

MS

Decision No. 78537

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SANTA PAULA WATER)
WORKS, LTD., under Section 454 of)
the Public Utilities Code for)
Authority to increase its public)
utility water rates.)

Application No. 52141
(Filed August 19, 1970)

Maurice G. Ragner, for applicant.
Ellis F. King, for self, interested party.
Casimir Strelinski and Robert Weissman, for
the Commission staff.

O P I N I O N

By this application, Santa Paula Water Works, Ltd. (applicant) requests authority to establish rates which are designed to increase annual metered revenues in the year 1970 estimated by \$85,000 or 22% over the general metered rates now in effect.

Public hearing was held before Examiner Gillanders in Santa Paula on February 23, 1971, and the matter submitted. Copies of the application had been served and notice of hearing had been mailed, published and posted in accordance with this Commission's rules of procedure.

Testimony on behalf of applicant was presented by a retired employee. The Commission staff presentation was made by an accountant and an engineer. Five customers attended the hearing, two of whom made oral statements.

Ownership and Affiliated Interests

Applicant, two other water purveyors, and Limoneira Company share office facilities, work equipment, and personnel at 117 North Tenth Street, Santa Paula. The other water purveyors are Farmers Irrigation Company, a public utility, and Thermal Belt Mutual Water

Company, a mutual water company. The three companies are associated through stock ownership, both by corporate entities and by individuals. Limoneira, which produces and markets fruits and vegetables, is the largest common stockholder in each of the three water companies, and as of September 30, 1970, owned 1,242 of applicant's 4,500 outstanding shares.

Description of System

Applicant provides water service through approximately 76 miles of transmission and distribution mains ranging in size from 1 inch to 30 inches in diameter. The capacity of storage reservoirs amounts to 6,813,000 gallons.

Water is supplied from eight wells with installed pumping capacity of approximately 8,100 gallons per minute, which supply is augmented by the surface flow from Santa Paula Creek. A portion of the water from Santa Paula Creek is treated for use in the domestic system, and the remainder is diverted into the irrigation system. The irrigation system serves 35 customers located in the northern portion of applicant's service area by means of a gravity system supplied water from Santa Paula Creek and Wells Nos. 8 and 9 through two booster stations with a normalized annual usage of 44,874 miner's inch days or 35.56 percent of applicant's total normalized annual water sales. In 1969 the creek supply of 2,150 acre-feet amounted to 39.2 percent of the total supply of 5,490 acre-feet.

As of September 1, 1970, applicant provided water service to 4,963 commercial, 1 resale, 35 irrigation, 107 industrial and governmental customers. It also served 379 public and 12 private fire protection services in the City of Santa Paula and vicinity.

Rates

Applicant's present rates for metered service and limited irrigation service were authorized by Decision No. 73242, dated October 24, 1967, in Application No. 48984, and by subsequent tariff filing became effective December 1, 1967.

Rate Proposal

Applicant requests authority to increase metered service revenues by approximately 22 percent. No increase was requested for irrigation service, public, or private fire protection service.

Applicant proposes to change the blocks in its proposed metered service rates.

The following tabulation shows a comparison of typical billings of applicant at present and proposed metered service rates.

Metered Service Rate Comparison

Monthly Consumption Cu.Ft.	Present Rates	Proposed Rates	Increase Percent
0	\$ 2.75	\$ 3.50	27.3%
600	2.75	3.50	27.3
800	2.75	3.50	27.3
900	3.02	3.50	15.9
1,000	3.29	3.50	6.4
1,200	3.83	4.20	9.7
1,400	4.37	4.90	12.1
1,500	4.91	5.60	14.1
1,800	5.45	6.30	15.6
2,000	5.99	7.00	16.9
2,500	7.34	8.50	15.8
3,000	8.49	10.00	17.8
4,000	10.79	13.00	20.5
6,000	14.99	18.00	20.1
10,000	22.59	26.00	15.1
20,000	37.59	46.00	22.4

Results of Operation

Applicant's witness and a Commission staff witness analyzed and estimated applicant's operational results. Summarized in the

table below, based on applicant's Exhibit 2 and staff's Exhibit 3, are the estimated results of operation for the test year 1970, under present rates and under those proposed by applicant.

Summary of Earnings Total Operation

Item	1970 Estimated			
	Applicant		Staff	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$ 430,419	\$ 515,500	\$ 425,500	\$ 498,900
<u>Deductions</u>				
Operating Expenses	206,345 ^{1/}	206,345 ^{1/}	203,600	203,600
Depreciation Expense	39,921 ^{2/}	39,921 ^{2/}	38,500	38,500
Taxes other than on Income	44,000	44,000	47,200	47,200
Taxes on Income	66,352	116,766	60,400	98,300
Total Deductions	356,618 ^{3/}	407,032 ^{2/}	349,700	387,600
Net Revenue	73,801 ^{3/}	108,467 ^{2/}	75,800	111,300
Avg. Depr. Rate Base	1,304,281 ^{2/}	1,203,281 ^{2/}	1,274,000	1,274,000
Rate of Return	5.66% ^{3/}	8.32% ^{2/}	5.95%	8.74%

^{1/} Includes \$339 accrual on contributed plant.

^{2/} Applicant used end of year rate base.

^{3/} Recomputed excluding consideration of other income and other income deductions.

The major difference between the staff engineer's and applicant's 1970 estimated revenues is that although applicant developed a normalized annual consumption for commercial usages, which the staff engineer reviewed and utilized in his exhibit, applicant estimated the 1970 revenues by utilizing 1969 actual water usage without giving consideration to normalized annual consumption for each customer. The staff engineer estimated revenues to reflect normalized annual consumption for the average number of customers for 1970.

Applicant used the estimated end of year figures instead of average year figures for customers (including 42 customers of a new subdivision that will not be occupied until 1971) depreciation reserve, utility plant, contributions in aid of construction, advances for construction, and depreciated rate base.

In his direct testimony, the staff engineer presented the following results of operation for the irrigation system only:

Operating Revenues	\$40,700
<u>Deductions</u>	
O & M Expenses	27,100
Depreciation	1,900
Taxes other than income	3,140
Income Taxes	2,240
Total Deductions	34,380
Net Revenue	6,320
Avg. Depr. Rate Base	98,950
Rate of Return	6.39%

Rate of Return

Applicant's witness stated that it was asking for a rate of return of 8.16% on its estimated rate base. Applicant's representative argued that such a return will provide its stockholders with a return on equity larger than they would receive from a savings and loan association.

A staff accountant presented Exhibit 4 entitled "Report on Cost of Money and Rate of Return." This witness recommended that the rate of return for applicant be set in the range of 6.9% to 7.2%. Such a rate of return would produce earnings on common equity in the range of 9.5% to over 10%.

The staff engineer recommended that the difference in required revenues between the irrigation service realized rate of return of 6.39% and the rate of return authorized be born by the stockholders.

Adopted Results of Operation

The estimates of operating revenues based on normalized annual consumption instead of recorded consumption, expenses, including taxes and depreciation, and the average, instead of year-end, rate base as submitted by the staff for the test year 1970 both for total operations and the irrigation system only, are reasonable and will be adopted.

A rate of return on the adopted rate bases of 7.0% is reasonable and will be adopted.

It is also reasonable to expect applicant's stockholders to bear the difference in revenues between a return of 6.39% and the authorized return of 7.0% on the irrigation system operations.

Based on the above, applicant is entitled to an increase in gross revenues of \$26,900 instead of its requested increase of \$85,000.

Service

The staff engineer testified that applicant's service complies with the requirements of this Commission General Order No. 103.

The engineer's review of Commission records from January 1, 1968 through September, 1970 showed that only two informal complaints had been received by the Commission. These complaints have been resolved.

None of the five customers who attended the hearing presented testimony. Two customers did make oral statements. One stated that he hardly ever used the minimum water allowed for his meter size and the other stated that he believed customers would be willing to pay more for water if the applicant would treat the water to reduce its hardness.

The record reveals that the water supplied by applicant meets the standards for potable water prescribed by the appropriate public health authorities.

Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues but proposed rates set forth in the application are excessive.

2. The adopted estimates, previously discussed herein, of operating revenues, operating expense and rate base for the test year 1970, reasonably indicate the results of applicant's operations for the future.

3. A rate of return of 7.0% on the adopted rate bases for the year 1970 is reasonable.

4. Applicant's stockholders should bear the burden of the revenue difference between a 6.39% rate of return and a 7% return on the irrigation system rate base.

5. 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 to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that after the effective date of this order Santa Paula Water Works, Ltd. is authorized to file the revised rate schedule attached to this order as Appendix A, and concurrently to withdraw and cancel presently effective Schedule No. 1. Such filing shall comply with General Order No. 96-A. The effective

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date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply 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 13th day of APRIL, 1971.

Chairman
William J. Quous

[Signature]

Yuna L. Stogor

[Signature]
Commissioners

I abstain
[Signature], Chairman

Appendix A

Schedule No. 1

GENERAL METERED SERVICE

(T) ✓

APPLICABILITY

Applicable to general metered water service. ✓

TERRITORY

Santa Paula and vicinity, Ventura County.

RATES

		<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:			
First	1,000 cu.ft. or less.....	\$ 3.35	(I)
Next	1,000 cu.ft., per 100 cu.ft.29	
Next	2,000 cu.ft., per 100 cu.ft.25	
Next	2,000 cu.ft., per 100 cu.ft.22	
Over	6,000 cu.ft., per 100 cu.ft.17	(I)
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ 3.35	(I)
For	3/4-inch meter	5.00	
For	1-inch meter	6.00	
For	1 1/2-inch meter	9.00	
For	2-inch meter	13.00	
For	3-inch meter	20.00	
For	4-inch meter	30.00	
For	6-inch meter	60.00	
For	8-inch meter	90.00	(I)

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