

Decision No. 77738

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of DIAMOND BAR WATER COMPANY, a
California corporation, for 1970
Authority to Increase Rates. }

Application No. 51783
(Filed March 23, 1970)

Gibson, Dunn & Crutcher, by
Max Eddy Utt, for applicant.
Carl D. Meyer and Richard Vind,
for Diamond Bar Homeowners
Association; Charles A.
Herold, G. Leith McQueen, Jr.,
John Steinmann, Frank D. Morales,
Mrs. Helen Juliar, John R.
Veltri, Mr. & Mrs. Phillip E.
Morlock, Terrence Edward O'Dowd,
Bradley H. Myers, Lawrence G.
Lausten, C. R. Jackson,
Mrs. Betty J. Chadwell,
Mrs. Haywood M. Craig, Mrs. Louis
Bamper, Mr. & Mrs. Frank A.
Beudet, Mrs. C. Butts, Mrs. G. A.
Jones, C. D. Harrower, Morris W.
Van Korlaar, Mrs. Betty McCoy,
Mrs. Marjorie F. Rauchfuss and
Mrs. Margaret H. Fitch, in propria
personae, protestants.
Mrs. Eleanor Law, complainant.
Drew Mullan, John Repar, and Norma
Browman, in propria personae,
Interested parties.
Raymond E. Heytens, for the Commission
staff.

O P I N I O N

Diamond Bar Water Company, a wholly owned subsidiary of Transamerica Development Company, seeks authority to increase its rates for water service within its 8,000-acre service area in unincorporated territory of Los Angeles County, south of Pomona along Brea Canyon Road, by the gross annual amount of \$138,400, or 35 percent, based on its estimates of operations for the test year 1970.

The average residential customer, using approximately 2,000 cubic feet a month, is charged \$9 at the present rates. At the proposed rates, the monthly charge for this quantity of water would be \$12.60, an increase of 40 percent.

Applicant's service area and installed water system facilities are delineated on the map, Exhibit 6.

Public hearings were held before Examiner Warner on July 15 and 16, 1970, at Diamond Bar. Representatives of the Diamond Bar Home Owners Association submitted petitions protesting the application from 2,038 home owners, or 65 percent of the total homes served, and containing 2,738 signatures. Seven letters protesting the application were received, and as of 10:00 a.m., on Wednesday, July 15, there were 103 customers in attendance at the hearings, vigorously protesting.

Both the company and a Commission staff engineer estimated that metered residential, permanent, temporary, industrial and public authority water service would be furnished to an average of 3,257 customers and flat rate service to a total of 603.5 construction, private fire protection, and public fire hydrant connections during the year 1970. The property in 2,300 acres of the service area, known as "The Country", containing 1-1/2-acre, and larger, parcels for horse corrals, riding arenas, stables and large homes, is being sold by Diamond Bar Development Corporation, a subsidiary of Transamerica. The water system to be installed in the estimated 577 lots of The Country, comprising Tracts Nos. 30578, 23483, 24046, 30096, and 30289 (formerly the Equestrial Estates), will cost about \$578,000, to be financed with advances by Transamerica under the water company's main extension Rule No. 15, subject to the usual refund provisions. In-tract water system installations in Diamond

Bar have been financed under main extension contracts with Trans-america companies or other subdividers.

The applicant was granted a certificate by Decision No. 56524, dated April 15, 1958, in Application No. 39540, and commenced operations in April 1960. All water is supplied by and purchased from Pomona Valley Municipal Water District, a member agency of Metropolitan Water District, and from Walnut Valley Water District, a political organization formed under the California Water District law. As of December 31, 1969, utility plant amounted to \$3,306,127; operating revenues were \$385,703, and net operating revenue, after operating expenses, depreciation and taxes, was \$12,722. Advances for construction were \$1,152,739; interest expense for the calendar year 1969 was \$101,403.50, and accrued deficit was \$679,756. The record shows that Transamerica made a \$88,000 cash donation to the water company in 1969 to permit it to operate in the black and to enable the water company to avoid showing an unfavorable financial statement.

Because of the aforementioned accrued deficit, underwritten by Transamerica over the years (but presumably taken by it for income tax purposes), applicant's directors and those of Transamerica decided in about September 1969 to have the instant application prepared. Applicant's vice president, general manager and chief engineer testified that applicant and Transamerica had been reluctant to seek rate relief because of possible adverse effects on customer relations and land sales. The record shows that applicant's present rates are substantially higher than any surrounding privately owned or municipal water purveyors, and would be very much higher at the proposed rates. However, the record does not disclose specifically the extent to which surrounding purveyors are completely dependent

on high cost MWD imported water or may supplement their supply source, or rely entirely for their supplies on less costly pumped ground water.

The following tabulation compares the present rates with those proposed and those authorized hereinafter (two-step increase):

Comparison of Present, Proposed and
Authorized General Metered Service Rates

Quantity Rates:		Per Meter Per Month		
		Present Rates	Proposed Rates**	Authorized Rates Before Oct. 1, 1971
First	400 cu.ft. or less	\$2.70*	\$3.00*	\$2.80*
Next	50 cu.ft., per 100 cu.ft.	2.70*	.60	.50
Next	50 cu.ft., per 100 cu.ft.	.60	.60	.50
Next	1,500 cu.ft., per 100 cu.ft.	.40	.60	.50
Next	3,000 cu.ft., per 100 cu.ft.	.30	.40	.35
Next	3,000 cu.ft., per 100 cu.ft.	.25	.40	.35
Next	2,000 cu.ft., per 100 cu.ft.	.25	.30	.25
Next	22,000 cu.ft., per 100 cu.ft.	.20	.30	.25
Next	8,000 cu.ft., per 100 cu.ft.	.20	.30	.25
Next	10,000 cu.ft., per 100 cu.ft.	.20	.20	.185
Over	50,000 cu.ft., per 100 cu.ft.	.17	.20	.185

* Minimum charges for 5/8 by 3/4-inch meter.

** Rates authorized herein for service after September 30, 1971.

No increases are proposed in monthly fire hydrant rental charges, rates for private fire protection, and for construction water in subdivisions, the latter of which is used by contractors for plastering and house building, and revenue therefrom amounted to about \$4,000 in 1969, a relatively minor amount in relation to total gross revenues. Construction water for compacting streets and freeways and land properties is obtained by tank truck from fire hydrants on which meters have been installed, and such water is sold at the domestic metered service rate.

Comparative monthly billings are shown in the following tabulation:

Cubic Feet Per Meter Per Month	Comparative Monthly Billings				
	Present Rates	Increase		Proposed Rates*	Authorized Rates**
		Amount	Percent		
400	\$ 2.70	\$.30	11.1	\$ 3.00	\$ 2.80
500	3.00	.60	20.0	3.60	3.30
600	3.40	.80	23.5	4.20	3.80
700	3.80	1.00	26.3	4.80	4.30
800	4.20	1.20	28.6	5.40	4.80
900	4.60	1.40	30.4	6.00	5.30
1,000	5.00	1.60	32.0	6.60	5.80
1,500	7.00	2.60	37.1	9.60	8.30
2,000	9.00	3.60	40.0	12.60	10.80
2,500	10.50	4.10	39.0	14.60	12.55
3,000	12.00	4.60	38.3	16.60	14.30
4,000	15.00	5.60	37.3	20.60	17.80
5,000	18.00	6.60	36.7	24.60	21.30
6,000	20.50	8.10	39.5	28.60	24.80
7,000	23.00	9.60	41.7	32.60	28.30
8,000	25.50	11.10	43.5	36.60	31.80
9,000	28.00	11.60	41.4	39.60	34.30
10,000	30.50	12.10	39.7	42.60	36.80
20,000	50.50	22.10	43.7	72.60	61.80
30,000	70.50	32.10	45.5	102.60	86.80
40,000	90.50	42.10	46.5	132.60	111.80
50,000	110.50	42.10	38.1	152.60	130.30

* Rates authorized herein for service after September 30, 1971.

** For service before October 1, 1971.

Exhibits F and 7, submitted by applicant's engineering consultant and by a Commission staff accountant and a Commission staff engineer, contain, respectively, estimates of applicant's

earnings at present and proposed rates for the year 1970, and the following tabulation summarizes such data:

Summary of Earnings

Item	Year 1970 Estimated			
	Present Rates		Proposed Rates	
	Per Co. : Ex. F :	Per PUC : Ex. 7 :	Per Co. : Ex. F :	Per PUC : Ex. 7 :
Oper. Revenues \$	411,935 \$	411,900 \$	550,336 \$	550,300
Oper. Expenses	284,600	272,700	284,600	272,700
Depreciation	68,803	65,800	68,803	65,800
Taxes	70,071	70,700	104,706	108,800
Subtotal	423,474	409,200	458,109	447,300
Net Revenues	(11,539)	2,700	92,227	103,000
Rate Base	1,981,906	1,793,200	2,017,817	1,793,200
Rate of Return	(0.58)%	0.15%	4.57%	5.74%

(Red Figure)

There is no difference between the applicant and the staff in their estimates of operating revenues at present and proposed rates.

The difference between the applicant's and the staff's estimates of source of supply expense, in which the staff exceeded the applicant's estimate by \$5,400, is due to use by applicant of the average cost of purchased water during the year 1970, while the staff used the July 1, 1970, cost of water of \$53.75 per acre-foot projected on a full-year basis. Both the applicant and the staff included the annual surcharge of \$12,000 charged by Walnut Valley Water District.

There is a substantial difference in estimates of administrative and general expenses. The company applied an average of \$18.60 per customer, after administrative and general expenses transferred credit, to arrive at a lump sum total estimate for the

test year 1970 of \$65,780. The staff estimate of \$48,710 included a credit of \$26,000 for administrative and general transferred credit, and the staff based its estimate on an analysis of each individual account and included the latest wage rates in effect as of January 1, 1970; the staff used an average-year expense for outside services, based on 1969, after reclassifying items which should be included in other accounts; and the staff used 5.05 percent of 1970 estimated gross plant additions in Account No. 812, Administrative Expenses Transferred-Credit.

The difference in the amount of \$162,407 between the company and the staff's estimates of average utility plant for the test year 1970 is due to the fact that the staff did not include interest-bearing construction work in progress (\$122,141) and plant held for future use (\$40,266). These two items represent the major difference in the estimated rate base for the test year 1970.

Pursuant to permission granted at the hearing of July 16, 1970, the protestant Phillip E. Morlock, a customer member of the Home Owners' Association, has submitted his detailed analysis, dated July 27, 1970, of Exhibit F and the record. We have carefully reviewed his stated views regarding the company's authorized Water Main Extension Rule No. 15, particularly his reference to the cash drain and the alleged effect on revenue requirements; the alleged effect on capital and rate base; and the proposed expansion into "The Country". In response to this subject, copies of Decisions Nos. 64536 and 75205, which promulgate the presently effective Water Main Extension Rules for water utilities throughout the State, were mailed to him on July 29, 1970. Also we have noted his comments about the possible use of a 450-gpm well as all or part of the company's water supply. We have also considered the reasonableness of

the alleged annual \$2,700 rental charged the utility by the Development Company for office space and the projected plans for a new office building in 1971 or 1972 to cost about \$150,000.

Several customers complained of low water pressure and corrosion of household plumbing. Exhibit 1 is a report of the results of an investigation by the applicant of every such complaint. The staff engineer testified that he had thoroughly inspected the water system and found that it met all of the standards of General Order No. 103.

We find as follows:

1. Diamond Bar Water Company is a wholly owned subsidiary of Transamerica Development Company, a wholly owned subsidiary of Transamerica Corporation. They are affiliated.

2. Water service is being furnished by the applicant to about 3,300 domestic metered customers in the planned community owned and being developed by Transamerica affiliates, known as Diamond Bar. The service area of the water company comprises 8,000 acres, of which some 2,300 acres are in the process of being sold by Diamond Bar Development Company, a subsidiary of Transamerica, in 1-1/2-acre, and larger, parcels for horse ranches, corrals, riding and training arenas, stables, and large homes. The balance of the service area is well developed and occupied with average dwellings originally priced at \$16,000, now selling for \$22,000, and trending to larger homes in the price range of \$28,000 to \$45,000. The average monthly consumption is about 2,000 cubic feet, the present monthly charge is \$9 and the proposed charge would be \$12.60, an increase of 40 percent.

3. Applicant has operated at a deficit which had accumulated to about \$680,000 as of December 31, 1969. The operations of the

water company have been underwritten and all capital advanced by Transamerica as an aid to the development and sale of Transamerica's land holdings since 1958.

4. Applicant's and Transamerica's directors decided late in 1969 to file an application for an increase in rates for water service which would enable the applicant to operate in the black and provide some excess to reduce the accrued deficit.

5. Applicant is in need of financial relief. The magnitude of the increase proposed (as much as 46 percent), however, is greater than that which should be imposed at a single step. The Commission, therefore, finds it reasonable to authorize the overall increase in two steps, 12 months apart in order to provide a reasonable period within which applicant's customers may adjust themselves to the increased rates which we must authorize. The first year's increase will amount to about one-half of the utility's request with the final rates after one year making up the balance of the request.

6. The staff estimates of results of operations as shown in Exhibit 7 are based on later data and more detailed analysis than those of the applicant set forth in Exhibit F, and are more realistic and correct than the analyses of the protestant Morlock contained in his letter to the Commission dated July 27, 1970. The staff estimates are reasonable, and should be adopted except for the timing of the proposed increase as set forth in paragraph 5 above.

7. We find that the increases in rates and charges authorized herein are justified, that the rates and charges authorized herein are reasonable, and that the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

We conclude that this application should be granted as provided hereinafter and Diamond Bar Water Company should be authorized to file new schedules of rates with two approximately equal step increases. The first step increase of 16.8 percent will produce an increase of about one-half of the requested amount of \$138,400. The second step increase will produce the requested gross annual revenues of about \$550,300 for the test year 1970, an overall increase of 33.6 percent over the revenues estimated to be produced by the present rates.

O R D E R

IT IS ORDERED that Diamond Bar Water Company is authorized to file, after the effective date of this order, the revised schedule of rates as set forth in Appendix A attached hereto. Said rates shall be effective four days after the date of filing and shall apply only to service rendered on and after said effective date. Such filing shall comply with General Order No. 96-A.

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

Dated at San Francisco, California, this 22nd day of SEPTEMBER, 1970.

[Signature]
Chairman
[Signature]
[Signature]
Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

-10- Commissioner Thomas Moran, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. 1

METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Diamond Bar, Walnut and vicinity, Los Angeles County.

(T)

RATES

Quantity Rates:	Per Meter Per Month		
	Before	After	
	Oct. 1, 1971	Sept. 30, 1971	
First 400 cu.ft. or less	\$ 2.80	\$ 3.00	(I)
Next 1,600 cu.ft., per 100 cu.ft.	.50	.60	⋮
Next 6,000 cu.ft., per 100 cu.ft.	.35	.40	⋮
Next 32,000 cu.ft., per 100 cu.ft.	.25	.30	⋮
Over 40,000 cu.ft., per 100 cu.ft.	.185	.20	(I)
Minimum Charge:			
For 5/8 x 3/4-inch meter	\$ 2.80	\$ 3.00	(I)
For 3/4-inch meter	3.60	4.20	⋮
For 1-inch meter	5.10	6.00	⋮
For 1 1/2-inch meter	7.00	9.00	⋮
For 2-inch meter	9.70	12.00	⋮
For 3-inch meter	13.60	17.00	⋮
For 4-inch meter	20.00	25.00	⋮
For 6-inch meter	29.00	33.00	(I)

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