

ORIGINAL

Decision No. 75763

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
VALLECITO WATER COMPANY,
a California corporation,
for authorization to increase its
rates charged for water service.

Application No. 50498
(Filed August 21, 1968)
(Amended December 6, 1968)

William Lassleben, Jr., Walker Hannon
and Tom G. Richards, for applicant.
Graham A. Ritchie, for the City of
Industry; James T. Knowles,
Mrs. Gordon F. Reid, and David J. Neville,
protestants.
Leonard L. Snaider, Counsel, J. E. Johnson
and Raymond Heytens for the Commission
staff.

O P I N I O N

Vallecito Water Company (applicant) seeks authority to increase its charges for general metered service; to change from meter minimum billing charge for such service to a service charge type of billing; and to increase its irrigation service rates.^{1/} Public hearing was held before Examiner Rogers in La Puente on February 5 and 6, 1969. Copies of the application were served and notice of the hearing was published and posted as required by this Commission. At the conclusion of the hearing the parties were given permission to file concurrent briefs. The briefs were filed and the matter was submitted. It is ready for decision.

^{1/} By the amendment to the application applicant seeks interim relief. This amendment was filed on December 6, 1968. Hearings on the original application were held on February 5 and 6, 1969.

Protests

The City of Industry, with the consent of the applicant, presented a group of letters (Exhibit No. 2) from industrial users protesting the proposed general metered rate increase on the ground that it is excessive. The City's attorney also addressed a letter, dated September 12, 1968, to the Commission stating that the applicant failed to maintain sufficient capacity to serve the needs of the City; that the applicant has passed on to its consumers exorbitant costs related to the expansion of its facilities; and that as recently as September 26, 1967, applicant increased its rates. No sworn evidence was presented by the City. ✓

Mrs. Gordon Reid, a resident at Hacienda Heights, protested the proposed increase. She testified that her pressure is too low to permit use, for example, of a dishwasher and washing machine at the same time; that her home is two doors from the end of the transmission main and she gets lots of sand in her water; that she complained to the applicant; and that an employee of applicant checked and told her she would have to learn to live with the problem. ✓

Mr. James T. Knowles, also a resident of Hacienda Heights, had a similar complaint about the pressure but not the rates. It was his view he should get what he pays for.

General Information

Water service in the Vallecito Water Company service area had its beginning in 1912 when the Whittier Extension Company acquired several tracts for subdivision as agricultural properties.

Agricultural development began with the planting of avocado, citrus and walnut trees, together with truck garden crops and melons.

In 1914 the mutual water company established rates for domestic service. At that time the facilities included two wells, three reservoirs and over 100,000 feet of pipelines. A substantial expansion of the service area took place in 1938. Subsequently there were several annexations to the service area.

In 1956 the applicant was incorporated for the purpose of acquiring the properties of the mutual water company and to operate them as a public utility. A certificate of public convenience and necessity was granted by the Commission and rates were established for irrigation service and general metered service as well as special types of service such as public fire protection and construction water.

Beginning about 1950 the properties served by the mutual water company were being converted from agricultural use to residential subdivisions. At the time that the applicant began its operation approximately 80 percent of the service area was devoted to agricultural use. Presently only 6 percent of the original service area of the applicant is devoted to agricultural use.

A major addition was made to the service area in 1957 when approximately 750 acres at the north end of the system located in the City of Industry were added for potential residential and industrial development. Recently several changes have taken place in the south end of the service area on the slopes of the Puente Hills. Although service had been established to elevations

approaching 1,200 feet in the center of the south end of the service area, the boundaries in the vicinity of the southeast corner were established at the 600 and 650 foot contours. As a result of the establishment of boundaries along these contours, there were two island areas excluded from the area for which the applicant was obligated to provide service. Several modifications have been made in this portion of the service area designed to provide a means of serving all of the area in that vicinity not heretofore allocated to any specific water utility. These changes have resulted in some exchange of territory with Suburban Water Systems and have provided applicant with a service area with boundaries such that extensions can be made to the extremities without undue financial or physical burden.

Board of Directors

The present members of the Board of Directors of applicant, Leah Burrell, Walker Hannon, Howard Downs, John E. Skelton and Richard R. Entwistle, were elected to office at a special meeting of stockholders held April 18, 1967.

Officers

The principal officers of the applicant are Walker Hannon, vice president, Tom Richards, secretary and Kenneth Deitz, assistant secretary and assistant treasurer.

Office

The main office of the applicant is in the City of Industry in Los Angeles County and is close to the center of the applicant's service area. This office serves as the headquarters for the

manager and office employees and for customer inquiries and collections. All accounting, engineering, customer, general office and corporate records are retained here.

Shops and Yard

Field crews are dispatched from the Los Robles booster plant where the shops are located and where the equipment and transportation equipment is garaged. Shops include a meter repair shop and an automotive and gas engine repair shop. Major gas engine machine work is contracted with Western States Engine Service. The Los Robles booster plant also serves as storage space for pipe, valves and other small materials and supplies.

Operating Practices

A full staff is employed by the applicant to carry out operation and maintenance functions as required. Outside services are employed for the more complex engineering work, auditing, and legal counsel. Major construction work is performed by contractors employed through competitive bidding. All accounting is performed by personnel at the main office. Bills for general metered service are rendered bi-monthly. Public fire protection service is billed monthly. Post card billing with ledger and card system is used for all billing.

The Water Supply

The water comes from six wells located north of the service area and having a combined production of approximately 7,200 gallons per minute. Applicant has seven reservoirs with a combined capacity of 5,450,000 gallons.

The Service Area

The service area varies in altitude from approximately 300 feet to approximately 1,200 feet, with the higher elevations being in the southern portion...

Customers

Applicant furnished water to approximately 4,900 general metered, irrigation and fire protection customers at the end of the year 1968, exclusive of fire hydrants.

Summaries of Earnings

The applicant prepared a revenue requirement study, filed it with the application and served it on the staff. The staff prepared its study (Exhibit No. 3) based thereon. On the first day of hearing, the applicant filed a revised revenue requirement study (Exhibit No. 1). The staff's figures have been revised to give consideration to the effects of the applicant's revised study.

The following are summaries of earnings for 1968 at present and proposed rates as estimated by the applicant (Exhibit No. 1) and the staff:

Comparisons of the Staff and Applicant Summaries of Earnings for 1968				
Item	Present Rates		Proposed Rates	
	Staff	Applicant	Staff	Applicant
Operating Revenues	\$ 371,830	\$ 360,600	\$ 501,360	\$ 485,400
<u>Operating Expenses</u>				
Operating & Maint. Exp.	150,920	153,610	151,820	154,610
Admin. & Gen. Exp.	34,410	42,020	34,410	42,020
Depreciation	66,080	67,280	66,080	67,280
Taxes Other than Income	56,320	68,150	56,880	68,850
Income Taxes	160	100	54,800	50,980**
Total Operating Expenses	307,890	331,160	363,990	383,740
Net Revenue	63,940	29,440	137,370	101,660
Rate Base	1,243,370	1,355,840	1,243,370	1,355,840
Rate of Return	5.14%*	2.17%*	11.04%*	7.5%**

* Without 10% surcharge

** With 10% surcharge

It should be noted here that the applicant did not itemize the expense which it would incur in arriving at the 7.5 percent rate of return set forth above. Its evidence consisted of an estimate of revenues totaling \$485,400, an estimate of operating expenses totaling \$197,330, depreciation expense totaling \$67,280, and taxes totaling \$119,830, giving a claimed net income of \$101,660.

Revenues

A comparison of the revenues for 1968 at present and proposed rates as estimated by the applicant and the staff is as follows:

Comparisons of the Staff and Applicant Revenues for 1968				
Item	Present Rates		Proposed Rates	
	Staff	Applicant	Staff	Applicant
Commercial	\$ 342,510	\$ 338,580	\$ 466,690	\$ 460,280
Irrigation	14,000	6,900	18,550	9,200
Public Fire Protec.	12,650	12,450	12,650	12,450
Other	2,670	2,670	3,470	3,470
Total	\$ 371,830	\$ 360,600	\$ 501,360	\$ 485,400

The difference in the estimated irrigation revenues is mainly due to the fact that the applicant assumed a loss in irrigation customers for 1968 from 1967 whereas the staff used the same number of irrigation customers for 1968 as existed in 1967. We find that the staff's estimates of irrigation revenues at present and proposed rates are reasonable and will be adopted.

The staff used a larger number of commercial customers than the applicant based on later information than was available to the applicant. The applicant's witness testified that the actual number of commercial customers in 1968 was 4,692 instead of the 4,668 he estimated in his report. The staff used an average number of 4,725 commercial customers in 1968. We find that the average number of commercial customers in the year 1968 was 4,700. We further find that the average annual revenue per commercial customer was \$72.49 at the present rates and would have been \$98.77 at the proposed rates.

We find that applicant's revenues for the adjusted year 1968 at present and proposed rates are as follows:

Item	Present Rates	Proposed Rates
Commercial	\$ 340,703	\$ 464,219
Irrigation	14,000	18,550
Public Fire Protection	12,650	12,650
Other	2,670	3,470
Total	\$ 370,023	\$ 498,889

Operating and Maintenance Expenses

The applicant's estimates of operating and maintenance expenses for 1968, at proposed rates compared to the staff's estimates of such expenses, are as follows:

Item	Applicant	Staff
Water Replenishment and Makeup Assessment	\$ 24,580	\$ 21,530
Other Supply	12,480	12,740
Purchased Power	39,680	41,150
Other Pumping	24,350	24,680
Water Treatment	100	100
Transmission and Distribution	20,530	19,000
Customer Accounting	29,180	29,210
Uncollectibles *	3,710	3,410
	\$154,610	\$151,820

* At present rates, the applicant estimated the uncollectibles will total \$2,710, and the staff estimated they will total \$2,510.

The major differences in estimates are for water replenishment assessments, purchased power, and distribution expenses.

The upper San Gabriel Valley Municipal Water District levies assessments on all water suppliers, including applicant, pumping water from wells in the district. The assessment water

replenishment year is the period beginning on July 1 and ending on June 30. The rate varies from year to year. The amount of water pumped by applicant varied from 3,930 acre-feet in 1967 to 4,058 acre-feet in 1966, and the cost varied from \$2.20 per acre-foot for the three fiscal years ending on June 30, 1967 to \$3.30 per acre-foot for the fiscal year which ended on June 30, 1968. The applicant estimated the assessment to be \$4.40 per acre-foot for the fiscal year ending June 30, 1969, and the consumption to be 4,003 acre-feet. The actual rate was \$3.45. This rate was used by the staff. The applicant allowed \$6,970 for makeup assessments. The staff allowed \$7,350.

We find the staff's estimates of water replenishment and makeup assessment charges for 1968 are reasonable and they will be adopted for the purposes of this decision. The total amount allowed will be \$21,530.

The staff's estimate of purchased power exceeds the applicant's by \$1,470 due to the fact that the staff estimated a higher water usage than applicant. The applicant's estimate for 1968 is \$1,616 in excess of that recorded for 1967 but lower than that for 1966. The staff's estimate is \$3,086 in excess of the 1967 recorded figure.

We find that the staff's estimate of purchased power for 1968 is reasonable and it will be adopted for the purposes of this decision.

The applicant's estimate of transmission and distribution expenses for 1968 exceeds those of the staff by \$1,530. Both are estimates and both are reasonable.

We find that for 1968 the transmission and distribution expenses will amount to \$19,765.

We find that for the adjusted year 1968 at present rates applicant's operating and maintenance expenses will be as follows:

Item	Amount
Water Replenishment Assessment	\$ 21,530
Other Supply	12,740
Purchased Power	41,150
Other Pumping	24,680
Water Treatment	100
Transmission and Distribution	19,765
Customer Accounting	29,210
Uncollectibles *	2,510
Total	<u>\$151,685</u>

* \$3,410 at the proposed rates.

Administrative and General Expenses

The applicant's estimate of such expenses exceeds the staff's by \$7,610. The estimates are itemized as follows:

Item	Staff	Applicant
Administrative and General Salaries	\$12,200	\$13,000
Office Supplies	5,620	5,640
Property Insurance	3,900	3,900
Injuries and Damages	4,800	4,800
Franchise Requirements	50	50
Regulatory Commission Expense	1,250	6,330
Outside Services	2,990	4,700
Miscellaneous	1,800	1,800
Rents	1,800	1,800
Total	<u>\$34,410</u>	<u>\$42,020</u>

The amount allowed by applicant for administrative and general salaries appears reasonable based on amounts allowed in prior years. We find the applicant's estimate is reasonable.

The applicant's estimate of regulatory commission expense is reasonable with the exception that the total amount, which is for the preparation of reports, and legal fees connected with the hearing, should be spread over five years instead of three years. We find that \$3,800 is a reasonable sum to allow for regulatory commission expense. ✓

We find that the staff's estimate of the cost of outside services is reasonable.

We find that in the adjusted year 1968 applicant's administrative and general expenses will total \$37,760. We find that this is a reasonable sum to allow for such expenses.

Depreciation Expense

The staff estimated the 1968 depreciation expense would be \$66,080 and the applicant estimated \$67,280. Both used the same depreciation rates; however, the applicant conceded an error in its annual rate for meters, an item recorded at \$255,573 at the beginning of the year 1968. We find that the depreciation expense for 1968 will be \$66,080.

Taxes Other than Income

The applicant's and the staff's estimates of such taxes for 1968 at present rates are as follows:

Item	Applicant	Staff
Ad Valorem Taxes	\$61,250	\$49,680
Payroll Taxes	5,020	4,970
Franchise Taxes, Present Rates	1,880 (a)	1,670 (b)
Total Taxes	\$68,150	\$56,320

(a) \$2,580 at proposed rates

(b) \$2,230 at proposed rates

The applicant's larger estimate of ad valorem taxes was made early in 1968 and assumed a large increase from the prior years. The staff's estimate was based on later information.

We find that the staff's estimates of non-income taxes for the year 1968 at present and proposed rates are reasonable and they will be adopted for the purposes of this decision.

Income Taxes

Based on the foregoing findings, we find that applicant's income taxes for the year 1968 will be \$100 at present rates and \$54,401 at proposed rates, exclusive of an allowance for the 10 percent federal surcharge. This finding is based on the use by applicant of accelerated depreciation for all qualifying future plant, which we find to be reasonable. The income taxes also reflect a smaller amount for investment tax credit to conform with anticipated slackening of plant replacements, as explained under rate of return.

Rate Base

The applicant's estimated average rate base for 1968 and the staff's estimated average rate base for 1968 are as follows:

Item	Applicant	Staff
Utility Plant in Service	\$3,014,860	\$3,014,860
Construction Work in Progress - Avg.	99,490	99,490
Materials and Supplies	8,600	8,000
Working Cash	33,200	30,000
Total	\$3,156,150	\$3,152,350
<u>Modifications - Average</u>		
Advances for Construction	\$1,035,770	\$1,105,000
Contributions in Aid of Construction	245,230	265,790
Total	\$1,281,000	\$1,370,790
Depreciation Reserve - Average	519,310	538,190
Total	\$1,800,310	\$1,908,980
Average Rate Base	\$1,355,840	\$1,243,370

The allowances for materials and supplies and working cash are judgment figures. The two estimates are each reasonable. We find that the staff's estimates should be used for the purposes of this decision.

The applicant estimated average advances for construction and contributions in aid of construction for 1968 based on the end of the year 1967 records. The staff's estimates were based on recorded data as of September 30, 1968. We find that the staff's estimates of average advances for construction and contributions in aid of construction are reasonable and they will be adopted for the purposes of this decision.

The applicant's and the staff's beginning of the year 1968 depreciation reserve were each \$511,378. The applicant's end of the year reserve was estimated to be \$527,232 with an average for the year of \$519,305, including \$74,814 for accruals and \$58,960 for retirements. The staff estimated the end of the year reserve to be \$564,998 with an average for the year of \$538,188, including \$73,620 for accruals and \$20,000 for retirements. The staff had the benefit of later recorded data. We find that the staff's estimate of average depreciation reserve is reasonable and it will be adopted for the purposes of this decision.

We find that for the year 1968 the average rate base will be \$1,243,370.

Adopted Summaries of Earnings at Present and Proposed Rates Without 10 Percent Income Tax Surcharge		
Item	: Present Rates	: Proposed Rates
Revenues	\$ 370,023	\$ 498,889
<u>Expenses</u>		
Operating and Maintenance	151,685	152,585
Administrative and General	37,760	37,760
Depreciation	66,080	66,080
Taxes Other than Income	56,320	56,880
Income Taxes	100	54,401
	\$ 311,945	\$ 367,706
Net Revenue	\$ 58,078	\$ 131,183
Rate Base	\$1,243,370	\$1,243,370
Rate of Return	4.67%	10.55%
<u>Rate of Return</u>		

The applicant requests a rate of return of 7.5 percent on the basis of its estimated 1968 operating results with revenues at proposed rates of \$485,400 and rate base of \$1,355,840.^{1/} The high rate of return is requested for the reason that the adjusted rate of return has declined from 3.58 percent in 1967 to 2.17 percent in 1968 according to the applicant's figures.

The staff financial witness recommended a rate of return of 7.0 percent on the estimated rate base of \$1,243,370; giving net operating revenues of approximately \$87,000 and a return of 8.1 percent on common equity.

The staff financial witness's estimates were based on the 1968 operations. He conceded that slippage could occur in varying degrees from several causes. The staff engineer

^{1/} Applicant's 1968 estimated operating results include as an expense the 10% income tax surcharge.

stated that the applicant's estimated rate of return for 1968 at present rates is 5.14 percent and that this will reduce to 4.63 percent in 1969, and that at applicant's original proposed rates the rate of return would be 13.19 percent in 1968 and 12.53 percent in 1969. The engineer witness said that the decline in the rate of return between 1968 and 1969 is due almost entirely to the dollar increase in plant per customer and related expenses, as the result of replacement of old steel mains, together with changes in pumping equipment consistent with recent history of plant growth. He estimated the decline in rate of return could continue for a period of three to five years if the high level of replacement continues, but as a practical matter, because of the applicant's financial position, the high level of replacements will not occur. Under these conditions, he concluded that the decline would be about 0.1 percent per year.

The staff's accounting witness in this proceeding recommended a rate of return of 7 percent as being fair and reasonable and indicated that if such a return were applied to the staff's rate base of \$1,243,370, a return on common equity of 8.1 percent would be realized. In making such computation, he used the debt and equity figures shown on the September 30, 1968 balance sheet, except that the \$275,000 note payable to Salesman Realty was regarded as equity capital. Such treatment is at variance with that used by the staff's engineering witness in his tax calculation where it is shown that the interest on said note is regarded as a deductible item for the purpose of computing allowable taxes based on income. For the

purpose of this proceeding we will use the recorded September 30, 1968 balances for equity and debt in arriving at a decision as to a reasonable rate of return.

The record in this proceeding shows that of the \$2,614,160 depreciated investment in properties includable in the rate base before modifications, \$1,370,790, or 52 percent, has been financed by advances for construction and contributions in aid of construction. The remaining \$1,243,370, the amount of the rate base, utilizing information contained in the record, was financed by:

Long-term debt	\$ 37,500
Short-term debt	508,167
Total debt	<u>545,667</u>
Common equity	545,382
Subtotal	<u>1,091,049</u>
Other (presumably current liabilities)	<u>152,321</u>
Total rate base	<u>\$1,243,370</u>

Applying the 7 percent rate of return recommended by the staff to the staff's rate base produces \$87,036 of net operating revenue. Deducting the interest requirement of \$38,463, shown in Exhibit No. 3, leaves \$48,573 available for common equity which equates to a return of approximately 9 percent on the September 30, 1968 common equity balance of \$545,382.

While we recognize that a return of 9 percent on common equity can, under today's economic conditions, be regarded

as somewhat low, it is necessary in this proceeding to recognize that applicant's current outstanding short-term debt is past due and subject to an 8% interest rate requested in a suit filed for collection and that any refunding program the company might undertake will alter its capital structure and possibly the effective interest rate on its debt. Under these conditions and for the purpose of this proceeding, we find that a rate of return of 7 percent applied to the adjusted 1968 rate base of \$1,243,370 is reasonable. We further find that there will be a decline in rate of return of approximately 0.1 percent per year over the next few years. With the indicated trend in rate of return, a return of 7.2 percent for the test year 1968, when applied to the estimated 1968 average rate base of \$1,243,370, should produce an average future rate of return of 7 percent into the 1969, 1970 and 1971 years. We find a return of 7.2 percent, when applied to the estimated average rate base of \$1,243,370, 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. The income tax surcharge is applicable to and effective for the period January 1, 1968 through June 30, 1969, unless extended. Sufficient revenues should be added to the herein authorized revenues to offset the future effect of the tax increase. This increase will offset only the future effect of the tax increase and is not designed to recoup any part of the increased tax on net revenue produced prior to the effective date of the increased water rates authorized by this decision.

Rate Spread

The applicant's presently authorized general metered rates are:

<u>Quantity Rates</u>	<u>Per Meter Per Month</u>
First 1000 cu.ft. or less	\$ 2.80
Next 2000 cu.ft., per 100 cu.ft. ....	.21
Next 5000 cu.ft., per 100 cu.ft. ....	.16
Next 12,000 cu.ft., per 100 cu.ft. ....	.11
Over 20,000 cu.ft., per 100 cu.ft. ....	.09
 <u>Minimum Charge</u>	
For 5/8 X 3/4 inch meter	\$ 2.80
For 3/4 inch meter	3.35
For 1 inch meter	4.40
For 1 1/2 inch meter	6.90
For 2 inch meter	9.10
For 3 inch meter	14.00
For 4 inch meter	21.00

Its presently authorized irrigation rates are:

Zone I

<u>Quantity Rates</u>	<u>Per Connection</u>
First 1800 cu.ft. or less	\$ 3.70
Over 1800 cu.ft., per 100 cu.ft. ....	.086
Minimum Charge per irrigation delivery	3.70

Zone II

<u>Quantity Rates</u>	
First 1800 cu.ft. or less	\$ 4.40
Over 1800 cu.ft., per 100 cu.ft. ....	.114
Minimum charge per irrigation delivery	4.40

The Zone I and Zone II areas are shown on Fig. 13-1 on Exhibit No. 1. Applicant is requesting that zone rates also be applied to the general metered service customers, using the boundaries that now apply to the irrigation customers. The staff concurred with this proposal and also indicated that the 4-cent differential in quantity rates between zones was reasonable. No

change in zone boundaries is proposed by the applicant or the staff except that two new subdivisions have been added in the higher elevation in the southern end of the service area (Decision No. 75014, dated November 26, 1968 in Application No. 50485).

Applicant proposes to add rates for six and eight inch meters. It proposes a service charge type rate schedule for general metered service as follows:

<u>Service Charge</u>		<u>Per Meter Per Month</u>	
		Zone I	Zone II
For 5/8 X 3/4 inch meter		\$ 2.80	\$ 2.80
For 3/4 inch meter		3.35	3.35
For 1 inch meter		4.40	4.40
For 1 1/2 inch meter		6.90	6.90
For 2 inch meter		9.10	9.10
For 3 inch meter		14.00	14.00
For 4 inch meter		21.60	21.60
For 6 inch meter		30.00	30.00
For 8 inch meter		40.00	40.00

Quantity Rates

First 20,000 cu.ft., per 100 cu.ft. ....	.17	.21
Over 20,000 cu.ft., per 100 cu.ft. ....	.135	.175

Applicant's proposed irrigation rates are:

<u>Quantity Rates</u>	<u>Per Service Connection</u>	
	Zone I	Zone II
First 1800 cu.ft. or less	\$ 4.90	\$ 5.85
Over 1800 cu.ft., per 100 cu.ft. ....	.114	.151
Minimum charges per irrigation delivery ..	4.90	5.85

The staff recommended that the service charge type of tariff be authorized. It recommended that whatever rates are authorized, the following ratios for the various service charges be used:

<u>Meter Size</u>	<u>Ratio</u>
For 5/8 X 3/4 inch meter	1.0
For 3/4 inch meter	1.1
For 1 inch meter	1.5
For 1 1/2 inch meter	2.0
For 2 inch meter	2.7
For 3 inch meter	5.0
For 4 inch meter	6.8
For 6 inch meter	11.3
For 8 inch meter	16.8

The staff also recommended that the two new subdivisions, Tracts Nos. 29803 and 29942, situated in the extreme southern portion of the service area be included in the Zone II rates.^{2/}

We find that the staff's recommended rate ratios are reasonable and should be applied in determining whatever general metered service rates are authorized by this decision.

We further find that Tracts Nos. 29803 and 29942 should be included in the Zone II area.

Staff Recommendations

The staff witnesses recommended that:

1. The service charge ratios heretofore set forth for general metered service rates be used.
2. The two subdivisions certificated by Decision No. 75014 be included in Zone II.
3. The applicant should be required to file certain new rules and customer forms.
4. The surcharge for elevation differential (Zone II) should be \$0.04 per Ccf on the quantity rates.
5. The rate of return be 7 percent and if there is an allowance for slippage it should be established at not to exceed .3 percent per year.

We find that all the above recommendations are reasonable and should be required except No. 5. We find that slippage amounts to .1 percent per year and that over a period of four years the return will decline from 7.2 percent to 6.9 percent for an average of approximately 7 percent for the years 1969, 1970 and 1971.

^{2/} Applicant was authorized to serve the tracts by Decision No. 75014, dated November 26, 1968, in Application No. 50485.

Commission's Requirements Which Have Not Been Complied With

The records of this Commission show that applicant has been ordered to reverse its stock transfer records relative to 18,003 shares of its common stock, and that the transfer of said shares was held by this Commission to be null and void (Decision No. 71795, dated December 30, 1966, in Case No. 8086, 66 Cal. PUC 663-664). A petition for rehearing was denied by this Commission. The California Supreme Court and the United States Supreme Court have denied certiorari. Applicant has not complied with Decision No. 71795. We find that any rate relief granted by this Commission to applicant should be held in abeyance until applicant has revised its stock transfer records relative to the 18,003 shares of its stock transferred to William J. Hickey and has cancelled the Stock Certificate No. 1024 reflecting such transfer.

In addition to the foregoing referred to 18,003 shares of stock, applicant has failed to comply with Ordering Paragraph No. 2 of Decision No. 73949, dated April 9, 1968, in Case No. 8086, which requires the applicant to reverse its stock transfer records relative to an additional 760 shares of its common stock transferred to Utility Investment Company and San Gabriel Valley Water Company. Decision No. 73949 has not been complied with. We find that any rate increase granted by this Commission to applicant should be deferred until applicant has reversed its stock transfer records relative to the 760 shares of its common stock transferred to Utility Investment Company and San Gabriel Valley Water Company, and has cancelled the stock certificate or certificates representing such 760 shares of its common stock.

Staff counsel has pointed out that in Decision No. 72500, dated May 23, 1967, in Applications Nos. 48753 and 48754, this Commission denied applications to sell bonds or issue promissory notes based on the finding, among others, that "Vallecito's financing applications should be denied because the persons who authorized the filing of the applications had no authority to so authorize, ---." This finding was based mainly on the voting by William J. Hickey of his shares of stock, referred to above, in the election of the applicant's directors. Hickey still holds the stock referred to and the same defects in the election of directors remain. Staff counsel suggests either that the application be dismissed or that the effective date of the decision be postponed until duly elected management validates the filing. We find that the latter alternate is reasonable and the effective date of this decision will be postponed until duly elected management has validated the filing of the application.

Findings

The Commission finds that:

1. Vallecito Water Company (applicant) is a public utility water corporation under the jurisdiction of this Commission furnishing water service to an overall total of approximately 4,900 customers in Los Angeles County.

2. Applicant proposes to increase its rates for general metered service and irrigation service. It proposes that its general metered service customers be served at two rates depending on elevation and that their rates be service charge rates. Total revenues for the estimated year 1968 will be \$370,023 at the present rates and \$498,889 at the company proposed rates.

3. Operating and maintenance expenses for the year 1968 will be \$151,685 at the present rates and \$152,585 at the applicant's proposed rates.

4. Administration and general expenses for the year 1968 will be \$37,760.

5. Depreciation expense for the year 1968 will be \$66,080.

6. Taxes other than income taxes, will be \$56,320 at the present rates and \$56,880 at the applicant's proposed rates.

7. Income taxes for the year 1968, exclusive of the 10 percent surcharge, will be \$100 at present rates and \$54,401 at company proposed rates.

8. The net revenues for the year 1968 will be \$58,078 at present rates and \$131,183 at the applicant's proposed rates.

9. Applicant's average adjusted rate base for the year 1968 will be \$1,243,370.

10. Based on the above findings, applicant's rate of return for the adjusted year 1968 will be 4.67 percent at present rates and 10.55 percent at applicant's proposed rates.

11. The rate of return applicant is receiving at the present rates is deficient and applicant is in need of financial relief. The estimated rate of return of 10.55 percent which would be produced by the rates proposed by applicant is excessive.

12. There is an annual attrition in applicant's rate of return of 0.1 percent. With the indicated trend in rate of return a rate of return of 7.2 percent, when applied to the 1968 estimated average rate base of \$1,243,370, should provide an average rate

of return of 7 percent for the years 1969, 1970 and 1971. We find a rate of return of 7.2 percent for the estimated year 1968, when applied to the rate base of \$1,243,370, to be fair and reasonable.

13. Filing of new schedules of rates for general metered service and irrigation service should be authorized. The order which follows will authorize the filing of new schedules of rates which will produce \$411,770 in gross annual revenues, excluding revenues required for the 10 percent federal income tax surcharge, an increase of \$41,747 or 9.9 percent of the gross annual revenues which would be produced at present rates. This increase is \$87,119 less than the increase sought in the application as amended. When the authorized revenues (after deducting operating expenses, depreciation and taxes) are related to the rate base of \$1,243,370, which is just and reasonable, an average rate of return of 7 percent will result over the years 1969, 1970 and 1971. 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.

14. The rate increase herein authorized should become effective when (a) applicant has revised its stock transfer records relative to the 18,003 shares of its common stock transferred to William J. Hickey as ordered by Decision No. 71795, and the 760 shares of its stock transferred to Utility Investment Company as ordered by Decision No. 73949, and (b) has filed an amendment to this application showing validation of the filing thereof by duly elected management.

15. In addition to the increased rates herein found reasonable, applicant should be authorized to recover prospectively sufficient funds to compensate for the 10 percent federal income tax surcharge. The rates and charges and the rate increases authorized by this decision should be further modified by the addition to the general metered service rates and the irrigation rates of 0.59 percent thereof to permit applicant to recover the future effect of said surcharge and insofar as the authorized rates differ from the total authorized rates, they are, for the future, unjust and unreasonable. This temporary tax additive should terminate when the surcharge is terminated.

16. The requests for a two-zone rate for general metered service and for a service charge type of rate are reasonable. There should be an additional charge of \$0.04 per Ccf for Zone II general metered service on the quantity rates.

17. Applicant's proposed irrigation rates are reasonable and should be authorized.

18. Applicant shall check the adequacy of peak demand pressures at the services for Mrs. Gordon Reid and James T. Knowles, protestants, within ninety days and report the results to the Commission.

19. The applicant should file new and up-to-date tariff service area maps, rules and customer forms.

Conclusion

The Commission concludes that the application should be granted to the extent herein set forth, and subject to the conditions contained in the order, and in all other respects it should be denied.

O R D E R

IT IS ORDERED that:

1. When Vallecito Water Company has (1) complied with Ordering Paragraphs Nos. 4, 5 and 6, of Decision No. 71795, dated December 30, 1966, in Case No. 8086, (2) complied with Ordering Paragraph No. 2 of Decision No. 73949, dated April 9, 1968, in Case No. 8086, and (3) has filed an amendment to this application showing validation of the filing thereof by duly elected management, it will be authorized by supplemental order herein to file the revised schedules of general metered service and irrigation service rates attached to this order as Appendix A, and concurrently to cancel its Schedule No. 1, General Metered Service; Schedule No. L-3M, Irrigation Service, Lower Zone; and Schedule No. U-3M, Irrigation Service, Upper Zone. Such filings shall comply with General Order No. 96-A, and shall include filings of revised tariff service area maps to delineate Zones I and II including Tracts Nos. 29942 and 29803. The effective date of the new and revised tariff sheets 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.

2. Within ninety days after the effective date hereof applicant shall report to the Commission in writing concerning the complaints of Mrs. Gordon Reid and James T. Knowles. Such reports shall contain the reasons for such complaints and descriptions of applicant's suggested or proposed remedies for said complaints.

3. Within thirty days after the effective date hereof applicant shall file new and up-to-date tariff service area maps, rules and customer forms.

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

Dated at San Francisco, California, this
10th day of JUNE, 1969.

William S. Moore, Jr.
President

David C. Norrington
X TERABAIN

Alan W. Gatov
Commissioners

Commissioner A. W. Gatov, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to general metered water service. (T)

TERRITORY

Portions of the City of Industry, and vicinity, Los Angeles County. (T)

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 2.20	(I)
For 3/4-inch meter	2.40	
For 1-inch meter	3.30	
For 1 1/2-inch meter	4.40	
For 2-inch meter	5.90	
For 3-inch meter	11.00	
For 4-inch meter	15.00	
For 6-inch meter	25.00	
For 8-inch meter	37.00	

Quantity Rates:

	Zone 1	Zone 2	
For the first 20,000 cu.ft., per 100 cu.ft. ...	\$.149	\$.189	
For all over 20,000 cu.ft., per 100 cu.ft. ...	.114	.154	(I)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month. (C)

SPECIAL CONDITIONS

1. The boundaries of the zones are delineated on the tariff service (C) area maps. Zone 1 includes areas generally lying below 700 feet elevation. Zone 2 includes areas generally above 700 feet elevation. (C)

2. Until the 10% surcharge to federal income tax is removed, bills computed under this tariff will be increased by 0.59%. (I)

APPENDIX A
Page 2 of 2

Schedule No. 3

(T)

IRRIGATION SERVICE

(T)

APPLICABILITY

Applicable to all measured irrigation service.

TERRITORY

Portions of the City of Industry, and vicinity, Los Angeles County. (T)

RATES

Quantity Rates:	Per Service Connection		
	Zone 1	Zone 2	
First 1,800 cu.ft. or less	\$ 4.10	\$ 4.90	(I)
Over 1,800 cu.ft., per 100 cu.ft. ....	.096	.127	
Minimum Charge:			
For each irrigation delivery	\$ 4.10	\$ 4.90	(I)

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

SPECIAL CONDITIONS

1. The boundaries of the zones are delineated on the tariff service area maps. Zone 1 includes areas generally lying below 700 feet elevation. Zone 2 includes areas generally above 700 feet elevation. (C)
2. Until the 10% surcharge to federal income tax is removed, bills computed under this tariff will be increased by 0.59%. (I)