

ORIGINAL

Decision No. 83755

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
San Gabriel Valley Water Company for
authority to increase rates charged
for water service in its Whittier
Division.

Application No. 54410
(Filed October 25, 1973)

J. E. Skelton, Attorney at Law,
for San Gabriel Valley Water
Company, applicant.
Cass Strelinski, for Park Water
Company, interested party.
Lionel B. Wilson, Attorney at Law,
C. Frank Filice, and Andrew
Tokmakoff, for the Commission
staff.

O P I N I O N

San Gabriel Valley Water Company (San Gabriel) seeks authority to increase its Whittier Division general metered service and private fire protection water rates^{1/} approximately \$166,000 (13.0 percent) annually over the rates authorized by Decision No. 82691 dated April 2, 1974.

San Gabriel is a California corporation engaged in the production, distribution, and sale of water in its El Monte and Whittier Divisions in Los Angeles County, California, and in the distribution and sale of water in its Fontana Water Company Division in San Bernardino County, California. As of August 31, 1973, San Gabriel's Whittier Division served 12,613 active metered services located in portions of the cities of Montebello, Pico Rivera, Santa Fe Springs, and Whittier, as well as adjacent unincorporated territory in the county of Los Angeles.

^{1/} No increase is proposed for its public fire protection service.

San Gabriel's Whittier Division contains two separate water systems. All of the water delivered to consumers in one of these systems (referred to as the W system) is produced from ground waters in the Central and Upper San Gabriel ground water basins. The water delivered in the other system (referred to as the M system) is softened and filtered Colorado River water purchased from the Central Basin Municipal Water District.

San Gabriel's presently effective Whittier Division rates were established by Decision No. 82691^{2/} dated April 2, 1974 in Application No. 54515 which authorized increases to offset increased power costs.

After notice, public hearing was held before Examiner Johnson on September 4, 1974 at Whittier and the matter was submitted.

Testimony on behalf of San Gabriel was presented by its vice president and auditor and the Commission staff presentation was made through a financial examiner and two engineers. No customers of San Gabriel presented testimony or made statements at the hearing.

Rates

The basic level of rates for the Whittier Division was established by Decision No. 75726 dated June 3, 1969 in Application No. 50659.

^{2/} At the hearing San Gabriel presented revised results of operations for the 1974 estimated test year to reflect these rates authorized subsequent to filing the application.

Subsequent offset increases were granted as follows:

<u>Authorization</u>	<u>Dated</u>	<u>Request</u>	<u>Increased Expense Offset</u>
D.77331	6/ 9/70	A.51819	Increase in federal income taxes
D.81750	8/14/73	A.54093	Increased water costs
D.82691	4/ 2/74	A.54515	Increased power costs

The presently effective metered service rates authorized by Decision No. 82691 dated April 2, 1974 were included in an exhibit presented at the hearing to update the metered service rates set forth in the application.

The following tabulation sets forth the present general service metered water rates authorized by Decision No. 82691 and those currently requested by San Gabriel.

METERED SERVICE

Quantity Rates:	<u>Per Meter Present</u>	<u>Per Month Proposed</u>
First 400 cu. ft. or less	-	\$ 3.28
First 800 cu. ft. or less	\$ 3.28	-
Next 4,200 cu. ft. per 100 cu. ft.	.253	-
Next 4,600 cu. ft. per 100 cu. ft.	-	.25
Over 5,000 cu. ft. per 100 cu. ft.	.222	.24
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 3.28	\$ 3.28
For 3/4-inch meter	4.55	3.90
For 1-inch meter	7.10	5.15
For 1 1/2-inch meter	12.15	8.30
For 2-inch meter	18.00	12.00
For 3-inch meter	33.00	21.00
For 4-inch meter	53.00	33.00
For 6-inch meter	96.00	95.00
For 8-inch meter	126.00	162.00
For 10-inch meter	177.00	249.00

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

In addition, San Gabriel proposes to increase its Whittier Division private fire protection rate to \$2 per month for each inch of diameter to bring the schedule to the same level as is presently effective in San Gabriel's El Monte and Fontana Divisions.

Results of Operation

San Gabriel's original summaries of earnings were based on rates authorized by Decision No. 81750 dated August 14, 1973. At the hearing San Gabriel submitted a revised 1974 test year summary of earnings to reflect revenues and increased power costs as offset by increased rates authorized by Decision No. 82691 and to include additional depreciation expense claimed for California franchise taxes. San Gabriel elected not to amend this application to reflect electric power cost increases subsequent to February 1, 1974, nor increases in the cost of natural gas subsequent to November 2, 1973, nor an increase in the water replenishment tax from \$11 to \$14 per acre-foot, effective July 1, 1974, on the basis that such an amendment could result in additional delay in obtaining rate relief. San Gabriel believes that the increase requested in the application limits the amount of increase we will authorize.

Appendix A to the Commission staff's original showing is a summary of earnings for the test year 1974 reflecting San Gabriel's metered service water rates authorized by Decision No. 82691, electric rates effective May 8, 1974, gas rates effective April 2, 1974, and the water replenishment tax effective July 1, 1974. The expenses adopted will include these higher charges.

In general, the Commission staff reviewed San Gabriel's estimating methods and supporting work papers and prepared its own independent estimates. The significant differences between the estimates of the staff and San Gabriel and the basis for the adopted results are discussed in the following paragraphs.

For test year 1974 both San Gabriel and the Commission staff's estimated operating revenues of \$1,278,700 at rates authorized by Decision No. 82691 and \$1,444,500 at San Gabriel's proposed rates. Operating revenues at present rates will be adopted.

The staff's estimate of payroll expense for the test year 1974 is \$11,500 less than San Gabriel's estimate due primarily to the staff's use of the 1974 level of expense as contrasted to San Gabriel's use of projections from 1972 recorded expense. The staff's estimate is consistent with past practices and will be adopted.

The staff's estimate of purchased water and pump tax expense exceeds San Gabriel's estimate by \$22,500 for the test year 1974. The difference is due to San Gabriel's decision to not revise this application to reflect the increase in water replenishment tax from \$11 to \$14 per acre-foot effective July 1, 1974. The staff's estimate will be adopted.

The overall difference between San Gabriel's estimates and staff's estimates of combined other expenses for the test year 1974 are negligible. Because, in general, the staff's estimates are based on later data, they will be adopted.

San Gabriel's estimate of 1974 test year ad valorem taxes exceeds the staff estimate by \$7,500 primarily due to the availability to the staff of later recorded tax information. The staff estimate will be adopted.

San Gabriel's estimated 1974 test year rate base is \$45,200 higher than the staff's estimate due primarily to the availability to the staff of later recorded data. The staff's estimate will be adopted.

The following tabulation compares the estimated summary of earnings for the test year 1974, under present and proposed rates prepared by San Gabriel and by the Commission staff, and the adopted summary of earnings at rates authorized by Decision No. 82691 for the test year 1974.

SUMMARY OF EARNINGS
(Estimated Year 1974)

	San Gabriel Estimated:		Staff Estimated		
	1/	Company		Company	1/
	Present	Proposed	Present	Proposed	Adopted
Item	Rates	Rates	Rates	Rates	Results
	(a)	(b)	(c)	(d)	(e)
(Dollars in Thousands)					
Operating Revenues	\$ 1,278.7	\$ 1,444.5	\$ 1,278.7	\$ 1,444.5	\$ 1,278.7
<u>Operating Expenses</u>					
Oper. & Maint.	654.7	695.1	703.8	704.3	704.3
Admin. & Gen.	162.7	164.2	163.8	165.7	163.8
Depreciation	104.2	104.2	104.4	104.4	104.4
Taxes Other Than Income	112.4	112.4	103.9	103.9	103.9
Income Taxes	22.1	108.4	29.1	115.2	28.9
Total Expenses	1,096.1	1,184.3	1,105.0	1,193.5	1,105.3
Net Oper. Revenues	182.6	260.2	173.7	251.0	173.4
Average Rate Base	3,095.3	3,102.2	3,050.1	3,050.1	3,050.1
Rate of Return	5.90%	8.39%	5.69%	8.23%	5.69%

1/ At rates authorized by Decision No. 82691.

Rate of Return

San Gabriel's vice president testified that the proposed rates were based on an assumed attrition rate of 0.79 percent per year and were designed to produce an average rate of return not in excess of 8.28 percent for the period 1974 through 1976. He further testified that the revised summary of earnings indicated a test year 1974 rate of return of 8.39 percent rather than the original 9.07 percent which, coupled with the fact that any increased rates would be in effect for only a small portion of test year 1974, precludes San Gabriel from earning the intended average 8.28 percent rate of return.

The Commission staff's financial examiner recommended as reasonable a rate of return ranging from 7.8 to 8.1 percent. He testified that a 7.8 percent rate of return would earn 12.28 percent on common stock equity and that a 8.1 percent rate of return would earn 13.16 percent on common stock equity. Some of the factors considered by the staff's financial examiner in arriving at his recommended earnings allowance for common stock equity are: comparative earnings of other water utilities, recently authorized rates of return, capital structure and imbedded costs, financial requirements for construction and other purposes, funds available from advances, contributions, and other sources, and the general economic climate. In our opinion the midpoint of the staff's recommended rate of return range rounded to the nearest one-tenth of one percent, i.e., 8 percent, is reasonable and will be adopted.

The Commission staff recommended that an attrition allowance of approximately 0.40 percent per year in rate of return be considered in our decision. This recommended allowance includes no attrition for wage increases or for increases in water pumping costs as the same wage rates and water costs were utilized for both the 1973 and 1974 test years. Consequently,

the attrition in rate of return may be attributed primarily to increases in rate base and rate base related items, i.e., ad valorem taxes and depreciation expense. We will adopt an indicated downward trend in rate of return of 0.40 percent a year.

Findings

1. San Gabriel Valley Water Company is in need of additional revenues for its Whittier Division, but the proposed rates set forth in the application are excessive.

2. The previously discussed adopted 1974 test year estimates of operating revenues, operating expenses, and rate base reasonably indicate the results of San Gabriel's operations in its Whittier Division excluding electric power cost increases subsequent to May 8, 1974 and gas cost increases subsequent to April 2, 1974.

3. A rate of return of 8.0 percent on the adopted rate base of \$3,050,100 is reasonable. Such rate of return will provide a return on equity of approximately 12.80 percent.

4. Applicant will experience a rate of attrition of approximately 0.40 percent a year. Our authorized rates will provide for this attrition.

5. 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.

6. The authorized increase in rates is expected to provide increased revenues of \$165,800 in San Gabriel's Whittier Division based on the test year 1974.

The Commission concludes that the application should be granted.

O R D E R

IT IS ORDERED that after the effective date of this order, San Gabriel Valley Water Company is authorized to file the revised rate schedules attached to this order as Appendix A and concurrently to cancel and withdraw the presently effective schedules. 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 26th
day of NOVEMBER, 1974.

Vernon L. Steigman
President
William J. Lyons
John J. [illegible]
[illegible]
Robert E. Merlandi
Commissioners

APPENDIX A
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Schedule No. WH-1

Whittier Division

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the cities of Montebello, Pico Rivera, Santa Fe Springs, and Whittier and vicinity, Los Angeles County.

RATES

Quantity Rates:		Per Meter Per Month	
First	400 cu.ft. or less	\$ 3.28	(I)
Next	4,600 cu.ft., per 100 cu.ft.25	(I)
Over	5,000 cu.ft., per 100 cu.ft.24	(I)
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ 3.28	
For	3/4-inch meter	3.90	(R)
For	1-inch meter	5.15	⋮
For	1 1/2-inch meter	8.30	⋮
For	2-inch meter	12.00	⋮
For	3-inch meter	21.00	⋮
For	4-inch meter	33.00	⋮
For	6-inch meter	95.00	(R)
For	8-inch meter	162.00	(I)
For	10-inch meter	249.00	(I)

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. AA-4 (T)

All Tariff Areas (T)PRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

Applicable to all water service furnished for private fire protection purposes.

TERRITORY

The entire territory served by the utility. (C)

RATE

Per Service
Per Month

For each inch of diameter of fire protection service	\$2.00	(I)
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SPECIAL CONDITIONS

1. The customer will pay, without refund, the entire cost of the fire protection service.

2. The fire protection service shall be installed by the utility or under the utility's direction and shall be the sole property and subject to the control of the utility, with the right to alter, repair, replace and the right to remove upon discontinuance of service.

3. The minimum diameter for fire protection service will be 4 inches. The maximum diameter shall not be larger than the diameter of the water main to which the fire protection service is attached unless said main is circulating, in which case with the approval of the utility the maximum diameter may be larger by not more than 2 inches than the diameter of said circulating main.

(Continued)

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Schedule No. AA-4

All Tariff Areas

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

4. If a water main of adequate size is not available adjacent to the premises to be served, then a new main from the nearest existing main of adequate size will be installed by the utility at the cost of the customer. Such cost shall not be subject to refund.

5. The fire protection service facilities will consist of a detector check valve, or other similar device acceptable to the utility which will indicate the use of water, and related piping and fittings. At the option of the utility, the facilities may be located within the customer's premises or within public right of way adjacent thereto. Where located within the premises, the utility and its duly authorized agents shall have the right of ingress to and egress from the premises for all purposes related to said facilities.