

ORIGINAL

Decision No. 82876

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 Simi Valley District.

Application No. 54045  
(Filed May 21, 1973)

O'Melveny & Myers, by Donn B.  
Miller and Harold M. Messmer,  
Jr., Attorneys at Law, for  
Southern California Water  
Company, applicant.  
Cyril M. Saroyan, Attorney at  
Law, and John D. Reader,  
for the Commission staff.

O P I N I O N

Southern California Water Company (SCWC) seeks authority to increase its Simi Valley District private fire protection and general service metered water rates<sup>1/</sup> approximately \$109,400 (10.6 percent) annually over the rates authorized by Decision No. 81707 dated July 31, 1973.

SCWC renders public utility water service in 17 districts located in portions of Contra Costa, Imperial, Los Angeles, Orange, Sacramento, San Bernardino, and Ventura Counties. It also renders electric service in the vicinity of Big Bear Lake in San Bernardino County.

The Simi Valley District service area includes the incorporated area of the city of Simi Valley and portions of the surrounding unincorporated territory in Ventura County. On December 31, 1972 Simi Valley District served 8,084 general service metered

<sup>1/</sup> No increase is proposed for its public fire protection service.

customers, 7 flat rate private fire connection customers, and 691 public fire hydrants.

SCWC purchases its Simi Valley District water supply from Calleguas Municipal Water District, an agency of the Metropolitan Water District of Southern California. SCWC maintains two standby wells in the district.

After notice, public hearing was held before Examiner Johnson on February 20, 1974 at Simi Valley and the matter was submitted on April 4, 1974 upon receipt of the transcript.

Testimony<sup>2/</sup> on behalf of SCWC was presented by its chairman of the finance committee, two of its vice presidents, the manager of its rates and valuation department, and its secretary and treasurer. The Commission staff presentation<sup>3/</sup> was made through a financial examiner and two engineers. Two customers of SCWC presented testimony in opposition to granting the requested increases, alleging that such increases were unwarranted and SCWC should effect economies in operation rather than increase rates.

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2/ Testimony and exhibits relating to cost of money and rate of return had been presented by a witness for SCWC in Application No. 53764 for the Central Basin District rate proceeding. This testimony and exhibits together with related cross-examination were included in this proceeding. In addition, testimony and exhibits relating to SCWC's overall operations and rebuttal testimony and cross-examination on directors' fees presented by witnesses for SCWC in Application No. 54035 for the Southwest District rate proceeding were incorporated by reference into this proceeding.

3/ Staff testimony, exhibits, and related cross-examination on SCWC's overall operations presented in Application No. 54035 for the Southwest District rate proceeding were incorporated by reference into this proceeding.

Rates

The basic level of rates for the Simi Valley District was established by Decision No. 75879 dated July 8, 1969 in Application No. 50460 for a general rate increase for this district. Subsequent offset increases were granted as follows:

<u>Decision No.</u>	<u>Dated</u>	<u>Application No.</u>	<u>Percent Increase</u>	<u>Increased Expense Offset</u>
76905	1-15-70	Supplement to 50460	3.9	Investment Tax Credit & FIT Surcharge
78788	6-15-71	52530	6.1	Purchased Water
80342	8-1-72	53285	1.6	Purchased Water and Power
81707	7-31-73	53975	7.0	Purchased Water and Power

The following tabulation sets forth the present and proposed general service metered water rates:

Quantity Rates:	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
First 10,000 cubic ft. per 100 cubic ft.	\$ 0.314	
Over 10,000 cubic ft. per 100 cubic ft.	0.285	
Per 100 cubic ft. ....		\$ 0.34
Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 2.60	\$ 2.95
For 3/4-inch meter .....	3.10	3.25
For 1-inch meter .....	4.65	5.00
For 1-1/2-inch meter .....	6.45	7.00
For 2-inch meter .....	10.30	11.00
For 3-inch meter .....	12.90	14.00
For 4-inch meter .....	27.85	29.00
For 6-inch meter .....	51.60	53.00
For 8-inch meter .....	72.25	75.00
For 10-inch meter .....	-	90.00

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates.

In addition SCWC proposes to increase its private fire protection service rates for its Simi Valley District from \$2.00 to \$3.00 for each inch of diameter of service connection. This requested increase parallels similar requests by SCWC in Application No. 54035 for a general rate increase for its Southwest District, and Application No. 54095 for a general rate increase in its Culver City District. We will authorize a 12.5 percent increase for this service to provide the same private fire protection rate authorized for SCWC's Southwest District by Decision No. 82539 dated March 5, 1974.

Results of Operation

SCWC's original estimated summary of earnings for its Simi Valley District was dated May 21, 1973 and a similar independent estimate prepared by the Commission staff was dated February 11, 1974. SCWC reviewed and updated its estimates and for the test year 1974 was able to agree with the staff on operating revenues, district administrative and general expenses, taxes other than income taxes, and depreciation expenses. The amounts and bases for the differences between the staff's and SCWC's final 1974 test year estimates for operating and maintenance expense and allocated common expense are summarized in Exhibit 6. The following tabulation compares the updated estimated summary of earnings for the test year 1974, under present and proposed rates, prepared by SCWC and by the Commission staff, and the adopted summary of earnings at present rates for the test year 1974:

SUMMARY OF EARNINGS  
(Estimated Year 1974)  
(C00)

Item	: SCWC Estimated :		: Staff Estimated :		: Adopted <sup>2/</sup> Results :
	: Present <sup>1/</sup> Rates :	: Company Proposed Rates :	: Present Rates :	: Company Proposed Rates :	
Operating Revenues	\$1,032.3	\$1,143.3	\$1,032.3	\$1,143.3	\$1,032.3
<u>Operating Expenses</u>					
Oper. & Maint.	585.2	585.2	579.0	579.0	585.2
Adm., Gen. & Misc.	20.2	20.2	20.2	20.2	20.2
Taxes Other Than Income	112.5	114.2	112.5	114.2	112.5
Depreciation	82.3	82.3	82.3	82.3	82.3
Allocated Common	29.1	29.1	28.3	28.3	28.6
Subtotal	829.3	831.0	822.3	824.0	828.8
Income Taxes	30.2	87.8	33.5	91.2	30.4
Total Expenses	859.5	918.8	855.8	915.2	859.2
Net Operating Revenue	172.8	224.5	176.5	228.1	173.1
Dep. Rate Base	2,674.6	2,674.6	2,665.9	2,665.9	2,665.9
Rate of Return	6.46%	8.39%	6.62%	8.56%	6.49%
Avg. Comm. Customers	8,744	8,744	8,744	8,744	8,744

<sup>1/</sup> SCWC final figures at proposed rates shown in Exhibit 6 recomputed to reflect present rates.

<sup>2/</sup> At present rates. Basis for adopted results are discussed in the following paragraphs.

Operating Revenues

SCWC and the Commission staff agree on test year 1974 estimated revenues at present rates of \$1,032,300. These agreed upon revenues reflect the adoption by SCWC of the staff's estimates based on later data.

Operating and Maintenance Expense

SCWC's estimate of 1974 test year operating and maintenance expense is \$6,200 higher than the staff's estimate and reflects higher estimated electric power for pumping expense of \$5,000 and higher postage expense of \$1,200.

SCWC purchases its electric power for pumping from the Southern California Edison Company (Edison). SCWC's updated 1974 test year purchased electric power expense reflects the inclusion of a fuel cost adjustment increment of 0.642 cents per kilowatt hour effective February 1, 1974 as contrasted to the staff utilization of a fuel cost adjustment increment of 0.169 cents per kilowatt hour effective November 1, 1973 applied to the same estimated number of kilowatt hours. SCWC's estimated test year 1974 electric power for pumping expense of \$30,800, reflecting this later date, will be adopted as reasonable.

The difference in postage expense of \$1,200 results from the use by the staff of the then presently effective postal rate of eight cents per ounce for first class mail as compared to the use by SCWC of an anticipated effective rate of ten cents per ounce. This latter postage rate became effective March 2, 1974 and SCWC's estimate will be adopted.

Depreciation Expense

Both the Commission staff and SCWC estimated the depreciation expense for the test year 1974 to be \$82,300. This figure will be adopted.

Allocated Common Expenses

Included in this category are administrative and general expenses incurred by SCWC as a whole, ad valorem taxes on common utility plant, and payroll taxes on the general office payroll. In addition, SCWC receives revenues from the rental of space in the general office building which are netted against the above expenses. These net common expenses are allocated to the various

districts on the basis of the arithmetical average of four factors: district plant, active number services, district operating payrolls, and district operating expenses. Both the Commission staff and SCWC used a four-factor percentage of 4.59 percent for the Simi Valley District.

The initial Commission staff's estimate of net general expense for the test year 1974 was \$608,400 as compared to SCWC's estimate of \$653,400. The \$45,000 differential consists of the staff estimates of \$6,200 more general office rents, \$25,400 less general salaries and payroll taxes, \$1,900 less injuries and damages, and \$11,500 less miscellaneous expense. The staff estimate of general office rents is based on the assumption that the present vacancy rate, used as a basis for SCWC's estimate, will reduce by one-half for the test year 1974. The staff estimate of general salaries and payroll taxes reflects the continuation of the latest payroll level and an adjustment to the recorded salary for SCWC's chairman of the finance committee to 20 percent of SCWC's average vice president's salary commensurate with the time spent by the finance committee chairman on SCWC's affairs. The staff adjusted SCWC's estimated miscellaneous expenses downward \$11,500 to reflect the elimination of Chamber of Commerce dues and one-half the dues to the California Water Association, the substitution of local for out-of-state board of directors' meetings, and a reduction of directors' fees from a recorded figure of \$11,550 (\$3,850 per director per year annual retainer for three directors) to \$2,400 (four meetings at \$200 per director per meeting). After reviewing the updated data and estimates, the staff revised its general salaries and related payroll taxes upward by \$9,200 to reflect wage increases granted general office employees excluding executives. SCWC accepted the staff's estimates of rents, injuries and damages expenses, dues and donations, and expenses, other than directors' fees, associated

with local rather than out-of-state board of directors' meetings.

SCWC did not, however, accept either the staff's adjustments to the board of directors' salaries or the exclusion by the staff of the application of SCWC's general salary increase to its executives. The application of the Simi Valley District four-factor percentage of 4.59 percent to the non-capitalized portion of the disputed executive salary increase and board of directors' salary adjustment yields an unresolved difference of \$500 for executives' wage increase and \$300 for directors' salaries for the test year 1974 as shown in Exhibit 6.

SCWC's estimate assumed a 6 percent salary increase would be made to executives to parallel the general wage increases granted SCWC's non-executive employees. The staff estimate did not include such an increase on the basis that it had not been granted nor was it assured. The staff estimate is consistent with past practices and will be adopted.

The recorded directors' salaries for the year 1972 were \$11,550, representing three directors' salaries of \$320.83 a month. The staff witness testified that he allowed \$2,400 for directors' salaries representing three directors attending four meetings and being paid a fee of \$200 a meeting. He further testified that his estimate was based on a review of the annual reports of seven utilities which indicated a range of directors' fees from \$100 per meeting up to \$300 per meeting, with \$200 per meeting being the most representative figure. SCWC's vice president testified that in response to his telephone inquiries, seven other major utilities informed him that their directors were paid an annual retainer fee in addition to or instead of a per board meeting fee. He further testified that such a procedure represents a change from past practices to compensate the directors for additional work presently being performed. When consideration is given to the complexity of the problems facing a multi-district



water utility in the current financial climate, SCWC's position appears well-founded and will be adopted.

Income Tax

The differences in SCWC's estimate and the staff's estimate of 1974 test year income taxes reflect differences in estimated allocated general expenses and operating and maintenance expenses.

Rate Base

For the test year 1974, the staff's estimate for rate base is \$8,700 less than SCWC's estimate. Most of this \$8,700 difference results from the staff's use of weighting factors obtained by averaging recorded data as contrasted to SCWC's utilization of a weighting factor of 50 percent. The staff method is consistent with past practice and the staff estimate will be adopted.

Rate of Return

SCWC and the Commission staff had included in this record the testimony and related cross-examination on regulatory effects, cost of money, and rate of return by SCWC's witness at the hearings on Application No. 53764 for a general rate increase in SCWC's Central Basin District. SCWC's position in this matter was that it should be authorized rates that would yield an average rate of return of 8.0 percent over the next three years. This testimony also indicated that a companywide rate of return of 8 percent was necessary to be able to attract common equity money. SCWC estimated that 8 percent rate of return will provide a 12.67 percent return on equity and a times interest coverage of 2.87.

In this proceeding, the Commission staff financial examiner recommends as reasonable a rate of return ranging from 7.7 to 8.0 percent. He testified that a 7.7 rate of return would earn 11.81 percent on common stock equity and an 8.0 percent rate of return would earn 12.65 percent on common stock equity. Some of the

factors considered by the staff financial examiner in arriving at his recommended earnings allowance for common stock equity are: the financial requirements for future construction, funds available from advances, contributions, and other sources, SCWC's capital structure and the impact of high interest rates on the imbedded costs of senior securities, and the earnings and recently authorized rates of returns of other water utilities.

SCWC's estimates indicate an attrition in rate of return of 0.15 percent per year at proposed rates compared to the staff's estimated attrition rate of 0.02 percent per year at proposed rates. The difference in the computed attrition rate results from the use of trended wages and electric power for pumping expenses by SCWC as compared to the staff utilization of the same wage and electric rates for both periods. The utilization of either of these attrition rates applied to the below adopted rate of return of 7.9 percent will produce an average rate of return for the period 1974 through 1976 within the Commission staff recommended range.

The midpoint of the staff's recommended rate of return (7.7 to 8.0 percent) rounded to the nearest one-tenth of one percent is 7.9 percent which will be adopted as reasonable for this proceeding. Applied to the adopted rate base of \$2,665,900 it is estimated that this return will provide earnings of 12.37 percent on common stock equity.

#### Service

The staff investigation disclosed that 106 complaints were recorded in the Simi Valley District office in the year 1972. These are summarized as follows: high bills 47, low or high pressure 45, dirty water 3, and miscellaneous 11. SCWC's records indicate that these complaints were quickly resolved. There were no informal complaints from this district to the Commission during 1972 and 1973.

Findings

1. Southern California Water Company is in need of additional revenues for its Simi Valley District, but the proposed rates set forth in the application are excessive.

2. The adopted estimates previously discussed herein of operating revenues, operating expenses, and rate base for the test year 1974 reasonably indicate the results of SCWC's operations in its Simi Valley District in the near future.

3. A rate of return of 7.9 percent on the adopted rate base of \$2,665,900 is reasonable. Such rate of return will provide a return on equity of approximately 12.37 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. SCWC's earnings at "Present Rates" from its operations during the 1974 test year would produce a rate of return of 6.49 percent on a rate base of \$2,665,900 based on adopted results of operation.

6. The authorized increase in rates is expected to provide increased revenues of \$80,600 in SCWC's Simi Valley District for the full year 1974.

7. The authorized rates are estimated to produce an average rate of return between 7.7 and 8.0 percent for the period 1974 through 1976.

8. SCWC's service in the Simi Valley District is adequate.

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, Southern California Water Company (SCWC) is authorized to file the revised rate schedules attached to this order as Appendix A and

concurrently to cancel and withdraw presently effective schedules for the general metered services. 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.

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

Dated at San Francisco, California, this 15<sup>th</sup> day of MAY, 1974.

William J. Synnott President  
[Signature]  
[Signature]  
[Signature] Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A  
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## Schedule No. SI-1

Simi Valley DistrictGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the City of Simi Valley and vicinity, Ventura County.

RATES

		<u>Per Meter</u>	
		<u>Per Month</u>	
Quantity Rates:			
Per 100 cu.ft.	.....	\$0.334	(I)
Service Charge:			
For 5/8 x 3/4-inch meter	.....	\$2.80	(I)
For 3/4-inch meter	.....	3.25	⋮
For 1-inch meter	.....	5.00	⋮
For 1 1/2-inch meter	.....	7.00	⋮
For 2-inch meter	.....	11.00	⋮
For 3-inch meter	.....	14.00	⋮
For 4-inch meter	.....	29.00	⋮
For 6-inch meter	.....	53.00	⋮
For 8-inch meter	.....	75.00	(I)
For 10-inch meter	.....	90.00	(N)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates.

APPENDIX A  
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Schedule No. AA-4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

- Rate A: Applicable within the Culver City, Southwest, and Simi Valley Districts. (C)
- Rate B: Applicable within coast tariff area of Central Basin District.
- Rate C: Applicable within all other districts served by the Company.

RATE

Per Month		
A	B	C

For each inch of diameter of service connection \$2.25 \$1.50 \$2.00 (I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall 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. AA-4

PRIVATE FIRE PROTECTION SERVICE

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 Board of Fire Underwriters for protection against theft, leakage, or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

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