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Decision No. 83833

ORIGINAL

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 San Gabriel Valley  
District.

Application No. 54620  
(Filed January 29, 1974)

O'Melveney & Myers, by Guido R. Henry, Jr.,  
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 San Gabriel Valley District private fire protection and general metered water rates<sup>1/</sup> approximately \$200,300 (35.77%) annually over the rates in effect at the time of filing of the application. SCWC's basic level of rates was established by Decision No. 75876 dated July 8, 1969 in Application No. 50570. Those rates were reduced on September 15, 1970 by SCWC's Advice Letter No. 395-W, and increased by Advice Letters No. 434-W effective May 5, 1974 and No. 446-W effective September 9, 1974.

SCWC provides public utility service in 15 operating districts located in portions of Contra Costa, Imperial, Los Angeles, Orange, Sacramento, San Bernardino, and Ventura Counties. It also provides public utility electric service, through a separate operating district, in the vicinity of Big Bear Lake in San Bernardino County.

The San Gabriel Valley District includes two systems that are not physically interconnected. The South San Gabriel system serves portions of the cities of Monterey Park, Rosemead, and San Gabriel. The other system (South Arcadia) serves portions of the

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

cities of Arcadia, El Monte, Irwindale, Monrovia, and Temple City and adjacent vicinity. As of December 31, 1972 the San Gabriel Valley District provided metered water service to 10,743 customers. It also had 23 private flat rate fire protection customers, and it served 563 public fire hydrants.

The water supply for the South Arcadia system is obtained from thirteen company-owned wells located within the system. The South San Gabriel system's source of water supply is from six company-owned wells and through a connection to the Upper San Gabriel Valley Municipal Water District, a member agency of The Metropolitan Water District of Southern California.

After notice, and publication in accordance with the Commission's Rules of Practice and Procedure, a public hearing was held on August 28, 1974 at El Monte and the matter was submitted on that date.

Testimony<sup>2/</sup> on behalf of SCWC was presented by its vice president-operations and its senior vice president. The Commission staff presentation<sup>3/</sup> was made through a financial examiner and two engineers. No customers of SCWC appeared at the hearing.

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2/ An exhibit 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 exhibit (No. 4) was presented as Exhibit 2 in this proceeding and the testimony pertaining thereto contained on transcript pages 78 through 128 and 247 through 293 was incorporated by reference. Exhibits 7 and 13, "General Report on Results of Operations, Years 1973, 1974 and 1975 Estimated" and "Compensation Paid to Directors of Utility Companies", in Application No. 54035 were presented as Exhibits 3 and 4 in this proceeding and the testimony pertaining thereto contained on transcript pages 84 through 91, 132 through 148, and 166 through 174 was incorporated by reference.

3/ Staff exhibits pertaining SCWC's overall operations presented in Application No. 54035 for the Southwest District rate proceeding were offered as Exhibits 9 and 10 in this proceeding and the testimony pertaining thereto contained in transcript pages 94 through 99, 148 through 155, 157 through 159 was incorporated by reference.

SCWC's "Report on Results of Operations for San Gabriel Valley District, Years 1973 and 1974 Estimated" was introduced as Exhibit 5. That report was revised by Exhibit 6. A third revision was introduced as Exhibit 7, "Results of Operations on CPUC Staff Basis Adjusted for Later Information and Rates to Produce 7.9% Rate of Return". SCWC stated that it was adopting the staff's estimates and a rate of return that had been authorized in prior rate proceedings in the current series<sup>4/</sup> for the purpose of expediting post-hearing time.

The staff introduced two exhibits, one was a Summary of Earnings for Estimated Years 1973 and 1974 (Exhibit 12) and the other was a study on the Cost of Capital and Rate of Return (Exhibit 13). The staff's recommended rate of return for the San Gabriel Valley District is a range of 7.8 to 8.0 percent. SCWC requested a rate of return of 8 percent.

#### Discussion

##### Rates

Since the reduction of rates in 1970, SCWC has received two offset increases in rates<sup>5/</sup> for this district.

<u>District</u>	<u>Applica- tion No.</u>	<u>Date Filed</u>	<u>Date Hearing Submitted</u>	<u>Date of Decision</u>	<u>Dec. No.</u>
Southwest	54035	5/15/73	1/7/74	3/5/74	82539
Culver City	54095	6/6/73	2/1/74	4/23/74	82762
Simi Valley	54045	5/21/73	2/20/74	5/15/74	82876
Pomona Valley	54064	5/25/73	3/13/74	6/25/74	83050
Barstow	54502	12/10/73	7/24/74	10/1/74	83516
San Gabriel Valley	54620	1/29/74	8/28/74		

- <sup>5/</sup> Advice Letter No. 433-W, effective 5/5/74 7.4% increase in rates.  
 Advice Letter No. 446-W, effective 9/9/74, 1.3% increase in rates.

SCWC's rates effective prior to May 5, 1974 and proposed rates for the San Gabriel Valley District are:

Quantity Rates:	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
First 10,000 cu.ft., per 100 cu.ft.....	\$ 0.122	\$
Over 10,000 cu.ft., per 100 cu.ft.....	0.103	
For 100 cu.ft.....		0.162
Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 1.40	\$ 2.00
For 3/4-inch meter .....	1.55	2.20
For 1-inch meter .....	2.25	2.80
For 1-1/2-inch meter .....	3.15	3.90
For 2-inch meter .....	4.35	5.50
For 3-inch meter .....	8.70	12.00
For 4-inch meter .....	13.00	16.00
For 6-inch meter .....	24.25	30.00
For 8-inch meter .....	34.00	42.00
For 10-inch meter .....	-	80.00

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 proposed to increase its private fire protection service rates for the San Gabriel Valley District from \$2.00 to \$3.00 for each inch of diameter of service connection.

At the hearing, SCWC presented revised tables reflecting the presently effective rates and later information than was available at the time of preparation of the application. It proposed new step rates designed to earn SCWC a 7.9 percent rate of return in its San Gabriel Valley District through the year 1976. The following tabulation sets forth the presently effective metered rates, the original proposed rates, and the proposed step rates:

# GENERAL METERED SERVICE

Per Meter Per Month

<u>RATES</u>	Effective	Advice Letter	Proposed Per Appli- cation	Adjusted Proposed			
				Before 1-1-75	1-1-75 Through 12-31-75	1-1-76 Through 12-31-76	After 12-31-76
Quantity Rates:	5-5-74	446-W					
First 10,000 cu.ft., per 100 cu.ft.....	\$ 0.136	\$ 0.139	\$	\$	\$	\$	\$
Over 10,000 cu.ft., per 100 cu.ft.....	0.117	0.120					
For 100 cu.ft.....			0.162	0.139	0.142	0.145	0.148
Service Charge:							
For 5/8 x 3/4-inch meter.....	\$ 1.40	\$ 1.40	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
For 3/4-inch meter.....	1.55	1.55	2.20	2.20	2.20	2.20	2.20
For 1-inch meter.....	2.25	2.25	2.80	2.80	2.80	2.80	2.80
For 1-1/2-inch meter.....	3.15	3.15	3.90	3.90	3.90	3.90	3.90
For 2-inch meter.....	4.35	4.35	5.50	5.50	5.50	5.50	5.50
For 3-inch meter.....	8.70	8.70	12.00	12.00	12.00	12.00	12.00
For 4-inch meter.....	13.00	13.00	16.00	16.00	16.00	16.00	16.00
For 6-inch meter.....	24.25	24.25	30.00	30.00	30.00	30.00	30.00
For 8-inch meter.....	34.00	34.00	42.00	42.00	42.00	42.00	42.00
For 10-inch meter.....	-	-	80.00	80.00	80.00	80.00	80.00

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.

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Results of Operation

SCWC's original summary of earnings for its San Gabriel Valley District was revised to reflect later recorded data and the San Gabriel Valley District rates which became effective May 5, 1974. The summary of earnings was again revised (Exhibit 7) to reflect the effects of Advice Letter No. 446-W and the increase in electric rates by Southern California Edison Company which became effective August 19, 1974. Exhibit 7 also revised SCWC's position with respect to its sought rate of return and proposed rates. The summary of earnings upon which SCWC now stands reflects earnings at a 7.9 percent rate of return and step rates through December 31, 1976 to produce such earnings. The staff's estimated summary of earnings reflects rates in effect May 5, 1974, Advice Letter No. 433-W.

In general, the staff reviewed SCWC's estimating methods and supporting work papers and prepared its own independent estimates. There were few differences between the staff and SCWC. Most of the differences were resolved in the prior proceedings in the current series. The differences that did occur were due primarily to the fact that the staff had recorded information for the full year 1973 available, whereas SCWC did not at the time of the preparation of its exhibits. The differences, not due to later recorded information, are caused by differences in ratemaking philosophy. For example: Wages - the staff rolled back the salary increases received in 1974 in its estimates for 1973. This method reduces the inflationary effect on future rates. In depreciation expense, the difference is due to differences in average plant factors. The staff used plant and depreciation reserve weighting factors related to recorded experience, whereas SCWC used a 50 percent factor. In rate base, the difference is also due to SCWC's overestimating and underestimating net additions to plant, net changes in plant-under-construction, and contributions.

Most of the net additions to plant in 1973 were funded by contributions and therefore deductible from rate base.

The following tabulation compares the estimated summary of earnings for the test year 1974, under present and proposed rates, and our adopted results:

Summary of Earnings  
(Estimated Year 1974)

Item	Applicant Estimated		Staff Estimated		Adopted
	Present	Proposed	Present	Proposed	
	Rates(a)	Rates	Rates(b)	Rates(c)	Results(b)
(Dollars in Thousands)					
Operating Revenues	\$ 607.0	\$ 768.5	\$ 616.5	\$ 769.6	\$ 616.5
<u>Operating Expenses</u>					
Oper. & Maintenance	272.6	272.6	268.9	268.9	268.9
Admin. & General	30.0	30.0	29.3	29.3	29.3
Taxes Other Than Income	72.5	75.2	72.4	75.0	72.4
Depreciation	58.7	58.7	57.4	57.4	57.4
Allocated Expense	28.9	28.9	28.9	28.9	28.9
Subtotal	462.7	465.4	456.9	459.5	456.9
Taxes on Income	35.7	119.3	43.7	123.3	43.7
Total Oper. Exps.	498.4	584.7	500.6	582.8	500.6
Net Operating Revenue	108.6	183.8	115.9	186.8	115.9
Depreciated Rate Base	1,979.9	1,979.9	1,958.1	1,958.1	1,958.1
Rate of Return	5.49%	9.28%	5.92%	9.54%	5.92%

(a) At rates effective May 5, 1974.

(b) At rates authorized by Resolution No. W-1612, effective 9/9/74 (Advice Letter 446-W), plus .02¢/kwh for Edison's electric increase effective 8/19/74.

(c) At the hearing SCWC proposed rates to yield 1974 test year revenues of \$700,600 to produce a rate of return of 7.9%, utilizing step rates as set forth in Exhibit 7.

Rate of Return

SCWC had included in this record, by reference, the exhibits, testimony, and related cross-examination on cost of money and rate of return presented by SCWC's witness at the hearings on Application No. 53764 for a general rate increase in SCWC's Central Basin District. SCWC sought rates that would yield an overall 8 percent rate of return over the next three years. SCWC testified that a company-wide rate of return of 8 percent was necessary to be able to attract common equity money. SCWC estimated that an 8 percent rate of return will provide a 12.67 percent return on equity and a times interest coverage of 2.87.

The staff presented a report on the cost of capital and rate of return for the San Gabriel Valley District (Exhibit 13). The rate of return recommended by the staff was a range from 7.8 to 8.0 percent.

In our opinion a 7.9 percent rate of return is reasonable.<sup>6/</sup> Applied to the adopted rate base of \$1,958,100, it is estimated that a 7.9 percent return will provide a return of 12.37 percent on common stock equity.

Both SCWC and the staff indicated a downward trend in rate of return. On its original showing, SCWC's attrition rates were 0.32 percent at present rates, and 0.33 percent at proposed rates. The staff showing reflected a 0.17 percent downward trend at both present and proposed rates. The differences are accounted for principally by the fact that the staff rolled back salary

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<sup>6/</sup> In the current series of general rate applications, SCWC was authorized a 7.9% rate of return for the following Districts:  
Central Basin, D.82741, dated 4/16/74, A.53764;  
Southwest, D.82539, dated 3/5/74, A.54035;  
Culver City, D.82762, dated 4/23/74, A.54095;  
Simi Valley, D.82876, dated 5/15/74, A.54045;  
Pomona Valley, D.83050, dated 6/25/74, A.54064  
(step rates authorized); Barstow, D.83516, dated  
10/1/74, A.54502 (step rates authorized).



increases received in 1974 in its estimates for 1973 to eliminate inflationary effects. SCWC did not roll back the 1974 wages. To a lesser extent the difference is also due to differences in rate base.

Prior to our Pomona District decision (fn. 6, supra) we had given recognition to attrition directly in rate of return. In the Pomona decision, recognition was given in the form of step rates. The rationale was that the staff's method of trending wages removes the inflationary effect; therefore, the recognition of the attrition would not be inflationary since it is due to additions in rate base and changes in depreciation and ad valorem taxes, which are not necessarily inflationary factors.

As pointed out in the Pomona District decision, step rates are one method of counteracting the effects of "attrition" by providing the utility the opportunity to earn the authorized rate of return on a uniform basis, rather than a high rate in the early years and lesser rate over some future period so that the average is the authorized rate of return. Thus, it was stated, the advantage of step rates is that they are more equitable to the customers in that the customer does not pay any excesses during the first years to offset future anticipated deficiencies. Also, step rates provide the opportunity to review the utility's earnings periodically, thus enabling the Commission to adjust the rates more promptly if the anticipated decline does not materialize. The order which follows will provide for step rates and additional earnings statements from the San Gabriel Valley District for monitoring purposes.

#### Service

The staff's investigation indicates that service in the San Gabriel Valley District provided by SCWC is satisfactory.

#### Findings

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

2. The adopted estimates of operating revenues, operating expenses, and rate base for the test year 1974, set forth above, reasonably indicate the results of SCWC's operations in its San Gabriel Valley District in the near future.

3. A rate of return of 7.9 percent on the adopted rate base of \$1,958,100 is reasonable. Such rate of return will provide a return on equity of approximately 12.37 percent.

4. An operational slippage of approximately .18 percent at proposed rates will be experienced and is sufficient to justify the authorization of a stepped progression of rates.

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 \$90,890 in SCWC's San Gabriel Valley District for the first 12-month period, and an additional \$7,575 each 12-month period for two additional step increases.

7. Service provided by SCWC in its San Gabriel Valley District is satisfactory.

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, 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 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.

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2. On or before April 1, 1976 SCWC shall file with the Commission an earnings statement for the San Gabriel Valley District for 1975 normalized and adjusted to the rate levels authorized herein for 1975, together with an estimate of earnings for 1976 under similar normalized conditions. On or before April 1, 1977 SCWC shall file similar normalized and estimated earnings statements for 1976 and 1977.

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

Dated at San Francisco, California, this 17<sup>th</sup> day of DECEMBER, 1974.

Vernon L. Skirgson  
President  
William L. Simon  
John J. [unclear]  
[unclear]  
Robert E. McLaughlin  
Commissioners

APPENDIX A  
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Schedule No. SG-1

San Gabriel Valley District

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the cities of Arcadia, El Monte, Irwindale, Monrovia, Monterey Park, Rosemead, San Gabriel, Temple City and vicinity, Los Angeles County.

RATES

	Per Meter Per Month			
	Before 1-1-76	1-1-76 Through 12-31-76	After 12-31-76	
Quantity Rates:				
For 100 cubic feet	\$0.142	\$0.145	\$0.148	(N)
Service Charge:				
For 5/8 x 3/4-inch meter	\$2.00	\$2.00	\$2.00	(I)
For 3/4-inch meter	2.20	2.20	2.20	
For 1-inch meter	2.80	2.80	2.80	
For 1-1/2-inch meter	3.90	3.90	3.90	
For 2-inch meter	5.50	5.50	5.50	
For 3-inch meter	12.00	12.00	12.00	
For 4-inch meter	16.00	16.00	16.00	
For 6-inch meter	30.00	30.00	30.00	
For 8-inch meter	42.00	42.00	42.00	(I)
For 10-inch meter	80.00	80.00	80.00	(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.

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Schedule No. AA-4

All Districts

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

- Rate A - Applicable within the Barstow, Culver City, Pomona Valley, San Gabriel Valley, Simi Valley, and Southwest Districts. (C)
- Rate B - Applicable within the Arden-Cordova, Bay, Big Bear, Calipatria-Niland, Central Basin, Desert, Ojai, Orange County, and San Bernardino Valley Districts.
- Rate C - Applicable within Coast tariff area of Central Basin District.

RATE

For each inch of diameter of service connection .....	Per Month			(C)
	A	B	C	
	\$2.25	\$2.00	\$1.50	

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.

(Continued)

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Schedule No. AA-4

All Districts

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - Contd.

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.

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 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.

APPENDIX A  
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Schedule No. SG-5

San Gabriel Valley Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

Within the established San Gabriel Valley District. (C)

RATE

Per Month

For each hydrant ..... \$2.00

SPECIAL CONDITIONS

1. Water delivered for purposes other than protection shall (C)  
be charged for at the quantity rates in the appropriate metered service  
schedule.

2. The cost of relocation of any hydrant shall be paid by the (D)  
party requesting relocation.

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.