

ORIGINAL

Decision No. 81038

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 the SOUTHERN CALIFORNIA WATER COMPANY)
 for an order authorizing it to)
 increase the rates for water service)
 in its Big Bear District.)

Application No. 53045
 (Filed December 6, 1971;
 amended July 21, 1972)

O'Melveny & Myers, by Donn B. Miller, Attorney
 at Law, for applicant.

Cyril M. Saroyan, Attorney at Law, and John E.
Brown, for the Commission staff.

O P I N I O N

Interim Decision No. 20704 dated November 8, 1972 in this proceeding established the water rates to be charged by Southern California Water Company in its Big Bear District for the immediate future. Action was deferred on applicant's amendment, which proposed an accelerated program of main replacements and concurrent incremental annual rate increases. A closing statement on the amendment was filed by the Commission staff on October 25, 1972, applicant's reply was filed on November 17, 1972, and the matter is now ready for final decision.

Accelerated Construction Program

The following excerpts from the interim decision summarize the situation in the Big Bear District covered by the amendment to the application:

"Many of the distribution mains in Big Bear District were installed at a time when the customer density was considerably lower than now. Further, some of the water systems acquired by applicant from other entities had not been adequate even for the more sparse, early developments. Also, the corrosiveness of the soil in this area has proven over the years to be higher than expected, which has shortened the useful life of some mains.

"Applicant has installed larger mains when replacing the original pipes that had reached the end of their useful lives. Applicant also has installed supplementary mains where the original pipes were still usable but where increased water usage or customer density required additional capacity. Since 1967, applicant has expended over \$700,000 in system improvements in the Big Bear District.

"Applicant intends at least to continue its present program of system improvements. It contends that any acceleration of the program should not be confined to the Sugarloaf Area, as suggested by the staff's recommendation, but should be applied selectively wherever significant benefits can be achieved in any of the areas within the district. The amendment to the application proposes an accelerated five-year program of system improvements and corresponding annual incremental rate increases. The amendment will be considered in a final decision, after further study by the staff."

The staff determined, after completing the further study referred to in the interim decision, that no further evidence was necessary and that the staff's position could be adequately presented in a written closing statement.

Rates

The following Table I presents a comparison of the present rates authorized by the interim decision and the rates to be reached in five incremental annual steps by July 1, 1977, as proposed by applicant and as authorized herein. Intermediate annual increases to be authorized are shown in Appendix A.

TABLE I
COMPARISON OF RATES

Item	Per Service Connection Per Month (a)							
	Present (Until 7/1/73)			Proposed (By 7/1/77)		Authorized (By 7/1/77)		
	Big Bear Lake	Rimforest	Sugarloaf	Big Bear Lake	Rimforest & Sugarloaf	Big Bear Lake	Rimforest	Sugarloaf
<u>Metered Service</u>								
Minimum Charge (b)	\$3.75	\$7.80	\$7.30	\$4.55	\$8.80	\$4.25	\$8.80	\$8.25
<u>Quantity Rates (c)</u>								
First 3 Ccf, per Ccf	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Next 3 Ccf	.53	.55	.00	.622	.622	.600	.622	0.00
Next 4 Ccf	.53	.55	.50	.622	.622	.600	.622	.566
Next 140 Ccf, per Ccf	.37	.45	.37	.509	.509	.419	.509	.419
Over 150 Ccf, per Ccf	.23	.25	.23	.283	.283	.260	.283	.260
Flat Rate Service	5.00 ^(d)	-	-	5.95 ^(d)	-	5.65 ^(d)	-	-

Notes: (a) Annual minimum charges and annual flat-rate charges shown as equivalent monthly charges for comparative purposes.

(b) Minimum charge for a 5/8 x 3/4-inch meter. A graduated scale of increased minimum charges is provided for larger meters.

(c) Ccf = 100 cubic feet.

(d) Moonridge Zone only.

Results of Operation

In Exhibit No. 8, applicant's witness presented a study deriving the average annual increase required to maintain a relatively constant rate of return for the Big Bear District for a five-year period, assuming applicant expends \$100,000 per year on main replacements. This study shows that a 12-1/2 percent increase in rates over the five-year period would be required, with a somewhat larger than 2-1/2 percent annual increase required in the early years and a somewhat smaller than 2-1/2 percent annual increase required in the later years. Applicant's proposal of five annual 2-1/2 percent increases thus would not produce quite as high a rate of return in 1973, 1974, and 1975 as was found reasonable in the interim decision for the test year 1972, but should gradually overcome the cumulative net deficiency in rate of return by the end of the five-year period.

The Commission staff reviewed the data presented in support of the amendment to the application. The staff, in its closing statement, confirmed that the further increases of 2-1/2 percent per year proposed by applicant reasonably reflect the added costs (including a reasonable return on investment) related to the main replacement program proposed by applicant.

Issues

Although the staff does not disagree with applicant's determination of the percentage increase required per year to maintain a reasonably constant rate of return during the five-year period when applicant will be expending \$100,000 per year for main replacements, the staff brief does raise some issues relative to the proposal. The questions raised are:

1. Is there urgent need for accelerated main replacements in the entire Big Bear District system or should main replacements in the Sugarloaf area of the district be the prime concern?

2. If it is determined that the proposed main replacement plan is reasonable, should commensurate annual water rate increases be authorized in this proceeding or should applicant be required to seek such relief in subsequent proceedings?
3. Would the establishment of step increases now constitute an unreasonable guarantee of adequate future revenues in lieu of the customary provision of merely the opportunity to receive adequate future revenues?

Need for Main Replacements

The staff brief points out that (1) the vast majority of customer complaints registered shortly after the current rate application was filed originated in the Sugarloaf area, and (2) that the Sugarloaf area has a higher proportion of 2-inch and 3-inch mains and a lower proportion of larger mains than in the rest of the Big Bear Lake area.

Applicant contends in its reply brief that the problems which generated most of the customer complaints in the Sugarloaf area were cured by recent substantial investments in water supply facilities. Applicant cites the fact that the Sugarloaf area system serves about 20 percent of the Big Bear District customers and has had only about 16 percent of the total number of leaks reported in the Big Bear District.

Applicant's brief also refers to uncontroverted testimony of applicant's president that size alone is not always a factor in determining the need for main replacements. Size is, of course, an important factor if existing pipes unduly restrict the flow of water, but the consideration only of pipe size would unduly emphasize this factor.

Although reasonably adequate service might be rendered by applicant without the accelerated main replacement program, the benefits to be derived appear to be well worth the relatively nominal 2-1/2 percent annual rate increases which are required to support

the five-year program. The district-wide plan proposed by applicant will give greater flexibility to make replacements where they will do the most good, rather than to concentrate on one area alone within the district.

Proper Vehicle for Rate Relief

The staff's closing statement argues that the establishment of annual step increases at this time imposes a burden upon the Commission or its staff to keep close surveillance over applicant's earnings in the Big Bear District to be sure that those earnings do not become excessive. If applicant were required to seek relief annually by additional rate applications the staff suggests that more of the burden would be placed upon the applicant.

Applicant's brief draws the analogy between the proposed step increases, wherein definitely known incremental costs are offset on an annual basis, and the commonly used type of proceeding where, soon after a full-scale rate proceeding, such things as changes in cost of purchased water, pump taxes, or purchased power, are offset on an annual basis.

If applicant had a record of failing to carry out its commitments or failure to comply timely with Commission orders, the establishment of a five-year accelerated main replacement program and concomitant step rate increases would be inappropriate. A review of past decisions involving applicant indicates no problems regarding compliance. Under these circumstances, it should be no more of a burden for the Commission and its staff to review annual data filed by applicant pursuant to the order herein than to review similar data furnished in five separate offset applications.

Guaranteed Return

The staff's closing statement cites a number of authorities in support of the concept that a utility is not guaranteed an adequate return on its investment, but only a reasonable opportunity to earn an adequate return.

Applicant's proposed step increases cover essentially only the reasonably determinable prognosis of revenue requirements directly related to the accelerated main replacement program. The plan thus does not provide any more of a guarantee of adequate return on investment than does the normal establishment of an unchanging rate for the near future without an accelerated main replacement program. Other factors totally unrelated to the replacement program still could cause the actual future earnings to differ from those anticipated.

There will be ample warning to insure that the rate of return does not exceed that found reasonable. The 2-1/2 percent step rate increases are not expected to quite offset increased revenue requirements during the early years of the program. Thus, even if early years' results exceed expectations and approach the 7.5 percent return found reasonable by Decision No. 80704 (supra), there will be time to stay or modify the additional step increases to avoid an excessive return.

Findings

1. Applicant's proposed program of expending \$100,000 per year for main replacements in the Big Bear District will eliminate numerous leaky and undersized mains and permit their replacement with larger sized mains which will improve the capacity and reliability of the distribution systems.

2.a. Under applicant's proposed main replacement program, applicant will be in need of additional revenues to offset the additional expenses and provide a reasonable return on the additional investment.

b. The adopted estimate previously discussed herein, of 2-1/2 percent annual rate increases required to offset the effects of the main replacement program, reasonably indicate the results of applicant's operations for the near future.

c. A rate of return of not greater than 7.5 percent on applicant's rate base for the near future and the corresponding 11.8 percent return on common equity are reasonable.

d. 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.

3. In compliance with Rule 23.1 of the Commission's Rules of Procedure:

- a. The increased rates are expected to provide a total increase of about \$60,000 in applicant's annual revenues over a five-year period.
- b. The future rate of return on rate base is expected to be 7.29 percent for the district as a whole, and not more than 7.5 percent for any tariff area within the district, the same returns adopted for the test year 1972 at present rates.
- c. The increases are cost-justified and do not reflect future 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 there is no increase in the rate of return allowed previously in Decision No. 80704 dated November 8, 1972 in this application, which rate of return is the minimum needed to attract capital at reasonable cost and which will not impair applicant's credit.

Conclusion

Applicant should be directed to carry out its proposed main replacement program and should be authorized to increase its rates for the Big Bear District 2-1/2 percent each year for a five-year period.

O R D E R

IT IS ORDERED that:

1. Applicant Southern California Water Company shall institute its proposed water main replacement program for the Big Bear District, wherein \$100,000 will be expended each year from 1973 through 1978 for main replacements.

2. After the effective date of this order, applicant Southern California Water Company is authorized to file for its Big Bear District the revised rate schedules attached to the order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

3.a. On or before August 31 of each of the years 1973 through 1978, applicant shall file in this proceeding a summary showing the length, size of main replaced, size of replacement main, location and cost of main replacements installed during the first six months of that calendar year in the Big Bear District, together with a summary of earnings statement for the Big Bear District covering the most recently available 12-month period.

b. On or before March 31 of each of the years 1974 through 1979 applicant shall file an additional summary of main replacements installed during the last six months of the preceding calendar year, together with a summary of earnings statement for the Big Bear District covering that preceding calendar year. The final summary of earnings statement shall be segregated by tariff areas within the district.

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

Dated at San Francisco, California, this 14th day of FEBRUARY, 1973.

Vernon L. Sturgeon
President
William J. ...
...
...
Commissioners

APPENDIX A
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Schedule No. BBL-1
BIG BEAR DISTRICT
Big Bear Lake Tariff Area
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Big Bear Lake and Moonridge, and vicinity, San Bernardino County.

RATES

	Prior to <u>7-1-73</u>	<u>Per Meter Per Month</u> <u>Effective July 1</u>					(T)
		<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	(T)
Quantity Rates:							
First 300 cu.ft. or less.....	\$3.75	\$3.85	\$3.95	\$4.05	\$4.15	\$4.25	(I)
Next 700 cu.ft., per 100 cu.ft. .53		.543	.557	.571	.585	.600	
Next 14,000 cu.ft., per 100 cu.ft. .37		.379	.389	.398	.408	.419	
Over 15,000 cu.ft., per 100 cu.ft. .23		.236	.242	.248	.254	.260	
Minimum Charge:							
For 5/8 x 3/4-inch meter.....	3.75	3.85	3.95	4.05	4.15	4.25	
For 3/4-inch meter.....	5.00	5.15	5.25	5.40	5.50	5.65	
For 1-inch meter.....	7.50	7.70	7.90	8.10	8.30	8.50	
For 1 1/2-inch meter.....	13.50	13.85	14.20	14.55	14.90	15.25	
For 2-inch meter.....	18.50	18.95	19.45	19.90	20.40	20.95	
For 3-inch meter.....	32.00	32.80	33.60	34.45	35.30	36.20	
For 4-inch meter.....	46.00	47.15	48.35	49.55	50.80	52.05	
For 6-inch meter.....	72.00	73.80	75.65	77.55	79.45	81.45	
For 8-inch meter.....	96.00	98.40	100.85	103.40	105.95	108.60	(I)

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

(Continued)

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Schedule No. BBL-1
BIG BEAR DISTRICT
Big Bear Lake Tariff Area
GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. Applicant for service shall pay in advance an amount equal to the minimum charge for service for a period of twelve months. This payment will entitle the customer to the quantity of water each month for twelve months which the monthly minimum charge will purchase at the quantity rates.
2. After twelve months of service the customer will be billed at the monthly rate above with the minimum charge billed in advance.

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Schedule No. EBR-1

BIG BEAR DISTRICTRimforest Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Rimforest, and vicinity, San Bernardino County.

RATES

		Prior to 7-1-73	Per Meter Per Month Effective July 1					(T)
			1973	1974	1975	1976	1977	(T)
Quantity Rates:								
First	300 cu.ft. or less.....	\$7.80	\$8.00	\$8.20	\$8.40	\$8.60	\$8.80	(X)
Next	700 cu.ft., per 100 cu.ft. .55		.564	.578	.592	.607	.622	
Next	14,000 cu.ft., per 100 cu.ft. .45		.461	.473	.485	.497	.509	
Over	15,000 cu.ft., per 100 cu.ft. .25		.256	.263	.269	.276	.283	
Minimum Charge:								
For	5/8 x 3/4-inch meter.....	7.80	8.00	8.20	8.40	8.60	8.80	
For	3/4-inch meter.....	9.50	9.75	10.00	10.25	10.50	10.75	
For	1-inch meter.....	12.00	12.30	12.60	12.90	13.25	13.60	
For	1 1/2-inch meter.....	15.00	15.40	15.75	16.15	16.55	16.95	
For	2-inch meter.....	20.00	20.50	21.00	21.55	22.10	22.65	
For	3-inch meter.....	35.00	35.90	36.75	37.70	38.65	39.60	
For	4-inch meter.....	50.00	51.25	52.55	53.85	55.20	56.55	
For	6-inch meter.....	75.00	76.90	78.80	80.75	82.80	84.85	
For	8-inch meter.....	100.00	102.50	105.05	107.70	110.40	113.15	(T)

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

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Schedule No. BBR-1
BIG BEAR DISTRICT
Rimforest Tariff Area
GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. Applicant for service shall pay in advance an amount equal to the minimum charge for service for a period of twelve months. This payment will entitle the customer to the quantity of water each month for twelve months which the monthly minimum charge will purchase at the quantity rates.
2. After twelve months of service the customer will be billed at the monthly rate above with the minimum charge billed in advance.

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Schedule No. BBS-1
BIG BEAR DISTRICT
Sugarloaf Tariff Area
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Sugarloaf, and vicinity, San Bernardino County.

RATES

		Prior to <u>7-1-73</u>	<u>Per Meter Per Month</u> <u>Effective July 1</u>					(T)
			<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	(T)
Quantity Rates:								
First	600 cu.ft. or less	\$7.30	\$7.50	\$7.65	\$7.85	\$8.05	\$8.25	(I)
Next	400 cu.ft., per 100 cu.ft. .50		.512	.525	.538	.552	.566	
Next	14,000 cu.ft., per 100 cu.ft. .37		.379	.389	.398	.408	.419	
Over	15,000 cu.ft., per 100 cu.ft. .23		.236	.242	.248	.254	.260	
Minimum Charge:								
For	5/8 x 3/4-inch meter.....	7.30	7.50	7.65	7.85	8.05	8.25	
For	3/4-inch meter.....	9.00	9.20	9.45	9.70	9.95	10.20	
For	1-inch meter.....	11.00	11.30	11.55	11.85	12.15	12.45	
For	1 1/2-inch meter.....	14.00	14.35	14.70	15.10	15.45	15.85	
For	2-inch meter.....	18.50	18.95	19.45	19.90	20.40	20.95	
For	3-inch meter.....	35.00	35.90	36.75	37.70	38.65	39.60	
For	4-inch meter.....	50.00	51.25	52.55	53.85	55.20	56.55	
For	6-inch meter.....	75.00	76.90	78.80	80.75	82.80	84.85	
For	8-inch meter.....	100.00	102.50	105.05	107.70	110.40	113.15	(I)

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

(Continued)

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Schedule No. BBS-1
BIG BEAR DISTRICT
Sugarloaf Tariff Area
GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. Applicant for service shall pay in advance an amount equal to the minimum charge for service for a period of twelve months. This payment will entitle the customer to the quantity of water each month for twelve months which the monthly minimum charge will purchase at the quantity rates.
2. After twelve months of service the customer will be billed at the monthly rate above with the minimum charge billed in advance.

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Schedule No. BBM-2
BIG BEAR DISTRICT
Moonridge Tariff Area
FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Moonridge and vicinity, San Bernardino County.

RATES

	Prior to <u>7-1-73</u>	<u>Effective July 1</u>				
		<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Per service connection per month.	\$5.00	\$5.15	\$5.25	\$5.40	\$5.50	\$5.65(I)

SPECIAL CONDITIONS

1. Applicant for service shall pay in advance an amount equal to the flat rate charge for service for a period of twelve months.
2. After twelve months of service the customer will be billed in advance at the monthly rate above.
3. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. BEU-1, General Metered Service.