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ORIGINAL

Decision No. 79381

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of VALLECITO WATER COMPANY for authorization to increase rates charged for water service.	Application No. 52457 (Filed February 22, 1971)

J. E. Skelton, Attorney at Law, for applicant.
Harry S. Coates and William C. McCaig, protestants.
Leonard Snaider, Attorney at Law, and Donald Houck, for the Commission staff.

O P I N I O N

Vallecito Water Company (applicant) seeks authority to increase its general metered and private fire protection rates. A public hearing was held before Examiner Rogers in La Puente on August 4, 1971, and the matter was submitted subject to the filing of Exhibit No. 1 within ten days. This exhibit was filed. Notice of the hearing was published and mailed to consumers as required by this Commission. The matter is ready for decision.

Protests

Two of applicant's consumers appeared as protestants.

Mr. William McCaig testified that he has sufficient water at his home but not enough pressure to operate lawn sprinklers. He said he has installed a pressure tank to enable him to take a shower bath. The record shows that his water supply is from one of applicant's reservoirs only a few feet above his home. Applicant's manager has advised the Commission that the pressure generally complies with the requirements of General Order No. 103 (Exhibit No. 1).

Mr. Harry Coates stated that the requested 30 to 32 percent increase in rates is out of line. He stated that his pressure is o.k. and the water is good. He said that the people who took over the company (San Gabriel Valley Water Company has acquired most of the capital stock of applicant) did so with their eyes open.

One of the principal reasons for the hearing in this proceeding was to obtain evidence from all interested parties and to determine therefrom whether applicant sustained its burden of proof by showing that it is not receiving a reasonable return on its investment devoted to public use. The opportunity to earn such a return is required by law. The Commission endeavors to maintain utility rates at the lowest level commensurate with the provision of good service.

General Information

Water service in the applicant's service area had its beginning in 1912 when the Whittier Extension Company, a mutual, 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 1954, 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 in 1956 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 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.

The following tabulation shows active service connections of all types from December 31, 1956 through November 1, 1970.

Period Ended	General Metered	Irrigation	Other
December 31, 1956	924	270	131
December 31, 1960	1933	258	254
December 31, 1965	4373	139	515
November 1, 1970	4976	126	592

San Gabriel Valley Water Company (San Gabriel) operating under the jurisdiction of this Commission, owns 48,767 shares of the presently outstanding shares of applicant or 72.69 percent thereof.

Certain services performed since November 6, 1969 for applicant by San Gabriel and its personnel are charged to applicant on a value of service basis which approximates cost. On December 24, 1969, applicant borrowed $50,000 from San Gabriel and issued to San Gabriel its promissory note for the amount thereof, payable on demand, or if no demand is made, on June 30, 1970. The note provided for interest at the rate of 8-3/4 percent per annum payable on January 24, 1970 and on the 24th day of each month thereafter or on demand. The proceeds from this note were used to provide working capital. The term of this note was extended by San Gabriel until September 30, 1970, and repaid by applicant from the proceeds of a $500,000, three-year note, issued to Bank of America, authorized by Decisions Nos. 77105 and 77437, dated April 21, 1970 and June 30, 1970, respectively.

The office of applicant is located in the City of Industry and is close to the center of the applicant's service area. This office serves as the headquarters for the manager, office employees and for customer inquiries and collections. Accounting, engineering, customer, general office and corporate records are retained here. Field crews are dispatched from the Los Robles reservoir and booster station (see Page 2-7a of Exhibit 3) where transportation and other equipment is maintained.

The Los Robles site also serves as storage space for pipe, valves and other small materials and supplies. A staff is employed by the applicant to carry out operation and maintenance functions as required. Outside services have been employed for engineering work, auditing, and legal counsel. Major construction work is performed by contractors employed through competitive bidding. All accounting for the applicant is performed by personnel at the office. Bills for general metered and irrigation service, except for certain large customers, are rendered bi-monthly. Several large consumers and public and private fire protection service are billed monthly.

As of the date of the hearing herein, the applicant's officers and/or directors were as follows:

Name	Officer and/or Director
Richard R. Entwistle	Director, Vice President and Treasurer
Walker Hannon	Director
M. E. Moseley	Director
Robert H. Nicholson, Jr.	Director
Charles H. Palmer	Secretary
Tom G. Richards	Manager and Assistant Treasurer
Svea S. Sherwood	Assistant Secretary
John E. Skelton	Director and President

Applicant has six wells north of the service area having a combined production in 1970 of approximately 7500 gallons per minute. Applicant has nine reservoirs having a total storage capacity of 8,250,000 gallons.

The service area varies in elevation from approximately 300 feet to approximately 1200 feet, with the higher elevations being in the southern portion.

Present[1/] and Proposed Rates

Applicant proposes to increase its private fire protection service rates from $1.00 per month to $2.00 per month for each one-inch diameter of service.

Applicant also proposes to increase its general metered service rates as follows:

Present Rates

Service Charge:

	Per Meter Per Month
For 5/8 x 3/4-inch meter	$ 2.38
For 3/4-inch meter	2.60
For 1-inch meter	3.57
For 1-1/2-inch meter	4.75
For 2-inch meter	6.38
For 3-inch meter	11.88
For 4-inch meter	16.20
For 6-inch meter	27.00
For 8-inch meter	40.00

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

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.

Special Condition

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.

1/ Metered rates per Decision No. 76134, dated September 3, 1969, in Application No. 50498 and increased per Decision No. 77122, dated April 21, 1970, in Application No. 51745. Fire protection rates per Decision No. 54523, dated February 11, 1957.

Proposed Rates

	Per Meter Per Month Zone 1	Zone 2
Quantity Rates:		
For the first 20,000 Cu.Ft., per 100 Cu.Ft.	$ .196	$ .236
For all over 20,000 Cu.Ft., per 100 Cu.Ft.	.15	.19
Service Charge:		
For 5/8 x 3/4-inch meter	$ 3.20	$ 3.45
For 3/4-inch meter	3.50	3.80
For 1-inch meter	4.80	5.20
For 1-1/2-inch meter	6.40	6.90
For 2-inch meter	8.65	9.30
For 3-inch meter	16.00	17.25
For 4-inch meter	21.75	23.45
For 6-inch meter	36.15	N/A
For 8-inch meter	54.00	N/A

The Service Charge is a readiness-to-serve charge to which is to be added the monthly charge computed at the Quantity Rate.

Special Condition

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.

The proposed rates will result in increased costs to average consumers varying from 25 percent to as much as 46-plus percent.

Applicant alleges that its present rates are insufficient, unfair and unreasonable in that they do not permit it to earn a fair rate of return on its property devoted to public service and that a continued low rate of return will seriously impair its ability to obtain sufficient funds to continue the proper operation and maintenance of its facilities, and will impair its ability to negotiate and conclude satisfactory terms for such financing as may become necessary when its present major long-term indebtedness matures June 30, 1973. It states that the rates proposed herein are necessary to permit it to earn a sufficient, fair and reasonable return on its property devoted to public service and that such rates will not yield more than a fair and reasonable rate of return.

It points out that the decline in its rate of return is attributable to both a substantial increase in plant investment and rate base and substantial increases in wages and power costs and other operating expenses.

Summaries of Earnings

The following are the applicant's and the staff's summaries of earnings for the year 1970 and the estimated year 1971.

Line No.	Item	Applicant Estimated: Present Rate (a)	Applicant Estimated: Co. Proposed Rates (b)	Staff Estimated: Present Rates (c)	Staff Estimated: Co. Proposed Rates (d)
		(Dollars in Thousands)			
	Adjusted Year 1970				
1	Operating Revenues	$ 430.6	$ 565.4	$ 448.0	$ 588.1
2	Operating Expenses				
3	Oper. & Maint.	201.8	202.5	200.7	201.4
4	Admin., Gen'l. & Misc.	52.3	52.9	54.2	55.1
5	Taxes Other Than Income	55.1	55.1	60.1	60.1
6	Depreciation	70.1	70.1	75.8	75.8
7	Subtotal	379.3	380.6	390.8	392.4
8	Income Taxes	.1	57.5	3.4	71.5
9	Total Expenses	379.4	438.1	394.2	463.9
10	Net Operating Revenues	51.2	127.3	53.8	124.2
11	Depreciated Rate Base	1,223.8	1,223.8	1,305.2	1,305.2
12	Rate of Return	4.19%	10.40%	4.12%	9.52%
	Estimated Year 1971				
13	Operating Revenues	$ 437.3	$ 574.3	$ 466.2	$ 612.1
14	Operating Expenses				
15	Oper. & Maint.	212.4	213.1	209.3	210.0
16	Admin., Gen'l. & Misc.	55.4	56.1	56.4	57.3
17	Taxes Other Than Income	58.1	58.1	67.0	67.0
18	Depreciation	76.9	76.9	78.9	78.9
19	Subtotal	402.8	404.2	411.6	413.2
20	Income Taxes	.1	48.1	2.9	73.5
21	Total Expenses	402.9	452.3	414.5	486.7
22	Net Operating Revenues	34.4	122.0	51.7	125.4
23	Depreciated Rate Base	1,369.7	1,369.7	1,438.2	1,438.2
24	Rate of Return	2.51%	8.91%	3.59%	8.72%

Operating Revenues

The staff's revenue estimates exceed the applicant's estimates by 4.0% for the adjusted year 1970 and by 6.6% for the estimated year 1971. The staff showing indicates that total revenues will increase by 4.1% between test years whereas the applicant's report indicates revenues will increase by only 1.6% between 1970 and 1971 on a normalized basis.

There are two main causes for these differences between the staff's and the applicant's estimated results. The first is that for metered sales to general customers the applicant estimates a decrease in normal year water sales per customer month from 26.05 Ccf (313 Ccf per year) in 1970 to 25.75 Ccf (309 Ccf per year) in 1971 compared to staff estimates of 344 and 348 Ccf per year, respectively. The second is that the applicant used the number of customers as of November 1, 1970 for the adjusted year 1970, and then used the beginning- and end-of-year average number of customers for the estimated year 1971, while the staff used beginning- and end-of-year average customers in both test years. This resulted in the staff's using fewer customers in 1970 and estimating an increase in customers between test years of 170 compared to 100 by the applicant.

From recorded figures in the applicant's annual reports, of which we take official notice, the actual water sales per year for the beginning- and end-of-year average of general metered customers for the ten-year period 1961 through 1970 rose from 311.21 Ccf per customer per year in 1961 to 376.84 in 1970, averaging 323.25 for the period, without adjustments for temperature or rainfall. The applicant used the six-year period 1964 through 1969 to establish its downward trend. The staff used the 11-year period of 1960 through 1970.

In arriving at normal year estimates of water sales for adjusted 1970 and estimated 1971, both the staff and the applicant adjusted Ccf per customer per period to normal conditions of temperature and rainfall. In doing this, both used the multiple correlation graphical method usually referred to as the "Modified Bean Method", with the only essential difference in use being that the staff used the 11-year period 1960 through 1970 whereas the applicant used the shorter six-year period 1964 through 1969.

The applicant pointed out that the period selected by the staff for water sales is not representative in that during the period 1960 through 1963 the area was still largely agricultural (Exhibit 7), and that the greatest population (customer) growth in the area was between 1957 and 1963 and subsequently the growth has stabilized (Exhibit 8). The applicant's witness stated that 1970, used by the staff, was an abnormal water consumption year (Exhibit 9).

The record shows that if applicant had used 1970 recorded data, its sales per customer would not have reflected a downward trend. We find that a midrange between applicant's and staff's estimated water usage and resultant revenues should be used for the purpose of this proceeding. Accordingly, we find that gross revenues for the purpose of this decision are as follows:

1970		1971	
Present	Proposed	Present	Proposed
$436,900	$573,500	$451,700	$593,100

Operation and Maintenance Expenses

The applicant's estimates of the operation and maintenance expenses, at present and proposed rates exceed those of the staff at present and proposed rates by $1,100 for 1970 and by $3,100 for 1971. The major differences being in accounts 703, Source of Supply; 726, Fuel or Power Purchased for Pumping; Account 732, Maintenance of Pumping Equipment; and 744, Chemicals and Filtering Materials.

Account 703 - Source of Supply

A staff engineer testified that the amounts for Account 703 represent estimates of charges to the company by the Upper San Gabriel Valley Municipal Water District as assessments for replenishment water for the Upper San Gabriel River Basin and for makeup water payments to the lower area of the San Gabriel River for pumpage from the upper basin in excess of lower area flow-through entitlements; the company's estimates for both adjusted 1970 and estimated 1971 have been based upon an average of the past five years recorded experience; this averaging produced $0.00741 per Ccf, or $3.23 per acre-foot pumped by applicant, as charges for both replenishment and makeup; the combined charges, however, have been declining sharply for the last three years of the five-year period, being, in terms of dollars per acre-foot pumped in the same year; $1.18 in 1966, $5.80 in 1967, $4.62 in 1968, $2.80 in 1969 and $1.43 in 1970; and the Upper San Gabriel Valley Municipal Water District recently passed Resolution No. 4-71-107 establishing $0.67 per acre-foot as the replenishment assessment for pumpage in Fiscal Year 1971-72, and $0.04 per acre-foot as the makeup assessment for pumpage in calendar year 1970, totaling $0.71 per acre-foot for both.

The witness further testified that the most recent report to the district by its consulting engineer shows that the district has built up a reserve of over $600,000 available for future replenishment water purchases and that the accrued credit of the upper basin at September 30, 1970, to be applied against future makeup assessment requirements, was 80,989 acre-feet; and that, therefore, after a discussion with the consulting engineer as to probable near-future management of the upper basin in regard to replenishment and as to use of the accrued makeup credit, the staff has estimated combined replenishment and makeup assessment costs at the $0.71 per acre-foot specified in the latest district resolution referred to above.

The applicant's witness testified that because so many variables in costs affect Account No. 703, adjusted 1970 and estimated 1971 costs were based upon an average of the past five years recorded experience. The applicant estimated that it will have spent $68,255.49 for replenishment taxes and makeup costs during the past five years; however, in accordance with the memorandum accounting required by the Commission in Decision No. 73118, and studies applicant has prepared, applicant believes it has recovered these costs except for $1,091.47 during the period October 1, 1967 through September 11, 1969; and the reason the applicant's studies concluded at September 11, 1969 is that tariffs put into effect after that date are the service charge type whereas they had been quantity rate types previously, and the applicant knows of no way to continue the studies beyond that date.

The applicant's witness conceded that the Commission, by Decision No. 76134, which established the present tariffs, allowed $21,530 for replenishment taxes and makeup costs based upon pumpage of 1,790,316 ccf for the test year; and that this is to be compared with adjusted 1970 expense of $13,651 and estimated 1971 expense of $13,776, based upon pumpage of 1,842,228 ccf and 1,859,072 ccf, respectively.

We find the staff's estimate of 71 cents per acre-foot, for Account 703 expense is reasonable and will be adopted for the purpose of this decision. These expenses are $3,133 for 1970 and $3,240 for 1971.

Account 726, Fuel or Power Purchased for Pumping

We will use the cost of power to pump the quantity of water required for the estimated sales used in this decision adjusted to include the effect in both years of the recent increase in electric rates. These expenses are $64,102 for 1970 and $64,750 for 1971.

Account 732, Maintenance of Pumping Equipment

The $2,297 by which the company exceeds the staff is caused by the company estimating that it will cost $3,000 per year to keep two gas engine units at its Los Robles Booster Station in repair as ready reserve in case of electric power failure. After examining vouchers covering the repair costs of the same two engines while they were in continuous service, and after reviewing maintenance costs for such engines in standby service of another water utility, the staff estimate is that $660 for adjusted 1970 and $700 for estimated 1971 will be adequate for maintenance in ready reserve status.

We find that the staff's estimates of maintenance expenses are reasonable and they will be adopted for the purposes of this decision. These allowances will be $8,000 for 1970 and $8,400 for 1971.

Account 744, Chemicals and Filtering Materials

The amount of $595 by which the company exceeds the staff in 1971 is caused by the company's use of 1970 expenditures through the latest month known, annualized for its estimate, whereas the staff estimate is the average of the five-year period 1966 through 1970. Expenditures in 1970 were very high compared to the preceding four years.

We find that $300 per year for the adjusted year 1970 and the estimated year 1971 is a reasonable sum to allow for chemicals and filtering material.

Except for the adjustments reflected above resulting from the listed differences between the staff and the applicant, the parties were in substantial agreement. We find reasonable operating expenses for 1970 and 1971 are as follows:

1970		1971	
Present Rates	Proposed Rates	Present Rates	Proposed Rates
$197,500	$198,900	$205,400	$207,200

Administrative and General Expenses

The applicant and the staff differ in their estimates of administrative and general expenses for 1970 and 1971 at present and proposed rates. The differences are in accounts 793, Property Insurance; 794, Injuries and Damage; 796, Franchise Requirements; and 799, Miscellaneous Expenses.

Account 793, Property Insurance

Here the staff's estimate for 1971 is $100 over that of the applicant due to the fact that the staff had actual fire insurance rates whereas the applicant used previous rates. We will include $900 for 1970 and $1,400 for 1971.

Account 794, Injuries and Damage

The staff states that the applicant erred in its calculations relative to this item. The staff's estimate for 1971 is $600 greater. We find that allowances of $7,000 for 1970 and $7,600 for 1971 are reasonable and they will be used herein.

Account 796, Franchise Requirements

The staff's estimate for 1971 is $200 higher than the applicant's for the reason that the staff assumed higher revenues. We have used a midrange between applicant's and staff's estimates of gross revenues. We find that in 1970 allowances of $2,200 at present rates and $2,900 at proposed rates, and in 1971 $2,300 at present rates and $3,000 at proposed rates are reasonable sums to allow for this account.

Account 799, Miscellaneous Expenses

This account varies with the revenues and the quantity of water pumped. We find that $2,400 is a reasonable sum to allow for 1970 and $2,430 a reasonable sum to allow in 1971.

Based on the foregoing, we find that applicant's total administrative and general expenses for the adjusted year 1970 and the estimated year 1971 will be as follows:

1970		1971	
Present	Proposed	Present	Proposed
$ 53,400	$ 54,300	$ 56,250	$ 57,120

Taxes - Non-Income

There is a difference of $5,000 in the staff's and the applicant's estimates of these taxes for 1970 and $8,900 for 1971.

The major portion of the difference results from the amounts that were used for utility plant, land, and improvements. For rate-making purposes, the staff rolled back to January 1, 1970, certain major items of utility plant that were, or will be, deeded to the applicant in 1970 or 1971. The amounts used by the staff to compute ad valorem taxes for 1970 and 1971 include these rollback items. The applicant's calculation includes only a portion thereof.

In addition to the different plant amounts used in computing ad valorem taxes, the staff had later data available pertaining to the county's method of computation.

The staff's computation has a net effect of increasing ad valorem taxes over the applicant's estimate by approximately $5,650 in 1970 and $9,400 in 1971.

There are also minor differences in payroll taxes. The staff used actual tax rates times each employee's annual earnings which are subject to these taxes to arrive at payroll taxes totaling approximately $400 less than the applicant's estimate.

We find that the staff's estimates of such taxes for 1970 and 1971 are reasonable and should be used for the purposes of this decision. These estimates are $60,100 for the adjusted year 1970 and $67,000 for the estimated year 1971.

<u>Depreciation Expense</u>

The applicant estimated $70,100 depreciation expense for 1970 and $76,900 for 1971. The staff allowed $75,800 for 1970 and $78,900 for 1971.

The differences are accounted for by the fact that the staff rolled back to January 1, 1970 approximately $654,000 of utility plant that is to be deeded to the applicant. Approximately $470,000 of this is contributed plant and $184,000 is advances for construction. In addition, the applicant made certain accounting adjustments to various plant items in its 1970 annual report to the Commission. These adjustments amounted to approximately $10,200 net additions to plant and the staff also rolled these back to January 1, 1970. We find that the staff's estimates of depreciation expenses are reasonable and they will be used for the purposes of this decision. The depreciation expenses allowed are $75,800 for the adjusted year 1970 and $78,900 for the estimated year 1971.

Income Taxes

Using the foregoing figures, the income taxes at present and proposed rates are as follows for the adjusted year 1970 and the estimated year 1971:

1970		1971	
Present	Proposed	Present	Proposed
$ 796	$64,350	$ 100	$63,927

Rate Base

The following are comparisons of the applicant's and the staff's estimated utility plants and rate bases for 1970 and 1971:

Item	1970 Adjusted Applicant	1970 Adjusted Staff	1971 Estimated Applicant	1971 Estimated Staff
	(Dollars in Thousands)			
Average Utility Plant				
Beginning Year Balance	$3,140.4	$3,804.6*	$3,856.9	$4,012.2
End-of-Year Balance	3,856.9	4,012.2	4,162.5	4,172.6
Total	6,997.3	7,816.8	8,019.4	8,184.8
Average (½ of Total)	3,498.6	3,908.4	4,009.7	4,092.4
C.W.I.P.	2.1	5.8	3.0	3.0
Average Utility Plant	3,500.7	3,914.2	4,012.7	4,095.4
Average Rate Base				
Average Utility Plant	3,500.7	3,914.2	4,012.7	4,095.4
Average Depreciation Reserve	(610.8)	(583.6)	(691.5)	(670.0)
Net Average Utility Plant	2,889.9	3,330.6	3,321.2	3,425.4
Materials and Supplies	10.9	10.9	11.2	11.2
Working Cash	30.9	43.2	31.8	45.2
Subtotal	2,931.7	3,384.7	3,364.2	3,481.8
Modifications:				
Average Advances for Construction	(1,070.9)	(1,235.4)	(1,117.1)	(1,184.2)
Average Contributions	(637.0)	(844.1)	(877.4)	(859.4)
Average Depreciated Rate Base	1,223.8	1,305.2	1,369.7	1,438.2

(Red Figure)

* Includes $654,130 rollback plant financed by advances and contributions which the company included as additions during the two test years and $10,160 to reflect later adjustments made by applicant.

From the tabulation above, it is apparent that there are significant differences between the applicant and the staff in most of the rate base items. The increased amounts of plant, advances for construction, and contributions in aid of construction in the staff showing are due primarily to the heretofore referred to staff rollback of approximately $654,000 of plant installed in several subdivisions with contributed or advanced money. The applicant included this as plant additions during the two test years.

The larger rate base included in the staff 1971 estimate is due primarily to the following: An increase of $10,200 in utility plant and a decrease of $31,600 in depreciation reserve at the beginning of the test period to reflect later adjustments made by applicant; a reduction of $16,200 in contributions at the beginning of the test period to reflect an overstatement in applicant's estimate; additional depreciation accrued to contributions as a result of the rollback which reduced the estimated amount of contributions remaining at the end of 1971; and the larger working cash allowance of $13,400.

We find that the staff's estimates are reasonable as to all items but the working cash allowance. The applicant requested a smaller sum and we will comply with its request.

We find that the applicant's average depreciated rate bases will be $1,292,900 in the adjusted year 1970 and $1,424,800 for the estimated year 1971. We find such rate bases are reasonable.

We find that applicant's results of operations for the adjusted year 1970 and the estimated year 1971 will be as follows:

Item	1970 Present	1970 Proposed	1971 Present	1971 Proposed
Revenues	$ 436,900	$573,500	$ 451,700	$593,100
Expenses				
Oper. and Maint.	197,500	198,900	205,400	207,200
Adm. and General	53,400	54,300	56,250	57,120
Non-Income Taxes	60,100	60,100	67,000	67,000
Depreciation	75,800	75,800	78,900	78,900
Income Taxes	796	64,350	100	63,927
Total	$ 387,596	$453,450	$ 407,650	$474,147
Net Income	49,304	120,050	44,050	118,953
Rate Base	$1,292,900		$1,424,800	
Rate of Return	3.81%	9.29%	3.09%	8.35%

Rate of Return

Both the applicant's and the staff's reports reflect substantial declines in the rate of return between 1970 and 1971. The results which we have adopted for the purposes of this decision show a decline at present rates of .72 percent and at the proposed rates a decline of .94 percent.

The major element causing the estimated decline in rate of return is the increasing rate base. In the staff estimates, the decline is caused by refunds on advances for construction, whereas in the company showing it is the result of increases in net plant offset to a large extent by the effect of increases in contributions. The difference in the two showings is due to the staff rollback of advances and contributions which the company included as additions during the two test years.

Other items in the staff showing having a significant effect on the trend in rate of return are a 6.6 percent payroll increase, increased ad valorem taxes and increasing water sales.

Differences in attrition rates between staff and company are caused by estimates of customer growth; trend in water consumption; staff inclusion for both test years of increased costs going into effect in 1971 due to increases in electric rates, postage rates and insurance rates; plant rollback; and interest expense.

The following tabulation set forth applicant's capital structure at December 31, 1970 and the returns on total capitalization based on various assumed percentages earnings on common stock equity:

	Capital Ratios	Cost Factor	Weighted Cost Totals Assumed Earnings on Common Equity 8.50%	8.75%	9.00%	9.31%	11.09%
Long-Term Debt	38.7%	7.04%	2.72	2.72	2.72	2.72	2.72
Common Stock Equity	61.3		5.21	5.36	5.52	5.71	6.80
Total Capital	100.0%		7.93	8.08	8.24	8.43	9.52

The staff recommends that applicant be allowed to earn in a range of 8.50% to 9.0% return on its common stock equity based on the company's capital structure at December 31, 1970. Such returns on common equity when considered together with the embedded cost of long-term debt would require rates of return in the range of approximately 7.9% to 8.2%. This range should be applied to the rate base of $1,424,800.

Using the approximate midpoint of the range 8%, this return when applied to the 1971 estimated rate base of $1,424,800 would produce net operating revenues of $113,980 or an increase of $69,930 over those at present rates.

The results of operations adopted for this proceeding produce a net revenue of $118,953 or a rate of return of 8.35 percent which exceeds the range recommended by the staff. Consideration of attrition and the fact that approved rates cannot be effective for more than a small portion of the 1971 test year justifies the use of 8.35 percent rate of return for determination of the level of rates. These rates result in an increase in gross revenues of $141,400 and an increase of $74,903 in the net revenue. We will permit the applicant to establish the rates it has requested. The revenues produced by the 8.35 percent rate of return we allow for 1971 will produce a return on common equity of approximately 9.2 percent. We find that a rate of return of 8.35 percent when applied to the estimated rate base of $1,424,800 is fair and reasonable and gives limited recognition to attrition in the rate of return.

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 5,694 customers.

2. Applicant proposes to increase its rates for general metered service and private fire protection service. Revenues for 1971 will be $451,700 at the present rates and $593,100 at the company proposed rates.

3. Operating and maintenance expenses for the year 1971 will be $205,400 at present rates and $207,200 at company proposed rates.

4. Administrative and general expenses for the year 1971 will be $56,250 at present rates and $57,120 at the company proposed rates.

5. Depreciation expense for the year 1971 will be $78,900.

6. Taxes other than on income will be $67,000 for the year 1971.

7. Income taxes for the year 1971 will be $100 at present rates and $63,927 at the company proposed rates.

8. The net revenues for the year 1971 will be $44,050 at present rates and $118,953 at company proposed rates.

9. Applicant's average adjusted rate base for the year 1971 is $1,424,800.

10. Based on the above findings, applicant's rate of return for the estimated year 1971 will be 3.09 percent at present rates and 8.35 percent at the company 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 8.35 percent which would be produced by the rates proposed by applicant is reasonable.

12. There is an annual attrition in applicant's rate of return, and we have allowed a rate of return which should give applicant the required gross revenues and consideration of attrition to a limited extent.

13. Filings of new schedules of rates for general metered service and private fire protection service should be authorized. The order which follows will authorize the filing of new schedules of rates which will produce $593,100 in gross annual revenues, an increase of $141,400 or 31.3 percent of the gross annual revenues which would be produced at present rates. When the authorized revenues are related to the rate base of $1,424,800, which is just and reasonable, after deducting operating expenses, depreciation and taxes, a rate of return of 8.35 percent will result. 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.

The rates authorized herein have been reviewed with relation to the Federal Government's economic stabilization program and found to be consistent therewith and within the zone of reasonableness.

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

O R D E R

IT IS ORDERED that:

Vallecito Water Company is authorized to file the revised schedules of general metered service and private fire protection rates attached to this order as Appendix A, and concurrently to cancel its present Schedules No. 1, General Metered Service, and No. 4, Private Fire Protection Service. Such filings shall comply with General Order No. 96-A. 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.

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

Dated at San Francisco, California, this 23rd day of NOVEMBER, 1971.

Chairman

William Symons Jr.

Vernon L. Sturgeon

Commissioners

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

A. 52457 ms

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to general metered water service.

TERRITORY

Portions of the City of Industry, the community of Hacienda Heights, and vicinity, Los Angeles County.

RATES

	Per Meter Per Month		
Quantity Rates:	Zone 1	Zone 2	
For the first 20,000 cu.ft., per 100 cu.ft.	$ .196	$ .236	(I)
For all over 20,000 cu.ft., per 100 cu.ft.	.15	.19	
Service Charge:			
For 5/8 x 3/4-inch meter	$ 3.20	$ 3.45	
For 3/4-inch meter	3.50	3.80	
For 1-inch meter	4.80	5.20	
For 1-1/2-inch meter	6.40	6.90	
For 2-inch meter	8.65	9.30	
For 3-inch meter	16.00	17.25	
For 4-inch meter	21.75	23.45	
For 6-inch meter	36.15	N/A	
For 8-inch meter	54.00	N/A	(I)

The Service Charge is a readiness-to-serve charge to which is to be added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITION

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.

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Portions of the City of Industry, the community of Hacienda Heights, and vicinity, Los Angeles County.

RATE

	Per Service Per Month	
For each inch of diameter of service connection	$ 2.00	(I)

SPECIAL CONDITIONS

1. The customer will pay, without refund, the entire cost of installing the fire protection service.

2. The minimum diameter for fire protection service will be 4 inches and the maximum diameter will not be more than the diameter of the main to which the service is connected.

3. The customer's installation must be such as to effectively separate the fire protection system from that of the customer's regular water service. As a part of the protection service installation there shall be a detector check or other similar device acceptable to the company which will indicate the use of water. Any unauthorized use will be charged for at the regular established rate for General Metered Service and/or may be grounds for the company's discontinuing the fire protection service without liability to the company.

4. There shall be no cross-connection between the fire protection system supplied by water through the company's fire protection service to any other source of supply without the specific approval of the company. The specific approval will require, at the customer's expense, a special double check valve installation or other device acceptable to the company. Any such unauthorized cross-connection may be the grounds for immediately discontinuing the protection service without liability to the company.