sjg/ms *

Decision No. 79912

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SUBURBAN WATER SYSTEMS, a California Corporation, for Authority to Increase its Rates Charged for Water Service.	Application No. 52505 (Filed March 16, 1971)

Gary Olson and John E. Kehoe, Attorneys at Law, and Walker Hannon, for applicant.
Dr. and Mrs. Frederick N. Chelf, Frank W. Ellis, Albert W. Stofle, C. H. Moore, Mrs. Ruth Kaye, Mrs. Joan M. Wild, Rose Zucca, Anne R. Kunitz, Mrs. Rose Snatsky, Attorney at Law, Marvin Neas, Donald Viol, Attorney at Law, Mirian Viol, and Clarence Alspaugh, protestants.
Lloyd J. Kinney, E. B. Saunders, John T. Hoffman, Mrs. E. G. Kynoch, Louise Renteria, Sam M. Walker, George Wanner, Leonard Eliot, for the City of West Covina, interested parties.
Elinore C. Morgan, Attorney at Law, and Robert W. Beardslee, for the Commission staff.

O P I N I O N

Applicant is a public utility water corporation furnishing water to approximately 45,000 general metered consumers.

By the application, applicant requests authority to increase its presently effective rates to provide an overall 32 percent increase in annual gross revenues in the amount of $1,086,540.

Public hearings on the application were held before Examiner Rogers in Whittier on October 4, 1971 and in West Covina on October 5, 6 and 7, 1971. Prior to the first day of hearing, notice was posted and published 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.

Public Witnesses

Five of applicant's Whittier district consumers and nine of its West Covina district consumers appeared as protestants.

The Whittier area protestants generally complained of low water pressure. In addition, there were complaints of oily water, hard water, unpotable water, and excessive chlorine.

In the West Covina area there were complaints of low pressure, dirty water, and undrinkable water. In addition, a witness urged a smaller increase than applicant requested. Sixty consumers in one area filed a petition for increased water pressure (Exhibit No. 7), and one group filed a letter-type protest (Exhibit No. 8) signed by approximately 38 individuals complaining of undrinkable water fouling enamel surfaces in toilets and sinks, excess sand and dirt in the water, sediment left where water evaporated, corroded faucets, and low water pressure.

The applicant filed a report relative to the complaints. They appear to have been adjusted to the satisfaction of the consumers. Appropriate requirements relative to improvement of water service will be included in the order herein.

History

Suburban Water Systems presently provides utility water service in two general areas, the San Jose service area and the Whittier service area. The San Jose service area, lying on the north side of the Puente Hills, includes portions of Hacienda Heights, City of Industry, La Puente, Valinda, West Covina, Covina, and Glendora. The Whittier service area lies on the south side of the Puente Hills, generally east and south of the City of Whittier.

The applicant company resulted from the merger, in 1953, of the San Jose Hills Water Company and the Whittier Water Company.

The San Jose Hills Water Company was incorporated in 1944, and grew with residential development from 14 customers in 1944 to 5800 customers in 1953.

The Whittier Water Company was the successor to various irrigation companies in the East Whittier area, some of which date back to the 1890's. This company remained primarily an agricultural irrigation operation until the late 1940's. As the East Whittier area began a rapid conversion from agricultural to residential development, the Whittier Water Company expanded to provide the required domestic water service, growing from 1,275 customers at the end of 1948 to 12,000 customers in 1953. During that period, the Rivera Water System's 3,000 customers were added to the system.

Rapid growth began in the 1950's and continued until the slow-down in home building experienced throughout all of Southern California, beginning about 1967. In 1968, water facilities serving approximately 180 customers were sold to the City of Glendora and a portion of the system serving approximately 4,600 customers was sold to the City of Santa Fe Springs.

Since 1967, the company's growth has come from saturation of existing areas and minor extensions into new subdivisions along the periphery of its wide-spread service area. Further material expansion of the service area is improbable, due to the expansion of contiguous water purveyors, which include other certificated public utilities, mutual water companies and municipal water systems.

Present Operations

The following shows the management and operating staff of applicant

Officers and Management

Anton C. Garnier	President
Walker Hannon	Executive Vice President
Earl L. Olsen	Vice President
Mildred V. Brittain	Secretary
Cecil H. Smith	Treasurer and Assistant Secretary
Vern McNeese	Assistant Treasurer
Leland Pearson	General Superintendent

Board of Directors

Edwin H. Corbin	Executive Vice President (retired) Security Pacific National Bank
Anton C. Garnier	President, Suburban Water Systems
Allen D. Harper	Vice President, Pacific Mutual Life Insurance Company
Donovan D. Huennekens	Executive Vice President John D. Lusk & Son
Truman Johnson	Chairman of the Board (emeritus) Sterling Savings & Loan Association
Richard Kelton	Vice President & Secretary Bollenbacher & Kelton
George W. Lusk	Senior Vice President John D. Lusk & Son

Affiliates

Certain officers of applicant are also officers of Southwest Water Company, as follows:

Anton C. Garnier	President
Walker Hannon	Executive Vice President
Earl L. Olsen	Vice President
Cecil H. Smith	Treasurer
Mildred V. Brittain	Secretary
Vern McNeese	Assistant Treasurer

In addition to the above-interlocking officers, Mr. Anton C. Garnier, is a director of each company. Two individuals, not employees of either company, are members of both boards of directors.

Applicant and Southwest Water Company share a common general office in Valinda, California. Certain general office employees perform administrative, accounting, engineering, customer accounting and billing for both companies. The salaries and expenses for the common officer and employees, and the rent and maintenance expenses for the general office are allocated to the respective companies.

The following tabulation shows the applicant's investments and percentages of control of other companies:

	As of December 31, 1970		As of May 31, 1971	
	% of Control	Amount	% of Control	Amount
Investment in Associated Co.				
Cal-Fin Co.	100%	$ 15,300	100%	$ 15,300
Hollenbeck Street Water Co.	93	66,445	93	67,267
La Grande Source Water Co.	88	86,888	98	105,280
Valencia Valley Water Co.	94	48,210	100	54,106
Victoria Mutual Water Co.*	52	13,752	52	13,752
Paradise Community Services Inc.	100	1,916,434	100	1,916,434
Total		2,147,029		2,172,139
Other Investments				
California Domestic Water Co.	18	131,268	18	131,268
Covina Irrigation Company	7	25,409	7	25,409
La Puente Co-op Water Company*	54	55,033	54	55,033
Murphy Ranch Mutual Water Co.	42	162,410	42	162,410
Rincon Ditch Company		5		5
Water Suppliers Mobile Comm.Co.	45	7,204	45	7,204
Total		381,329		381,329

* A public utility.

Cal-Fin Company is a wholly owned subsidiary organized for the purpose of promoting investments in other water companies, both public utilities and mutuals. Applicant and Cal-Fin Company have the following common officers and directors:

Officers	Directors
C. H. Smith, President	C. H. Smith
A. C. Garnier, Vice President	A. C. Garnier
M. Brittain, Secretary-Treasurer	W. Hannon

Victoria Mutual Water Co. and La Puente Co-op Water Co. were declared to be public utilities by this Commission in Decision No. 68273, dated November 25, 1964, and Decision No. 71758, dated December 27, 1966, respectively.

Water Suppliers Mobile Communication operates mobile telephone services for applicant, Southwest and Pacific Utility Service. Its charges are based on the number of active services of each company.

The remaining companies are mutual water companies in which applicant has made investments in order to obtain additional sources of supply.

Operating Practices

The applicant's staff consists of approximately 130 persons in management, operations, maintenance, construction and clerical positions. Outside services are employed for unusual engineering problems, auditing, tax accounting, and legal counsel. General accounting is performed by company personnel. Customer billing and payroll accounting are performed by outside data processing contractors. Normal maintenance and construction work is performed by company crews. Outside contractors, employed through competitive bidding, are utilized for major construction projects.

Offices and Shops

The applicant's administrative office, operating and dispatching headquarters, warehouse, maintenance garage, meter shop and pipe storage yard are all located at the Valinda headquarters.

Transportation Equipment

Prior to 1969, all transportation equipment was owned by applicant. Since 1969, however, it has been replacing retired equipment with leased vehicles and leasing additional vehicles as required. Under the leasing program, the applicant provides all maintenance and insurance for the vehicles. Most of the vehicle maintenance is performed by applicant's personnel in its maintenance garage.

Radio Equipment

All company vehicles involved in field operations or service are equipped with two-way radios. The radio equipment in the vehicles is owned by applicant. The base station, transmitters and repeaters utilized in this service are owned and maintained by a non-profit corporation cooperatively owned by the applicant and five other water utility and utility service companies. The operating costs incurred by this corporation are paid by the owner companies in proportion to the number of vehicle radios each one has in active service.

Water Operations

The applicant provides water service for residential, commercial, industrial, and fire protection service. It has one agricultural irrigation customer served under special contract filed with the Commission.

The service areas of the applicant, the location of its wells, other major facilities and operating pressure zones are shown on Fig. 3-1 and 3-2 in Exhibit No. 1, herein.

Water Supply

The applicant supplies its customers from 33 company owned wells and also purchases water produced from wells of several mutual water companies and purchases treated surface water from one mutual water company. It owns stock in each of these mutual water companies to provide the necessary water entitlement. From time to time, the applicant has leased additional shares from other stockholders of some of these mutual companies to increase its water entitlement. Small amounts of water are purchased from adjoining retail water purveyors.

The applicant, jointly with Southwest Water Company, has a connection to the "Middle Feeder" of the Metropolitan Water District of Southern California through which it can purchase imported water if needed. At the present time, no purchases are necessary.

The applicant's Whittier area wells are located within the "Central Basin" and are limited by the Central Basin adjudication to an allowed pumping allocation of 933 acre-feet per year. The production from these wells is subject to assessments levied by the Central and West Basin Water Replenishment District to cover the expenses incurred by that district in its program of replenishing and protecting the water supplies in the basins.

With respect to its wells adjacent to the San Gabriel River above the Whittier Narrows and in its San Jose System, the applicant is a party to, and signatory of the "Reimbursement Contract" between certain water pumpers in the San Gabriel Valley area and the Upper San Gabriel Valley Municipal Water District. Under this contract, the USGVMWD administers and fulfills on behalf of the defendant pumpers, the requirements of the stipulated judgment in the court proceedings known as "Board of Water Commissioners of the City of Long Beach et al vs. San Gabriel Valley Water Company et al". Assessments based on well production are made under this contract for administration and purchase of "make-up water". The applicant is also assessed by the USGVMWD for the costs of purchasing imported water for the replenishment of the Upper San Gabriel Basin.

The applicant is a party to pending court actions seeking an adjudication of the rights of pumpers in the Upper San Gabriel Basin, and has incurred substantial legal costs in defense of its established water rights in this area.

Water Quality

The well water produced by applicant is claimed by it to be of good quality. Chlorination, on a regular basis, is performed only to provide a chlorine residual in the low pressure or gravity supply lines, in accordance with the regulations of the Department of Public Health of the State of California. Samples of water from throughout the system (150 per month) are regularly tested for bacteriological contamination, in accordance with the requirements of the Department of Public Health.

Chemical analyses of the water from each well are generally made once a year. At the recent request of the Department of Health, tests for nitrates in the distribution system are made at a frequency of five per month.

The water produced from the applicant's wells allegedly meets the recommended limits of the U. S. Public Health Service Drinking Water Standards in all respects, with the exception of iron and total dissolved solids content in a few of the Whittier wells and iron and nitrate content in a few of the San Jose system wells. The applicant claims it has experienced no material customer complaints traceable to these factors but the evidence adduced at the hearing indicates widespread dissatisfaction with the water. The company's water quality control department purports to maintain constant surveillance of the quality of water being distributed. The claimed absence of problems from the iron content is attributed by applicant to the absence of manganese, low dissolved oxygen content, high pH, and an active main flushing program.

The water is moderately hard, generally comparable to the "softened" Colorado River water served by other purveyors in the Los Angeles metropolitan area.

Distribution System

The service areas are divided into pressure zones which are designated by the elevation of maximum static hydraulic gradient of the zone. These elevations are determined by the elevations of the controlling reservoirs or by the normal hydraulic head applied by boosters in those areas not provided with reservoir storage.

San Jose Service Area

The San Jose service area extends from the northern slopes of the Puente Hills across the San Jose Creek Valley, around the base of the San Jose Hills and through the West Covina area. It also includes an area west of the City of Glendora on the alluvial slope at the foot of the San Gabriel Mountains. Elevations in this service area range from approximately 1,000 feet above sea level down to 300 feet in the floor of the valley near San Jose Creek. Schematic diagrams of this area are shown in Figs. 3-3, 3-4 and 3-5, in Exhibit No. 1 herein.

The water supply for the San Jose area is obtained from 37 wells located in the general vicinity of Walnut Creek and San Jose Creek. The portions of the service area near Glendora and in the Covina Knolls are served with treated surface water and well water supplied by the Covina Irrigating Company. The wells, boosters and reservoirs in the San Jose area are manually controlled, pressure controlled or remotely controlled by telemeter from the Valinda Dispatch Center, as set forth in Tables 3-1, 3-2, and 3-3, in Exhibit No. 1 herein.

Whittier Service Area

The Whittier service area lies on the southwestern slope of the Puente Hills, generally south and east of the City of Whittier. Elevations in the service area range from a high of approximately 600 feet above sea level at the upper extent of existing subdivisions in the Puente Hills to a low of approximately 225 feet above sea leval at the southern edge of the service area. A schematic diagram of the Whittier Service Area System is shown in Fig. 3-6 of Exhibit No. 1 herein.

The wells, boosters and reservoirs in the Whittier area are variously manually controlled, pressure controlled, or remotely controlled by telemeter from the Valinda Dispatch Center as set forth in Tables 3-1, 3-2, and 3-3 of Exhibit No. 1 herein.

The primary water supply for the Whittier service area is obtained from the Bassett Well and the Bartolo Well Field located in the San Gabriel Basin. The Bassett Well, situated on the west bank of the San Gabriel River, immediately south of the San Bernardino Freeway, delivers water into a large gravity conduit owned by the California Domestic Water Company for re-delivery to the company at the Murphy Reservoir in East Whittier. The Bartolo Well Field is located in the bed of the San Gabriel River immediately upstream from the Whittier Narrows Flood Control Dam. The four wells in this field deliver water to the low pressure "Bartolo Transmission Main" for delivery to the Whittier area. A chlorinator located at the immediate downstream side of the Whittier Narrows Flood Control Dam provides chlorination for the entire supply from the Bartolo Well Field. The Bartolo Transmission Main follows a general southeasterly direction from the well field, along Workman Mill Road and through the City of Whittier into the company's distribution system as shown on the map, Fig. 3-2 of Exhibit No. 1. Throughout much of its length, it is more or less paralleled by and interconnected to the California Domestic Water Company's gravity conduit. The Bartolo Transmission Main terminates at the Murphy Reservoir in East Whittier. There are laterals from this main at Pickering Avenue, Walnut Street, Painter Avenue, Gunn Road, Mills Avenue, and Cole Road which deliver water from the Bartolo Well Field to boosters throughout the Whittier system for introduction into the distribution grid. Additional wells within the system provide water from the Central Basin. The operations of the several pressure zones are shown on the map, Fig. 3-2 and the schematic diagram, Fig. 3-6 of Exhibit No. 1.

Distribution Mains

The company's distribution mains range in size from 1-inch to 52-inch diameter and total 542 miles in length. A tabulation by kind, size, and length appears in Table 3-4 of Exhibit No. 1 herein.

Rates

Present rates are comprised of metered service, public fire protection service, private fire protection service, fire hydrant service on private property, construction and tank truck service, and service to tract houses during construction. Applicant proposes to increase rates for metered service, private fire protection service, construction and tank truck service and service to tract houses during construction. It is proposed to add an additional tariff area to the metered service rate to cover service at elevations above those now presently served. This Tariff Area 3 will cover Whittier system zones higher than 820 feet and San Jose systems zones higher than 1140 feet. There are presently no customers served at these elevations. The quantity rates for this proposed Tariff Area No. 3 will be set at 4 cents per 100 cubic feet above the rates of Tariff Area No. 2 to cover the additional cost of supplying the higher elevations.

The present and proposed rates, for those tariffs proposed to be changed in abreviated form, are as follows:

Metered Service

Rates

	Present Per Meter Per Month	Proposed Per Meter Per Month
Service Charge:		
For 5/8 x 3/4-inch meter	$ 2.40	$ 3.22
For 3/4-inch meter	2.65	3.55
For 1-inch meter	3.90	5.23
For 1-1/2-inch meter	5.00	6.70
For 2-inch meter	7.00	9.40
For 3-inch meter	13.00	17.40
For 4-inch meter	18.00	24.00
For 6-inch meter	30.00	40.00
For 8-inch meter	44.00	59.00

Quantity Rates:	Tariff Area		Tariff Area		
	No.1	No.2	No.1	No.2	No.3
First 30,000 cu.ft., per 100 cu.ft.	$.14	$.17	$.19	$.23	$.27
Over 30,000 cu.ft., per 100 cu.ft.	.12	.15	.16	.20	.24

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 Conditions

1. The boundaries of the zones in which the above rates apply are delineated on the tariff service area maps filed as part of these tariff schedules. Tariff Area No. 1 in the San Jose Hills System includes all customers in zones designated 547 and below and in the Whittier System zones designated 300 and below. Tariff Area No. 2 includes all other customers.) Present

The tariff areas include all customers in elevation zones designated as follows:) Proposed

Tariff Area	San Jose system elevation, feet		Whittier system elevation, feet	
	above	including	above	including
1	-	547	-	300
2	547	1140	300	820
3	1140	-	820	-

Private Fire Protection Service	Present	Proposed
For each inch of diameter of service connection	$3.00	$4.00

Construction and Tank Truck Service

Increase all flat rates by factor 1.34

Service to Tract Houses during Construction	Present	Proposed
For each residence for the entire construction period	$2.50	$3.35

A comparison of some of the charges for a 5/8 x 3/4-inch meter at present and proposed rates is as follows:

	Tariff Area No. 1				Tariff Area No. 2			
	Bills for usage, dollars		Increase		Bills for usage, dollars		Increase	
Usage Ccf	Present	Proposed	Dollars	Percent	Present	Proposed	Dollars	Percent
0	2.40	3.22	0.82	34.2	2.40	3.22	0.82	34.2
10	3.80	5.12	1.32	34.7	4.10	5.52	1.42	34.6
20	5.20	7.02	1.82	35.0	5.80	7.82	2.02	34.8
60	10.80	14.62	3.82	35.4	12.60	17.02	4.42	35.1
100	16.40	22.22	5.82	35.5	19.40	26.22	6.82	35.2
500	68.40	92.22	23.82	34.8	83.40	112.22	28.82	34.6

The following tabulation summarizes the earnings data contained in Exhibit No. 1 (applicant) and revised[1/] Exhibit No. 2 (staff) as set forth in revised staff Exhibit No. 2 attached to staff counsel's brief as Appendix B:

1/ Exhibit No. 2 data was revised by the staff after hearing to correct admitted errors in calculation of depreciation expense, and to reflect adjustment for $380,000 of planned construction not installed in 1971.

Item	Staff 1970 Adjusted (a)	Staff 1971 Estimated (b)	Utility 1971 Estimated (c)	Utility Exceeds Staff Amount (d)	Utility Exceeds Staff Ratio (e)
	(Dollars in Thousands)				
Present Rates					
Operating Revenues	$ 3,698.8	$ 3,735.4	$ 3,411.8	$(323.6)	(8.7)%
Operating Expenses					
Oper. & Maint. Exp.	1,284.5	1,325.8	1,294.8	(31.0)	(2.3)
Adm. & Gen. Exp.	620.9	657.7	667.6	9.9	1.5
Taxes Other Than Income	527.2	548.5	495.4	(53.1)	(9.7)
Depreciation Exp.	429.8	438.8	450.1	11.3	2.6
Taxes on Income	110.6	61.8	8.4	(53.4)	(86.4)
Expense Modification *	(17.4)	(17.9)	(17.9)	-	-
Total Operating Exp.	2,955.6	3,014.7	2,898.4	(116.3)	(3.9)
Net Revenue	743.2	720.7	513.4	(207.3)	(28.8)
Depreciated Rate Base	12,698.2	12,693.1	13,500.1	807.0	6.4
Rate of Return	5.85%	5.68%	3.80%	(1.88)%	-
Company Proposed Rates					
Operating Revenues	$ 4,920.1	$ 4,968.9	$ 4,498.4	$(470.5)	(9.5)
Operating Expenses					
Oper. & Maint. Exp.	1,284.5	1,325.8)	1,983.4	(34.4)	(1.7)
Adm. & Gen. Exp.	645.3	692.0)			
Taxes Other Than Income	527.2	548.5	495.4	(53.1)	(9.7)
Depreciation Exp.	429.8	438.8	450.1	11.3	2.6
Taxes on Income	729.8	679.1	477.7	(201.4)	(29.7)
Expense Modification	(17.4)	(17.9)	(17.9)	-	-
Total Operating Exp.	3,599.2	3,666.3	3,388.7	(277.6)	(7.6)
Net Revenue	1,320.9	1,302.6	1,109.7	(192.9)	(14.8)
Depreciated Rate Base	12,698.2	12,693.1	13,500.1	807.0	6.4
Rate of Return	10.40%	10.26%	8.22%	(2.04)%	-

(Negative)

* See explanation infra

Applicant alleges that its present charges for water service are insufficient to yield a fair, just and reasonable return on capital invested in its plant, property and other equipment devoted to public use; in order to protect its financial integrity and meet the continuing needs for new capital for construction of additions and betterments to its utility system, it will require an average rate of return on rate base of approximately seven percent over the next three years; and that because of the continuing decline in rate of return inherent in the present economic climate, a rate of return on the 1971 test year rate base of 8.2 percent is required in order that the average of the next three years return will be approximately seven percent.

Revenues

The following tabulation shows the staff's estimates of revenues for the adjusted year 1970 and the estimated year 1971, at present and proposed rates:

	1970 Staff Adjusted		1971 Staff Estimate	
Class of Service	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Metered Service				
Domestic	$3,130,900	$4,220,300	$3,153,000	$4,250,000
Commercial	180,900	243,700	188,900	254,500
Industrial	16,000	21,400	18,000	24,000
Public Authority	128,500	172,400	131,100	175,900
Subtotal	3,456,300	4,657,800	3,491,000	4,704,400
Irrigation	500	500	700	700
Private Fire Protection	26,700	35,000	26,700	35,100
Public Fire Protection	83,300	83,300	84,600	84,600
Sales to Other Util.	91,900	91,900	91,900	91,900
Construction Service	7,300	9,800	7,600	10,200
Misc. Sales & Service	32,800	32,800	32,900	32,900
Subtotal	242,500	253,300	244,400	255,400
Subtotal Operating Revenues	3,698,800	4,911,100	3,735,400	4,959,800
Santa Fe Springs Adj.	-	9,000	-	9,100
Total Operating Revenues	$3,698,800	$4,920,100	$3,735,400	$4,968,900

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The applicant adjusted the revenues for the year 1970, but did not estimate the 1970 revenues at the proposed rates. The following tabulation shows the applicant's adjusted 1970 revenues at the present rates and its estimated 1971 revenues at the present and proposed rates.

Class of Service	1970 Estimated	1971 Estimated	
	Present Rates	Present Rates	Proposed Rates
Metered Service			
Domestic	$2,825,810	$2,826,820	$3,788,900
Commercial	175,220	185,510	248,600
Industrial	22,990	24,230	32,500
Public Authority	123,680	126,300	169,300
Subtotal	3,147,700	3,162,860	4,239,300
Irrigation	700	700	700
Private Fire Protection	22,590	23,570	31,070
Public Fire Protection	82,740	83,600	83,600
Sales to Other Util.	91,920	91,920	91,920
Construction Service	7,600	7,600	10,200
Misc. Sales & Service	40,800	41,600	41,600
Subtotal	246,350	248,990	259,090
Total Operating Revenues	$3,394,050	$3,411,850	$4,498,390

The staff's revenue estimates exceed the applicant's by 8.98 percent for the adjusted year 1970 and by 9.48 percent for the estimated year 1971. The staff showing indicates that total revenues will increase by .99 percent between the test years whereas the applicant's report indicates that revenues will increase by only .52 percent between 1970 and 1971 on a normalized basis.

The staff stated that, other than domestic sales, differences in metered sales were offsetting and the staff estimate of private fire protection reflects later data which reduced the staff estimate of miscellaneous revenues as compared to the company.

There is a great difference between the staff's and the applicant's estimates of revenues from the domestic consumers. Both parties assumed the same numbers of customers of all types during the test periods.

From the recorded figures in applicant's annual reports, of which we take official notice, the actual water sales per year per domestic consumer varied between a high in 1961 of over 270 Ccf and a low in 1969 of 230.9 Ccf, averaging 243.5 Ccf per domestic consumer per year for the period without adjustment for temperature or rainfall. The staff used the period of 1962 through the first three months of 1971 to establish a trend. The applicant used the years 1961 through 1969 to establish a trend.

In arriving at normal year estimates of water sales for the estimated years 1970 and 1971, both the applicant and the staff 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". The parties arrived at extremely divergent results.[2/] The staff estimated average annual consumption per year per customer of 243.0 Ccf in 1970 and 243.8 Ccf per customer per year in 1971 with

2/ See Exhibit No. 3 herein.

an upward trend of plus .3 percent. The applicant estimated average annual consumption per year per customer of 199 Ccf in 1970 and 197 Ccf per customer per year in 1971, with a downward trend of minus one percent.

The differences between the two estimates are due to the facts that the applicant's witness used the temperature and rainfall data recorded at the Pomona Weather Station located over the Kellogg Hill and east of the separated systems of applicant, and the staff engineer used rainfall data recorded at the Whittier and San Gabriel Weather Stations, and temperature data recorded at Yorba Linda and San Gabriel for normalizing the water use in the Whittier and San Jose areas, respectively. In addition, the applicant's engineer estimated average water use for the total company while the staff estimated separately for the Whittier and San Jose areas.

In our opinion, considering the historical water consumption, of which we take official notice, the staff's assumed water use per customer is much more realistic than that of the applicant. We realize, however, that we cannot have a precise forecast of water usage due to the variables referred to in this opinion. We will reduce the staff's estimates of domestic revenues by four percent at present and proposed rates for 1970 and 1971. The domestic consumption revenues we will use for the purposes of this decision will be as follows:

1970		1971	
Present Rates	Proposed Rates	Present Rates	Proposed Rates
$3,005,665	$4,051,490	$3,026,880	$4,080,000

Applicant has not requested authority to increase rates for sales of water to the City of Santa Fe Springs for resale to its customers. It is the staff position that rates of Suburban's customers should not be increased to subsidize customers of the City of Santa Fe Springs. The staff urges that the Commission reduce the revenue requirement from other customers by adjusting total assumed revenues upward to reflect the deficiency in revenues from Santa Fe Springs. We find that such adjustments in the amount of $9,000 for the estimated year 1970 and $9,100 for the estimated year 1971 at proposed rates are reasonable and should be included herein.

We find for the purpose of this opinion that the operating revenues for the years 1970 and 1971 will be as follows:

1970		1971	
Present Rates	Proposed Rates	Present Rates	Proposed Rates
$3,573,600	$4,751,300	$3,609,280	$4,798,900

Modifications To Rate Base,Taxes and Expenses

In Decision No. 64256, dated September 14, 1962 (in Application No. 43241) the Commission concluded that the applicant's rate base should be adjusted downward in order to eliminate the effect of certain past business transactions. These adjustments are categorized as (1) adjustment for tract extension without refund contracts, (2) accounting modifications, (3) adjustments for purchases from associated companies and (4) adjustment of investment in mutual water company stocks.

In the most recent general rate proceeding filed by the applicant, Application No. 49914, the staff of the Commission contended for continuing and updated adjustments covering the same situations, basing their contention on the Commission's findings in Decision No. 64256. In order to expedite the hearings on Application No. 49914, the applicant stipulated that the subject adjustments would not be considered an issue in the hearings then underway, without prejudice to the applicant's right to contest the propriety of these adjustments in a later proceeding.

The applicant takes the same position in this proceeding, and has agreed that the rate base developed in Exhibit No. 1 be modified by updated adjustments for the same four items. These adjustments, updated for the adjusted year 1969 and the estimated years 1970 and 1971 are as follows:

Description	Amount, dollars		
	1969 Adjusted	1970 Estimated	1971 Estimated
Tract extensions without refund contracts	255,000	226,500	198,000
Accounting modifications	102,800	102,800	102,800
Adjustments for purchases from associated companies	624,000	601,000	578,000
Adjustments for mutual water company stocks	161,200	161,200	161,200
Total	1,143,000	1,091,500	1,040,000

These adjustments to rate base, being considered as adjustments to utility plant investment, will have a minor concurrent effect on the amount of expense appropriately considered for rate making purposes, specifically, depreciation expense, ad valorem tax, and income taxes. The adjustments to expenses are as follows:

Description	Amount, dollars 1969 Adjusted	1970 Estimated	1971 Estimated
Depreciation expense	(23,000)	(23,000)	(23,000)
Ad valorem taxes	(18,880)	(19,790)	(19,810)
Income taxes	25,280	25,420	24,960
Total	(16,600)	(17,370)	(17,850)
Use	(16,600)	(17,400)	(17,900)

The foregoing adjustments have been considered herein.

Operation and Maintenance Expenses

The staff's estimates of operation and maintenance expenses at present and proposed rates exceed those of the applicant by $41,400 for the year 1970 and $31,000 for the year 1971. The estimates are as follows:

Item	1970		1971	
	Applicant	Staff	Applicant	Staff
Purchased Water	$ 221,900	$ 266,000	$ 222,500	$ 275,700
Pumping Assessments	83,600	24,100	83,900	23,800
Purchased Power	186,800	227,400	187,000	229,200
Labor	538,400	526,600	586,200	552,500
Chemicals	4,600	5,600	4,800	5,800
Uncollectibles	16,500	18,000	16,600	18,200
Postage	21,100	28,000	21,100	28,200
Sales Expense	2,000	500	2,000	500
Meter Maintenance	45,000	66,500	47,500	68,700
Other O & M Expenses	123,200	121,800	123,200	123,200
Total O & M Expenses	$1,243,100	$1,284,500	$1,294,800	$1,325,800

We have adjusted the revenues expected as stated on page 21 of this decision. This adjustment results in lower cost of water due to the smaller amount purchased, and a lower cost for electric power and water purification chemicals. We find the smaller assumed expenses are reasonable and should be adopted.

We find that there were also certain specific adjustments by the staff which we find reasonable. These adjustments are as follows:

Pumping Assessments

The staff used applicable assessable pumpages and currently effective rates in determining pumping assessments for the years 1970 adjusted and 1971 estimated. Rates used by the staff are the latest known and will be assumed to have been in effect during both test periods. The applicant's estimated assessment rates were based on long-term projections which are not realistic. We find the staff's estimates are reasonable.

Purchased Power

The staff estimates reflect greater water sales and higher electric and gas rates than those used by the applicant. Electric rates effective July 15, 1971 and gas rates effective November 28, 1970 were used by the staff for both test periods. We find the staff's estimate to be reasonable.

Labor

The staff reviewed applicant's estimated labor for the year 1970 and determined it to be reasonable for its 1970 adjusted operation and maintenance expenses. The applicant increased the figure by 8.2 percent for 1971 estimated to allow for future tentative labor increases. The staff determined an average labor increase of 4.92 percent based on the ratio of 1971 firm salaries for 70 employees to their 1970 pay rates excluding administrative and general meter shop and engineering employees. We find the staff's estimated cost of labor to be reasonable.

Uncollectible Accounts

The uncollectible allowance used herein reflects the staff's higher estimated water sales for 1970 adjusted and 1971 estimated as stated in the estimates of revenues for the test years. We find the staff's estimates to be reasonable.

Postage

The staff cost of postage includes the May 16, 1971 postal rate increase in its 1970 adjusted and 1971 estimated customer accounts expense. We find these estimates to be reasonable.

Sales Expense

We find the staff's estimate of $500 for sales expense is reasonable.

Meter Maintenance

The staff adjusted and estimated cost of meter maintenance was based on the recorded 1970 expense plus $32,967 over capitalization of meter rehabilitation done in the applicant's meter shop and capitalized in 1970. We find the staff's estimates are reasonable.

We find that applicant's operating and maintenance expenses for 1970 and 1971 at present and proposed rates will be as follows:

1970	1971
$1,259,000	$1,299,700

Administrative and General Expenses

The following tabulation compares the applicant's and the staff's estimates of administrative and general expenses for the years 1970 and 1971 at present and proposed rates:

Ac. No.	Account	1970 (Present Rates) Staff	1970 (Present Rates) Applicant	1971 Staff	1971 Applicant
791	Administrative and General Salaries	$304,800	$315,200	$330,000	$341,100
792	Office Supplies and Other Expenses	45,200	44,000	48,700	47,500
793	Property Insurance	7,900	7,900	7,900	7,900
794	Injuries and Damages	24,700	24,700	25,800	25,800
795	Employees' Pensions and Benefits	119,200	99,900	127,000	107,700
796	Franchise Requirements *	53,500	49,000	54,100	49,200
797	Regulatory Commission Expenses	7,000	9,000	7,000	9,000
798	Outside Services Employed	58,300	88,000	58,300	88,000
799	Miscellaneous General Expenses	27,900	27,900	29,300	29,300
805	Maintenance of General Plant	19,100	19,800	19,100	20,200
812	Administrative Expenses Transferred - Cr.	(46,700)	(53,800)	(49,500)	(58,100)
	Total	$620,900	$631,600	$657,700	$667,600

(Negative)

* Using the staff's figures, the 1970 and 1971 franchise requirements at the proposed rates will be assumed to be $71,400 and $72,100, respectively.

As is apparent, the gross difference is comparatively minor but the individual differences are major. The record shows that the staff had recorded figures for the full year 1970. The applicant had only partial year records.

Account 791. The staff adjusted this account for 1970 down by approximately $13,000 to compensate for an overstatement of vacation and holiday accruals. It also allowed an additional sum during both years for additional accounting supervision. We find that the staff's adjustments to this account are reasonable and should be adopted.

Account 792. The staff's estimate is slightly larger due to allowance for the increased postal rates. We find the staff's estimate is reasonable and should be adopted.

Account 795. The staff estimates exceed those of the applicant by approximately $19,000 for 1970 and $19,000 for 1971. These adjustments are partly due to improper bookkeeping and partly due to the fact that the staff had later information. We find that the staff's estimates are reasonable and should be adopted.

Account 796. This is an estimate. We will adopt the staff's figures. We find its estimates to be reasonable.

Account 797. Inasmuch as the costs of operation are in a constant state of flux, it appears that rate increase applications are being filed more frequently than in prior years. We find that the applicant's estimates of $9,000 for both years at present and proposed rates are reasonable and should be adopted for the purposes of this opinion.

Account 798. This reflects the cost of outside services employed by the applicant. The staff pointed out that in 1970 $38,863 out of $97,150 appearing in this account were based on charges which were non-operating and non-recurring in nature (see page 3-1, Par. 4, Exhibit No. 2). We find that the staff's allowances are reasonable and should be used for the purposes of this decision.

Account 805. In our opinion, this is a management judgment item. We find that the applicant's estimate is reasonable and should be adopted.

Account 812. This is a judgment figure. We find that the staff's estimate is reasonable and it will be adopted.

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
$623,600	$641,500	$660,800	$678,800

Taxes Non-Income

The applicant's and the staff's estimates on non-income taxes for the years 1970 and 1971 at present and proposed rates are as follows:

	1970		1971	
	Applicant	Staff	Applicant	Staff
Ad Valorem Taxes	$436,730	$490,990	$454,410	$511,780
Payroll Taxes				
State Unemployment	4,550	4,540	4,550	4,550
Federal Unempl.	1,450	1,450	1,450	1,450
Federal (Old Age)	33,840	33,840	35,040	37,930
Total	$476,570	$530,820	$495,450	$555,710

The major difference between the applicant's and the staff's estimates of non-income taxes results from the fact that the applicant's estimates were prepared before changed procedures which reduced the deductions for advances for construction and contributions in aid of construction. In addition, the applicant and the staff used different rates for old age benefits. We have made adjustments for the applicant's property and find that non-income taxes will be $527,200 for the year 1970 and $548,500 for the year 1971.

Depreciation Expense

The staff's and the applicant's depreciation expense estimates[4/] for the years 1970 and 1971 are compared as follows:

1970		1971	
Applicant	Staff	Applicant	Staff
$432,900	$429,800	$450,130	$438,800

The staff agreed generally to the applicant's plant depreciation rates and there is no major conflict relative thereto.

There is a substantial difference in the expense due to the differences in the property on which the expense is charged.

The staff witness stated that applicant's recorded utility plant in service as of December 31, 1968, is in the amount of $21,623,451, and is shown in Table 9-2 of Exhibit No. 1. The applicant adjusted the recorded figures to reflect on an annual basis certain plant changes occurring in 1969 including the acquisition of the company's general office and land associated therewith by a lease

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4/ At the hearings, in response to staff questioning concerning the status of the 1971 construction program, the utility's witness stated that over $380,000 of planned construction would not be installed in 1971. Late filed Exhibit No. 12 shows this to be true.

agreement, with an option to purchase.

Applicant has leased its two general office structures, appurtenant buildings and improvements since they were originally constructed, from the San Jose Ranch Company, a company owned or controlled by the late Camille A. Garnier, referred to supra. The latest lease agreement, dated September 23, 1969, is with Anton C. Garnier and Kenneth E. Roggy, as Trustees, both referred to supra.

These facilities, since their occupancy by applicant, have been devoted to public utility use, and both the water system and the land and structures referred to have been under the control of one person. The staff witness stated that it is reasonable, for rate-making purposes, to adjust utility plant to reflect the acquisition of the general office land and structures at their estimated cost at the time they were first devoted to public utility use. He said that the staff has been unable to obtain, and applicant has been unable to furnish the original cost of the land and structures at the time they were first devoted to public utility use. The cost of the general office land, 3.83 net acres, has been estimated by the staff by reference to a similar but larger parcel of land directly adjoining the parcel in question, and purchased by the applicant in 1961. Both parcels are a portion of Lot 1, Tract No. 517, Los Angeles County. The larger parcel, 8.037 net acres, on which are located applicant's auto maintenance building, warehouse, and meter shop, was purchased for $101,183, a cost per net acre of $12,589. The witness said that by applying this land cost to the 3.83 acres of general office land gives an estimated cost of $48,258 which has been rounded to $50,000.

The witness said the amount recorded on applicant's books for general office structures, $186,247, has been factored back by the use of standard building cost indices to arrive at an estimated original cost of $109,000 as of January, 1956.

By Decision No. 64256, dated September 14, 1962, in Application No. 43241, the Commission required certain adjustments in the rate base. These modifications, referred to infra, have been continued with the consent of the applicant. The applicant has agreed to such modifications in the instant application.

We have reviewed the record and we are satisfied that the staff's adjustments to depreciation expenses for the years 1970 and 1971 together with the stipulated adjustments, are reasonable and should be allowed. We find that depreciation expense for the year 1970 should be $429,800 and for the year 1971 should be $438,800.

Income Taxes

Using the foregoing figures, income taxes for the years 1970 and 1971 at present and proposed rates will be as follows:

1970		1971	
Present	Proposed	Present	Proposed
$38,700	$634,400	$9,200	$589,100

Rate Base

The following are comparisons of the applicant's and the staff's estimated utility plants and rate bases for the years 1970 and 1971. The staff amounts are from Exhibit No. 2, before revision.

Item	Staff 1970 Adjusted	Staff 1971 Estimated	Utility 1970 Adjusted	Utility 1971 Estimated
	(Dollars in Thousands)			
Utility Plant in Service	$23,291.5	$23,709.5	$23,294.0	$24,243.7
Construction Work in Progress	141.0	141.0	141.0	141.0
Other Investments	494.3	494.3	494.3	494.3
Total Utility Plant	$23,926.8	$24,344.8	$23,929.3	$24,879.0
Modifications				
Contrib. in Aid of Construction	(1,301.0)	(1,326.0)	(1,311.3)	(1,371.5)
Advances for Construction	(3,194.3)	(3,338.2)	(3,205.9)	(3,422.5)
Stipulated Modifications	(1,091.5)	(1,040.0)	(1,091.5)	(1,040.0)
Nonoperating Property	(24.0)	(24.0)	-	-
Total Modifications	(5,610.8)	(5,728.2)	(5,608.7)	(5,834.0)
Materials and Supplies	100.1	100.1	152.3	152.3
Working Cash Allowance	353.6	368.9	341.7	359.5
Reserve for Depreciation	(5,704.0)	(6,033.0)	(5,686.2)	(6,056.7)
Average Depreciated Rate Base	13,065.7	13,052.6	13,128.4	13,500.1

(Negative)

The difference in the utility plant in service is due mainly to the adjustments discussed on pages 29 and 30 herein. We find that the staff's revised estimate is reasonable and should be adopted herein.

Applicant's estimate of contributions in aid of construction appears to be reasonable and will be used for the purpose of this decision.

The applicant conceded an improper entry relative to advances for construction and that its construction budget was grossly overstated as compared with actual construction. We find that the staff's estimates of advances for construction are proper and should be used for the purpose of this decision.

Materials and supplies have been adjusted downward by the staff to compensate for an overstatement of the plant account for meters and parts by approximately $55,000. We find that the staff's estimates of materials and supplies are reasonable and should be used for the purpose of this decision.

Working cash is a judgment figure. The applicant and the staff are very close in their estimates. We find that the applicant's estimates are reasonable and they will be used for the purpose of this decision.

We find that for the years 1970 and 1971, respectively, the average depreciated rate bases will be $12,677,000 and $12,639,200 We find such rate bases to be reasonable.

Summary of Earnings

We find that the 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
Operating Revenues	$ 3,573,600	$4,751,300	$ 3,609,280	$4,798,900
Expenses				
Operation and Maint.	1,259,000	1,259,000	1,299,700	1,299,700
Admin. & General	623,600	641,500	660,800	678,800
Non-Income Taxes	527,200	527,200	548,500	548,500
Depreciation Exp.	429,800	429,800	438,800	438,800
Income Taxes	38,700	634,400	9,200	589,100
Expense Modification	(17,400)	(17,400)	(17,900)	(17,900)
Total	2,860,900	3,474,500	2,939,100	3,537,000
Net Income	712,700	1,276,800	670,200	1,261,900
Rate Base	$12,677,000	-	$12,639,200	-
Rate of Return	5.62%	10.07%	5.30%	9.98%

(Negative)

The Utility Employees' Retirement Plan

During the hearings evidence was presented by the staff relative to the Utility Employees' Retirement Plan (Exhibit No. 4); the costs of which, insofar as the consumers are concerned, is an expense which they are required to pay. At page 2 of said Exhibit No. 4, the staff lists what staff counsel in her brief calls managerial abuses which demonstrate applicant's mismanagement of the funds. Staff counsel states that these questionable practices have an impact on the pension fund requirements for employees' benefits and they also show the need to separate the management of the utility from the administration and investment decisions for the retirement funds. She stated that it is important to realize that the staff witness who sponsored this exhibit was not cross-examined by the applicant.

In Exhibit No. 4, the staff witness made the following recommendations:

1. Applicant should be prohibited from making any additional investments of funds charged to Account 795, Employees' Pensions and Benefits, in securities of Suburban Water Systems, Southwest Water Company, Vallecito Water Company, California-Michigan Land and Water Company, East Pasadena Water Company and any other associated company; if, at some future date, when investments in outside securities occupy a more substantial part of total investments and when investment prospects in associated securities become more promising, then the Plan may seek permission from the Commission to make specific purchases in securities of Suburban, Southwest and other associated companies.

2. The Commission should order applicant to place the Employer Accounts (funds provided by employers) with an independent trustee, e.g., an insurance company or investment firm engaged in the handling of investments for pension funds, and the Pension Committee should be prohibited from making specific investment decisions.

3. Until such time as applicant can demonstrate to the Commission that it has complied with the above recommendations, the employers' contributions charged to Account 795, Employees' Pension and Benefits, should be limited to the benefits actually paid to retired employees.

The applicant takes the position that the Commission has no jurisdiction over the pension fund but that if it has, the recommendations of the staff are inappropriate and unnecessary in view of the following measures adopted by applicant which allegedly effectively accomplish the result sought to be achieved by the staff's recommendations. First, the Board of Directors of applicant, in early 1971, engaged the services of Hewitt and Associates, an independent consulting firm, to study the plan and make recommendations to the board regarding its administration. Second, the board has engaged the services of Dean Witter & Co., a well known investment banking firm, to provide it with "recommendations on future investments of the Plan's funds." The applicant's counsel states that in view of the above, the staff's recommendations, even if relevant, would serve no useful purpose.

We are satisfied that we have jurisdiction to regulate the pension fund practices inasmuch as the applicant includes its cost as an operating expense. We find that the staff's recommendations relative to future handling of the funds are reasonable, and appropriate provisions will be included in the order herein.

Rate of Return

Applicant's witness testified that its summary of earnings, supra, demonstrates there is a deficiency in earnings under the present rates, and that among the factors causing attrition in earnings, are the rapidly rising costs of labor, materials and services, and increasing fixed charges on capital additions and replacements made at unit costs which are continually increasing.

He said that primary among the factors considered in determining a reasonable level of return on rate base is the cost of money to the utility. He said that applicant must be able to demonstrate the presence of adequate earnings in order to obtain the financing needed to meet the continuing requirements for improvements and replacements in its system; the cost of funds necessary for capital investment has risen dramatically within the last few years; while there has been some slight improvement in the general money market within the last few months, as evidenced by a retreat in the bank prime rate, this improvement has not resulted in a significant reduction in the current high cost of new long-term financing for utilities; and rates of return on utility rate base must now be appreciably higher than those which were adequate in the past if the utility is to adequately cover the cost of borrowed money and provide a reasonable return to the equity investor.

The witness said that the Commission has, in the past, taken note of the low proportion of equity capital in the applicant's capital structure; at the time of the latest rate review in 1968, the capital structure contained approximately 11.8 percent equity; because of reinvestment of retained earnings, and assuming the successful sale of 5,000 shares of common stock at $50 per share as authorized by the Commission's Decision No. 78146, the applicant's pro forma equity position, as of December 31, 1970, will be increased to approximately 22 percent; if the applicant is to be able to successfully obtain a proportion of its future capital needs by the sale of common stock, it must be able to demonstrate, over a period of years, earnings on equity adequate to attract a price for such stock that will not dilute the earnings of existing equity holders; even with the increased percentage of equity capital now shown, earnings on equity are extremely vulnerable to attrition in return on rate base; and the attrition of 0.54 percent per year in rate of return on applicant's rate base, as claimed by applicant, would translate to 2.4 percent per year attrition in return on equity investment in rate base.

The witness said that after evaluation of the cost of money factors discussed above, rates are proposed by applicant which are designed to produce, over a three-year period, a return on common stock equity investment in rate base of 14 percent, resulting in an average return on adjusted rate base of 7.14 percent, and this calculation does not provide for any return on approximately $1,000,000 of the applicant's investment which is involved in the rate base modifications voluntarily made, infra, in order to expedite this proceeding.

The witness said that on December 31, 1970, the applicant had long-term debt of $7,429,000 (including customer's promissory notes of $991,000 considered as long-term debt for purposes of computing cost of debt) at an effective interest cost of 5.53 percent and preferred stock of $4,120,210 at an effective cost of 4.22 percent, or a total senior capital of $11,549,210 at an overall effective cost of 5.06 percent. The various components of this senior capitalization are set forth in Table 13-1 of Exhibit No. 1. The level of indebtedness to some 304 customers and employees under the "customer promissory note program" is included as a cost of senior capital since this is a continuously revolving program intended to provide funds which would otherwise require higher cost long-term financing.

Table 13-2 of Exhibit No. 1 sets forth a pro forma December 31, 1970 capital structure, including the new financing as authorized by the Commission in Decision No. 78146. This shows an effective cost of long-term debt of 5.77 percent and a resultant cost of senior capital of 5.22 percent. As previously discussed, the proposed financing also includes issuance of additional common stock. Assuming the successful sale of this stock, the applicant's capital structure on a pro forma basis at December 31, 1970 would be as set forth in Table 13-3 of Exhibit No. 1.

The witness said rates of return required on the total capital structure of the applicant, using the estimated pro forma cost of debt at December 31, 1970, as set forth in Table 13-2 of Exhibit No. 1, and at various rates of return on common stock equity, are as follows:

Components of capital structure	Components of capital structure, percent of total	Cost of money percent of capital component	Cost of money, percent of total capital structure								
Long-term debt	50.43	5.77	2.91	2.91	2.91	2.91	2.91	2.91	2.91	2.91	2.91
Preferred stock	27.73	4.22	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17
Common equity	21.84	12.00	2.62								
		13.00		2.84							
		14.00			3.06						
		15.00				3.28					
		16.00					3.49				
		17.00						3.71			
		18.00							3.93		
		19.00								4.15	
		20.00									4.37
Total Capitalization	100.00		6.70	6.92	7.14	7.36	7.57	7.79	8.01	8.23	8.45

The witness said that this table shows that at December 31, 1970, a return of 14 percent on common stock equity would require an overall rate of return on capital of 7.14 percent.

The witness said that, as shown by applicant's estimates of rates of return for 1970 and 1971, it can reasonably be expected that after new, higher rates are placed in effect, the company will experience a continuing decline in rate of return of approximately 0.54 percent per year; that applicant should receive a rate of return on the 1971 estimated test year rate base which will provide 7.14 percent as an average for the succeeding three years; and that on this basis, and using a decline of 0.54 percent per year, it is indicated that the rate of return on the 1971 test year rate base should be 8.22 percent.

The witness said that a rate of return of 8.22 percent on a $13,500,000 rate base (applicant's estimated and adjusted 1971 rate base) will require gross revenues of $4,498,395, an increase of $1,086,545 over the estimated revenues for 1971 at the present rates.

A Commission financial witness testified that applicant's capital structure for the years 1961 through 1970 was as follows:

Year	Long-Term Debt[1/]		Preferred Stock		Common Equity		Total Capital	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1961	$6,577,000	53.49%	$3,889,775	31.63%	$1,830,110	14.88%	$12,296,885	100.00%
1962	7,965,000	58.68	3,999,174	29.47	1,607,748	11.85	13,571,922	100.00
1963	7,853,000	57.85	4,019,011	29.60	1,703,780	12.55	13,575,791	100.00
1964	7,740,000	56.97	4,048,871	29.80	1,798,085	13.23	13,586,956	100.00
1965	7,627,000	57.21	4,049,070	30.37	1,655,677	12.42	13,331,747	100.00
1966	7,515,000	57.29	4,224,480	32.20	1,378,315	10.51	13,117,795	100.00
1967	7,403,000	56.57	4,117,190	31.46	1,566,991	11.97	13,087,181	100.00
1968	7,190,000	51.22	4,119,000	29.35	2,727,833	19.43	14,036,833	100.00
1969	7,512,098	51.26	4,114,460	28.07	3,028,703	20.67	14,655,261	100.00
1970	6,953,002	48.68	4,116,670	28.82	3,213,398	22.50	14,283,070	100.00
Average 10 Years		54.92%		30.08%		15.00%		100.00%

1/ Excludes short-term debt.

The witness said that historically the company has maintained an imbalanced capital structure containing a preponderance of debt and preferred stock and a very low common equity ratio. Over the past ten years the common equity ratio has ranged from a low of 10.51 percent in 1966 to 22.50 percent at the end of 1970, the principal reason for the recent improvement being gains realized from sale of the Santa Fe Springs system in 1968, the proceeds of which were mostly invested in New Mexico properties which in 1970 earned a meager 1.40 percent on applicant's investment.

The witness said that based on the staff's estimates of amounts outstanding as of December 31, 1971, the imbedded cost for debt is 5.75 percent and the effective dividend rate for preferred stock is 4.22 percent (Table 2, Exhibit No. 5). He indicated that the common stock earnings per share since 1960 have varied, showing a loss of $1.73 per share in 1967 and registering a high of $3.94 per share in 1970, while book value per share has ranged from a low of $31.11 in 1966 to a high of $68.53 at the end of 1970. For the five-year period from 1966 through 1970, applicant's average common stock equity ratio as well as its earnings rate on common stock equity and return on average total capital ranked lowest among 17 other water companies (Tables 4 and 5 of Exhibit No. 5).

The witness said applicant was granted a rate increase in 1969 by Decision No. 75335, dated February 18, 1969 as supplemented by Decision No. 75394, in Application No. 49914, in which the staff recommended a rate of return of 6.75 percent and this rate was adopted by the Commission. This return gave earnings of 19.10 percent for common stock equity.

In Decision No. 75335, the Commission pointed out that because of the extremely low common equity ratio, any reasonable rate of return would result in an abnormally high earnings rate on the common stockholders' investment. This fact is illustrated in the following table:

Item	Capital Ratios (a)	Factor (b)	Assumed Earnings Rates on Common Stock Equity as of December 31, 1971					
			16.00%	17.00%	18.00%	19.00%	20.00%	21.00%
			Weighted Costs					
Long-Term Debt	56.88%	5.75%	3.27%	3.27%	3.27%	3.27%	3.27%	3.27%
Preferred Stock	31.15	4.22	1.31	1.31	1.31	1.31	1.31	1.31
Common Stock Equity	11.97		1.92	2.03	2.15	2.27	2.39	2.51
Total	100.00%		6.50%	6.61%	6.73%	6.85%	6.97%	7.09%

(a) Capital ratios as estimated by staff.

(b) Cost factors of senior securities developed in Table No. 2, Exhibit No. 5, referred to supra.

The witness said the foregoing table utilizes assumed earnings rates on common stock equity and combines its weighted cost with that of senior securities to show various rates of return on total capital. The capital ratios as of December 31, 1971 are as estimated by the staff and the cost factors for senior securities are those developed in Table No. 2, Exhibit No. 5, supra. The common stock equity ratio used for purposes of this proceeding reflects the elimination of Suburban Water Systems' entire investment in the stock of Paradise Community Service, Inc. (New Mexico).

The witness said a fair rate of return should provide the utility with sufficient funds to service senior securities and to permit reasonable increments in retained earnings after payment of a compatible dividend on its common stock. The earnings rate allowable for common stock equity necessarily involves judgment which considers many factors, including: Capital structure and imbedded costs of debt and preferred stock; additional funds required for construction; outstanding advances for construction and contributions in aid of construction; comparative earnings of other water utilities; rates of return authorized by the California Public Utilities Commission; attraction of external capital on reasonable terms; and equitable treatment of consumers and investors. He said that a rate of return in the range of 6.70 percent to 7.00 percent would be reasonable for applicant, pointing out that the earnings rate on the applicant's common stock equity within this limit would range from 17.17 percent to 20.22 percent.

Using the maximum staff recommended rate of return of 7 percent, this return when applied to the herein adopted 1971 rate base of $12,639,200 would produce net operating revenues of $884,800, or an increase of $214,600 over those at present rates. This rate of return is reasonable when applied to the herein adopted rate base for 1971. We estimate that this rate of return will give a return on common equity of 20.22 percent. We find such return for the future is reasonable. The applicant is, therefore, entitled to an increase in gross revenues of $404,700 instead of the requested increase in gross revenues of $1,189,620.

We have not concerned ourselves with the indicated trend in the rate of return (applicant minus .54 percent per year, staff minus .14 percent per year). The trend in rate of return is an important element of consideration for water utilities. In this proceeding however, the level as indicated by the staff results appears too small for quantitative consideration. We must recognize, however, that while growth in the system may be limited, additional plant and replacements cost more than the average cost of old plant, even though increases in costs may be limited to the percentage increases found reasonable by the Price Commission. Furthermore, upgrading of fire protection requiring installation of large diameter mains without offsetting increases in revenues is a considerable factor in decline in rate of return. Because of these increases in costs without offsetting benefits in additional revenues, the Commission finds that the maximum of the staff's recommended range in rate of return of 7 percent on an adjusted rate base is reasonable. The net result is a return on common equity of approximately 20.22 percent. This return is the return we allowed on common equity in Decision No. 75335, supra. In our opinion, this return on common equity is reasonable under the precise facts herein considered.

Investment Tax Credit and State Corporation Franchise Tax Rate

The term "Investment Tax Credit" (ITC), as used herein, refers to a reduction in current tax liability allowed by Federal income tax authorities, pursuant to tax laws, based upon a stated percentage applied to the dollar amount of specified qualifying plant additions. An ITC was introduced by the Revenue Act of 1962, suspended by the Suspension Act of 1966, restored by the Restoration Act of 1967 and repealed by the Tax Reform Act of 1969. A revised ITC was recently reinstated by the Revenue Act of 1971, with a credit of 4 percent for utilities. We hereby take official notice of the aforementioned previous and recent tax laws, and the recent increase to 7.6 percent for State Corporation Franchise Taxes.

Findings

The Commission finds that:

1. Suburban Water Systems (applicant) is a public utility water corporation under the jurisdiction of this Commission furnishing water service to an overall total of approximately 45,000 customers.

2. Applicant proposes to increase its rates for general metered service, private fire protection service, construction and tank truck service, and service to tract houses during construction. Revenues for 1971 will be $3,609,280 at the present rates and $4,798,900 at the company proposed rates.

3. Operating and maintenance expenses for the year 1971 will be $1,299,700 at present and proposed rates.

4. Administrative and general expenses for the year 1971 will be $660,800 at present rates and $678,800 at the company proposed rates.

5. Depreciation expense for the year 1971 will be $438,800.

6. Taxes other than on income will be $548,500 for the year 1971.

7. Income taxes for the year 1971 will be $9,200 at present rates and $589,100 at the company proposed rates.

8. The net revenues for the year 1971 will be $670,200 at present rates and $1,261,900 at company proposed rates.

9. Applicant's average adjusted rate base for the year 1971 is $12,639,200.

10. Based on the above findings, applicant's rate of return for the estimated year 1971 will be 5.30 percent at present rates and 9.98 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 9.98 percent which would be produced by the rates proposed by applicant is excessive. A rate of return of 7 percent on the adopted rate base of $12,639,200 for the year 1971, which should produce a return of 20.22 percent on common equity is reasonable.

12. 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 increases will not contribute to inflationary expectations; the increases are reduced to reflect productivity gains; the increases are the minimum rates which are necessary to assure continued and adequate service; and any increase in the rate of return above that allowed previously either is required by an increase in the cost of money,

including equity capital, or is necessary to assure continued adequate service and provide for necessary expansion to meet future requirements, and it is the minimum rate of return needed to attract capital.

13. Filings of new schedules of rates for general metered service, private fire protection service, construction, and tank truck service, and service to tract houses during construction, should be authorized. The order which follows will authorize the filing of new schedules of rates which will produce $4,014,000 in gross annual revenues, an increase of $404,700, or 10.08 percent of the gross annual revenues which would be produced at present rates. When the authorized revenues are related to the rate base of $12,639,200, which is just and reasonable, after deducting operating expenses, depreciation and taxes, a rate of return of 7 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.

14. The staff recommendations relative to the pension fund are reasonable and compliance therewith should be required in the future.

The Commission concludes that the application should be granted to the extent and subject to the conditions herein set forth, and in all other respects it should be denied. The increases granted are in compliance with the regulations established by the Price Commission in Section 300.16(e), (1)-(6) Code of Federal Regulations.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Suburban Water Systems is authorized to file the revised schedules of general metered service, private fire protection, construction and tank truck service, and service to tract houses during construction, rates attached to this order as Appendix A, and concurrently to cancel its present schedules for such 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.

2. Applicant shall not make any additional investments of funds charged to Account 795, Employees' Pensions and Benefits, in securities of Suburban Water Systems, Southwest Water Company, East Pasadena Water Company and any other associated company; if, at some future date, when investments in outside securities occupy a more substantial part of total investments and when investment prospects in assoicated securities become more promising, then the Plan may seek permission from the Commission to make specific purchases in securities of Suburban, Southwest and other associated companies.

3. Applicant shall place the Employer Accounts (funds provided by employers) with an independent trustee, e.g., an insurance company or investment firm engaged in the handling of investments for pension funds, and the Pension Committee shall be prohibited from making specific investment decisions.

4. Within one hundred and eighty days after the effective date of this order, applicant shall file a plan and schedule of installation of facilities to correct the low, fluctuating water pressure condition in the vicinity of its Covina Knolls reservoir.

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

Dated at San Francisco, California, this 4th day of APRIL, 1972.

Chairman

Commissioners

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Covina, West Covina, La Puente, Glendora, Whittier, and vicinity, Los Angeles and Orange Counties.

RATES

Service Charges:

	Per Meter Per Month	
For 5/8 x 3/4-inch meter	$ 2.65	(I)
For 3/4-inch meter	2.95	
For 1-inch meter	4.00	
For 1½-inch meter	6.00	
For 2-inch meter	8.00	
For 3-inch meter	14.00	
For 4-inch meter	20.00	
For 6-inch meter	35.00	
For 8-inch meter	48.00	

Quantity Rates:

	Tariff Area No. 1	Tariff Area No. 2	Tariff Area No. 3	
First 30,000 cu.ft., per 100 cu.ft. ...	$0.16	$0.19	$0.22	
Over 30,000 cu.ft., per 100 cu.ft. ...	0.14	0.17	0.20	(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.

SPECIAL CONDITIONS

1. The boundaries of the zones in which the above rates apply are delineated on the tariff service area maps filed as part of these tariff schedules.

(Continued)

A. 52505 ms

Schedule No. 1

METERED SERVICE

SPECIAL CONDITIONS (contd.)

2. The tariff areas include all customers in elevations zones designated as follows: (N)

Tariff Area	San Jose System Elevation, Feet		Whittier System Elevation, Feet	
	Above	Including	Above	Including
1	-	547	-	300
2	547	1140	300	820
3	1140	-	820	-

(N)

Schedule No. 4

All Tariff Areas

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

All tariff areas.

RATES

	Per Month	
For each inch of diameter of service connection	$3.35	(I)

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 not be more than the diameter of the 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.

Schedule No. 9-CF

All Tariff Areas

CONSTRUCTION AND TANK TRUCK SERVICE

APPLICABILITY

Applicable to all temporary water service rendered for street paving, grading and trench flooding, and for all water delivered to tank trucks from fire hydrants or other outlets provided for such purposes on a flat rate basis.

TERRITORY

Throughout all tariff areas.

RATES

Flat Rates:

For sprinkling subgrade of streets and other areas that are sprinkled for compaction, per 3,000 square feet of sub-grade or compaction	$1.45	(I)
For Trench Settling:		
Per lineal foot of trench up to 3 feet in width and 4 feet in depth	.022	
Per lineal foot of trench from 3 feet to 6 feet in width and 4 feet in depth	.045	
Per lineal foot of trench up to 3 feet in width and from 4 feet to 8 feet in depth	.045	(I)

(Continued)

Schedule No. 9-CF

All Tariff Areas

CONSTRUCTION AND TANK TRUCK SERVICE

RATES (contd.)

For Trench Sottling:

Per lineal foot of trench up to 3 feet in width and from 8 feet to 12 feet in depth	$ .067	(I)
Per lineal foot of trench from 3 feet to 6 feet in width and from 4 feet to 8 feet in depth	.09	
Per lineal foot of trench from 3 feet to 6 feet in width and from 8 feet to 12 feet in depth	.13	
For water delivered to tank wagon or tank truck, per 100 gallons	.02	
Minimum Charge for service under this schedule	$5.60	(I)

SPECIAL CONDITIONS

1. Any person desiring to obtain water deliveries under this schedule must first obtain a written permit from the utility.

2. At the option of the utility a meter will be installed for this type of service – in which event the schedule for this type of metered service for the appropriate tariff area will apply.

Schedule No. 9-CF-2

All Tariff Areas

SERVICE TO TRACT HOUSES DURING CONSTRUCTION

APPLICABILITY

Applicable to tract houses being constructed as part of a total real estate development.

TERRITORY

Throughout all tariff areas.

RATE

For each residence for the entire construction period ..... $2.80 (I)

SPECIAL CONDITIONS

1. This rate is available only to real estate developers who undertake the construction of all or a substantial portion of the houses in a tract as part of the tract development. It does not apply to builders of houses in tracts subdivided for lot sales.

2. The water service, under this tariff schedule applies only to use of water for construction of residences. It does not include water use for garden irrigation or for model homes or for general tract improvement work.

APPENDIX B

CERTIFIED PUC RE
INCREASES IN RATES
APPLICATION NO. 52505

The rates authorized in Appendix A attached to the foregoing order meet the criteria established by the Price Commission of the United States in Section 300.16(e), (1)-(6) of Part 300 of Title 6 of the Code of Federal Regulations, as set forth below:

(a) The former rates, or prices, are set forth on pages 14 and 15 of the opinion, supra. The new rates, or prices, are set forth in Appendix A attached to this order. The percentage increase in gross revenues produced by the new rates is 10.08 percent above the gross revenues adopted for the test year.

(b) The dollar amount of increase in gross revenues provided by the rates authorized herein is $404,700. The dollar amount of increase in net operating revenues provided by the rates authorized herein is $214,600.

(c) The amount the increase in net operating profit will increase the applicant's profits as a percentage of its total sales is 3.47 percent.

(d) The increase in applicant's overall rate of return on rate base is 1.7 percent.

(e) Sufficient evidence was taken in the course of the proceedings held herein to determine that the criteria set forth in Section 300.16(d), (1)-(4) of Part 300 of Title 6 of the Code of Federal Regulations are met by the rate increase authorized by this order. The rates authorized herein meet these criteria because the record demonstrates that under the costs of operating its business during the 1971 test year, as adjusted by the Commission's decision herein, and under the rates last authorized by this Commission in Decision No. 75394, dated March 10, 1969, in Application No. 49914, the applicant's rate of return for the test year is 5.30 percent. This level of return is less than the minimum rate of return needed to attract capital at reasonable costs and not impair the credit of applicant.