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ORIGINAL

Decision No. 83920

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SUBURBAN WATER SYSTEMS, a California
corporation, for Authority to
Increase its Rates Charged for
Water Service.

Application No. 54386
(Filed October 12, 1973;
amended March 20, 1974)

Clayson, Stark, Rothrock & Mann, by George
G. Grover, Attorney at Law, for applicant.
Kenneth E. Dodd, for Park Water Co., interested
party.
Cyril M. Saroyan, Attorney at Law, Russell
J. Leonard, and Andrew Tokmakoff,
for the Commission staff.

O P I N I O N

Applicant is a public utility water corporation furnishing water to approximately 45,700 metered customers in the county of Los Angeles. By its amended application Suburban Water Systems (Suburban) requests authority to increase its rates to produce additional revenues of \$1,231,643, an annual gross revenue increase of 27.9 percent.

A prehearing conference was held in this matter on February 11, 1974. The application was amended March 20, 1974. Hearings were held June 6 in West Covina, June 7 in Whittier, and June 11, 12, 13, and 14, 1974 in Los Angeles before Examiner Charles E. Mattson. Applicant presented a written motion for interim increase in rates at the hearings on June 6, 1974. The motion for interim rate relief was argued on the record on June 14, 1974.

Prior to the first day of hearing, notice was posted and published as required by this Commission. Under Commission Rules 51 and 52, the company was required to mail to each customer a notice

of the requested rate increases. The company used a printed bill insert to give its customers the required notice.

Public Witnesses

A total of four of applicant's customers appeared at the proceedings. Three of the customers were from the West Covina and Covina area and one customer was from Whittier. Three customers complained about chlorine in the water, and a customer from the West Covina area stated that although the Commission had directed the company to improve the pressure in her area, it had not improved.

The company filed a report of its investigation of findings on the customer complaints. The report indicates that the chlorine content of the water to the customers that testified regarding excessive chlorine content is monitored daily, and that the reports indicate that the chlorine residual in the water should not exceed 1.0 parts per million. The report also states that the company had installed a new booster pumping plant in the service area of the customer with the pressure problem. The company installed a pressure recorder on a fire hydrant in the area and a second pressure recorder was concurrently installed at the house line at the premises of the customer. The system pressure recorded at the hydrant demonstrated a stable system pressure pattern. The recorder located on the house line indicated wide periodic fluctuations, indicating substantial head loss through the house line. The company contends that the plumbing in the house is not sufficient to provide an adequate rate of flow throughout the premises when water is being consumed.

The staff witness who testified regarding service by Suburban was of the opinion that the system is providing good service. He stated that in three and a half years there was only one service complaint and for a company of this size that is a low rate of complaints. The staff witness talked to customers in the

service area, selecting them at random, and stated that almost every one of them was happy with the service and the relationship with the company. He said there was a common complaint of sand in the water, but that the sand was found by customers in the screens of their faucets which they had to clean out every three to six months; in the staff judgment this is normal. There did not appear to be any serious service problems. No one had complained about low pressure to the staff witness prior to the hearings.

Based upon the evidence it appears that Suburban is supplying satisfactory service to its customers at the present time.

History

The history of Suburban is set forth in Decision No. 79912 dated April 4, 1972 in Application No. 52505. Since that time there have been no major changes in Suburban's operations or organization, with the exception of a merger with six water companies which had previously been recorded as investments on Suburban's books. The total net plant for the merged water companies as reflected in plant in service for the years 1972 and 1973 is \$340,178.

There have been some changes in its officers; however, Anton C. Garnier remains as president, and Walker Hannon continues as executive vice president. These two officers occupy the same positions with Southwest Water Company. Suburban and Southwest Water Company still share a common general office and general office employees, continue to have interlocking chief officers, and continue to allocate to each company salaries and expenses for common officer employees.

Suburban continues to hold an investment in the amount of \$1,916,434 in Paradise Community Services, Inc., a utility operation in New Mexico.

RESULTS OF OPERATIONS

Revenues

In the course of the hearings Suburban sponsored Exhibit 11, wherein it accepted certain staff estimates for the test year 1974. The staff's estimated revenues at present and proposed rates were higher than Suburban's initial estimates. By Exhibit 11 Suburban conceded that the gross revenue estimates of the staff should be used for ratemaking purposes. The staff estimated operating revenues for the test year 1974 as \$4,442,600 at present rates and \$5,683,500 at the company's proposed rates. The gross revenue increase requested, according to the staff estimates, is \$1,240,900.

The present rates used in the staff exhibits were the rates in effect on August 13, 1973. By Advice Letter No. 99 filed March 25, 1974 Suburban requested rate relief to offset natural gas cost increases, electric power cost increases, and the increased postage charges. Resolution No. W-1538 dated April 9, 1974 authorized Suburban to increase its rates to offset the increased costs. Subsequently, Suburban by Advice Letter No. 100 requested further rate increases to offset further increased costs of purchased water, electric power, and natural gas. Resolution No. W-1625 dated October 8, 1974 authorized rate increases to offset the increased costs. The total gross revenue increase for the test year 1974 as a result of the two advice letter filings is \$322,800. The adopted results of operations in this decision will incorporate both the authorized revenue increase and the related cost increases, and subsequent increases of \$22,300 in electric power and natural gas, through December 1, 1974.

Estimated Expenses

In order to compare the staff and the revised company estimates of operation and maintenance (O&M) and administrative and general (A&G) expenses for the test year 1974, the staff and the company based their estimates on the rates in effect on August 13, 1973. Suburban's Exhibit 11 conceded that certain staff estimates

should be accepted for test year purposes. The staff revised its estimated expenses by acceptance of a 6 percent payroll increase resulting from a company across-the-board cost of living increase to its employees. Table I below sets forth a comparison of the estimates of test year expenses between the staff and the company as set forth in the staff's brief, Table B:

TABLE I (000)

<u>Expense Item</u>	<u>Staff Original Estimate</u> (Exh. 3, p. 9)	<u>Revised^{1/} Company Estimate</u>	<u>Difference</u>	<u>Revised Staff Estimate</u>
Purchased Water	\$ 271.7	\$ 271.7	\$ -	\$ 271.7
Replenishment Tax	287.5	287.5	-	287.5
Power for Pumping	403.9	403.9	-	403.9
O&M Payroll	458.9	486.4	-	486.4 ^{2/}
Uncollectables	26.0	26.0	-	26.0
Chemicals	5.7	5.7	-	5.7
O&M Postage	39.0	39.0	-	39.0
Meter Maintenance	18.7	18.7	-	18.7
O&M Gasoline	26.1	26.1	-	26.1
Other O&M Expenses	<u>331.4</u>	<u>377.3</u>	<u>(45.9)</u>	<u>331.4</u>
Total O&M Exp.	1,868.9	1,942.3	(45.9)	1,896.4
A&G Payroll	356.0	387.7	(10.3)	377.4 ^{2/}
A&G Postage	5.4	5.4	-	5.4
A&G Gasoline	6.1	6.1	-	6.1
Other Office Supply Exp.	78.3	104.0	(21.0)	83.0 ^{2/}
Regulatory Commission Exp.	13.5	26.2	(12.7)	13.5
Other Outside Services	61.5	61.5	-	61.5
Other A&G Expense	<u>258.3</u>	<u>258.3</u>	<u>-</u>	<u>258.3</u>
Total A&G Exp.	779.1	849.2	(44.0)	805.2
Total O&M and A&G Exp.	\$2,648.0	\$2,791.5	\$(89.9)	\$2,701.6

(Red Figure)

^{1/} Per Exhibit 11, page N.^{2/} Effect of payroll increase reflected.

A detailed account of the differences in the expense summary set forth in Table I appears in Exhibit 11. The amounts in dispute will be resolved as follows:

Other O&M Expense

Other Office Supply Expense

A number of different accounts are included in "Other O&M Expense." With the exception of account 760, Maintenance of Reservoirs and Tanks, the staff and utility differences result from the respective methods used to develop 1974 estimates. The staff estimates are based upon recorded 1973 experience and are adjusted upward by $5\frac{1}{2}$ percent to arrive at 1974 estimated. The company trended recent recorded experience and estimated 1973 and 1974 expenses from the trend line. The estimate of both the staff and utility do not include labor and direct payroll. The utility estimates were developed before recorded 1973 results were available.

Exhibit 11 sets forth the recorded results, by accounts, the utility's 1973 estimates, 1973 recorded, as well as the staff's and utility's 1974 estimates. Excluding account 760 the actual 1973 experience was substantially below the utility estimates for 1973 based on past recorded experience. The estimated 1974 figures of Suburban based on trending through an estimated 1973 were sharply above actual 1973 experience. On the other hand, the recorded 1973 figures reflect a precipitous drop in the accounts in 1973. For example, actual expenses in accounts 706 and 711 in 1973 were below the prior three years' experience, although the incurred expense had been increasing each year for four years.

The record does not reflect an adequate explanation. Suburban's witness testified that the utility was in financial difficulty in 1973 and had to curtail necessary maintenances and other expenditures. The staff witness testified that he felt 1973 was a reasonable year which did reflect some belt tightening by Suburban.

We have concluded that reasonable estimates will lie between the abnormally low 1973 recorded figures and the relatively high projections developed by the utility. We find it reasonable to adopt estimates which fall between the staff and utility estimates for accounts 706, 711, 721, 724, 725, 730, 732, 733, 754, 733-1, and 773-2.

Our conclusion regarding the adopted estimates for accounts in Other O&M Expense is also applicable to the other expense portion of Office Supplies and Expense, account 792 (see Sheets H and J, Exhibit 11). Our comments regarding the available evidence and testimony on Other O&M Expense apply to this latter expense estimate.

The exception to the above conclusion is Maintenance of Reservoirs and Tanks, account 760. Actual 1973 recorded was the lowest figure in the most recent five years of experience. The utility witness testified that a given reservoir is not maintained each year, and that an average of recorded figures should be used for estimated 1974 expense. This approach appears to be reasonable, and the utility estimate of \$1,780 will be adopted.

Company Payroll Expense

The staff has accepted the direct payroll estimates of the company for O&M which reflect a 6 percent wage increase granted to employees. In addition, it is necessary to allocate certain payroll expense between Suburban and Southwest.

Southwest sold a portion of their water system (La Sierra) to the city of Riverside in 1973. The utility calculated the allocation of payroll expense on the post-sale plant of Southwest, and the expense portion assigned to Suburban increased by \$10,300.

The staff used pre-sale allocation percentages on the grounds that Suburban ratepayers should not be penalized as a result of a sale that profited Southwest. However, the evidence indicates that the applicant and Southwest have reduced personnel after the sale.

Under the circumstances, the allocation should be calculated on actual post-sale conditions. The adopted A&G payroll is at the level estimated by Suburban.

Regulatory Commission Expense

The staff and the utility differs in their allowance for regulatory Commission expense by \$12,700. The calculations of the utility and staff are set forth in Exhibit 11, Sheet K, as follows:

Comparison of Estimated Costs
In Account No. 797
Regulatory Commission Expense

Company Revised Expenses Per A.54386

1.	1/2 of True Cost of A.52505	\$33,533
2.	Total of Estimated Cost of A.54386	<u>45,000</u>
3.	Total	\$78,533
4.	Annual Amortization for 3 Years	\$26,178
5.	Monthly Amortization	\$ 2,181

Staff Recommended Expenses Per A.54386

1.	1/2 of Allowed Cost of A.52505	\$13,500
2.	Total Staff Estimated Cost of A.54386	<u>27,000</u>
3.	Total	\$40,500
4.	Annual Amortization for 3 Years	\$13,500
5.	Monthly Amortization	\$ 1,125

Difference \$12,700

The staff estimated regulatory Commission expenses by amortizing total regulatory expenses over a three year period. The company had estimated regulatory expenses in Application No. 52505 as \$9,000 a year for three years, with a total cost of \$27,000. Our Decision No. 79912 dated April 4, 1972 adopted the \$9,000 annual figure for regulatory expense in the test year in that proceeding. The staff recommendation is to recognize that one-half of this earlier amount has been amortized, and the balance remaining is \$13,500. The staff would allow \$27,000 for regulatory expense in

this proceeding, and amortize total regulatory expense of \$40,500 over three years. The staff allowance in the test year is \$13,500.

The utility seeks to amortize total regulatory expense of \$78,533 over three years at \$26,178 annually. Suburban alleges that the regulatory expense actually incurred in Application No. 52505 was \$67,066. Suburban seeks to amortize one-half of this amount, rather than one-half of the \$27,000 cost allowed. Suburban adds \$45,000 for estimated costs of this proceeding to \$33,533 (one-half of \$67,066) for total costs to be amortized of \$78,533.

It is not appropriate to accept the utility's position that the actual regulatory expense incurred in the last proceeding should be recognized, in whole or in part. At the time of the last proceeding the applicant presented a total claim of \$27,000 for regulatory expense. It was accepted as reasonable. Were we to accept applicant's present position, we would revise the regulatory expense allowance to \$67,000 for the last proceeding, a proceeding wherein applicant received revenue increases of approximately \$400,000. This does not appear to be a reasonable figure for allowable regulatory expense in the past proceeding.

We will recognize regulatory expense incurred in this proceeding as \$45,000, which appears to be a reasonable estimate, based on expenses already incurred and work performed on behalf of applicant in these proceedings. In addition, we will accept the staff view that one-half of the unamortized estimated expenses from the last proceeding, \$13,500, should be included in regulatory expense. The total regulatory expense becomes \$58,500, and amortizing such expense over three years results in an allowance of \$19,500 for regulatory expenses in test year 1974.

RATE BASE

The staff estimates the average rate base for the 1974 test year is \$14,267,800. The company's revised estimate, set forth in its Exhibit 11, is \$14,350,200. The difference of \$82,400 is the result of different treatment of certain plant sites, carried by the company as part of its plant in service.

The staff engineer adjusted the rate base by excluding certain plant sites which he determined were not used or useful in the near future operations of Suburban. In Decision No. 79912 dated April 4, 1972 the Commission had excluded \$24,000 from rate base for an unused portion of the lot containing Suburban's shops and storage yard. This figure is incorporated in the staff disallowance, and was not challenged by Suburban. The remaining plant site adjustments of the staff in the amount of \$58,300 (rounded) are in dispute. The sites are listed in the staff's Exhibit 3, page 27, paragraph 11.h.

Our determinations are as follows:

Plant Site 106 - Service. This land contains one collapsed well. Suburban has no specific plans to drill a well at this site. The amount of \$6,695 carried on the books as rate base by Suburban is excluded from rate base.

Plant Site 124 - Pearson. This is property which has a well on the northeast corner of three parcels, and in the staff view one-fourth of the land is used or useful in the utility's operations. The staff excluded \$4,396 from rate base. However, the well on the property is in service.

The utility's position is that it is not unreasonable to hold these parcels as utility property on which to drill replacement wells in the future. The Suburban witness testified that he would move 50 to 100 feet away from an existing well in order to redrill, to assure avoiding problems which would arise in drilling over or near an existing well site. We agree with the position of Suburban.

Plant Site 125 - Hollenbeck. One well on this property is used. There is also a dwelling on the site which is a rental unit. The staff included the well site and dwelling unit in rate base (both together utilize half the property), and recognized the rental income in its report on operations. The staff would exclude 50 percent of the property in the amount of \$5,962 from rate base.

The company again objects to the exclusion of a portion of a parcel, contending that the parcel is a well site on which to redrill if the well goes bad. In addition, an officer of Suburban explained that the larger well sites allow buffer zones with neighbors. We will include the entire land in rate base.

Plant Site 130 - Sky Ranch. This is a site with a reservoir of a half million gallon capacity in the northeast portion of the parcel. The parcel is five acres, and the staff would exclude four acres. The adjustment would reduce rate base by \$7,763.

Suburban concedes that they will not have to build another reservoir in the near future on this site. However, the parcel was available as a five-acre parcel in the early fifties, and the company contends it is not unreasonable to allow them to include the entire site in rate base. We will include the entire site in rate base in this proceeding.

Plant Site 132 - Marron. This is a reservoir site, accommodating two reservoirs and a booster pumping plant at the present time. The existing reservoirs and pumping plant are on the southeast corner and are fenced. The staff stated that 58.93 percent of the property was not used, and the staff adjustment would exclude \$8,850 from rate base. A third tank may be constructed in the future, but such an additional tank would be placed between the existing two reservoirs.

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The company acquired the property in the early sixties and the parcel, according to the company witness, was the only land available at the elevation needed. It is sloped land, and the utility contends that the portion excluded is unsuitable for other uses. In addition, the company claims that the open space which it has at the site is an accommodation of neighbors in the area. We will include the entire plant site in rate base.

Plant Site 153 - Childs. This is a 45- by 30-foot well site. An old irrigation well on the property has not been used for many years. The staff adjustment is to exclude \$925, the entire amount of the property's rate base. There are no immediate plans to redrill on this site. This well site will be excluded from rate base.

Plant Site 201 - Bartolo. This site is an 85- to 90-acre field with four active wells. It is a primary source field, although no wells have been drilled since 1962. The property was acquired from the Army Corps of Engineers, and may be used for water production. The Corps of Engineers has the right to flood the area. The property is useable, and the company contends that the cost of \$12,000 is not unreasonable. Under the circumstances, we agree. The entire site will be included in rate base.

Plant Site 210 - Painter, Plant Site 213 - Gilliland. These two sites were entirely excluded from rate base by the staff adjustment. The adjustment for Painter resulted in a reduction of rate base of \$1,539 and the adjustment for Gilliland resulted in a rate base reduction of \$1,782. The staff witness testified that these wells were not required for emergency use as alleged by the company because alternate sources of water supply were available in this area (Whittier) and these wells had not in fact been used for many years.

An officer of Suburban indicated that he might have taken these wells out of service except for a recommendation that wells not be taken out of service. It would appear that under the circumstances the staff witness is correct. The company did not refute the staff's contention that the emergency use of these wells is not necessary for the Whittier area due to the availability of other water supplies in emergency circumstances. Both Painter and Gilliland will be excluded from rate base.

Based upon our foregoing determinations, Table II below sets forth the estimated year 1974 operations of Suburban. At existing rate levels Suburban's estimated rate of return for 1974 would be 6.60 percent. As set forth below, we have determined that a reasonable rate of return for 1974 would be 8.45 percent. The required revenue increase is \$533,600 based upon 1974 estimated operations.

TABLE II
SUMMARY OF EARNINGS - 1974 TEST YEAR
(Dollars in Thousands)

	Applicant (Exhibits 3, 11)		Staff (Exhibit 3, Brief-Table B)		Adopted	
	Present Rates (a)	Company Proposed Rates(1) (b)	Present Rates(2) (c)	Company Proposed Rates (d)	At Present Rates Inc. Adv. Letter Rates(4) (e)	At 8.45% Rate of Return(5) (f)
Operating Revenues	\$ 4,442.6	\$ 5,683.5	\$ 4,442.6	\$ 5,683.5	\$ 4,765.4	\$ 5,299.0
<u>Operating Expenses</u>						
Oper. & Maint. Exp.	1,942.3	1,942.3	1,890.7	1,896.4	1,978.4	1,980.8
Adm. & Gen. Exp.	849.2	849.2	789.3	805.2	818.3	826.3
Deprec. Exp.	487.5	487.5	487.5	487.5	487.5	487.5
Taxes-Except Income	530.7	530.7	530.7	530.7	530.7	530.7
Income Taxes	0.2	475.0	0.2	522.4	5.7	264.2
.Total Expenses	3,809.9	4,284.7	3,698.4(3)	4,242.2	3,820.6	4,089.5
Net Oper. Revenues	632.7	1,398.8	744.2	1,441.3	944.8	1,209.5
Average Rate Base	14,350.2	14,350.2	14,267.8	14,267.8	14,315.2	14,315.2
Rate of Return	4.41%	9.75%	5.21%	10.10%	6.60%	8.45%

(1) Company revised estimate, Exhibit 11, sheet P.

(2) Staff revised, does not include recent advice letter rates.

(3) Staff revised does include expense levels as shown in brief.

(4) Include Suburban Advice Letters 99 & 100 rate increases and December 1974 expense levels.

(5) Reflects revenue increase of \$533,600 to achieve
8.45% rate of return.

RATE OF RETURN

The staff presented expert testimony on the appropriate rate of return to be authorized Suburban. Witness C. Frank Filice of the Finance and Accounts Division of the Commission staff stated that the earnings allowance for common stock equity is necessarily a judgment figure based on many considerations. One consideration noted by witness Filice was the balancing of consumer interests with benefits accruing to the investors and the company. In his view it is essential that the rate of return be equitable for consumers as well as investors. The recommendation of witness Filice properly reflects the many considerations which must be weighed in authorizing a rate of return, and his recommended range of 8.35 percent to 8.55 percent will be adopted. The capital cost factors weighed by witness Filice are set forth in detail in Table 9 of Exhibit 4 as follows:

SUBURBAN WATER SYSTEMS

Recommended Range for Rate of Return

Item	Capital Ratios	Cost Factors	Earnings Allowance for Common Stock Equity:		
			13.70%	14.12%	14.54%
			Weighted Cost Totals		
Long-Term Debt	50.25%	7.92%	3.98%	3.98%	3.98%
Preferred Stock	25.81	4.23	1.09	1.09	1.09
Common Stock Equity	<u>23.94</u>		<u>3.28</u>	<u>3.38</u>	<u>3.48</u>
Totals	100.00%		8.35%	8.45%	8.55%

1/ Estimated capital ratios as of December 31, 1974.

2/ Cost factors as developed in Table No. 4.

In arriving at our conclusion on rate of return, we have reviewed applicant's showing as set forth in Exhibit 1 at Chapters XII and XIII. Chapter XII of Exhibit 1 sets forth the company's proposed rates and estimated earnings for test year 1974. The anticipated rate of return for 1974 at company proposed rates is shown as 9.46 percent. Based upon an anticipated decline in rate of return at proposed rates of 0.61 percentage points per year, the company contends that its earnings would decline to 8.85 percent in 1975, and to 8.24 percent in 1976. Based upon an assumed reasonable average rate of return for a three-year period, applicant states that its anticipated average rate of return for the three years would be 8.85 percent.

In Chapter XIII of Exhibit 1 applicant sets forth the cost of money studies supporting its proposed rate of return. Based upon effective interest rates and cost of money as of December 31, 1972 applicant states that a 16 percent return on common equity results in an effective cost of money to Suburban of 8.85 percent without allowance for attrition. Although we have not reproduced Table XIII-2 of Exhibit 1 in this decision, we note that the effective interest rates for total debt are substantially identical to the staff estimates.

Suburban also presented capital ratios and cost factors in Exhibits 8 and 10, sponsored by witness Richard Dana Empringham. In Exhibits 8 and 10 witness Empringham accepted the staff's capital ratios and cost factors. The evidence is intended to rebut the staff's recommendations on the ground that the allowed return for common equity is inadequate.

Applicant urges that we should consider witness Empringham's testimony as a more realistic approach to the cost of money. Witness Empringham is a certified public accountant who has specialized for many years in giving advice to investors with substantial investment funds. He is active in real estate investment and has participated

in investment seminars on a regular basis. Exhibits 8 and 10 essentially set forth calculations based on several assumptions. Witness Empringham stated that equity investments, such as the common stock of Suburban, contain more risk than treasury bills. Treasury bills as of May 30, 1974 and maturing in ten years had an effective yield of 7.91 percent. Witness Empringham stated that the common stock investor in Suburban should have a 50 percent chance of obtaining an effective yield equal to twice that of the treasury bills. Given these assumptions, it follows that an effective yield at twice the treasury bill figure is approximately 15.75 percent.

Since the effective yield involves monthly compounding, witness Empringham states that the 15.75 percent is a simple interest return on equity of 16.94 percent. Applying 16.94 percent as an allowance for common stock in Exhibit 10, the computed rate of return on the staff's capital ratios and costs becomes 9.12 percent.

Several comments may be made about the presentation of witness Empringham. It appears that his investor-oriented necessary return was made without regard to capital ratios. It was made without regard to the fact that the common stock equity recognized by the staff witness was 23.94 percent. This common stock equity investment does not exclude the \$1,916,434 stock of Paradise Community Services, Inc. in New Mexico.

Assuming that Suburban was entitled to invest in excess of \$1.9 million in a New Mexico utility operation in 1969, it is wholly unrealistic to assume that that investment represents dollars of equity investment in Suburban's utility operations in California. Reducing the common stock equity investment by the \$1.9 million invested in the New Mexico venture reduces the equity component to approximately 13.61 percent. At the 8.45 percent rate of return authorized by this decision the equity earnings rate is 19.75 percent. (See Decision No. 79912 dated April 4, 1972 at p. 42.)

From the consumer standpoint this is not an unreasonable view of the capital structure that California ratepayers should support.

It is also clear that a common stock equity ratio at such a low level directly contributes to the fiscal difficulties in which Suburban now finds itself. Suburban has not in fact increased in any substantial degree the common stock investment in the capital ratio. The testimony in this proceeding indicated that the New Mexico utility investment earned about 1 percent in rate of return for Suburban in 1973. It is perhaps unfortunate that witness Empringham was not consulted regarding that investment.

RATES

Rate Blocking

Suburban proposes to eliminate the present lower quantity rate for monthly water sales in excess of 30,000 cubic feet for each of the three tariff area zones. The staff concurs with applicant in the elimination of the quantity rate block differential based upon consideration of the increasing cost to purchase water and power for pumping. In the staff view, Suburban's proposal will encourage conservation of water. We will adopt Suburban's proposal and eliminate the present lower quantity rate for monthly water sales in excess of 30,000 cubic feet.

Short 3/4-inch Meter Rates

Suburban and the staff disagree as to whether or not service charge rates should differentiate between the 3/4-inch meters with a 9-inch laying length and the 3/4-inch meters with a 7 1/2-inch laying length. The staff stated that there was a 20 gpm rate of capacity for the 5/8- x 3/4-inch meter, justifying its present lower service charge. The advertised capacity of the Badger short 3/4-inch meter is 25 gpm and the rate of capacity of the full 3/4-inch meter is 30 gpm. The staff accordingly recommended that the Badger short 3/4-inch meters be at a separate charge rate below the full 3/4-inch meter.

Applicant presented Exhibits 12, 13, and 14 in rebuttal. The testimony of witness Howard in support of these exhibits establishes that the shorter 3/4-inch meter qualifies as a full 3/4-inch meter by AWWA cold water meter standards for displacement meters. It has a safe operating capacity of 30 gpm and the maximum pressure loss at safe operating capacity is 15 psi. Chart A attached to the staff brief indicates head loss and accuracy curves for the Rockwell Manufacturing Company meters. The chart clearly indicates that both the 3/4-inch short and 3/4-inch standard meters will operate at 30 gpm and further indicates that the maximum of the 5/8- by 3/4-inch meter is 20 gpm per minute. Moreover, the head loss in pounds per square inch for the 3/4-inch standard and the 3/4-inch short is substantially less than the head loss experienced on the smaller 5/8 by 3/4-inch shorter meters.

Attrition

The staff recommends consideration of an allowance for annual attrition for Suburban of 0.30 percent rate of return. Applicant contended that at proposed rates the decline in rate of return would be 0.61 percentage points per year on rate of return. Exhibit 1, Chapter XII, page 12-1 sets forth applicant's basic request regarding rate of return. Applicant states that the rates resulting from this application will be effective for approximately three years, and that rates set at a 9.46 percent rate of return for 1974 will result in a three-year average rate of return of 8.85 percent.

We have determined that the staff rate of return recommendation will be followed, and rates should be set to achieve a return of 8.45 percent. However, we will set rates with step increases for the years 1975 to 1977 in order to recognize a 0.30 percent annual attrition in rate of return authorized.

Revenue Increase

As noted above, the amended application seeks gross revenue increases in the annual amount of \$1,240,900. By its advice letter filings Nos. 99 and 100, Suburban has increased its annual gross revenues by \$322,800. The adopted results of operations for test year 1974 will require a further revenue increase of \$533,600 in order to achieve an 8.45 percent of return.

The allowance for annual attrition of 0.30 percent will require annual gross revenue increases of \$92,600. We will authorize rates at the first step at this time. The total gross revenue increase authorized by this decision is \$626,200 at this time, with increases of \$92,600 authorized on January 1, 1976 and \$92,600 on January 1, 1977.

The rate increases set forth in Appendix A, attached, will achieve the required annual gross revenues.

Findings

1. Suburban is in need of additional revenues but the proposed rates set forth in the application, as amended, are excessive.

2. The adopted estimates previously discussed herein of operating revenues, operating expenses, and rate base for the test year 1974 are reasonable estimates for Suburban's results of operations.

3. A rate of return of 8.45 percent on the adopted rate base of \$14,315,200 is reasonable.

4. The operations of Suburban result in an annual operational decrease in rate of return of approximately 0.30 percent at proposed rates and this experienced decline in rate of return is sufficient to justify the authorization of a step 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 will provide increased revenues of \$533,600 annually based upon the adopted estimates for test year 1974, and an additional amount of \$92,600 increase in gross revenues will be authorized in order to offset the operational rate of return decline of .3 percent for the year 1975. Gross revenues at present rates are \$4,765,400 annually. The rate increase authorized herein is \$626,200, an increase in annual gross revenues of 13.1 percent.

7. Suburban's fiscal difficulties are directly related to an unusually low percentage of equity investment in its California utility operations. Under such circumstances, interim rate relief is not appropriate.

8. The step rates authorized herein should provide rate increases on January 1, 1976 of \$92,600 annually and on January 1, 1977 of \$92,600 annually to offset attrition.

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 Suburban Water Systems 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 30th day of DECEMBER, 1974.

Veran L. Stinson
President
William Symons Jr.
Thomas Moran
Robert E. McPherson
Commissioners

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Schedule No. 1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Covina, West Covina, La Puente, Glendora, Whittier, and vicinity, Los Angeles and Orange Counties.

RATES

Service Charges:	Per Meter Per Month			
	Before 1-1-76	1-1-76 Through 12-31-76	After 12-31-76	
For 5/8 x 3/4-inch meter	\$ 3.35	\$ 3.45	\$ 3.55	(N)
For 3/4-inch meter	3.60	3.75	3.85	(N)
For 1-inch meter	4.75	4.85	5.00	(I)
For 1-1/2-inch meter	6.80	7.00	7.10	
For 2-inch meter	9.40	9.50	9.75	
For 3-inch meter	17.00	17.25	17.50	
For 4-inch meter	24.00	24.25	24.50	
For 6-inch meter	40.00	40.25	40.50	
For 8-inch meter	57.50	58.50	60.00	(I)

Quantity Rates:

For all water delivered, per 100 cu.ft.

Tariff Area No. 1	\$0.214	\$0.216	\$0.218	(I)
Tariff Area No. 2	0.244	0.246	0.248	I
Tariff Area No. 3	0.274	0.276	0.278	(I)

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.

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Schedule No. 9-CF

All Tariff Areas

CONSTRUCTION AND TANK TRUCK SERVICE

APPLICABILITY

Applicable to all temporary water service rendered for street paving, grading and trench flooding, and for all water delivered to tank trucks from fire hydrants or other outlets provided for such purposes on a flat rate basis.

TERRITORY

Throughout all tariff areas.

RATES

Flat Rates:

For sprinkling subgrade of streets and other areas that are sprinkled for compaction, per 3,000 square feet of subgrade or compaction \$1.80 (I)

For Trench Settling:

Per lineal foot of trench up to 3 feet in width and 4 feet in depth027
Per lineal foot of trench from 3 feet to 6 feet in width and 4 feet in depth056
Per Lineal foot of trench up to 3 feet in width and from 4 feet to 8 feet in depth056 (I)

(Continued)

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Schedule No. 9-CF

All Tariff Areas

CONSTRUCTION AND TANK TRUCK SERVICE

RATES - Contd.

For Trench Settling:

Per lineal foot of trench up to 3 feet
in width and from 8 feet to 12 feet in
depth \$.084 (I)

Per lineal foot of trench from 3 feet to
6 feet in width and from 4 feet to 8
feet in depth11

Per lineal foot of trench from 3 feet to
6 feet in width and from 8 feet to 12
feet in depth16

For water delivered to tank wagon or
tank truck, per 100 gallons025

Minimum Charge for service under this schedule \$7.00 (I)

SPECIAL CONDITIONS

1. Any person desiring to obtain water deliveries under this schedule must first obtain a written permit from the utility.

2. At the option of the utility a meter will be installed for this type of service - in which event the schedule for this type of metered service for the appropriate tariff area will apply.

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Schedule No. 9-CF-2

All Tariff Areas

SERVICE TO TRACT HOUSES DURING CONSTRUCTION

APPLICABILITY

Applicable to tract houses being constructed as part of a total real estate development.

TERRITORY

Throughout all tariff areas.

RATE

For each residence for the entire construction period \$3.50 (I)

SPECIAL CONDITIONS

1. This rate is available only to real estate developers who undertake the construction of all or a substantial portion of the houses in a tract as part of the tract development. It does not apply to builders of houses in tracts subdivided for lot sales.
2. The water service, under this tariff schedule applies only to use of water for construction of residences. It does not include water use for garden irrigation or for model homes or for general tract improvement work.

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AUTHORIZED RATES TO OTHER UTILITIES
AND TO GOVERNMENTAL AGENCIES

<u>Customer</u>	<u>Per Contract Unit</u>		
	<u>Before</u> <u>1-1-76</u>	<u>Through</u> <u>12-31-76</u>	<u>After</u> <u>12-31-76</u>
Southwest Water Company Per 100 cu.ft.	\$0.109	\$0.11	\$0.111
La Habra Heights Mutual Water Company Per miner's inch hour	0.096	0.097	0.098
Murphy Ranch Mutual Water Company Per miner's inch hour	0.079	0.080	0.081
City of Santa Fe Springs Per acre-foot	30.49	30.49	30.49
City of West Covina, Cortez Park Per 100 cu.ft.	0.135	0.135	0.135