

ORIGINAL

Decision No. 81249

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
AZUSA VALLEY WATER COMPANY, a)
California corporation, for)
authorization to increase rates)
and charges for water service.)

Application No. 53419
(Filed June 21, 1972)

Gibson, Dunn & Crutcher, by Raymond L. Curran,
Attorney at Law, for Azusa Valley Water Company,
applicant.
E. A. Peeters, Attorney at Law, for the Commission
staff.

O P I N I O N

By this application, Azusa Valley Water Company (Azusa Valley) seeks authority to increase its rates for general metered water service to a level that will, according to the Commission staff, produce an additional \$240,300 in gross revenues, an increase of approximately 22 percent.

Public hearings were held before Examiner Boneysteele in Covina on November 20 and 21, 1972. Copies of the application had been served and notice of filing of the application and hearing had been published as required by this Commission's rules of procedure. The matter was submitted on November 21, 1972, subject to the receipt of the transcript and a late-filed exhibit. These documents have been received.

Testimony on behalf of Azusa Valley was presented by its secretary-manager and an engineer and an accountant employed by the consulting engineering firm retained by the utility. Staff testimony was presented by two registered professional engineers and two accountants. One customer testified that water pressure at her residence was unsatisfactory.

Service Area and Water System

Azusa Valley's service area includes portions of the cities of Azusa, Covina, Glendora, Irwindale, and West Covina, and adjoining unincorporated territory. The service area extends from the foothills of the San Gabriel mountains in the north to the San Bernardino Freeway in the south. At the present time the utility serves approximately 13,300 customers and 1,110 public fire hydrants. The service area ranges in elevation between 380 feet to 700 feet.

The source of Azusa Valley's water supply is from four wells located in the Main San Gabriel Basin, two wells in the intermediate San Gabriel Basin, and water diverted from the San Gabriel River. In 1971 the utility's water production amounted to 9,709 acre-feet, of which 5,215 were produced from the wells and 4,494 diverted from the river.

The water diverted from the river is treated at a filter plant located at the mouth of the San Gabriel Canyon.

The distribution system is divided into three pressure zones. Surface water from the San Gabriel River flows by gravity from the filter plant to all three pressure zones and, in addition, the three zones are supplied by wells. There are approximately 165 miles of transmission and distribution mains, ranging in size from 2-inch to 34-inch. All but 6,640 feet of the mains are four-inch and larger. Operating pressures range from 45 psi to 110 psi.

Service

There have been no informal complaints regarding service since the end of 1969. The utility was directed by the examiner to investigate the complaint made by a customer at the hearing and report the results by means of a late-filed exhibit. This exhibit states that the static pressure at the customer's residence is 98 psi and concludes that the problem results from corroded plumbing on the customer's premises.

The staff's results of operations report states that the staff made field investigations of Azusa Valley's facilities, operations, and service procedures during the months of June, July, and September 1972 and found them to be adequate. The staff concludes that the service provided by the utility meets the Commission's General Order No. 103.

Rates

Azusa Valley's tariffs include rates for general metered service, private fire protection service, and public fire hydrant service. These rate schedules became effective on October 1, 1964, pursuant to Decision No. 67795 dated September 1, 1964 in Application No. 46206. There is also a rate schedule for limited measured irrigation service, which became effective on January 13, 1964, and reflects a continuation of service rendered by Azusa Valley's predecessor, the Azusa Irrigating Company, a mutual water company. The utility anticipates that all limited irrigation customers will have withdrawn from this service by the end of 1973.

Azusa Valley proposes to change only the rates for general metered service, leaving the other schedules unchanged. The proposed schedule for general metered service would be changed from the usual type of schedule with quantity rates and a minimum charge, the minimum charge entitling the consumer to the quantity of water which that minimum charge would purchase at the quantity rates. In the proposed schedule the minimum charge would be changed to a "minimum and service charge" entitling the consumer to 500 cubic feet of water, regardless of the amount of the minimum and service charge.

The following table presents a comparison of Azusa Valley's present and proposed rates and those of other nearby water suppliers:

COMPARISON OF PRESENT AND PROPOSED RATES
WITH THOSE OF NEIGHBORING UTILITIES

General Metered Service
5/8" x 3/4" Meter

	Azusa Valley Water Co.	California	Suburban	Water
	Present	Proposed	Cities Water Co.	Water Systems
Consumption	Rates	Rates	Tariff Area	Dept.
Ccf 1/			No. 2	City of
				Azusa
0	\$ 2.00	\$ 2.60	\$ 3.40	\$ 2.65
4	2.00	2.60	3.40	3.41
10	3.15	3.95	5.05	4.55
22 2/	5.91	7.19	9.01	6.83
50	12.05	13.65	18.25	12.15
100	22.05	21.65	30.25	21.65

1/ Hundreds of cubic feet.

2/ Average consumption by a commercial customer of Azusa Valley Water Company.

The impact of the proposed rate increase on various customer classes, using utility estimated revenues for 1973, is as follows:

Comparison of Revenues
For the Test Year 1973
At Present and Proposed Rates

Customer Class	Present Rates	Proposed Rates	Percent Increase
Metered Revenue			
Commercial	\$ 889,770	\$1,097,020	23.26
Public Authority	70,930	92,220	30.02
Permanent Industrial	12,320	14,910	21.02
Temporary Service for Construction	1,670	1,670	-
Subtotal Metered Revenue	974,890	1,205,820	23.69
Unmetered Industrial	30	30	-
Irrigation	50	50	-
Private Fire Protection Service	7,480	7,480	-
Public Fire Hydrant Service	33,930	33,930	-
Miscellaneous Service Revenues	820	820	-
Other Water Revenues	60	60	-
Total Operating Revenues	\$1,017,260	\$1,248,190 ^{3/}	22.70

3/ Exceeds requested revenue by \$5,900.
(Over design of rates)

The staff takes exception to the design of the utility's proposed schedule, terming it a "hybrid schedule" which would "cause considerable problems in the handling of work performed by the Commission staff". We share the staff's concern and the rate schedule authorized herein will be designed as service charge rates.

Rule Changes

Azusa Valley, in addition to the increased rates, proposes three rule changes. The first would revise its Rule No. 7 to double the deposit to establish credit for service by a 5/8" x 3/4" meter from \$2.50 to \$5.00 on a monthly billing basis and from \$5.00 to \$10.00 on a bimonthly basis. The deposit for all other service would continue to increase at twice the estimated average periodic bill but with the minimum being increased from \$2.50 to \$5.00 on a monthly billing basis and from \$5.00 to \$10.00 on a bimonthly billing basis.

The second change would revise Rule No. 11, Discontinuance and Restoration of Service, to double charges of restoration of service, after disconnection for violation of rules or nonpayment, from \$2.50 to \$5.00 during regular working hours and twice that amount at periods other than regular working hours.

The third change would revise Rule 12, Rates and Optional Rates, to provide the option of rounding bills to the nearest five cent increment.

In support of the first two changes the utility states that deposits do not cover most of the bills rendered by the utility and that the reconnection charges do not by any means cover the cost of that service. The third change, the rounding, was said to be for convenience in billing.

The staff did not object to the increased deposits and charges but felt that the rounding of bills did not appear to give any savings or advantage and should be denied. In the order which follows we will authorize the increased deposits and charges as being reasonable but we will not permit the rounding of bills.

Results of Operations

The following table is a comparison of the results of operations as estimated by the utility and the staff for the years 1972 and 1973:

COMPARISON OF STAFF AND UTILITY
RESULTS OF OPERATIONS
Years 1972 and 1973 Estimated

Item	Utility		Staff		Utility Exceeds	
	Present		Present		Staff	
	Rates	Rates	Rates	Rates	Present	Proposed

(Dollars in Thousands)

1972 Estimated

Oper. Revenues	\$1,012.4	N.A.	\$1,045.6	\$1,284.1	\$(33.2)	N.A.
Oper. Expenses						
Op. & Maint. Exp.	325.2	"	330.8	332.1	(5.6)	"
Adm. & Gen. Exp.	159.3	"	159.0	159.0	0.3	"
Deprec. Exp.	113.5	"	114.1	114.1	(0.6)	"
Adjustment	3.6	"	-	-	3.6	"
Taxes-Except Inc.	142.8	"	143.1	146.0	(0.3)	"
Inc. Taxes	95.1	"	110.0	231.7	(14.9)	"
Total Oper. Exp.	839.5	"	857.0	982.9	(17.5)	"
Net Oper. Revenues	172.7 ^{1/}	"	188.6	301.2	(15.9)	"
Average Rate Base	3,646.3	"	3,676.4	3,676.4	(30.1)	"
Rate of Return	4.74%	"	5.1%	8.2%	(0.4)%	"

1973 Estimated

Oper. Revenues	\$1,017.3	\$1,242.3	\$1,054.0	\$1,294.3	\$(36.7)	\$(52.0)
Oper. Expenses						
Op. & Maint. Exp.	338.0	339.2 ^{2/}	332.1	333.4	5.9	5.8
Adm. & Gen. Exp.	168.6	168.6	160.5	160.5	8.1	8.1
Deprec. Exp.	114.6	116.4	115.0	115.0	(0.4)	1.4
Adjustment	3.6	-	-	-	3.6	-
Taxes-Except Inc.	145.8	151.7	146.6	149.5	(0.8)	2.2
Income Taxes	84.8	198.9	110.0	232.6	(25.2)	(33.7)
Total Oper. Exp.	855.4	974.8	864.2	991.0	(8.8)	(16.2)
Net Oper. Revenues	161.8 ^{1/}	267.4 ^{2/}	189.8	303.3	(28.0)	(35.9)
Average Rate Base	3,608.8	3,608.8	3,611.7	3,611.7	(2.9)	(2.9)
Rate of Return	4.48%	7.41%	5.3%	8.4%	(0.8)%	(1.0)%

(Red Figure)

N.A. - Not Available

1/ Does not balance due to rounding.

2/ \$4,100 transferred to taxes other than income, incorrectly included in operating expenses by utility.

As can be seen from the table, the staff's results of operations produce an estimated rate of return which, for the year 1973, at proposed rates, exceeds that of the utility by a full percentage point. This is largely due to the staff's revenue estimate exceeding that of the utility's by some \$52,000. The staff used the Modified Bean Method, whereas the utility felt that it was not "considered feasible to project sales into the normalized period by using more sophisticated techniques such as the Modified Bean Method for eliminating the effects of weather variability from recorded data".

The staff's results of operations report contains two charts which show recorded annual average water consumption per customer. The trend lines of consumption, as determined by the utility's consultants and by the staff, are superimposed on the charts. From these charts it is clear that the staff's trend more nearly represents actual consumption. The utility's consultant, in his revenue requirement study, has included a chart of annual sales per commercial customer, which sales are extrapolated to show a normalized trend of estimated future consumption. Unfortunately, the horizontal and vertical scales of this chart are so selected that it is not possible to evaluate the reasonableness of the utility's trend.

The Modified Bean Method has been used by the staff for nearly ten years and adopted by the Commission in many decisions. Over time this technique has tended to yield reasonable results and we see no reason to abandon it in this case. We will adopt the staff's revenue estimate as being reasonable.

Operation and Maintenance Expenses

The following tabulation is a comparison of the utility's and staff's operation and maintenance expense estimates and differences:

OPERATION AND MAINTENANCE EXPENSES

Category	1972 Estimated			1973 Estimated		
	Utility	Staff	Staff	Utility	Staff	Staff
(Dollars in Thousands)						
Payroll	\$167.8	\$171.1	\$(3.3)	\$175.9	\$171.1	\$4.8
Purchased Water	3.9	3.7	0.2	4.2	3.8	0.4
Purchased Power	81.0	80.6	0.4	81.4	81.3	0.1
Chemicals	3.3	4.2	(0.9)	3.5	4.2	(0.7)
Uncollectibles	5.3	5.5	(0.2)	5.4	5.5	(0.1)
Other	63.9	65.7	(1.8)	67.6	66.2	1.4
Total at Present Rates	325.2	330.8	(5.6)	338.0	332.1	5.9
Add. Uncollectibles	N.A.	1.3	-	1.2	1.3	(0.1)
Total at Proposed Rates	N.A.	332.1	-	339.2 ^{1/}	333.4	5.8

(Red Figure)

N.A. - Not Applicable

^{1/} Utility included \$4,100 for franchise tax in operation expenses. The figure was transferred to taxes other than income by the staff.

The utility's payroll was estimated on the basis of wage rates for individual employees and then was spread to individual accounts while the staff analyzed total payroll records for operation and maintenance expenses on the basis of recorded data for the past five full years and the first five months up to May 31, 1972. The first five months of 1972 were annualized and brought up to 1973 level based on 5 percent increase in salary levels authorized by a resolution of the Board of Directors of the utility. The same payroll was used for 1972 and 1973.

The principal difference in purchased water, power, and chemicals is due to the difference in allocation of water to the production source. An additional difference in purchased water is due to the staff's use of \$0.77 per acre-foot for replenishment assessment charges for the test years while the utility trended the rate and used \$0.67 for 1972 and \$0.72 for 1973. Another additional difference in purchased power is due to the use by the staff of the latest Southern California Edison energy rates effective August 7, 1972.

The difference between the staff's and the utility's uncollectibles is due to the difference in the revenue estimate.

The staff's estimates of other expenses were obtained by studying past trends. The staff considered the utility's trend of this category to be excessive. We will adopt the staff's estimates as being the more reasonable.

Administrative and General Expenses

The following tabulation sets forth the difference between the utility's and staff's estimates of administrative and general expenses:

Category	1972 Estimated		1973 Estimated	
	Utility		Utility	
	Exceeds		Exceeds	
	Staff	Utility	Staff	Staff
(Dollars in Thousands)				
Salaries	\$(3.2)	\$ 70.1	\$ 70.1	\$ -
Office Supplies	-	11.7	11.5	0.2
Insurance	0.5	12.9	12.3	0.6
Injuries and Damages	-	1.8	1.8	-
Pensions and Benefits	0.1	34.6	31.4	3.2
Regulatory Commission Expenses	-	5.0	5.0	-
Outside Services	0.8	10.9	10.0	0.9
Miscellaneous General Expenses	3.7	23.0	18.3	4.7
Maintenance of General Plant	-	1.3	1.3	-
A. & G Transfer (Credit)	<u>(1.5)</u>	<u>(2.6)</u>	<u>(1.1)</u>	<u>(1.5)</u>
Totals	0.4 ^{1/}	168.6	160.5 ^{2/}	8.1

(Red Figure)

^{1/} Does not balance due to rounding.

The differences between the utility and the staff in the categories shown are as follows:

The staff used 1973 salary level for both 1972 and 1973.

The difference in estimate for office supplies in the year 1973 is due to difference in trending.

The difference in estimates for insurance expense is due to the staff's placing insurance premiums on a calendar year basis.

The differences in estimates of pensions and benefits is due to the utility's trending from 1971 at a rate equal to the experience of the past three years in order to estimate 1972 and 1973, while the staff used latest known figures in the 12-month periods ending May 1971 and May 1972 to make its estimate for the full year 1972. The staff made an increase for the year 1973 to reflect changes in payroll rates between 1972 and 1973 and used the 1973 level of benefits for both test years.

The difference between the utility's and staff's estimate for outside services is due to the elimination of an estimate of legal expense for the Upper San Gabriel River Basin Adjudication which expense will be non-recurring.

The difference between the utility's and staff's estimate of miscellaneous general expenses is due to the utility's trending its estimate upwards from previous years after deducting certain donations, while the staff had deducted additional contributions, chamber of commerce dues, and director's fees paid to employees. Also the staff has considered no upward trend because these expenses have been higher and lower in the past five years.

The difference between the utility's and staff's estimate of A & G transfer credits is due entirely to the difference in utility plant estimates.

In justification of the elimination of \$3,900 in officers' fees paid to two employees, the secretary-manager and assistant secretary, a staff witness testified that a number of other corporations did not pay fees to "inside" directors. In response to a question by the examiner, however, the staff witness stated that the total compensation paid to these employee-officers, including fees, was not unreasonable.

We will adopt the staff's 1973 estimate of administrative and general expenses, with the addition of \$3,900 in director's fees, for an amount of \$164,400.

Taxes Other Than on Income

Differences between utility and staff estimates of taxes other than on income are shown in the following tabulation:

Item	1972 Estimated			1973 Estimated		
	Utility	Staff	Utility : Exceeds : Staff	Utility	Staff	Utility : Exceeds : Staff
(At Present Rates)						
(Dollars in Thousands)						
Ad Valorem Tax	\$ 119.8	\$ 116.8	\$ 3.0	\$ 122.7	\$ 120.1	\$ 2.6
Franchise Payments	11.8	12.9	(1.1)	11.9	13.0	(1.1)
Payroll Taxes						
State Unemployment	.5	.5	-	.5	.5	-
Federal Unemployment	.5	.5	-	.5	.5	-
F.I.C.A.	10.2	12.4	(2.2)	10.2	12.4	(2.2)
Total Payroll Taxes	11.2	13.4	(2.2)	11.2	13.4	(2.2)
Total Other Taxes	142.8	143.1	(.3)	145.8	146.6 ^{1/}	(.8) ^{1/}
(At Proposed Rates)						
Ad Valorem Tax on Plant #2	N.A.	-	-	1.8	-	1.8
Subtotal	-	143.1	-	147.6	146.6 ^{1/}	1.0
Added Franchise Payments	N.A.	3.0	-	4.1	3.0	1.1
Total Other Taxes	N.A.	146.0 ^{1/}		151.7	149.5	2.2 ^{1/}

(Red Figure)

N.A. - Not Available

^{1/} Does not balance due to rounding.

At present rates, the difference in ad valorem tax is due to the use of the latest available property assessments by the staff and the availability of more information on tax rates for 1972-73. The difference in franchise payments is due to differences in total revenue. The difference in F.I.C.A. tax is due to the use by the staff of the latest authorized wage base of \$10,800 together with a 5.5 percent rate for 1972 and 1973 by the staff, whereas the utility used wage base of \$9,000 and a rate of 5.2 percent for 1972, and wage base of \$9,000 and a rate of 5.65 percent for 1973.

At proposed rates, the \$1,800 difference in ad valorem tax is due to the utility's including Plant No. 2 in plant accounts, whereas the staff left it in plant held for future use. The difference in added franchise payments is due to a utility error. The \$4,100 added franchise payments was incorrectly included by the utility in operating expenses. We will adopt the staff's estimates.

Taxes Based on Income

The difference between utility's and staff's estimates of taxes on income are due to:

Differences in estimates of operating revenues, operating and maintenance expenses, administration and general expenses, and taxes other than income.

A difference in estimate of interest deductions by utility and staff.

Differences in estimates of deductions for depreciation for income tax purposes. The utility used straight-line-remaining-life method for computing depreciation expense, whereas the staff imputed double-declining-balance method together with the use of "asset depreciation range" for computing depreciation expense, for federal income tax purposes only, for all additions since 1972. There is no difference in depreciation for plant installed prior to 1972. The effects of these differences are as follows:

	<u>Utility Exceeds Staff</u>	
	<u>1972 Est.</u>	<u>1973 Est.</u>
	(Dollars in Thousands)	
State Corporation Franchise Tax Depreciation	\$(2.0)	\$(4.3)
Federal Income Tax Depreciation	(2.0)	(4.5)

Differences between utility and staff estimates of taxes based on income are shown in the following tabulation:

Item	<u>1972 Estimated</u>			<u>1973 Estimated</u>		
	Utility	Staff	Utility Exceeds Staff	Utility	Staff	Utility Exceeds Staff
(Dollars in Thousands)						
<u>Present Rates</u>						
State Corp. Franchise Tax	\$ 15.1	\$ 17.3	\$ (2.2)	\$ 13.7	\$ 17.3	\$ (3.6)
Federal Income Tax	80.0	92.7	(12.7)	71.1	92.7	(21.6)
Total	95.1	110.0	(14.9)	84.8	110.0	(25.2)
<u>Proposed Rates</u>						
State Corp. Franchise Tax	N.A.	35.1	-	30.3	35.3	(5.0)
Federal Income Tax	N.A.	196.6	-	168.6	197.3	(28.7)
Total		231.7	-	198.9	232.6	(33.7)

(Red Figure)

N.A. - Not Available

The issue of imputation of first year liberalized depreciation has been extensively controverted before the Commission in other proceedings now submitted to the Commission for decision. In order to avoid conflict with any general policy that might be established, we will not adopt first year's accelerated depreciation nor "asset depreciation range" for the purposes of this decision but will use straight-line depreciation.

Depreciation

The differences in depreciation reserve between the utility and staff for the estimated years 1972 and 1973 is due to the staff rollback of retirements and salvage related to the highway construction for which utility plant items were rolled back to the beginning of the year.

The staff made a review of Azusa Valley's method of determining depreciation accrual, including a study of the utility's estimate of average service life and remaining life for each item of account. It is the staff's opinion that the depreciation rates used by the utility for the estimated years 1972 and 1973 as developed by Azusa Valley are reasonable and can be used for a future year. A three year interval for future SLRL depreciation studies is suggested due to slow plant growth.

The staff's estimate of depreciation expense of \$114,145 and \$114,974 for the years 1972 and 1973, respectively, differ from the utility's estimate of \$113,520 and \$114,600 because of differences in plant estimates and retirements. At proposed rates for 1973 the utility included an \$1,800 depreciation accrual on Plant No. 2 while at present rates it is part of an adjustment. The staff excluded this depreciation on Plant No. 2.

The staff's estimates appear to be reasonable and will be adopted for this decision.

Rate Base

The following tabulation sets forth Azusa Valley's and staff's estimated rate base components for the years 1972 and 1973:

Rate Base

Item	1972 Estimated			1973 Estimated		
	Utility:	Staff	Exceeds	Utility	Staff	Exceeds
(Dollars in Thousands)						
Utility Plant	\$5,860.8	\$5,941.2	\$(80.4)	\$5,959.0	\$5,986.7	\$(27.7)
Constr. Work in Prog.	1.0	1.0	-	1.0	1.0	-
Materials & Supplies	8.1	8.1	-	8.1	8.1	-
Working Cash	87.0	88.0	(1.0)	91.3	88.5	2.8
Adjustment	54.2	34.6	19.6	51.9	34.6	17.3
Subtotal	6,011.1	6,072.9	(61.8)	6,111.3	6,118.9	(7.6)
Deductions						
Res. for Depr.	1,685.7	1,669.1	16.6	1,795.6	1,792.4	3.2
Adv. for Constr.	189.9	189.9	-	186.4	186.4	-
Contributions	489.2	537.5	(48.3)	520.6	528.4	(7.8)
Total Deductions	2,364.8	2,396.5	(31.7)	2,502.6	2,507.2	(4.6)
Avg. Rate Base	3,646.3	3,676.4	(30.1)	3,608.8 ^{1/}	3,611.7	(2.9) ^{1/}

(Red Figure)

^{1/} Does not balance due to rounding.

The principal difference between staff's and the utility's estimate of utility plant is due to the staff's rolling back the estimated cost of highway relocations to the beginning of the test period. This was done by the staff because of the effect of these plant additions and their related contributions on the trend in rate base. Azusa Valley estimated that these items would be installed during the two test years.

Working cash estimates differ because of previous differences in revenues and expenses.

The difference in adjustments to rate base is due to the utility including in adjustments the cost of Plant No. 2 which had previously been removed from utility plant in service and placed in plant held for future use. The staff has left Plant No. 2 in plant held for future use and not in rate base. Both the utility and staff have included in adjustments \$34,600 as capitalized expense for the defense of a claim to pumping rights.

The difference between Azusa Valley's and staff's estimates of reserve for depreciation is due to the staff's rollback of highway relocation installations.

The difference between the utility's and staff's estimate of contributions in aid of construction is due entirely to staff's roll-back of highway relocation work.

In justification for inclusion of Pumping Plant No. 2 in plant in service, Azusa Valley stated, in its report entitled "Revenue Requirement Study":

"Pumping Plant No. 2 has not been operated since September 1970 and has been used only intermittently since 1966 as a backup to Plant No. 1. Due to improved operating techniques, it has not recently been required to maintain normal water service to Pressure Zone 3. It would be required, however, in the event of unanticipated peak demands in this zone, or in the event of a failure at Plant No. 1. An annual savings of \$2,450 in demand charges for electric power is being realized by not operating Plant No. 2. The Edison Company has assured the Company that electric power service could be restored to Plant No. 2 within 48 hours notice if required."

We believe that the possibility of this plant's being used in the foreseeable future is too speculative for it to be included in rate base. We will adopt the staff's rate base.

Summary of Earnings

A comparison of the staff's and utility's summary of earnings, as modified at the hearing, is shown in the following tabulation:

Azusa Valley Water Company
COMPARISON OF STAFF AND UTILITY SUMMARY OF EARNINGS
Years 1972 and 1973 Estimated

Item	Utility		Staff		Utility Exceeds	
	: Utility:		: Staff:		: Utility Exceeds:	
	: Present:		: Present:		: Utility:	
	: Rates:		: Rates:		: Present:	

(Dollars in Thousands)

1972 Estimated

Oper. Revenues	\$1,012.4	N.A.	\$1,045.6	\$1,284.1	\$(33.2)	N.A.
Oper. Expenses						
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1973 Estimated

Oper. Revenues	\$1,017.3	\$1,241.0	\$1,051.0	\$1,294.3	\$(36.7)	\$(53.3)
Oper. Expenses						
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Adm. & Gen. Exp.	168.6	168.6	160.5	160.5	8.1	8.1
Deprec. Exp.	114.6	116.4	115.0	115.0	(0.4)	1.4
Adjustment	3.6	-	-	-	3.6	-
Taxes-Except Inc.	145.8	150.4 ^{2/}	146.6	149.5	(0.8)	0.9
Income Taxes	84.8	198.9	110.0	232.6	(25.2)	(33.7)
Total Oper. Exp.	855.4	973.5	864.2	991.0	(8.8)	(17.5)
Net Oper. Revenues	161.8 ^{1/}	267.5 ^{2/}	189.8	303.3	(28.0)	(35.9) ^{1/}
Average Rate Base	3,608.8	3,608.8	3,611.7	3,611.7	(2.9)	(2.9)
Rate of Return	4.48%	7.41%	5.3%	8.4%	(0.8)%	(1.0)%

(Red Figure)

N.A. - Not Available

^{1/} Does not balance due to rounding.^{2/} \$4,100 transferred to taxes other than income, incorrectly included in operating expenses by utility.

Rate of Return

In its application Azusa Valley requested rates to produce a rate of return of 7.41 percent on its rate base. In support of this request, an accountant employed by the utility's consultants presented an exhibit showing rates of return allowed by the Commission in the years 1969 through 1972, and resulting returns on common equity. The rates of return ranged from 6.36 percent to 8.75 percent. Returns on common equity ranged from 8.5 percent to 20.22 percent. The staff presented a report which analyzed Azusa Valley's capital structure and financial requirements in detail and determined a rate of return related to total capital of 7.41 percent, which would result in a return of 10.5 percent on total common equity. ✓

In its showing, at present rates, Azusa Valley showed a downward trend of rate of return of 0.36 percent from 1971 to 1972 and 0.26 percent from 1972 to 1973. The staff's estimates, however, show an upward trend of 0.2 percent between 1972 and 1973 at both present and proposed rates. Azusa Valley did not seek an allowance for slippage in the trend and the staff recommends that none be recognized.

Taking into account the various factors used by the utility and staff experts in determining their recommendations pertaining to rate of return, we find that a rate of return of 7.9 percent on the utility rate base adopted herein is reasonable with no allowance for attrition. ✓

The net income from the rates authorized herein would produce a return of 11.3 percent on that portion of common equity applicable to utility operations. The adopted rate of return of 7.9 percent, while higher than that requested by Azusa Valley, results in an increase in rates 13 percent smaller than that requested by the utility. The adopted rate of return of 7.9 percent on adopted rate base and the return of 11.3 percent on that portion of common equity applicable to utility operations are comparable to those authorized recently for similar water utilities. ✓ ✓ ✓ ✓

Adopted Results

Based on the above, we find that Azusa Valley is entitled to an increase in gross revenues of \$210,300, or 20 percent, for the

year 1973, instead of the \$240,300 that, according to the staff, proposed rates would yield. The adopted results are summarized in the following tabulation:

Summary of Earnings
Test Year 1973
At Adopted Rates

	(Dollars in Thousands)
Operating Revenues	\$1,264.3
<u>Deductions</u>	
Oper. & Maint.	333.4
Admin. & Gen.	164.4
Depreciation	115.0
Taxes Other than Income	149.0
Taxes on Income	216.2
Total Deductions	978.0
Net Operating Revenues	286.3
Rate Base	3,611.7
Rate of Return	7.9%

Findings and Conclusion

1. Azusa Valley Water Company is in need of additional revenues, but the proposed rates set forth in the application are excessive.

2. The estimates of revenues, expenses, taxes, and rate base adopted herein for the test year 1973 reasonably indicate the results of Azusa Valley's operations for the future.

3. A return on that portion of common equity applicable to utility operations of 11.3 percent and the resulting 7.9 percent rate of return on the adopted rate base are reasonable.

4. The revisions to Rule No. 7, Deposits, increasing deposits, and the revisions to Rule No. 11, Discontinuation and Restoration of Service, increasing charges for restoration of service, are reasonable.

5. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

6. Pursuant to Rule 23.1 of the Commission's Rules of Procedure:

- (a) The increased rates are expected to provide increased revenue of \$210,300 yearly.
- (b) The rate of return is expected to average 7.9 percent as compared to 5.3 percent under present rates.
- (c) The increase is cost-justified and does not reflect future inflationary expectations; the increase is reduced to reflect productivity gains; the increase is the minimum rate which is 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 provide for necessary expansion to meet future requirements, and it is the minimum rate of return needed to attract capital at reasonable cost and which will not impair the applicant's credit.

7. Service meets the requirements of General Order No. 103.

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that after the effective date of this order, Azusa Valley Water Company is authorized to file the revised rate schedules and rules attached to this order as Appendix A, and concurrently to withdraw and cancel presently effective schedules for General Metered Service, its Rule No. 7, Deposits, and its Rule No. 11, Discontinuance and Restoration of Service. Such filing

shall comply with General Order No. 96-A. The effective date of the revised rules and rate schedules shall be four days after the date of filing. The revised rules and schedules shall apply only to service rendered on and after the effective date thereof.

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

Dated at San Francisco, California, this 10th day of APRIL, 1973.

Vernon L. Spurgeon
President
William Spurgeon
[Signature]
[Signature]
Commissioners

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

APPENDIX A
Page 1 of 8

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Azusa, Covina, Glendora, Irwindale, West Covina, and vicinity, Los Angeles County.

RATES

		Per Meter Per Month	
Service Charge:			
For 5/8 x 3/4-inch meter		\$ 1.50	(C)
For 3/4-inch meter		3.00	
For 1-inch meter		5.00	
For 1 1/2-inch meter		7.00	
For 2-inch meter		10.00	
For 3-inch meter		15.00	
For 4-inch meter		25.00	
For 6-inch meter		35.00	
For 8-inch meter		50.00	(C)

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.	\$ 0.230	(I)
Next 3,700 cu.ft., per 100 cu.ft.	0.255	
Next 6,000 cu.ft., per 100 cu.ft.	0.220	
Over 10,000 cu.ft., per 100 cu.ft.	0.160	(I)

(Continued)

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

RATES—Contd.

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 A
Page 3 of 8

Rule No. 7

DEPOSITS

A. Amount to Establish Credit

1. Metered Service

- a. To establish credit by deposit, the amount for residential service requiring not more than one 5/8 x 3/4-inch meter will be \$5 when bills are rendered monthly or \$10 when bills are rendered bimonthly. (T)
(T)
(I)
(T)
- b. To establish credit by deposit, the amount for all other service will be twice the estimated average periodic bill when bills are rendered monthly or bimonthly, but in any event not more than twice the estimated bimonthly bill nor less than the amounts set forth above.

2. Flat Rate Service

No deposit will be required, except as prescribed for temporary service in Rule No. 13.

B. Amount to Re-establish Credit

1. Former Customers

To re-establish credit for an applicant who previously has been a customer of the utility and during the last 12 months of that prior service has had service discontinued for nonpayment of bills, the amount will be twice the estimated average monthly or bimonthly bill to be rendered for the service requested.

2. Present Customers

To re-establish credit for a customer whose service has been discontinued for nonpayment of bills, the amount will be twice the average monthly or bimonthly bill to be rendered for that service.

(Continued)

(T)

APPENDIX A
Page 4 of 8

Rule No. 7

DEPOSITS
(Continued)

C. Applicability to Unpaid Accounts

Deposits made under this rule will be applied to unpaid bills for service when such service has been discontinued. (T)

D. Return of Deposits

1. Upon discontinuance of service, the utility will refund the balance of the customer's deposit in excess of unpaid bills for that service for which the deposit was made.
2. After the customer has, for 12 consecutive months, paid bills for service on the average within 15 days after presentation, the utility will refund the customer's deposit with interest as provided in Paragraph E of this rule.

E. Interest on Deposits

1. Interest on deposits held will be paid by the utility at the rate of 5 percent per annum for the first 12 consecutive months during which the customer has paid bills for service within an average period of 15 days after presentation, and for additional time thereafter up to the date of refund; provided, however, that no interest shall accrue after mailing to the customer or to the customer's last known address the refund or a notice that the refund is payable.
2. No interest will be paid if service is discontinued within the initial 12-month period. (T)

Rule No. 11

DISCONTINUANCE AND RESTORATION OF SERVICE

A. Customer's Request for Discontinuance of Service

(T)

1. A customer may have service discontinued by giving not less than two days' advance notice thereof to the utility. Charges for service may be required to be paid until the requested date of discontinuance or such later date as will provide not less than the required two days' advance notice.
2. When such notice is not given, the customer will be required to pay for service until two days after the utility has knowledge that the customer has vacated the premises or otherwise has discontinued water service.

B. Discontinuance of Service by Utility

1. For Nonpayment of Bills

A customer's service may be discontinued for nonpayment of a bill for service furnished if the bill is not paid within 15 days after presentation, provided the utility has given the customer at least five days' prior written notice of such intention. Prior written notice will be considered to have been given when the bill for service presented contains substantially the language set forth in Paragraph B of Rule No. 5. The service, however, will not be discontinued until the amount of any deposit made to establish credit for that service has been fully absorbed.

2. For Noncompliance with Rules

The utility may discontinue service to any customer for violation of these rules after it has given the customer at least five days' written notice of such intention. Where safety of water supply is endangered, service may be discontinued immediately without notice.

(T)

(Continued)

APPENDIX A
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Rule No. 11

DISCONTINUANCE AND RESTORATION OF SERVICE

(Continued)

3. For Waste of Water

(T)

- a. Where negligent or wasteful use of water exists on a customer's premises, seriously affecting the general service, the utility may discontinue the service if such practices are not remedied within five days after it has given the customer written notice to such effect.
- b. In order to protect itself against serious and unnecessary waste or misuse of water, the utility may meter any flat rate service and apply the regularly established meter rates where the customer continues to misuse or waste water beyond five days after the utility has given the customer written notice to remedy such practices.

4. For Unsafe Apparatus or Where Service is Detrimental or Damaging to the Utility or its Customers

If an unsafe or hazardous condition is found to exist on the customer's premises, or if the use of water thereon by apparatus, appliances, equipment, or otherwise is found to be detrimental or damaging to the utility or its customers, the service may be shut off without notice. The utility will notify the customer immediately of the reasons for the discontinuance and the corrective action to be taken by the customer before service can be restored.

5. For Fraudulent Use of Service

When the utility has discovered that a customer has obtained service by fraudulent means, or has diverted the water service for unauthorized use, the service to that customer may be discontinued without notice. The utility will not restore service to such customer until that customer has complied with all filed rules and reasonable requirements of the utility and the utility (T)

(Continued)

Rule No. 11

DISCONTINUANCE AND RESTORATION OF SERVICE

5. For Fraudulent Use of Service--Contd.

has been reimbursed for the full amount of the service rendered and the actual cost to the utility incurred by reason of the fraudulent use.

(T)

C. Restoration of Service

1. Reconnection Charge

Where service has been discontinued for violation of these rules or for nonpayment of bills, the utility may charge \$5 for reconnection of service during regular working hours or \$10 for reconnection of service at other than regular working hours when the customer has requested that the reconnection be made at other than regular working hours.

(T)
(I)
(I)

2. To be Made During Regular Working Hours

(T)

The utility will endeavor to make reconnections during regular working hours on the day of the request, if conditions permit, otherwise reconnections will be made on the regular working day following the day the request is made.

3. To be Made at Other Than Regular Working Hours

When a customer has requested that the reconnection be made at other than regular working hours, the utility will reasonably endeavor to so make the reconnection if practicable under the circumstances but will be under no obligation to do so.

(T)

(Continued)

Rule No. 11

DISCONTINUANCE AND RESTORATION OF SERVICE

D. Refusal to Serve

(T)

1. Conditions for Refusal

The utility may refuse to serve an applicant for service under the following conditions:

- a. If the applicant fails to comply with any of the rules as filed with the Public Utilities Commission.
- b. If the intended use of the service is of such a nature that it will be detrimental or injurious to existing customers.
- c. If, in the judgment of the utility, the applicant's installation for utilizing the service is unsafe or hazardous, or of such nature that satisfactory service cannot be rendered.
- d. Where service has been discontinued for fraudulent use, the utility will not serve an applicant until it has determined that all conditions of fraudulent use or practice have been corrected.

2. Notification to Customers

When an applicant is refused service under the provisions of this rule, the utility will notify the applicant promptly of the reason for the refusal to serve and of the right of applicant to appeal the utility's decision to the Public Utilities Commission.

(T)