

ORIGINAL

Decision No. 80476

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SOUTHWEST WATER COMPANY, a California)
corporation, for Authority to Increase)
its Rates Charged for Water Service in)
its La Mirada and Etiwanda Districts.)

Application No. 52640
(Filed May 26, 1971)

In the Matter of the Application of)
SOUTHWEST WATER COMPANY, a California)
corporation, for authority to in-)
crease rates in its La Mirada District,)
Independence Square District. (Total)
La Mirada District.))

Application No. 49706
(Redetermination of Trust-
Order Reopening for
Further Hearing Issued
March 14, 1972)

Howard M. Downs, Attorney at Law, and
Walker Hannon, for applicant.
Gloria Rocha, Eugene L. Roberts, O. J.
Lingerfelser, I. W. Barrow, Gordon
Runnoe, Garnett E. Adams, Douglas
Walker, and Burt Shelby, in propria
personae, protestants.
William C. Bricca, Attorney at Law, and
John D. Reader, for the Commission staff.

O P I N I O N

By Application No. 52640, Southwest Water Company, a California corporation, (applicant) a public utility water corporation, seeks authority to increase its rates in its La Mirada District in Los Angeles and Orange Counties, and its Etiwanda District in San Bernardino and Riverside Counties.^{1/}

^{1/} A third district, La Sierra, in Riverside County is not included in the application.

After due notice, public hearings on Application No. 52640 were held before Examiner Rogers on February 15 and 17, 1972 in La Mirada and on February 16, 1972 in Etiwanda, California. During the hearings an issue developed relative to the proper method of handling refunds, if any, to customers in the La Mirada District resulting from the Order of Decision No. 74422, dated July 23, 1968, in Application No. 49706. On March 14, 1972, the Commission issued Decision No. 79813 reopening Application No. 49706 for further hearing consolidated with Application No. 52640 for the limited purpose of receiving evidence and testimony relating to the conditions for termination of the La Mirada District trust and to determine the proper amount and conditions of refunds to La Mirada District customers pursuant to such order. The two applications were consolidated for hearing and an additional day of hearing was held in Los Angeles on March 30, 1972. The parties were given until 20 days after the receipt of the last volume of transcript to file concurrent briefs. The briefs were filed on June 12, 1972 at which time the matters were submitted as to all issues.

Both Areas

Applicant requests that the minimum charge rate structure currently being used in the Etiwanda District be discontinued and that it be permitted to adopt a rate structure based on a readiness-to-serve charge with a uniform commodity rate within that district. This type of rate structure is currently in effect in the La Mirada District.

The existing rate structure of the Etiwanda District is based on 1961-62 levels of expense and rate base.

The La Mirada District was last granted a rate increase in 1968. Since then repayments of advances for construction of almost \$200,000 each year have increased the rate base markedly.

The Cucamonga County Water District filed an action in condemnation against a portion of the Etiwanda District in 1966. This action has been heard by the Superior Court and a judgment has been rendered. An appeal was filed by the Cucamonga County Water District.

The applicant has not recently filed for rate relief in its Etiwanda District because of the condemnation action. However, because of the time that has elapsed and the estimated time to complete the condemnation action, the applicant alleges it is imperative that application for rate relief be filed.

Southwest Water Company Organization

The Board of Directors of the applicant is comprised of the following:

Anton C. Garnier
Louis L. Kelton
Allen D. Harper

Donovan D. Huennekens
Ira W. Kinsey
R. Roland Smith

The officers of the applicant are:

Anton C. Garnier
Walker Hannon
Earl L. Olsen
Leland D. Pearson
Cecil H. Smith
Mildred V. Brittain
Vern McNeese

President
Executive Vice President
Vice President
Vice President
Treasurer
Secretary
Assistant Secretary
and Treasurer

The main office address of applicant is in Valinda, California.

The Utility Employees' Retirement Plan

During the hearings evidence was presented by the staff relative to the Utility Employees' Retirement Plan (Exhibit No. 13); 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. 13, the staff lists what it calls questionable practices which, it said, demonstrate applicant's mismanagement of the funds.

In Exhibit No. 13, 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 the employer) 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 employer's contributions charged to Account 795, Employees' Pension and Benefits, should be limited to the benefits actually paid to retired employees.

We find that we have jurisdiction to take into consideration the effect of the cost of the pension fund 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.

The Trust Agreement

By Decision No. 74422, dated July 23, 1968, in Application No. 49706, the Commission authorized applicant to increase its water rates in the La Mirada District. In the body of the opinion there is the following relevant language:

"Applicant maintains and operates 13 wells, the pumping of 12 of which is restricted to quantities allotted by the Central Basin water master. Applicant's largest supplier, and the largest single source of water supply to the La Mirada District, is Suburban Water Systems, whose service area is north of and contiguous to the La Mirada District. Another large supplier is California Domestic Water Company, a mutual water company which furnishes water, not only to Southwest's La Mirada District, but also to Suburban and the Cities of La Habra and Fullerton, and others. The sources of water supply delivered by Suburban and California Domestic are in the Upper San Gabriel River Basin and are under the jurisdiction, for assessment purposes, of Upper San Gabriel Valley Municipal Water District (USGVMWD). Said sources are also the subject of Action No. 722647 in the Los Angeles County Superior Court, between

the Board of Water Commissioners of the City of Long Beach, et al., plaintiffs, vs. San Gabriel Valley Water Company, et al., defendants, and USGVMWD, intervenor. A judgment was rendered in 1965 in said action based upon a stipulation for judgment filed by the parties. Since then, Action No. 924128 in the Los Angeles County Superior Court was filed on January 2, 1968. Said latter action is a suit by USGVMWD for the adjudication of the water rights in the Main San Gabriel Tributary Basins - San Gabriel River Watershed. The details of said actions are set forth in Exhibits Nos. 10, 10a, 10b, 10c, 10d, 11, 12, 13, 14, 15, 16 and 17, together with the testimony of the witness Stetson, who is one of the three water masters appointed by the Court. The gist thereof has been the levy of USGVMWD of considerable back period and current assessments for makeup water to compensate the Central Basin, below the Whittier Narrows, and for replenishment of draughts on the supply of the Upper San Gabriel Basin. The adjudication, which is expected sometime during the year 1968, will establish Suburban's water rights in the Upper San Gabriel Basin, together with those of California Domestic, and all other pumpers in the Basin, and it will probably result in a cutback, by way of allotment, of pumping rights of each of said purveyors to Southwest, and all others. The adjudication very likely will provide that any or all pumpers from the San Gabriel Basin pay for the replenishment of ground water supplies to safe yield with Colorado River water through purchases by USGVMWD from the Metropolitan Water District of Southern California. Any excess pumpage by any or all purveyors over allotment will very likely be assessed and priced at or near the then current MWD rate. For the fiscal year July 1968 through June 1969 said rate will be \$46 per acre-foot for filtered, softened water from MWD's La Verne treatment plant.

"An alternate source of supply to Southwest's La Mirada District now is and will continue to be through purchases by Southwest from Central Basin Municipal Water District (CBMWD), an MWD constituent, at a large connection to MWD's lower feeder from its Orange County Delmer plant near Yorba Linda. Said MWD supply is, and can be, delivered to the La Mirada District by means of a pressure reducer at La Mirada Boulevard and Imperial Highway. CBMWD's rate to Southwest is expected to average \$44.50 per acre-foot for unsoftened, filtered water for the year 1969, and \$48 per acre-foot for the year 1970. The current charge by Suburban to Southwest is \$26 per acre-foot, but may increase to \$45 per acre-foot in 1969 and \$47 per acre-foot in 1970 after adjudication and assessments, and transmission costs, and after taking into account line losses.

"Exhibit No. 21^{2/} is a proposed trust agreement, which was the result of conferences between the Commission staff and applicant. According to said agreement, the differences, if any, between Suburban's base rate for Suburban water and CBMWD's rates for MWD water to Southwest would be deposited in a trust fund until July 1, 1969, subject to refund to customers upon the final determination of assessments against Suburban or California Domestic by USGVMWD for makeup, replenishment, or pumping over allotment. Southwest proposes in said exhibit to pay into the trust \$6,333.33 per month or a total of \$76,000 per year (3,800 acre-feet of water times approximately \$20 per acre-foot)."

^{2/} Exhibit No. 1 herein.

In the decision, the Commission found, inter alia:

"5.a. It is very likely, and may reasonably be assumed, that applicant's cost of water purchased from Suburban Water Systems and a portion of that purchased from California Domestic Water Company will equal or may exceed, during the year 1968 and thereafter, the cost of Metropolitan Water District water available to applicant from Central Basin Municipal Water District at Imperial Highway and La Mirada Boulevard.

"b. The proposed trust agreement, Exhibit No. 21, is reasonable, and has the advantages, not only of protecting consumers from being overcharged if costs of water do not meet the criteria established by Exhibit No. 21, but also of sparing them a double rate increase if costs of water meet or nominally exceed said criteria. Also, the utility's reasonable operations are assured by said proposed agreement, and the utility is spared the requirement of requesting a second increase in rates if the rates authorized hereinafter were based on present certitudes but later this year or in the immediate future proved to be deficient.

"7.c. The following tabulation sets forth the adopted results of operation of applicant's La Mirada District for the estimated year 1968:

La Mirada District

Item	Estimated Test Year 1968 Adopted Results of Operation
Operating Revenues	\$1,111,000
Operating Expenses	495,740
Depreciation	136,070
Taxes	<u>225,400</u>
Subtotal	\$ 857,210
Net Operating Revenues	\$ 253,890*
Rate Base	\$3,385,230
Rate of Return	7.5%*

*A portion, only, of the adopted results will be realized during the year 1968."

One of the conclusions in the decision was:

"Applicant should be authorized and directed to enter into the proposed trust agreement, Exhibit No. 21."

The order provides, inter alia:

"3. Applicant is authorized and directed to execute the proposed Trust Agreement, Exhibit No. 21."

In developing the adopted results of operation (supra from Decision No. 74422), the Commission included operating expenses of \$55,580 per year as the estimated increase in the cost of water resulting from the difference between the charge of \$26.14 per acre-foot for water from Suburban, and the assumed payment of \$42.11 per acre-foot for MWD water. Suburban has not been required to reduce its pumping from the Upper San Gabriel River Basin, and has not increased the charge of \$26.14 per acre-foot for water sold to applicant.

The applicant has requested that the Commission order the trust terminated and the amounts refundable as reflected by Exhibit No. 2 in Application No. 52640 distributed in accordance with the provisions of the trust agreement.

The following is a brief synopsis of the evidence at the hearing herein relative to the trust agreement.

Applicant's consulting engineer, Mr. Thomas M. Stetson, testified that the purpose of the plan was to provide operational flexibility so that higher quality water at potentially lower cost could be provided to the customers of La Mirada; that he understood that only the savings to applicant were to be passed on to the customers; that the savings relate only to the actual water purchased from Suburban by applicant; that the language of the agreement contemplates that actual savings only are to be passed on; that in determining the amount of refunds, the amount to be paid for MWD water included in the rate increase was \$41.50 per acre-foot; that this was the basis of the Commission decision and that this amount is a limitation on the amounts which are to be returned to the customers. He said the applicant had not increased its rates since 1968; that the initial draft of the agreement (Exhibit 1) was drawn up before Decision No. 74422 was issued, and the figures used in column 5 of the draft of the agreement did not reflect the actual amount reflected in the decision as to the cost of MWD water assumed therein.

Mr. Stetson sponsored Exhibit 2 which, in his opinion, computes the amounts which should be refunded based upon the actual savings to the applicant and upon the figure of \$41.50 for MWD water which is the amount upon which, he said, all the rates were based.

The staff Exhibit 11 states, inter alia, that "in order to provide for the possibility that water might continue to be supplied by Suburban and that the cost would be less than anticipated, a plan in the form of a trust agreement was devised to return excess payments to La Mirada customers. The agreement provides for the establishment of a trust fund, the accounting procedures, and the procedures for refunding any excess payments to La Mirada customers."

The staff concluded that the trust agreement is ambiguous in regard to the proper accruals into the fund; and that, while it provides for some detailed accounting and fluctuation of the cost of water from Suburban, which cost has not changed since 1966, it also states that \$6,333.33 per month will be paid into the trust. The staff determined that the rates authorized in 1968 included \$55,580 per year or \$4,640 per month of additional cost when it was assumed there would be no water purchases from Suburban, and that at December 31, 1971, the amount accrued to the fund exclusive of interest should have been approximately \$188,100. Compound interest to May 31, 1972 would bring this amount to \$213,170 at 6 percent interest. ✓

Mr. John Reader testified for the staff that "I think the trust agreement provided for fluctuations in the water cost after the 1968 rate increases which would have to be absorbed by the customers. Such an agreement should not have been permitted."

The applicant urged that under the trust agreement, refunds in the total sum of \$129,184.95 were due the applicant's consumers as of December 31, 1971 (Exhibit 2) but later revised this figure to \$134,215.81 (Exhibit 2-A).

Decision No. 74422 provided applicant with \$55,580 of excess revenues to offset expenses expected to arise as a result of an adjudication of Suburban water. This increase in expenses has not occurred and the rate for Suburban water has not increased. It follows that refunds must be in the same amount, or \$55,580 per year, and that because applicant had the use of these funds and used them for its own purposes such refunds should bear compound interest. Termination of calculation of accruals effective December 31, 1971 is reasonable since the 1971 results of operation at present rates adopted hereinafter with rate of return of 6.97 percent indicate an earnings level lower than the 7.5 percent rate of return found reasonable in Decision No. 74422.

Applicant will be ordered to file a plan and schedule for refunding to its customers of the amount of \$188,100 plus compound interest at 6 percent to date of refund, on monthly accruals of \$4,630 from the effective date of the increased rates authorized by Decision No. 74422 until December 31, 1971. Applicant will also be required to file an estimate of reasonable expenses of making the refunds, which expenses when approved by the Commission will be deductible from the amounts to be refunded.

Total Company Rate of Return

The applicant's evidence relative to the rate of return was virtually nonexistent except for a request for the generalization that under its figures the average rate of return for 1971 to 1974 (with a requested return in 1971 of 9.09 percent reducing to 8.19 percent in 1974) will be 8.49 percent; and that an average return on total capitalization of 8.49 percent will provide a return on common equity of about 16 percent.

In Exhibit No. 15, the Commission staff recommends a rate of return in the range of 7.00 percent to 7.30 percent on rate base, relying in part on a study of cost of money, capital structure, earnings of other water utilities, and returns allowed to other water companies by the Commission. Table No. 8 of Exhibit 15 shows that the recommended range of return would provide an earnings allowance on common equity ranging from 11.14 percent to 12.50 percent.

After considering all of the circumstances, we adopt 7.30 percent as a reasonable rate of return for applicant.

The Etiwanda District

By Application No. 52878, filed on September 21, 1971, applicant requested authority to sell a portion of its Etiwanda District System (serving five customers) to the City of Ontario. This application was granted (Decision No. 79781 dated March 7, 1972). The staff and applicant prepared revised summaries of operations for the estimated year 1971. A comparison of these summaries is as follows:

Item	Applicant		Staff	
	Present	Proposed	Present	Proposed
	Rates	Rates	Rates	Rates
(Dollars in Thousands)				
<u>Estimated Year 1971</u>				
Operating Revenues	\$ 54.3	\$ 71.6	\$ 56.7	\$ 74.2
<u>Operating Expenses</u>				
Oper. & Maint. Exp.	27.2	27.2	29.8	29.8
Admin. & Gen. Exp.	18.4	18.4	15.4	15.4
Depreciation Exp.	7.2	7.2	9.0	9.0
Taxes - Except Income	9.4	9.4	8.8	8.8
Income Taxes	(8.2)	(5.7)	(8.7)	(.4)
Total Expenses	53.9	56.4	54.3	62.6
Net Operating Revenues	.3	15.1	2.4	11.6
Average Rate Base	291.4	291.4	308.9	308.9
Rate of Return	0.12%	5.20%	0.78%	3.76%
	(Red Figure)			

The trend in rate of return for this district as indicated by applicant's two test year results is an annual decline of 0.78 percent based on present rates only. The trend as indicated by the staff results for the same test years is a decline of 0.36 percent at both present and proposed rates.

The staff did not object to the proposed increase inasmuch as the rate of return either as calculated by the staff or the applicant is less than the return adopted as reasonable herein.

The applicant provides water service in the Zitiwanda District under five filed schedules but it proposes only to increase its general metered service and estimates that the requested rates would result in a 31 percent increase in its gross revenues in 1971.

The applicant proposes to change its general metered service rates from a minimum charge schedule to a service charge schedule. This latter type of schedule is based on recognition of two kinds of expense, fixed and variable, and provides a more equitable allocation of expenses. There was no objection to the change in type of schedule. The existing and proposed general metered service schedules are as follows:

Present Rates:

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The territory adjacent to the east boundary of Ontario, San Bernardino County.

RATES

Per Meter
Per Month

Quantity Rates:

First	800 cu.ft. or less	\$ 3.75
Next	3,200 cu.ft.per 100 cu.ft.....	.30
Next	296,000 cu.ft.per 100 cu.ft.....	.20
Over	300,000 cu.ft.per 100 cu.ft.....	.10

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 3.75
For	3/4-inch meter	4.00
For	1-inch meter	5.75
For	1-1/2-inch meter	7.50
For	2-inch meter	11.25
For	3-inch meter	37.50
For	4-inch meter	75.00
For	6-inch meter	150.00

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

Proposed Rates:

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The territory adjacent to the east boundary of Ontario, San Bernardino County.

RATES

Per Meter
Per Month

Service Charge:

For 5/8 x 3/4-inch meter	\$ 4.00
For 3/4-inch meter	4.50
For 1-inch meter	6.00
For 1-1/2-inch meter	8.50
For 2-inch meter	11.00
For 3-inch meter	20.00
For 4-inch meter	27.00
For 6-inch meter	45.00
For 8-inch meter	67.00

Quantity Rates:

For all water delivered, per 100 cu. ft.	0.27
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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.

Findings Relative to the Etiwanda District

The Commission finds that:

1. Applicant is in need of additional revenues in its Etiwanda District.
2. The applicant's and the staff's estimated results of operation at present and proposed rates for the estimated year 1971 reflect a declining rate of return. The rate of return at proposed rates is not adverse to the public interest.
3. A rate of return of not to exceed 7.30 percent for the test year 1971 is reasonable.
4. The increases in rates and charges authorized herein for the Etiwanda area are justified; the rates and charges authorized herein are reasonable and the present charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable. The proposed rates, Appendix A hereto, are for the future just and reasonable.
5. Applicant should be authorized to change its general metered service rates in the Etiwanda District from the present minimum charge schedule to a service charge schedule as proposed.

Conclusion

The Commission concludes that the application for authority to increase the Etiwanda District rates as requested by applicant should be granted.

The La Mirada District

Applicant furnishes general metered water service to approximately 12,000 customers in the La Mirada District located in the City of La Mirada and vicinity, in Los Angeles and Orange Counties.

By this application, applicant seeks an order of the Commission authorizing it to increase its presently effective general metered service rates only in the La Mirada District to provide an overall 19 percent increase in annual gross revenues from the La Mirada District amounting to \$225,223.

The last rate increase for this area was in 1968 (Decision No. 74422, dated July 1, 1968, in Application No. 49706). In that decision the Commission ordered applicant to execute the trust agreement (Exhibit 21 in Application No. 49706, Exhibit No. 1 herein) which has been hereinbefore referred to.

Applicant alleges that its present charges for water service in the La Mirada District are insufficient to yield it a fair, just, and reasonable return on capital invested in its plant, property, and other equipment devoted to public use.

Ten of applicant's La Mirada area consumers appeared as protestants. Collectively, they complained of the poor water quality, the excessive rates, allegedly discriminatory rates, that the company failed to read the meters and guessed at the results, low water pressure, and fluctuating water pressure.

The present and proposed general metered service rates are as follows:

Present Rates:

RATES

Per Meter
Per Month

Service Charge:

For 5/8 x 3/4-inch meter	\$ 2.85
For 3/4-inch meter	3.00
For 1-inch meter	4.00
For 1-1/2-inch meter	8.00
For 2-inch meter	10.00
For 3-inch meter	15.00
For 4-inch meter	20.00
For 6-inch meter	30.00
For 8-inch meter	50.00

Quantity Rates:

For all water delivered, per 100 cu. ft.....	0.18
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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.

Proposed Rates:

RATES

Per Meter
Per Month

Service Charge:

For 5/8 x 3/4-inch meter	\$ 3.35
For 3/4-inch meter	3.55
For 1-inch meter	4.75
For 1-1/2-inch meter	10.00
For 2-inch meter	12.00
For 3-inch meter	18.00
For 4-inch meter	24.00
For 6-inch meter	36.00
For 8-inch meter	62.00

Quantity Rates:

For all water delivered, per 100 cu. ft.....	0.22
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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.

La Mirada Service Area

The La Mirada District consists of residential and commercial development in the northern and central areas, and light industry in the southern portion. The Santa Ana Freeway, the Southern Pacific Railroad, and The Atchison, Topeka and Santa Fe Railway traverse the southwesterly portion of this area. This district includes the City of La Mirada, unincorporated portions of Los Angeles County, a small portion of the City of Buena Park in Orange County, and adjacent unincorporated portions of Orange County.

Approximately one-third of the total annual water requirement of the La Mirada District is produced from 11 company-owned wells. The balance of the La Mirada supply is provided by the purchase of water from Suburban Water Systems, California Domestic Water Company, and imported Metropolitan Water District water from the Central Basin Municipal Water District. Pertinent data concerning the wells are contained on Table 2-A of Exhibit No. 3.

Nine of the applicant's wells are located within the Central Basin where its pumping allocation is 2,316 acre-feet per year. This allocation was established by the Central Basin adjudication (Central Basin Municipal Water District v. Fossette, et al., 235 Cal. App. 2d, 689). 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. Two of the company's wells are located in Orange County and are subject to replenishment assessments and basin equity taxes established by the Orange County Water District.

Results of Operation - La Mirada

Comparisons of the applicant's and the staff's estimated year 1971 results of operation at the present and proposed rates are below:

La Mirada District

Item	Estimated Year 1971			
	Applicant		Staff	
	Present	Proposed	Present	Proposed
	Rates	Rates	Rates	Rates
(Dollars in Thousands)				
Operating Revenues	\$1,204.2	\$1,429.4	\$1,216.9	\$1,456.1
<u>Operating Expenses</u>				
Oper. & Maint. Exp.	432.3	432.3	415.4	415.4
Admin. & Gen. Exp.	210.4	210.4	197.8	197.8
Deprec. & Amort.	132.8	132.8	128.4	128.4
Taxes, Except Income	144.5	144.5	169.6	169.6
Income Taxes	28.6	153.3	54.6	180.0
Total Expenses	948.6	1,073.3	965.8	1,091.2
Net Operating Revenues	255.6	356.1	251.1	364.9
Average Rate Base	3,915.2	3,915.4	3,763.9	3,763.9
Rate of Return	6.53%	9.09%	6.67%	9.69%

We have found that a rate of return of not to exceed 7.3 percent is reasonable for applicant. Accordingly, we will adjust our figures to such rate of return.

Applicant's witness stated that its procedure for normalization of water sales is in accordance with the graphical approach as outlined by the Commission in its Guide for Adjusting and Estimating Operating Revenue of Water Utilities, Standard Practice No. U-25.

The four major types of consumers are domestic, commercial, industrial and public authority. Each type was normalized separately for purposes of this study.

All data pertaining to weather used by applicant was obtained from the climatological records of the U.S. Weather Bureau. For the La Mirada District the weather station located at Santa Ana Fire Station was used. This station is approximately 14 miles southeast of the area.

The staff employed basically the same mathematical procedure in the development of its estimate of domestic water consumption. It used, however, weather data from two weather stations. It used the rainfall data from Whittier, six miles north, northwest of the area, and the yearly temperature in Yorba Linda ten miles east of the area.

In addition, the staff used what it terms a refinement in the mathematical procedure, the use of temperature data from only the drier part of the year. Such use is based on the assumption that during the rainy season temperature has little or no effect on domestic water consumption. The staff claims such a refinement has improved the correlation of normalized consumption data in other service areas in southern and central California, and it produces a similar improvement in applicant's La Mirada district.

The staff said that in arriving at its estimates for revenues from commercial, industrial and public authority customers, applicant used the method of multiple correlation analysis (Bean Method) and that applicant's work papers reveal a lack of correlation between weather conditions and consumption which the staff found in its initial trials with this method. In the staff's opinion, such poor correlation is an indication that the method is not applicable to these cases. The staff, after trying and rejecting the method for these customer categories, trended the consumption for these classes over the past six to ten years.

For 1971, the revenue difference between applicant and the staff is \$12,700 at present rates. The staff states that a major portion of this, or \$11,500, occurs in revenues from public authority customers, and the reasons for this difference are the same as those stated above.

The difference between the applicant's and the staff's 1971 estimated revenue at proposed rates is \$26,700. A large portion of this difference is found in the revenues from two sources: \$11,700 in domestic revenues, stemming from the considerations relating to domestic consumption stated above; and \$16,400 in public authority revenues, resulting from the factors also mentioned above.

We recognize the fact that the estimates of revenues are precisely that -- estimates, albeit very informed estimates. For the purposes of this opinion, we find that for 1971, revenues at present rates will be \$1,210,600, and at the proposed rates will be \$1,442,700.

Operation and Maintenance Expenses

The differences in the operation and maintenance expenses and our adjusted and adopted expenses are as follows:

Item	Applicant	Staff ^{3/}	Adopted ^{3/}
Source of Supply	\$240,812	\$207,700	\$205,600
Pumping Expense	77,369	75,200	75,200
Water Treatment	2,200	2,200	2,200
Trans. & Dist. Expense	57,773	76,900	76,900
Customer Accounts	54,122	53,400	53,400
Total	\$432,276	\$415,400	\$413,300

The staff estimate of source of supply expense differs from the applicant's due to the higher staff amounts for estimated water consumption, the staff's lower estimate of water losses, and the staff having included water purchased from Suburban Water Systems at the contract price. Applicant priced water purchased from Suburban at the cost of water from the Metropolitan Water District. Other differences are the staff's larger estimates of purchased water and higher Metropolitan Water District rates. The lower adopted result is due to the Commission having adjusted the revenues and hence the cost of water sold. We find the above adopted source of supply expense is reasonable and should be used for the purposes of this decision.

3/

This is adjusted to show filtered water instead of filtered and softened water (see Exhibit 21-A).

Pumping Expense

The staff estimate of pumping expense is lower than the applicant's for 1971. This is due to lower amounts of pumping, and the staff's use of the latest power rate.

We find the staff's estimate of pumping expense is reasonable and should be used for the purposes of this decision.

Water Treatment Expense

The applicant's estimate was accepted.

Transmission and Distribution Expense

The staff estimate of transmission and distribution expense is higher due to the inclusion of maintenance of meter expense which the applicant had capitalized. Maintenance of meter expense was determined by allocating the total amount for the company between the districts in the ratio of customers. Minor differences occurred between the staff and applicant for other expense items in this group due to the staff's trending of recorded amounts.

We find the staff's estimate is correct and should be used for the purposes of this decision.

Customer Accounts Expense

The staff estimate for 1971 is lower than the applicant's due in a large part to the applicant's records which show a decrease from 1969. In January 1970, applicant converted to bi-monthly billing and electronic data processing.

We find the staff's estimate is reasonable and it will be used for the purposes of this decision.

We adopt as reasonable the sum of \$413,300 for 1971 as operation and maintenance expenses.

Administrative and General Expense

The applicant's and the staff's estimated 1971 expenses are as follows:

	<u>Applicant</u>	<u>Staff</u>
<u>Administrative and General Expense</u>		
Salaries	\$110,772	\$110,600
Office Supplies	9,635	9,800
Property Insurance	3,162	3,200
Injuries and Damages	7,086	7,300
Employee Benefits	13,331}	26,900}
Employee Benefits, Holidays	14,581}	
Franchise Requirements	18,389	18,400
Regulatory Commission	9,164	7,400
Outside Services	16,211	13,600
Miscellaneous	10,075	9,300
Maintenance of Plant	1,115}	4,000}
Maintenance of Office	3,010}	
Radio Expense	2,038}	
Total	\$218,569	\$210,500
<u>Miscellaneous</u>		
Rents	\$ 11,655	\$ 7,500
Administrative Expense Transfrd.	(19,798)	(20,200)
Total	\$ (8,143)	\$ (12,700)
Total Administrative and General and Miscellaneous Expense	\$210,426	\$197,800

The staff amounts for salaries are lower than the applicant's due to, in part, the applicant implementing a policy of four-factor allocation of executive salaries between Southwest Water Company and Suburban Water Systems subsequent to the filing of the subject application.

The staff amounts for employee benefits are lower due to adjustment of pension contributions by the staff as heretobefore referred to.

Regulatory expense was estimated in total by the staff for all three districts, then allocated to the districts by the four-factor method.

The staff amounts for outside services are less than the applicant's due to the staff's exclusion of public relations consultation expense.

The staff amounts for maintenance of plant are less than the applicant's by the amount of radio expense the applicant charged to this account. Prior to 1970, all radio expense was charged to Account No. 903, Clearing, Transportation. The staff has continued it as a clearing account item.

The staff estimated amounts for rents are lower than the applicant's in consideration of a staff adjustment in Decision No. 79912, dated April 4, 1972, in Application No. 52505 filed by Suburban Water Systems. The adjustment pertains to a difference in the book value of the general offices of Suburban, a part of which are rented to Southwest Water Company.

Other differences between the applicant and the staff result from the staff's use of trended recorded information, and an apparent difference between the staff and applicant in results of allocation to the three districts by the four-factor method.

We find the staff's estimates of administrative and general expenses are reasonable and they will be used herein. For the purposes of this decision, we find the sum of \$197,800 is reasonable.

Depreciation Expense

The applicant's total depreciation expense for 1971 was \$132,800. The staff's allowance was \$128,400.

Applicant has applied depreciation rates which result in a composite rate of 2.16 percent. The staff reviewed the determination of these rates and has found them reasonable for this report. The difference of \$4,400 is due principally to the staff adjustment for plant held for future use and deducted from rate base.

We find the depreciation expense for 1971 will be \$128,400.

Taxes Other Than Income

The staff concedes that the applicant's estimate is correct because the Los Angeles County Assessor has advised the Commission that for the fiscal year 1972-1973 contributed plant will not be taxed as it was in 1971-1972 and that the assessor will return to past procedure in assessing utility property.

We find that applicant's 1971 ad valorem taxes will be \$144,500.

Income Taxes

Using the foregoing figures, we find that the 1971 income taxes will be \$64,400 at the present rates and \$185,000 at the proposed rates.

Rate Base

The following from Exhibit No. 10 is a comparison of the year 1971 rate base as estimated by the applicant and the staff:

A. 52640, A. 49706 - sjg/JR *

Estimated Year 1971

Item	Applicant	Staff
Utility Plant	\$6,916.4	\$6,905.0
Deductions	2,985.8	3,093.4
Working Cash	114.1*	97.0
Prior Rate Case	(129.4)	(106.4)
Adjustments		
Staff Adjustments	-	(38.3)
Total Adjustments	\$ (129.4)	\$ (144.7)
Adjusted Rate Base	\$3,915.3*	\$3,763.9

(Red Figure)

* Average of working cash at present and proposed rates.

Utility Plant

The difference of \$11,400 is due to the fact that the applicant overcapitalized its meter repairs. In addition, the staff had later information to work with. We find the staff's estimate is reasonable and it will be used herein.

Deductions

The staff had greater deductions for the reason that it used a method for computing refunds on advances adopted by applicant after it prepared its report (Exhibit No. 3). In addition, as all through this matter, the staff had later information available. We find the staff's figure is reasonable and should be used.

Working Cash

The applicant used an average figure based on present and proposed rates. The staff figure appears reasonable. We find it should be used herein.

Rate Base Adjustments

The staff's estimate considered prior rate case revenue increases effects in comparison with the original certificate. We find the staff's adjustments are proper.

Staff Deletion of Property

The staff in its estimate deleted from rate base certain items of plant that in its opinion were not used and useful and should be classed as plant held for future use. This includes the Stage Road plant relative to which there was considerable testimony at the hearing. At this well site there are two wells and only get-away main capacity to handle the output of one well. The company contended that one well, which has a gas engine driven pump, acts as a stand-by for the other well. The staff pointed out that this gas engine driven pump did not have automatic starting equipment but required manual starting. The staff stated further that it was told that in the future the company intended to install larger mains and use the second well to supply a proposed neighboring industrial development.

We find that the average adjusted rate base for 1971 will be \$3,763,900.

Adopted Results

The adopted results of operation at present and proposed rates for 1971 are as follows:

	<u>Present</u>	<u>Proposed</u>
Operating Revenue	\$1,210,600	\$1,442,700
<u>Operating Expenses</u>		
Oper. & Maint. Exp.	413,300	413,300
Admin. & Gen. Exp.	197,800	197,800
Depreciation	128,400	128,400
Taxes Other Than Income	144,500	144,500
Income Taxes	64,400	185,000
Total Expenses	\$ 948,400	\$1,069,000
Net Operating Revenue	\$ 262,200	\$ 373,700
Rate Base	\$3,763,900	\$3,763,900
Rate of Return	6.97%	9.93%

Allowing the maximum recommended rate of return of 7.3 percent and recognizing the annual decline in rate of return of about 0.2 percent as indicated by the staff's results, the increased rates authorized herein should produce an average rate of return of 7.3 percent for about the next 36 months. We do find reasonable a rate of return of 7.3 percent for the future which will produce a return on equity of approximately 12.5 percent.

Based on the above, applicant is entitled to an increase in gross revenues for the La Mirada District of \$46,500, instead of its requested increase of \$232,100. We find this increase reasonable.

Investment Tax Credit and State Corporation Franchise Tax Rate

The 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 Relative to the La Mirada District

The Commission finds that:

1. Southwest Water Company (applicant) is a public utility water corporation under the jurisdiction of this Commission furnishing water to approximately 11,850 customers in its La Mirada District.

2. Applicant proposes to increase its rates for general metered service. Its resulting gross revenues for 1971 at present rates will be \$1,210,000, and \$1,442,700 at the proposed rates.

3. Operating and maintenance expenses for the year 1971 will be \$413,300.

4. Administration and general expenses for the year 1971 will be \$197,800.

5. Depreciation expense for the year 1971 will be \$128,400.

6. Taxes other than income will be \$144,500 for the year 1971.

7. Income taxes for the year 1971 will be \$64,400 at present rates and \$185,000 at the proposed rates.

8. The net revenue for the year 1971 at present rates will be \$262,200 and \$373,700 at proposed rates.

9. Applicant's adjusted rate base for the year 1971 will be \$3,763,900.

10. Based on the above findings, applicant's rate of return for the adjusted year 1971 will be 6.97 percent at present rates and 9.93 percent at proposed rates.

11. A rate of return of 7.3 percent is reasonable for applicant over the next 36 months. It is estimated that such rate of return will provide a return on common equity of approximately 12.5 percent. We find such rate of return is reasonable.

12. Applicant's rate of return is declining and will decline at the rate of about 0.2 percent per year.

13. The rate of return applicant is receiving in its La Mirada District at the present rates will be deficient over the next three years and applicant is in need of financial relief. The rate of return which applicant requests is excessive. The increases in rates and charges authorized herein are justified and are reasonable. The present rates and charges insofar as they differ from those herein prescribed are for the future unjust and unreasonable.

14. 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.

15. Applicant should 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.

16. Applicant should be authorized to terminate accruals to the La Mirada trust effective after December 31, 1971. Applicant should be ordered to refund and distribute to its customers the amount of \$188,100 plus compound interest at 6 percent per annum. The interest is to be calculated on monthly accruals of \$4,630 from the effective date of the increased rates authorized by Decision No. 74422 until December 31, 1971, with interest to the date of refund. The amount of the refunds and distribution is to be reduced by the reasonable expenses of making the refunds as approved by this Commission.

17. In compliance with Rule 23.1 of this Commission's Rules of Practice and Procedure promulgated pursuant to the Economic Stabilization Act of 1970, we find and determine that:

- a. The rate increases are cost-justified.
- b. The rate increases do not reflect future inflationary expectations. They are based upon 1971 test year operations; and all anticipated decreases or increases in costs, as well as adjustments to eliminate the effects of abnormal or unrepresentative conditions, are reflected in the adopted test year's data.
- c. The rate increases are the minimum required to assure continued, adequate, and safe service. Without the authorized rate increases maintenance programs could be curtailed and as a result service could deteriorate.
- d. The rate increases do not reflect labor costs in excess of those allowed by Price Commission policies.
- e. The rate increases take into account expected and obtainable productivity gains including gains to be realized from the revised rate structures.
- f. The rate increases will achieve the minimum rate of return needed to attract capital at reasonable costs and not impair the credit of Southwest Water Company. The rate of return does not reflect expectations of future inflation.

We conclude that:

1. The applicant should be granted authority to increase the rates in Etiwanda and La Mirada Districts to the extent specified in the order herein subject to the terms and conditions specified in the order herein and in all other respects denied.

2. The La Mirada trust should be terminated and refunded with interest.

The authority to file the increased rates for the La Mirada District will be granted by supplemental order herein after applicant has filed with the Commission an acceptable plan and schedule for refunding and distributing to its La Mirada customers the La Mirada trust in accordance with Finding No. 16.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Southwest Water Company is authorized to file the revised schedule of general metered service rates attached to this order as Appendix A in its Etiwanda District, and concurrently to cancel its present schedules for such service. Such filing 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 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.

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. Applicant is authorized to terminate the La Mirada trust after December 31, 1971. Applicant is ordered to refund and distribute to La Mirada District customers the amounts specified in La Mirada Finding No. 16. Applicant is ordered to file within sixty days after the effective date of this order a plan and schedule for the refunds. After receipt of such acceptable plan and schedule the Commission will by supplemental order herein authorize the filing of the increased rates for the La Mirada District attached to this order as Appendix B.

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

Dated at San Francisco, California, this 12th day of SEPTEMBER, 1972.

Vernon L. Sturgeon
President
William J. Lyons
James W. ...
...
Commissioners

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

APPENDIX A

Schedule No. EG-1

Etiwanda - Guasti Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The territory adjacent to the east boundary of Ontario, San Bernardino County.

RATES

Per Meter
Per Month

Service Charge:

For 5/8 x 3/4-inch meter	\$ 4.00	(I)
For 3/4-inch meter	4.50	
For 1-inch meter	6.00	
For 1-1/2-inch meter	8.50	
For 2-inch meter	11.00	
For 3-inch meter	20.00	
For 4-inch meter	27.00	
For 6-inch meter	45.00	
For 8-inch meter	67.00	

Quantity Rates:

For all water delivered, per 100 cu. ft. 0.27 (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.

(C)

(C)

APPENDIX B

Schedule No. IM-1

La Mirada Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The communities of La Mirada, Norwalk, Cerritos, Buena Park, and vicinity. Los Angeles and Orange Counties.

(T)

RATES

Per Meter
Per Month

Service Charge:

For 5/8 x 3/4-inch meter	\$ 3.15
For 3/4-inch meter	3.30
For 1-inch meter	4.30
For 1-1/2-inch meter	8.80
For 2-inch meter	11.00
For 3-inch meter	16.00
For 4-inch meter	22.00
For 6-inch meter	33.00
For 8-inch meter	55.00

(I)

(I)

Quantity Rates:

For all water delivered, per 100 cu. ft. 0.18

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.