

Decision No. 75879

ORIGINAL

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)
Simi Valley District.)

Application No. 50460
(Filed August 5, 1968)

O'Melveny & Myers, by Donn B. Miller, for
applicant.
David R. Larrouy, Counsel, George A. Amaroli
and Edward C. Crawford, 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 Simi Valley District.

Public hearing was held before Examiner Catey in Santa Susana on January 7, 1969, in El Monte on January 9 and in Los Angeles on April 9, 1969. Copies of the application had been served, notice of filing of the application published, and notice of hearing published and posted, in accordance with this Commission's rules of procedure. The matter was submitted on April 9, 1969, subject to receipt of a late-filed exhibit. That exhibit has since been filed.

Testimony on behalf of applicant was presented by the chairman of its board of directors, its president, its assistant to the president, its executive vice-president, its Rate and Valuation Department assistant manager and a consulting accountant.

One customer testified in his own behalf. The Commission staff presentation^{1/} was made through an accountant and three engineers.

1/ Testimony and exhibits relating to overall company operations were presented by witnesses for the staff in Application No. 50570, the San Gabriel Valley District rate proceeding. The testimony and exhibits were incorporated by reference in Application No. 50460.

Service Area and Water System

Applicant owns and operates water systems in seventeen districts and an electric system in one district, all in California. Its Simi Valley District consists of unincorporated portions of Ventura County in the Simi Valley. The service area slopes upward from the floor of the valley, ranging from approximately 800 feet to 1,300 feet above sea level. The customers are almost all in the residential, business and small industrial categories.

The water supply for this district is obtained almost entirely from connections to facilities of Calleguas Municipal Water District (CMWD), a member agency of Metropolitan Water District of Southern California (MWD). Two local wells are owned by applicant and used as emergency standby sources of supply.

The distribution system includes about 72 miles of distribution mains ranging in size up to 16-inch. There are about 6,600 metered services, 5 private fire protection services and 480 public fire hydrants. Nine reservoirs and storage tanks and six booster stations maintain system pressure and provide storage for the system.

Service

Field investigations of applicant's operation, service and facilities in its Simi Valley District were made by the Commission staff. The plant was found to be in good condition, and good service was being provided. A staff engineer testified that only two informal complaints regarding pressure or service have been registered with the Commission during the past four years. These complaints and eight disputed bills during the same period have all been resolved. The single customer who attended the hearing had no complaints regarding service.

Rates

Applicant's present tariffs include schedules for general metered service and limited metered irrigation service in the Simi Valley District, a schedule for private fire protection service, a schedule for public fire hydrant service, a schedule for construction flat rates, and a schedule for service to company employees. The metered service rates became effective in 1968 when applicant was granted a 7.36 percent interim increase to offset increased costs of purchased water.

Applicant proposes to increase its rates for general metered service and limited metered irrigation service, to change from a minimum charge to a service charge form of rates and to increase the private fire protection rate. The following Table I presents a comparison of applicant's present metered service rates, those requested by applicant, and those authorized herein.

Table I

Comparison of Monthly Rates

<u>Item</u>	<u>Present</u>	<u>Proposed#</u>	<u>Authorized</u>
General Metered Service:			
Minimum or Service Charge	\$ 3.758*	\$ 2.50*	\$ 2.50*
First 1,000 cu.ft., per 100 cu.ft.	.000*	.261	.250
Next 1,000 cu.ft., per 100 cu.ft.	.268	.261	.250
Next 3,000 cu.ft., per 100 cu.ft.	.215	.261	.250
Next 5,000 cu.ft., per 100 cu.ft.	.188	.261	.250
Over 10,000 cu.ft., per 100 cu.ft.	.188	.223	.222
Limited Irrigation Service:			
Per acre-foot	48.31	55.00	55.00

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

If the 10 percent surcharge to Federal income tax had not expired, bills computed under these rates were to have been increased by 1.61 percent.

For a typical commercial customer with average monthly consumption of 1,900 cubic feet through a 5/8 x 3/4-inch meter, the average monthly charge would increase 21 percent from \$6.17 under present rates to \$7.46 under the rates proposed by applicant. The temporary surcharge would have added \$0.12 to this average monthly charge at proposed rates. Under the rates authorized herein, the average monthly charge for the typical commercial customer will increase 18 percent to \$7.25 under the basic rates.

Applicant's present "company-wide" private fire protection service schedule excludes seven 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. 3 and the staff's Exhibit No. 8 are the estimated results of operation for the test year 1969, under present rates and under those proposed by applicant, without considering any additional expenses and offsetting revenue requirement resulting from a 10 percent surcharge to Federal income tax. For comparison, this table also shows the corresponding 1969 results of operation modified as discussed hereinafter.

Table II
Estimated Results of Operation

<u>Item</u>	<u>Test Year 1969</u>		
	<u>Applicant</u>	<u>Staff</u>	<u>Modified</u>
<u>At Present Rates</u>			
Operating Revenues	\$ 556,700	\$ 556,700	\$ 556,700
<u>Deductions</u>			
Source of Supply Expense	269,500	274,600	269,500
All Other Oper. & Maint. Exp.	52,100	52,200	52,200
Regulatory Commission Exp.	4,500	3,300	4,500
Other Direct Admin. & Gen'l. Exp.	6,700	6,700	6,700
Other Allocated A. & G. Exp.	17,100	16,100	17,000
Taxes, Excl. Franch. & Inc. Taxes	59,600	60,500	62,000
Depreciation	59,000	59,000	59,000
Subtotal	<u>468,500</u>	<u>472,400</u>	<u>470,900</u>
Local Franchise Taxes	8,600	8,600	8,600
Income Taxes	(14,900)	(18,500)	(17,700)
Total	<u>462,200</u>	<u>462,500</u>	<u>461,800</u>
Net Revenue	94,500	94,200	94,900
Rate Base	2,081,100	2,043,900	2,044,900
Rate of Return	4.54%	4.61%	4.64%
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	\$ 675,100	\$ 675,100	\$ 675,100
<u>Deductions</u>			
Excl. Franch. & Inc. Taxes	468,500	472,400	470,900
Local Franchise Taxes	10,400	10,400	10,400
Income Taxes	45,400	41,700	42,500
Total	<u>524,300</u>	<u>524,500</u>	<u>523,800</u>
Net Revenue	150,800	150,600	151,300
Rate Base	2,081,100	2,043,900	2,044,900
Rate of Return	7.25%	7.37%	7.40%
<u>At Rates Authorized Herein</u>			
Operating Revenues	-	-	658,000
<u>Deductions</u>			
Excl. Franch. & Inc. Taxes	-	-	470,900
Local Franchise Taxes	-	-	10,100
Income Taxes	-	-	33,800
Total	-	-	<u>514,800</u>
Net Revenue	-	-	143,200
Rate Base	-	-	2,044,900
Rate of Return	-	-	7.00%

(Red Figure)

From Table II it can be determined that, exclusive of any temporary increase due to an income tax surcharge, the increase in operating revenues would be 21 percent under applicant's proposed rates and will be 18 percent under the rates authorized herein. ✓

The 1969 estimates of revenues and certain expenses presented by applicant are concurred in by the staff and adopted without modification in Table II. The items of other expenses and rate base are discussed individually hereinafter.

Source of Supply Expense

Applicant's 1969 estimate of cost of purchased water reflects the \$59/AF rate payable to CMWD for the first half of the year and the \$62/AF rate payable for the second half of the year. The staff's 1969 estimate reflects expenses which would have resulted if purchases for the full year were at \$62/AF.

As discussed hereinafter under "Trend in Rate of Return", the effect of increasing CMWD rates through June 30, 1970, will be offset by other factors at applicant's current rate of growth. Applicant's actual cost of CMWD water is thus appropriate to use for the test year 1969. Applicant's estimate is adopted in Table II.

The engineer for CMWD testified that, shortly before the expiration of the \$66/AF CMWD rates for 1970-71, Feather River water will probably be available from MWD and that reduction of \$4/AF in CMWD pumping costs and another \$4/AF in cost of MWD water could result and be reflected in the 1971-72 CMWD rates charged to applicant and other purchasers. The order which follows requires applicant to advise this Commission promptly when the 1971-72 rates are established so that appropriate adjustment of applicant's water rates can be considered for service rendered subsequent to June 30, 1971.

Regulatory Commission Expense

The estimates for regulatory commission expense by applicant and the staff differ primarily in the assumed frequency of rate proceedings. The staff assumed the equivalent of a full rate proceeding every five years; whereas, the applicant assumed about a three year cycle. With the relatively frequent reviews of applicant's rates which will be necessary due to changes in CMWD rates and possible fluctuations in applicant's rate of growth in this district, applicant's estimate of average annual cost for regulatory expenses appears more reasonable and is adopted in Table II.

Allocated Administrative and General Expenses

The treatment of profits or losses from electronic data processing work which applicant performs for outside parties is discussed in detail in the recent decision in Application No. 50570, involving applicant's San Gabriel Valley District. Consistent with that decision, the 1969 staff estimate of allocated administrative and general expenses for the Simi Valley District is increased by \$900 in Table II.

Ad Valorem Taxes

In Exhibit No. 3, applicant's estimates of ad valorem taxes for 1968 and 1969 are based upon a projection of prior years' upward trend in effective composite tax rates, applied to estimated plant investment. Subsequently, when 1968-69 tax bills were received, the taxes for that fiscal year were found by applicant to be about \$2,900 higher than projected on the basis of the prior trend in tax rates. The half-year effect applicable to the calendar year 1968 was a \$1,500 increase over applicant's original estimate. In Exhibit No. 8, the staff showed the half-year effect to be a \$1,200 increase over applicant's original estimate. Applicant did not present any evidence to refute the staff's calculation for 1968.

If the 1969-70 effective tax rates increase over 1968-69 rates to the same degree originally estimated by applicant and do not increase at the steeper rate indicated by the trend from 1967-68 to 1968-69, applicant's original 1968 estimate is understated by \$2,900 by applicant's calculation, or about \$2,400 using the staff's determination of 1968-69 taxes. The staff, however, did not project either the prior upward trend nor the recent steeper trend in effective ad valorem tax rates in estimated 1969-70 taxes. Instead, the staff estimate is based upon the assumption that the effective tax rates will suddenly level off and be the same for 1969-70 as for 1968-69. As we stated in Decision No. 73686, dated February 6, 1968, in Application No. 49445:

"It is apparent that recognition of a reasonably well-defined trend in the effective rate for ad valorem taxes is more likely to produce reasonable estimates than to ignore the trend."

We do not imply that the assumption of a level trend in estimated ad valorem tax rates is always inappropriate. For example, in Decision No. 74308, dated June 25, 1968, in Application No. 49838, we said:

"The 'effective tax rate' related to utility plant in the East Los Angeles district over the past 14 years, when plotted graphically as in Exhibit No. 4-B, forms an upward sloping line for most of the period but begins to level off in 1964-1965. The rate advanced again in 1965-1966 but declined for the next two fiscal years. With the apparent leveling off of the previous trend, the staff's use of the 1967-1968 effective rate in estimating the first half of the 1968-1969 taxes for this particular district appears more reasonable than applicant's assumed reversal to the prior upward trend."

Water rates are set prospectively. When expert witnesses present testimony on such matters as increases in number of customers,

water use characteristics and trends, frequency and cost of plant repairs, and plant mortality patterns, they almost invariably base their informed judgment on analyses of actual prior experience, tempered by the estimated effect of any factors which make the past experience inapplicable to the future. In regard to ad valorem taxes, we should consider the most likely actual rates. In Table II, we have added \$2,400 to applicant's original 1969 estimate of taxes, rather than the \$900 difference reflected in the staff's estimates.

Income Taxes

The various differences between applicant's, the staff's and the adopted estimates of revenues and expenses affect the corresponding estimates of income taxes. Also, applicant used different amounts of investment tax credit for the year 1969 than for 1968; whereas, the staff used an average amount for both years. The 1969 income taxes adopted in Table II reflect the revenues and expenses adopted in that table and the staff's estimated \$9,700 average annual investment tax credit.

Rate Base

The rate base estimates of applicant and the staff differ in four components: nonoperative plant, working cash, advances for construction, and common plant allocated depreciation reserve. The basis adopted in Table II for working cash, deferred advances for construction and common plant allocated depreciation reserve is consistent with the basis adopted in the recent decision relating to applicant's San Gabriel Valley District and need not be discussed again herein.

In addition to items covered by the aforementioned previous decision, the staff estimate for the Simi Valley District has nonoperating intangible plant (consisting of a certificate not yet

exercised) and corrections to the advances for construction set up in applicant's records in accordance with Decision No. 72400, dated May 9, 1967, in Application No. 49248. The staff adjustments for both items appear reasonable for the purpose of this proceeding and are included in deriving the rate base adopted in Table II.

Surcharge to Federal Income Tax

A 10 percent surcharge to Federal income taxes was imposed by the Revenue and Expenditure Control Act of 1968. The surcharge was retroactive for the full year 1968 and expired June 30, 1969. Applicant's Exhibit No. 3 indicates that a 1.61 percent surcharge on bills computed under the metered service rates requested in the application would have been required to offset the effect of the income tax surcharge and produce the same net revenues indicated hereinbefore in Table II. If the surcharge is reinstated at some time in the near future, we would be receptive to a supplemental filing by applicant in this proceeding requesting appropriate additional rate relief. If the surcharge is reinstated at the previous 10 percent level, the corresponding surcharge on applicant's metered service rates will be 1.36 percent.

Rate of Return

In the recent rate proceeding involving applicant's San Gabriel Valley District, the Commission found that an average rate of return of 7.0 percent over the next four years was reasonable for applicant's operations. The basis for the 7.0 percent allowable return is discussed in considerable detail in the decision in that proceeding and need not be repeated herein. The same evidence relating to recommended rate of return was presented in both the San Gabriel

Valley and Simi Valley proceedings and we reach the same conclusion as to the 7.0 percent level of allowable return on rate base.

Trend in Rate of Return

Applicant's estimates for the test years 1968 and 1969 indicate an annual decline of 0.08 percent in rate of return at proposed rates. The staff's estimates show an annual increase of 0.50 percent at proposed rates, excluding the effect of CMWD rate increases. A witness for applicant testified he does not consider the trend from 1968 to 1969 necessarily to be indicative of the future trend in rate of return, because of possible changes in rate of growth. A staff witness recommended that trend in rate of return not be considered in this proceeding.

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.

A review of applicant's and the staff's 1968 and 1969 estimates discloses three significant differences affecting the apparent trends in rate of return: (1) the downward trend in investment tax credit used by applicant as compared with the use of an average annual credit by the staff, (2) use by applicant of actual CMWD rates applicable to each period as compared with use by the staff of the 1969-70 CMWD rate for each period, and (3) the projection of the historical trend in ad valorem tax rates by applicant as compared with the assumption by the staff of a leveling off of those rates in the future.

A witness for applicant testified that there are substantial possibilities for additional customer growth in the Simi Valley area. As new customers are added, the incremental plant investment is covered to a large extent by subdividers' advances for construction. This results in a diminishing rate base per customer. If the customer growth continues at the same rate as in the past, the diminishing rate base per customer will just about offset the increasing expenses per customer, including the scheduled increases of CMWD rates through June 30, 1971. Under these circumstances it is appropriate to use 1969 as the test year upon which to judge the rate of return to be expected for the first two years that the rate increase authorized herein will be effective. No upward nor downward adjustment for trend in rate of return is appropriate for that period.

Findings and Conclusions

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 1969 reasonably indicate the probable range of results of applicant's operations for the near future.
3. An average rate of return of 7.0 percent on applicant's rate base for the next two years is reasonable. It is estimated that such rate of return will provide a return of 11.4 percent on common equity allocated to the Simi Valley District.
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 in part.

O R D E R

IT IS ORDERED that:

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

2. Within ten days after the 1971-72 rates for purchased water are announced by Calleguas Municipal Water District, applicant shall file in this proceeding written notice of those rates.

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

Dated at San Francisco, California, this 8th day of JULY, 1969.

William J. ...
 President

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...
 Commissioners

Schedule No. SI-1

Simi Valley Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Simi Valley, Ventura County.

RATES

	<u>Per Meter</u>	
	<u>Per Month</u>	
Quantity Rates:		
First 10,000 cubic feet, per 100 cubic feet	\$ 0.250	(I)
Over 10,000 cubic feet, per 100 cubic feet	0.222	(I)
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 2.50	(C)
For 3/4-inch meter	3.00	
For 1-inch meter	4.50	
For 1 1/2-inch meter	6.25	
For 2-inch meter	10.00	
For 3-inch meter	12.50	
For 4-inch meter	27.00	
For 6-inch meter	50.00	
For 8-inch meter	70.00	

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 Rate.



Schedule No. SI-3M

Simi Valley Tariff Area

LIMITED METERED IRRIGATION SERVICE

APPLICABILITY

Applicable to irrigation water delivered to parcels of land in excess of 5 acres in one ownership and devoted to the raising of commercial agricultural crops or livestock.

TERRITORY

Within certificated areas in Section 11 and 14 T. 2 N., R. 18 W., S.B.B.&M., Ventura County.

RATE

Quantity Rate:

Per acre-foot \$55.00 (I)

Schedule No. SI-4

Simi Valley Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Portions of Simi Valley, Ventura County.

RATE

Per Month

For each inch of diameter of service connection \$2.00

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 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 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.