision No. 75726

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)
Whittier Division.)

Application No. 50659
(Filed October 31, 1968)

John E. Skelton, for applicant.
Kenneth O. Berry, for City of Pico
Rivera; Neal Biehl; Barbara Healy;
Harry Kulukjian; Mrs. Harry
Kulukjian; Mrs. Beatrice L. Swopes,
protestants.
George A. Lumsden, interested party.
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 Whittier Division (division) by an annual amount of approximately \$175,979. Based on its estimates of operations for the year 1968, this would result in an increase of approximately 19.46 percent. No change is proposed in schedules other than for general metered service.

Public hearings were held before Examiner Rogers in Whittier on March 18 and 19, 1969, and the application was submitted. Prior to the first day of hearing, notice thereof was published and mailed as required by this Commission. The City of Pico Rivera and five individuals appeared as protestants. One customer complained

that applicant's water was contaminated. He also complained that his community is mostly occupied by retired people who cannot afford a rate increase. On cross-examination it was developed that this witness resides in an area served by a mutual water company until July, 1967, when the applicant assumed service and installed some new lines, and since that time the water has been better. A second consumer stated that the proposed rates are unfair in that the larger users should not have reduced rates for higher consumption. Two neighbors complained of their high water bills and the poor taste of the water. The City of Pico Rivera presented no evidence but protested any rate increase until service is improved without specifying any particular complaint.

McNees Park Water Company commenced operating a public utility water system adjacent to the City of Whittier in 1930. The system was acquired by San Gabriel Valley Water Service in 1940 and by applicant 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>Period Ended</u>	<u>Active Service Connections</u>
December 31, 1945	1,348
December 31, 1950	6,943
December 31, 1955	10,109
December 31, 1960	11,847
December 31, 1965	12,818
December 31, 1967	13,181

Customer Service functions of the division are carried on principally from an office in Whittier. Other operational and maintenance functions are performed by personnel and equipment stationed in El Monte. Areas served in the division are all or portions of the Cities of Whittier, Pico-Rivera, Montebello and Santa Fe Springs, and of the County of Los Angeles.

Operations of the division are conducted under the direction of R. H. Nicholson, Jr., vice-president, and under supervision of K. L. Wilkerson, general superintendent.

The division contains three integrated water systems, W-1, W-2 and M.^{1/}

All water delivered and sold in the W-1 and W-2 systems is produced from wells therein. Water delivered and sold in the M system is purchased from the Central Basin Municipal Water District and is softened, filtered Colorado River water.

In the W-1 system, water is pumped from nine active wells having a combined capacity of approximately 34,195 gpm. Storage is supplied by four tanks having a combined capacity of approximately 1,606,000 gallons.

In the W-2 system, water is pumped from four active wells having a combined capacity of approximately 13,080 gpm. Storage is supplied by two tanks having a combined capacity of approximately 233,000 gallons.

In the M system, applicant receives water from a single M.W.D. connection having a delivery capacity of 1,350 gpm. Storage is supplied by two tanks having a combined capacity of approximately 1,222,000 gallons.

1/ W-1 and W-2 and most of the M system comprise the area served at applicant's presently effective Whittier Tariff Area (Schedule No. WHW-1) rates, and the remainder of M system comprises the area served at applicant's presently effective Merced Hills Tariff area (Schedule No. WHM-1) rates.

Water is delivered to customers in the three systems through approximately 697,630 feet of mains ranging from two inches to 16 inches in diameter.

Comparisons of Present and Proposed Rates

<u>Quantity Rates</u>	<u>Per Meter Per Month</u>		
	<u>Present</u>		<u>Proposed</u>
	<u>2/</u> <u>Whittier</u>	<u>3/</u> <u>Merced Hills</u>	<u>(Both areas)</u>
First 800 cubic feet, or less	\$2.75	\$3.20	\$3.35
Next 1,200 cu.ft., per 100 cu.ft.	.21	.27	-
Next 3,000 cu.ft., per 100 cu.ft.	.17	-	-
Next 4,200 cu.ft., per 100 cu.ft.	-	-	.22
Next 28,000 cu.ft., per 100 cu.ft.	-	.21	-
Over 5,000 cu.ft., per 100 cu.ft.	.14	-	.19
Over 30,000 cu.ft., per 100 cu.ft.	-	.19	-

From the record it appears that average residential monthly consumption is about 1,800 cu.ft. At present rates in the Whittier Tariff Area the charge for this amount of water is \$4.86; in the Merced Hills Tariff Area the charge for this amount of water is \$5.90. At the proposed rates, the customers in all of the Whittier Division would pay \$5.55 for 1,800 cubic feet.

Exhibit No. 2 is applicant's report on the division operations for the adjusted year 1967 and the estimated year 1968 including the federal income tax surcharge. Exhibit No. 4, submitted by the staff, is a report of such operations for the estimated years 1968 and 1969, without reflecting the surcharge. The staff also included comparisons between its estimate of operating results for the year 1968 with the applicant's estimate of such results excluding from the applicant's estimates, the effects of surcharge.

2/ Decision No. 65460 dated May 28, 1963, in Application No. 45131.
3/ Decision No. 64572 dated November 22, 1962, in Application No. 43905.

The following tabulations summarize the earnings data contained in Exhibits Nos. 2 and 4 for the year 1968, including the staff's estimates of 1969 operations at present and proposed rates. The rates of return shown do not reflect the effect of the 10% income tax surcharge.

Estimated 1968 Summary of Earnings				
Item	Present Rates		Proposed Rates	
	Company	Staff	Company	Staff
Operating Revenues	\$ 904,209	\$ 919,700	\$1,080,188	\$1,099,350
<u>Operating Expenses</u>				
Oper. & Maint. Exp.	466,860	481,600	467,451	481,600
Admin. & Gen. Exp.	115,852	114,220	117,337	115,740
Depreciation Exp.	95,886	97,090	95,886	97,090
Taxes Other than Income	98,406	95,360	98,406	95,360
Income Taxes	(17,751)	(13,510)	72,052	78,500
Total Oper. Exp.	\$ 759,253	\$ 774,760	\$ 851,132	\$ 868,290
Net Oper. Revenue	144,956	144,940	229,056	231,060
Rate Base	2,889,666	2,910,700	2,889,666	2,910,700
Rate of Return	5.02%*	4.98%	7.93%*	7.94%

(Red Figure)

* With the surcharge included in income taxes, the applicant's rates of return are 5.06% at present rates and 7.70% at proposed rates.

Staff Estimated Summary of Earnings for 1969		
Item	Present Rates	Proposed Rates
Operating Revenues	\$ 935,550	\$1,118,350
<u>Operating Expenses</u>		
Operating and Maintenance Expenses	500,500	500,500
Admin. & General Expense	119,360	120,910
Depreciation Expense	100,800	100,800
Taxes Other than Income	100,630	100,630
Income Taxes	(22,360)	72,460
Total Operating Expenses	\$ 798,930	\$ 895,300
Net Operating Revenue	136,620	223,050
Rate Base	2,959,000	2,959,000
Rate of Return	4.62%	7.54%

(Red Figure)

It should be noted that the foregoing figures are all estimates based on expert opinion. Inasmuch as the estimated results for 1968 are so close, we will adopt in toto the staff's estimates of operations for 1968 and 1969 corrected for a mathematical error in the computation of taxes at present and proposed rates. We find that each of the staff's estimates, corrected as above stated, is reasonable. The staff's estimates for 1968 and 1969, corrected, will be used for the purposes of this decision.

Rate of Return

The applicant has requested a rate of return of 7.70 percent (7.93 percent exclusive of the federal surcharge). In November, 1962, the Commission found that a rate of return of 6.5 percent in the Merced Hills Tariff Area (Decision No. 64572, supra) was reasonable and in May, 1963, the Commission found that a rate of return in the Whittier Tariff Area of 6.5 percent was reasonable (Decision No. 65460, supra). In this proceeding, the staff recommends a rate of return between 6.7 percent and 7.0 percent.

The staff estimates indicate that applicant's capitalization as of June 30, 1969, may be as follows:

Long Term Debt	\$ 8,500,000
Preferred Stock*	1,300,000
Common Stock and Surplus	3,385,935
Advances for Construc.	1,656,144
Contributions	1,127,780
Totals	<u>\$15,969,859</u>

* Excluding \$37,500 worth of shares to be retired in 1969.

Table No. 1 in Exhibit No. 6 shows that between 1957 and September 1968, the book value per share of applicant's common stock showed a steady increase.

Table No. 6 shows that for the four 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 No. 10 shows that on applicant's June 30, 1969, capitalization, an assumed earnings on common equity of 9.89 percent (earnings for the 12 months ended September 30, 1968) would produce an over-all cost of capital of 6.21 percent.

Table No. 11 shows that as of June 30, 1969, applicant's cost of total capital would be 6.69 percent based on an assumed allowance on common stock equity of 11.75 percent.

Exhibit No. 6 shows that the allowance for common stock equity is, of necessity, a judgment figure based, among other things, on the following considerations:

(a) Applicant is operating in a growth area in California with resulting need for construction funds.

(b) The increase in debt costs which will result in an increased imbedded cost of debt from 4.36 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 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 7 percent is reasonable for the future. Said rate of return will be adequate to service the present and anticipated fixed capital and provide a rate of return on equity within the range of 12.75 percent to 13 percent.

A staff engineer made a study of the applicant's trend in the rate of return in the Whittier Division between 1962 and 1967 (Exhibit No. 5). Between 1962 and 1963 the rate of return declined by 0.41 percent. Between 1963 and 1964 the rate of return declined by 0.30 percent. Between 1964 and 1965, the rate of return increased by 0.61 percent. Between 1965 and 1966 the rate of return declined by 0.93 percent. Between 1966 and 1967 the rate of return declined by 0.36 percent. The average annual effect between 1962 and 1967 was a decline in the rate of return of 0.28 percent. The staff's estimated results of operation show that between the year 1968 and the year 1969 there will be a decline of 0.36 percent in the rate of return.

The applicant calculated that between 1962 and 1969 there has been a cumulative attrition in its rate of return of 1.88 percent or approximately 0.27 percent per year.

We find that there is an annual decline in applicant's rate of return of approximately 0.30 percent. With the indicated trend in rate of return, a rate of return of 7.3 percent for the test year 1969 on the estimated rate base of \$2,959,000, should produce an average rate of return of 7 percent for the years 1969, 1970 and 1971. We find that a rate of return of 7.3 percent when applied to

the 1969 estimated average rate base of \$2,959,000 for the Whittier Division to be fair and reasonable.

The foregoing adopted results of operation at present and proposed rates do not consider the 10 percent surcharge to federal income taxes. Unless extended the surcharge is applicable to the first six months of 1969, since it is presently scheduled to expire on June 30. Based on the results of operation adopted herein, the surcharge for general metered service for the future will be 1.26 percent. We find the request for the surcharge is reasonable and it will be authorized.

Findings

On the evidence, the Commission finds that:

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

2. Revenues for the year 1969 at present and proposed rates will be as follows:

<u>Present Rates</u>	<u>Proposed Rates</u>
\$935,550	\$1,118,350

3. Operating and maintenance expenses for the year 1969 at present and proposed rates will be \$500,500.

4. Administrative and general expenses for the year 1969 at present and proposed rates will be as follows:

<u>Present Rates</u>	<u>Proposed Rates</u>
\$119,360	\$120,910

5. Depreciation expense for the year 1969 will be \$100,800.

6. Taxes other than on income will be \$100,630 for the year 1969.

7. Income taxes for the year 1969 will be (\$22,360)* at present rates and \$72,460 at proposed rates.

8. Applicant's average depreciated rate base will be \$2,959,000 in the year 1969.

9. The rates of return using the foregoing figures listed in Findings Nos. 2 through 8 above will be 4.62 percent at present rates and 7.54 percent at proposed rates in 1969.

10. The rate of return for the year 1969 estimated at present rates for the Whittier Division is deficient and applicant is in need of financial relief. However, the estimated rate of return of 7.54 percent, which would be produced by the rates proposed in the application, is excessive. The application should be granted in part and denied in part.

11. There is an annual attrition in applicant's rate of return of 0.3 percent. With the indicated trend in rate of return a rate of return of 7.3 percent when applied to the 1969 estimated average

(Red Figure)*

rate base of \$2,959,000 should produce an average rate of return of 7.0 percent for the near future. We find a rate of return of 7.3 percent for the estimated year 1969 when applied to the rate base of \$2,959,000 to be fair and reasonable.

12. 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 \$1,103,400 in gross annual revenues, excluding revenues required for the 10 percent federal income tax surcharge, an increase of \$167,850 or approximately 18 percent of the gross annual revenues which would be produced at present rates. When the authorized revenues are related to the rate base of \$2,959,000 which is just and reasonable, after deducting operating expenses, depreciation and taxes, an average rate of return of 7.0 percent will result into the near future. We find such rate of return to be reasonable. The present rates, insofar as they differ from the herein authorized rates, are for the future unjust and unreasonable.

13. In addition to the increased rates found reasonable, applicant should be authorized to recover sufficient funds to compensate for the 10 percent federal income tax surcharge. The rates and charges and the rate increase authorized by this decision should be further modified by the addition to the general metered service billings of 1.26 percent thereof to permit applicant to recover the future effect of said surcharge. We find the temporary surcharge to the billings is reasonable and should be authorized.

The Commission concludes that the application should be granted to the extent set forth in the order which follows, and in all other respects it should be denied.

O R D E R

IT IS ORDERED that:

1. San Gabriel Valley Water Company is authorized to file with this Commission, after the effective date of this order and in conformity with General Order No. 96-A, the schedule of rates applicable to its Whittier Division attached hereto as Appendix A, and concurrently to cancel its present Schedules Nos. WEW-1 and WHM-1. Such filing shall comply with General Order No. 96-A. The effective date of the new tariff shall be four days after the date of filing. The new tariff 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 3rd day of JUNE, 1969.

William J. ...
President
...
...
Commissioners

APPENDIX A

Schedule No. WH-1 (T)

Whittier DivisionGENERAL METERED SERVICE (D)APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Whittier, Pico-Rivera, Montebello, and Santa Fe Springs, and vicinity, Los Angeles County.

RATES

Quantity Rates:	Per Meter Per Month	
First 800 cu.ft. or less	\$ 3.25	(I)
Next 4,200 cu.ft., per 100 cu.ft.22	(C)
Over 5,000 cu.ft., per 100 cu.ft.19	(C)
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 3.25	(I)
For 3/4-inch meter	4.50	(I)
For 1-inch meter	7.00	(C)
For 1 1/2-inch meter	12.00	(I)
For 2-inch meter	17.50	(C)
For 3-inch meter	32.00	—
For 4-inch meter	52.00	—
For 6-inch meter	95.00	(C)
For 8-inch meter	125.00	(N)
For 10-inch meter	175.00	(N)

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 1.26 percent. (I)