

ORIGINAL

Decision No. 82511

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of VALENCIA WATER COMPANY }
For Authority, Among Other Things, to }
Increase its Rates and Charges for }
Water Service. }

Application No. 53877
(Filed March 5, 1973)

Overton, Lyman & Prince, by
Donald H. Ford, Attorney at
Law, for applicant.
Peter Arth, Jr., Attorney at
Law, and Andrew Tokmakoff,
for the Commission staff.

O P I N I O N

Valencia Water Company (Valencia) seeks authority to increase its water rates approximately \$175,100 (53.4 percent) annually to yield a rate of return of approximately 8.4 percent.

Valencia, a California corporation, renders public utility water service to approximately 2,700 customers in the community of Valencia. The service area was formerly devoted to agricultural use by the Newhall Land and Farming Company, and several of the wells which supplied water for that purpose are presently being used by Valencia Water Company.

After notice, public hearing was held before Examiner Rogers on November 19, 1973 in Valencia, California, and the matter was submitted on December 10, 1973 upon receipt of late-filed Exhibit 6.

Testimony on behalf of Valencia was presented by its president and general manager, and a consulting engineer. Statements in opposition to the granting of the requested rate relief until the quality of the water was improved were made by two customers of Valencia. The Commission staff presentation was made through a financial examiner and two engineers.

Rates

The presently effective metered rates were authorized by Decision No. 69744 dated October 5, 1965 in Application No. 47250. Valencia proposes to increase its metered service rates from 10 to 65 percent depending on usage (5/8 x 3/4-inch meter), and to convert from the present minimum charge type of rate to a service charge type of rate. It also proposes minor modifications to other rates and new rate schedules for private fire hydrant service and for flat rate construction water service.

The staff engineer testified that the proposed service charges for general service meters larger than 5/8 x 3/4 inch are too high when compared to such charges developed in accordance with the Commission Standard Practice U-25. At the examiner's request the staff prepared proposed general service rates in accordance with the standard practice that would yield approximately the same revenues as Valencia's proposed rates. Tabulated below is a comparison of Valencia's and the staff's proposed general service rates as set forth in late-filed Exhibit 6.

| | <u>Company Proposed</u> | <u>Staff Proposed</u> |
|----------------|-----------------------------|---------------------------|
| Quantity Rates | | |
| First 40 Ccf | 25¢/Ccf | 27.3¢/Ccf |
| Over 40 Ccf | 20¢/Ccf | 22.3¢/Ccf |
| Service Charge | | |
| 5/8" x 3/4" | \$ 3.05/month | \$ 3.05/month |
| 3/4" | 4.25 | 3.40 |
| 1" | 6.75 | 4.60 |
| 1 1/2" | 12.00 | 6.00 |
| 2" | 18.00 | 8.25 |
| 3" | 36.00 | 15.00 |
| 4" | 60.00 | 21.00 |
| 6" | 120.00 | 35.00 |
| 8" | 180.00 | 51.00 |
| 10" | 255.00 | 64.00 |

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The staff's proposed general metered service rates modified as necessary to yield authorized revenues will be adopted. Valencia's other proposed rate modifications and new rates will be adopted.

Results of Operation

The following tabulation compares the estimated summary of earnings for the test year 1973 under present and proposed rates prepared by Valencia and by the Commission staff and the adopted summary of earnings at present rates:

Summary of Earnings (Estimated Year 1973)

| Item | Valencia Estimated | | Staff Estimated | | Adopted Results |
|-----------------------|--------------------|------------|-----------------|------------|--------------------|
| | Company | | Company | | |
| | Present | Proposed | Present | Proposed | |
| | Rates | Rates | Rates | Rates | |
| Operating Revenues | \$ 329,319 | \$ 493,659 | \$ 328,020 | \$ 503,110 | \$ 328,020 |
| <u>Expenses</u> | | | | | |
| Operating Expense | 145,560 | 145,560 | 174,330 | 174,330 | 174,330 |
| Depreciation Expense | 62,735 | 62,735 | 57,360 | 57,360 | 57,360 |
| Taxes Except Income | 83,235 | 83,235 | 77,380 | 77,380 | 77,380 |
| Income Taxes | 100 | 56,713 | 200 | 48,640 | 200 |
| Total Expenses | 291,630 | 348,243 | 309,270 | 357,710 | 309,270 |
| Net Operating Revenue | 37,689 | 145,416 | 18,750 | 145,400 | 18,750 |
| Average Rate Base | 1,731,142 | 1,731,142 | 1,704,660 | 1,704,660 | 1,704,660 |
| Rate of Return | 2.18% | 8.40% | 1.10% | 8.53% | 1.10% |

^{1/} At present rates. Bases for adopted results are discussed in the following paragraphs.

Operating Revenues

The staff's estimate of operating revenues exceeds Valencia's estimates by approximately 2 percent at proposed rates. The small differences in these estimated revenues reflect differences in the estimated growth of average number of connections. Neither the staff nor Valencia utilized the Modified Bean Method for normalizing usage for weather effects as the requisite temperature and rainfall data were unavailable. The staff estimates based on later recorded data will be adopted.

Operating Expenses

The staff estimate of operating expenses for the test year 1973 consists of \$59,000 purchased power expense, \$64,630 payroll expense, and \$50,700 other services and supplies expense, a total of \$174,330 compared to Valencia's estimated operating expenses of \$145,560.

The staff estimate of purchased power expense for water pumping is \$14,820 (33.5 percent) higher than Valencia's estimate and reflects recent pump efficiency tests and rate increases granted to Southern California Edison Company.

The staff estimate of payroll expense is \$14,690 (29.4 percent) higher than estimated by Valencia and reflects currently effective payroll rates and the present nine full-time employees commensurate with the staff's estimated growth in number of customers.

The staff's and Valencia's estimates of other services and supplies expense differed by only 1.4 percent and reflect differences resulting from the utilization of recorded data for different periods.

The staff estimates of operating expenses based on later data will be adopted.

Taxes Other than Income

Taxes other than income consist of ad valorem and payroll taxes. The staff's 1973 test year ad valorem tax estimate of \$72,940 is \$16,719 or 18.6 percent less than Valencia's. This differential is caused by the utilization by the staff of lower average plant balances due to delays in the installation and/or accounting of plant additions, a plant oversizing adjustment equivalent to 10.31 percent of taxable plant (included in Valencia's summary of earnings but not in taxes other than income) and some minor adjustments to Accounts Nos. 301 and 341 noted by the staff financial examiner and adopted by Valencia. The staff's estimate of ad valorem taxes based on recorded plant ledger data through September 30, 1973 will be adopted as reasonable.

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The staff's estimate of payroll taxes is \$1,620 (57.4 percent) higher than that of Valencia and will be adopted as it is commensurate with the staff's higher expensed payroll.

Depreciation Expense

After review, the staff adopted Valencia's depreciation rates and applied them to its estimated plant balances which resulted in the staff estimated 1973 depreciation expense being \$5,375 (8.57 percent) less than Valencia's estimate. The staff estimate will be adopted.

Income Tax

The income tax of \$200 computed by the staff for the estimated test year 1973 at present rates is the minimum state franchise tax. The staff's computed income tax at proposed rates reflects a state income tax rate of 9 percent, a normal federal income tax rate of 22 percent, a federal income tax surtax rate of 26 percent, straight line depreciation for calculating state franchise tax, an asset depreciation range rate of 2.5 percent applied to average additions for computing federal income taxes, and a depreciation expense adjustment for oversized mains. The staff method will be applied to authorized rates to compute income taxes.

Utility Plant

The staff's estimate of 1973 year-end plant balance is \$646,638 (15.7 percent) less than Valencia's estimate. The lower staff balance is primarily due to delays in the installation of plant additions and/or transferring completed work from construction work in progress to primary plant accounts. In this respect, the staff estimate of construction work in progress for the test year 1973 is \$387,000 higher than estimated by Valencia.

Rate Base

The staff's estimated adjusted rate base for the test year 1973 is \$26,482 or 1.53 percent less than estimated by Valencia. This difference reflects lesser plant balances and higher construction work in progress balances as previously discussed; a higher working cash allowance due to higher estimated operating expenses; and the use of recorded data on advances for construction and contributions not available to Valencia at the time of preparation of its report. The staff estimates will be adopted.

Rate of Return

The staff recommends that Valencia's requested 8.4 percent rate of return be applied to the staff's average rate base for the estimated year 1973. Based on Valencia's capital structure at June 15, 1973 such a rate of return will produce a return on common equity of approximately 8.6 percent.

In arriving at its recommended rate of return the staff considered the following factors:

1. Recent rates of return authorized by this Commission for water utilities.
2. Components and costs in applicant's capital structure.
3. Quality of service.
4. Anticipated decline in the prime interest rate upon which loans from applicant's parent are based.
5. The high ratio of advances for construction to total capital.

This recommended rate of return will be adopted as reasonable.

Service

The Commission's records show that from 1970 through October 1973 two informal complaints were filed with the Commission's Los Angeles office. Both complaints were about high bills and were resolved. Applicant maintains a log of service complaint calls and checks out each problem.

Two of applicant's customers appeared at the hearing and stated that the water they receive is of such poor quality that it kills their plants and necessitates purchasing bottled water for household use. They stated they would not object to higher rates if the water were usable.

In response to these statements, Valencia's president and general manager testified that, with the exception of one well used primarily in industrial areas and only in emergencies, all wells produced water well within the State Public Health Department's mandatory maximum of 1,000 parts per million of total dissolved solids; that the cost of a small water treatment plant at each of Valencia's five wells would be prohibitive and discriminate against those users who can accommodate the untreated water; that the local well water is hard as is most such water in southern California but that the State Public Health Department has no standards for hardness; and that the quality of water will improve when state water becomes available to Valencia.

The staff engineer testified that outside plant was well maintained and that the quality of service was good.

Staff Recommendations

In addition to recommending a rate of return as previously discussed, the staff made the following recommendations:

1. Applicant should follow the Uniform System of Accounts prescribed for Class A, Class B, and Class C Water Utilities.
2. All transactions between associated companies should be clearly labeled, identified, and segregated, and properly supported with appropriate documents.
3. Payroll charges should be charged to a clearing account initially and should be distributed to the appropriate accounts, from period to period, in a consistent manner.
4. The work order system should be segregated to show separate types of work assignments.

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5. The utility plant subsidiary ledger should be maintained in sufficient detail.

6. Applicant should submit in writing accounting questions of doubtful interpretation to the Commission for consideration and decision.

7. The expense accounts should be subdivided, where appropriate, to show separately the standard journal entries in vertical columns in the general ledger for ease of analysis and comparison with previous months and/or years.

8. Applicant should use depreciation rates from Table 9-2 of Exhibit B of the application until the next depreciation study due in five years, or earlier if significant plant changes occur.

The first five items are required by the Uniform System of Accounts for Class A, B, and C Water Utilities and should be adopted. Items 6, 7, and 8 are reasonable and should be adopted.

In addition the staff financial witness stated that Valencia has successfully met its cash refund obligations on its main extension agreements in the past with the help of the Newhall Land and Farming Company. However, the staff recommends that applicant be ordered to credit future refunds to its capital surplus account instead of its affiliated developers, due to its precarious cash position as shown by its financial statements,^{1/} until such time as the ratio of advances to total capital is below the 40 percent limitation imposed by the Commission's main extension rule.

Valencia's president and general manager testified that crediting future refunds to the capital surplus account would further distort its capitalization ratio by increasing equity and would serve no useful purpose. He further testified that in his opinion the continuation of refunds to the parent company would

1/ See Table II-F, page 21, Exhibit 5.

not jeopardize the financial stability of the company. We agree with the staff. When the applicant's cash position improves, there is no reason why the affiliate may not receive the money due on unpaid advances for construction.

Findings

1. Valencia Water Company is in need of additional revenue, but the proposed rates set forth in the application are excessive.

2. The staff's estimates of operating revenues, expenses including taxes and depreciation, the rate base, and the rate of return for the test year 1973 are reasonable.

3. A rate of return of 8.4 percent on staff rate base of \$1,704,660 is reasonable. Such rate of return will provide a return on equity of approximately 8.6 percent.

4. The increases in 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.

5. Valencia's service is adequate. The water from the local wells meets the standards of the State Department of Public Health.

6. The authorized increase in rates is expected to provide annual increased revenues of \$170,400.

7. Items 6, 7, and 8 of the staff recommendations previously listed are reasonable and should be adopted.

8. Future main extension agreement refunds to affiliated developers should be credited to Valencia's capital surplus account until such a time as the ratio of advances to total capital is below the 40 percent limitation imposed by the Commission's main extension rule.

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:

1. After the effective date of this order, Valencia Water Company is authorized to file the new and revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the tariff schedules shall be five days after the date of filing. The schedules shall apply only to service rendered on and after the effective date thereof.

2. Valencia Water Company shall credit future main extension agreement refunds to affiliated developers to its capital surplus account until such time as the ratio of advances to total capital is below 40 percent of total capital (defined as proprietary capital, or capital stock and surplus, plus debt and advances for construction). Valencia will notify this Commission within thirty days of the time such advances fall below this 40 percent point.

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3. Applicant shall use depreciation rates from Table 9-2 of Exhibit B of the application until the next depreciation study due in five years, or earlier if significant plant changes occur.

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

Dated at San Francisco, California, this
20th day of FEBRUARY, 1974.

Vernon L. Stinson
President
William L. Lyons
W. H. Harris
W. H. Harris
W. H. Harris
Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to general metered water service.

(T)

TERRITORY

Valencia and vicinity, Los Angeles County.

(T)

RATES

| | <u>Per Meter</u> <u>Per Month</u> | |
|---|--------------------------------------|-----|
| Quantity Rates: | | |
| First 4,000 cu.ft., per 100 cu.ft. | \$ 0.265 | (C) |
| Over 4,000 cu.ft., per 100 cu.ft. | 0.215 | |
| Service Charge: | | |
| For 5/8 x 3/4-inch meter | \$ 3.00 | |
| For 3/4-inch meter | 3.30 | |
| For 1-inch meter | 4.50 | |
| For 1-1/2-inch meter | 6.00 | |
| For 2-inch meter | 8.00 | |
| For 3-inch meter | 15.00 | |
| For 4-inch meter | 20.00 | |
| For 6-inch meter | 34.00 | |
| For 8-inch meter | 50.00 | |
| For 10-inch meter | 62.00 | |

The Service Charge is applicable to all general metered service and is a readiness-to-serve charge. It is added to the charge, computed at the Quantity Rates, for water used during the month.

(C)

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Schedule No. 3-ML

GOLF COURSE METERED INTERRUPTIBLE OFF-PEAK SERVICEAPPLICABILITY

Applicable to irrigation water service furnished to private or publicly owned golf courses.

TERRITORY

Valencia and vicinity, Los Angeles County.

(T)

RATES

| | Per Meter Per Month | |
|--|------------------------|-----|
| Quantity Rate: | | |
| For all water delivered, per 100 cu.ft. | \$ 0.11 | (I) |
| Minimum Charge: | | |
| For 4-inch meter | \$ 40.00 | |
| For 6-inch meter | 65.00 | |
| For 8-inch meter | 100.00 | |
| For 10-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 Rate.

SPECIAL CONDITIONS

1. The golf course metered interruptible off-peak service is subject to interruption of service whenever the utility determines that service to its other customers will be impaired.

(T)

(Continued)

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Schedule No. 3-ML

GOLF COURSE METERED INTERRUPTIBLE OFF-PEAK SERVICE

SPECIAL CONDITIONS - Contd.

2. The off-peak period during which this schedule is applicable is between the hours of 9 p.m. and 7 a.m. of the following day, or during other hours as may be determined from day to day by the utility. (T)

3. The minimum diameter for service shall be four inches and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

4. If a distribution main of adequate size to serve the golf course does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

5. The utility will supply only water at such pressure as may be available from time to time as a result of its normal operation of the system.

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Schedule No. 5-PR

PRIVATE FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to hydrants on private property.

TERRITORY

Valencia and vicinity, Los Angeles County.

RATES

| | <u>Per Month</u> |
|---|------------------|
| For each 4 x 2-1/2-inch hydrant | \$1.00 |
| For each 6 x 2-1/2-inch hydrant | 1.50 |
| For each 6 x 4 x 2-1/2-inch hydrant | 2.00 |

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection will be charged for at the quantity rates in Schedule No. 1 or Schedule No. 9-MC as applicable.

2. The entire cost of installing the fire hydrant and any cost of relocation or replacement of any hydrant shall be paid by the applicant. Such payment shall not be subject to refund.

3. Hydrants shall be connected to the utility's system upon receipt of a written request from the applicant. The request shall designate the specific location, type and size of each hydrant, and the name and address of the party responsible for payment for the fire hydrant service.

(Continued)

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Schedule No. 5-PR

PRIVATE FIRE HYDRANT SERVICE

SPECIAL CONDITIONS - Contd.

4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

5. The fire hydrant shall be used for fire fighting purposes and fire drills only. Water use for fire drills will be limited to 15 minutes per week.

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Schedule No. 4

PRIVATE FIRE SPRINKLER SERVICE

(T)

APPLICABILITY

Applicable to all private fire sprinkler service.

(T)

TERRITORY

Valencia and vicinity, Los Angeles County.

(T)

RATES

| | <u>Per Month</u> |
|---|------------------|
| For each 4-inch service connection | \$ 6.00 |
| For each 6-inch service connection | 9.00 |
| For each 8-inch service connection | 12.00 |
| For each 10-inch service connection | 25.00 |
| For each 12-inch service connection | 35.00 |

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

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

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

(Continued)

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Schedule No. 4

PRIVATE FIRE SPRINKLER SERVICE

(T)

SPECIAL CONDITIONS - Contd.

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Insurance Services Office 1/ for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund. (T) (T)

5. For water delivered for other than fire protection purposes, charges shall be made therefor under Schedule No. 1, General Metered Service.

6. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

1/ Formerly National Board of Fire Underwriters.

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Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, organized fire districts and other political subdivisions of the State.

TERRITORY

Valencia and vicinity, Los Angeles County.

(T)

RATE

Per Month

For each hydrant \$2.00

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection will be charged for at the quantity rates in Schedule No. 1 or Schedule No. 9-MC as applicable. (T)

2. The cost of relocating or replacing any hydrant shall be paid by the party requesting relocation or replacement. (T)
(T)

3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size.

4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

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Schedule No. 9-FC

FLAT RATE CONSTRUCTION SERVICEAPPLICABILITY

Applicable to unmetered construction water service provided from permanently installed water services prior to meter installation and used on the premises for which the service was installed.

TERRITORY

Valencia and vicinity, Los Angeles County.

RATES

| | <u>Per Service Per Month</u> |
|------------------------------|----------------------------------|
| For 3/4-inch service | \$ 3.00 |
| For 1-inch service | 3.00 |
| For 1 1/2-inch service | 4.50 |
| For 2-inch service | 6.00 |
| For 2 1/2-inch service | 8.00 |
| For 3-inch service | 8.00 |
| For 4-inch service | 15.00 |
| For 6-inch service | 20.00 |
| For 8-inch service | 34.00 |
| For 10-inch service | 50.00 |
| For 12-inch service | 62.00 |

SPECIAL CONDITION

For other unmetered water use, as determined by the utility, an estimate of the quantity of water used will be made by the utility. The charge for this water will be made at the quantity rate for Schedule No. 9-MC, Metered Construction Service.

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Schedule No. 9-MC

METERED CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all measured water service furnished for street paving, grading and trench flooding and for delivery to tank trucks.

TERRITORY

Valencia and vicinity, Los Angeles County. (T)

RATES

| | | |
|---|-----------|-----|
| Service Charge: | | (C) |
| For installation and removal or relocation of the meter when necessary, in advance | \$25.00 | (C) |
| | Per Meter | |
| Quantity Rate: | Per Month | |
| For all water delivered, per 100 cu.ft. | \$ 0.40 | (I) |

SPECIAL CONDITIONS

1. Construction water service under this schedule will be furnished only when surplus water is available over the requirements for domestic service and under conditions which will not adversely affect domestic service. The utility will be the sole judge as to the availability of such surplus water.

2. Applicants for metered construction water will be required to apply for the service at least 48 hours in advance of the time for delivery of the water.

3. In accordance with Rule No. 13, Temporary Service, a deposit will be required in advance for each meter and connection to cover the cost of installation and removal of the meter and connection. (N)
†
(N)