

ORIGINAL

Decision No. 84040

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
ROSSMOOR SANITATION, INC., for an  
Order Authorizing a Raise in Rates.

Application No. 54129  
(Filed June 22, 1973)

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George B. Goodale, for Moulton  
Parkway Residents Association #2,  
protestant.  
Cass Strelinski, for Park Water Co.;  
R. H. Knaggs, for Albert A. Webb  
Associates; Martin E. Whelan, Jr.,  
Attorney at Law, for various mutual  
housing corporations inside Leisure  
World, Golden Rain Foundation of  
Laguna Hills & Professional Community  
Management, Inc.; and Clayson, Stark,  
Rothrock & Mann, by Don Frederick  
Shefte, Attorney at Law, for Salinas  
Utility Services; interested parties.  
Janice E. Kerr, Attorney at Law, J. J.  
Gibbons, and Andrew Tokmakoff,  
for the Commission staff.

### O P I N I O N

By this application, Rossmoor Sanitation, Inc. (Rossmoor), a California corporation, seeks to increase rates for sewer service by \$197,384, an annual gross revenue increase of 32 percent. The rate increase request of Rossmoor is based upon the fiscal year ending September 30, 1973.

Notice of public hearings was published, posted, and mailed to each customer as required by this Commission. Hearings were held before Examiner Mattson in Laguna Hills, California, on February 26, 27, and 28, and March 20, and 21, 1974, and in Los Angeles, California, on March 22, 1974. Briefs have been filed and the matter is under submission.

History and Operations of Rossmoor

The California Public Utilities Code was amended so as to confer jurisdiction upon this Commission over sewer system corporations by 1970 Stats. c. 1109, 1971 Stats. c. 68 and 1971 Stats. c. 1631. As a result of these statutory amendments Rossmoor became a public utility subject to the jurisdiction of this Commission on July 1, 1972. On that date Rossmoor was operating as a public utility sewer service company in the county of Orange, State of California.

Rossmoor Sanitation, Inc. commenced its corporate existence July 31, 1963. A certified copy of Rossmoor's articles of incorporation were filed as an attachment to Application No. 53823, filed February 5, 1973.

Rossmoor Sanitation, Inc. is a wholly owned subsidiary of the Rossmoor Corporation. The parent Rossmoor Corporation acquired property in the southeast portion of Orange County for the purpose of developing a residential, commercial, and industrial complex in the early 1960s. Applicant Rossmoor Sanitation, Inc. and Rossmoor Water Co., a public utility water corporation, are both subsidiaries of Rossmoor Corporation. The two subsidiaries provide sewer and water service within the area intended for development by Rossmoor Corporation. Commencing in 1963 Rossmoor began providing sewer service in its service area in or about Laguna Hills, California.

Within its service area, applicant Rossmoor provides sewer service to substantial residential and commercial areas which have been developed since 1963. Development in the Rossmoor service area is by both affiliated and nonaffiliated subdividers.

A major initial development by Rossmoor Corporation, the parent, was a senior citizens residential area now known as Laguna Hills Leisure World. Commencing in the latter part of 1963 and for some time subsequent, the senior citizens development and substantially all single-family residence developments were financed by FHA loans. The Federal Housing Administration required execution of certain agreements regarding sewer service rates. These agreements, referred to as third-party beneficiary contracts by applicant, established initial maximum rates of \$3.50 per dwelling unit per month for the Leisure World development and \$4.00 per month for single-family residence developments. In 1971 a separate classification for service to a development known as the New World Condominium was created and a rate of \$4.50 per dwelling unit per month was established. Although the agreements provided procedures for rate increases, Rossmoor apparently never attempted to establish rates in excess of the initial maximums by means of such procedures.

Prior to July 1, 1972 Rossmoor suffered substantial operating losses. The retained earnings showed a deficit of \$417,563 as of September 30, 1971. The common stock equity on the balance sheet of Rossmoor is \$1,000,000. The common stock is held by the parent Rossmoor Corporation and the \$1,000,000 reflects an initial 1963 investment by the parent. In addition to the equity investment, initial capital was obtained by the sale of Series A, 6 percent first mortgage bonds due October 1, 1984 in the amount of \$1,600,000.

The development in applicant's service area has required substantial expenditures for construction of sewer facilities since 1963. Rossmoor has required developers to contribute sewer plant that is constructed within their specific projects. In addition to contributions of such in-tract facilities, developers have been required to pay Rossmoor a connection charge for each dwelling unit added to the system. These charges are reflected in contributions

in aid of construction and are used by Rossmoor to build backbone plant facilities, including treatment plant. Rossmoor has been able to finance necessary plant expansion from contributions since its initial capitalization. This fact is reflected in Exhibit 1, Schedule 9-A, page 41, where applicant shows utility plant in service of \$6,313,084, a reserve for depreciation of \$931,727 and contributions in aid of construction of \$3,374,407 as of September 30, 1973.

Rossmoor utilizes the employees of Rossmoor Water Company to perform necessary work. When these employees perform duties for Rossmoor, charges are assigned on a time card distribution basis.

The record reflects that Rossmoor operates a modern, efficient sewer system operation. There have been no service complaints. The Commission staff reported that Rossmoor is a well-managed company and that the accounting records and procedures were found to conform with generally accepted accounting principles.

#### RATE BASE

Considerable confusion developed in attempting to reconcile applicant's balance sheet with the determination of an appropriate rate base and capital structure. The in-tract facilities and connection fees from affiliated developers appear on the balance sheet as paid-in surplus. The in-tract facilities and connection fees from nonaffiliated developers appear on the same balance sheet as contributions in aid of construction. However, applicant is clearly in agreement with the basic staff calculation of rate base.

Both applicant and the staff excluded contributed plant from rate base. Moreover, the applicant and staff both included the in-tract facilities and connection fees from affiliated developers in total contributions. The staff used an average of beginning and end of fiscal year for utility plant and construction in progress. The staff did not include plant held for future use in utility plant. The staff allowance for working cash was zero.

Applicant accepted the staff's computation of rate base as set forth in Exhibit 2, paragraph 10, page 10, with the exception of the working cash item. A second disputed issue regarding rate base arose over treatment of the advance deposits for construction account.

#### Working Cash

Applicant computed its working cash requirement by dividing its annual cash operating expenses by six. The result is the cash required to carry the company sixty days under the operating expenses it should incur. However, the staff noted that applicant bills for a sixty-day period in advance of service. The staff witness concluded that Rossmoor required no working cash since the advance billings on flat rate service would generally give Rossmoor a month's lead time over expenses. Moreover, expenses other than labor usually lag over a month.

Witnesses on behalf of Rossmoor alleged that billings were not paid promptly. However, applicant had no cash flow studies to support its claimed need for working cash. While applicant's rules provide for a delinquency charge for late payments, applicant has apparently made no effort to advise its customers of such delinquency charges. Under the circumstances, the staff view that applicant's working cash requirements should be met by customer pre-payments is adopted.

#### Advances for Construction

Both the staff and applicant included construction work in progress in rate base. The applicant's witness Bernard explained that at the end of each fiscal year the advance deposits received on construction work in progress were added to the contributions accounts (contributions in aid or earned surplus). An account identified as advance deposits for construction was reduced by the amount of the advances added to contributions. After the fiscal year-end audit the entries are reversed.

The apparent purpose of the described accounting procedure is to accurately reflect the amount of construction work in progress (included in rate base) financed by advances received. The advances are added to the contributions accounts and the contributions reduce rate base. The entries are reversed after the fiscal year-end accounts are prepared, since a transfer from advances for construction to contributions is made when construction is completed on contributed plant, and the work order on such construction is closed to the appropriate utility plant accounts. The advances for construction account represents outstanding billings for in-tract construction and connection fees, and was excluded from the rate base calculation.

Unfortunately the advances transferred to the contributions accounts at fiscal year-end were advances for in-tract projects and did not include advances for connection fees. On September 30, 1973 the balance accrued in the advances account was \$472,319 and receivables for the account were \$96,889. Connection fees represented \$323,836 of the balance in the account and receivables for those fees were \$19,264.

Staff witness Finnstrom testified that he would reduce rate base by a portion of the amount in the advance deposits account, based on the information he received at the hearing. Without an examination of the figures, including an examination of bank accounts, he was not able to make a firm recommendation.

The total advances received by applicant at fiscal year-end have not been accounted for. Substantial payments have been received from developers and absent an adequate explanation by applicant the Commission would be justified in reducing rate base by the entire amount received. However, it appears that Rossmoor's billing and collection procedures on advances treat affiliated and nonaffiliated developers in substantially the same manner. Nothing in our record suggests any attempt by Rossmoor and its affiliates to control the net balance reflected in the advances account by means

of delayed payments. On the contrary, applicant's accounting procedures appear to be a substantial, albeit unsuccessful, effort to account for the funds received.

Connection charges in the amount of \$323,836 remained in the advances account on September 30, 1973 and receivables for those charges totaled \$19,264. The amount of contributions available to Rossmoor will be increased by \$304,000 for the test year to reflect the connection fee payments received.

The rate base for fiscal year ending September 30, 1973 adopted by this decision is set forth in Table 1. The rate base is \$2,007,700.

Table I

Rossmoor Sanitation, Inc.

Rate Base

Fiscal Year Ending September 30, 1973

Item	Applicant <sup>1/</sup>	Staff (Average) <sup>2/</sup>	Adopted
Utility Plant	\$6,313,084	\$5,946,300	\$5,946,300
Construction in Progress	681,127	541,500	541,500
Materials & Supplies	6,000	4,600	4,600
Working Cash	76,605	-	-
Subtotal	\$7,076,816	\$6,492,400	\$6,492,400
<u>Deductions</u>			
Reserve for Depreciation	931,727	826,800	826,800
Contributions	3,374,407	3,353,900	3,657,900 <sup>3/</sup>
Subtotal	\$4,306,134	\$4,180,700	\$4,484,700
Rate Base	\$2,770,682	\$2,311,700	\$2,007,700

<sup>1/</sup> Exhibit 1, Schedule 9-A, page 41.<sup>2/</sup> Exhibit 2, page 10.<sup>3/</sup> Includes Advances for Construction at \$304,000.



### RATE OF RETURN

Rossmoor has requested a 32 percent increase in existing rates and states that it will achieve a 6.40 percent rate of return at proposed rates. Rossmoor's rate of return was computed upon a year-ending rate base of \$2,770,682. Rossmoor did not present an analysis of its expected (or proposed) return on common equity at the 6.40 percent rate of return.

The staff Finance & Accounts Division presented two witnesses in support of staff rate of return Exhibits 3 and 3-A. The staff found actual debt and equity capitalization at September 30, 1973 of \$2,039,000 (Exhibit 3, page 4, paragraph 10). Staff witness Gibbons, by Exhibit 14, analyzed the applicant's balance sheet. He concluded that the advance deposits for construction account contained substantial amounts of customers' contributions which should be deducted from the staff's computed rate base. In this regard he confirmed the earlier opinion of staff witness Finnstrom.

The staff recommended rates that would produce an 8.1 percent return on total capital of \$2,039,200. According to the staff's Exhibit 3-A their recommendation would provide a return of 7.1 percent on the staff's 1973 rate base of \$2,311,700 and about 12.6 percent return on 1973 common equity of \$596,700. Exhibit 3-A states that the staff recommendation requires rates which produce net operating revenues of \$165,000 and gross revenues of \$795,500, and increase in gross revenues of \$150,000 or about 23 percent.

Rossmoor contends that the original equity investment of \$1,000,000 should be recognized in the return allowance. We will adopt the staff view that the original equity investment must be reduced to reflect the past operating losses. If we adopted Rossmoor's view the stockholder-parent would, in effect, recoup the entire deficit in earned surplus from the present customers. We will not authorize a regulated utility to charge its customers additional amounts in order to recoup past operating losses.

The evidence in this proceeding presents the Commission with a variety of different rate of return recommendations. Decision No. 80374 dated August 15, 1972 in Application No. 52796 authorized Rossmoor's affiliated water company a rate of return of 7.4 percent which enables that utility to earn approximately 8.79 percent return on equity. Table II sets forth our adopted rate of return of 7.31 percent. Based upon the staff's capital structure, the adopted rate of return should enable applicant to achieve a return of 10 percent on its common equity.

#### RESULTS OF OPERATIONS

Table III below sets forth a comparison of the results of operations presented by applicant and the staff, as well as the adopted results of operations. We shall utilize the fiscal year 1973. We have set forth our conclusions on the appropriate rate base and the rate of return for applicant. The applicant has stated that it would accept the summary of earnings as set forth in staff Exhibit 2, with the exception of the federal income tax calculation of the staff. Counsel appearing for various mutual housing corporations inside Leisure World and other interested parties (Leisure World) contends that the applicant has improperly excluded \$4,700 of interest income from advance deposits from 1973 revenues.

Table II  
 Rossmoor Sanitation, Inc.  
 Capital Structure  
Fiscal Year Ending September 30, 1973

Item	Amount <sup>1/</sup>	Percent	Ratio of: Invested Capital	Cost or Allow- ance	Weighted Costs
Long-Term Debt	\$1,442,500	25.02%	70.74%	6.19%	4.38%
Contributions	3,724,407	64.62	-	-	-
Common Stock Equity	596,715	10.36	29.26	10.00	2.93
Total	\$5,763,622	100.00%	100.00%		
Adopted Rate of Return					7.31%

1/ Staff's Exhibit 3, page 4, paragraph 10.

The Federal Income Tax Calculation

In its calculation of federal income tax in this proceeding, applicant computed its tax depreciation allowance for federal tax purposes on the basis of the amount it will actually have available. Applicant's calculation results in a lower depreciation allowance (and a higher total income tax) than the staff's calculation. Prior to July 1, 1972 applicant has taken the more rapid accelerated depreciation available under the federal tax statutes. Although applicant was incurring operating losses, the depreciation for tax purposes was available because applicant filed federal income tax returns on a consolidated basis with its parent corporation. Depreciation on contributed plant is not included in the tax calculation. As a result of the rapid depreciation taken in prior years, applicant no longer has available the tax depreciation allowance computed by the staff for federal tax purposes.

The staff urges that applicant's use of the depreciation actually allowable deprives today's ratepayers of the benefits of depreciation to which they are entitled. The staff does not appear to dispute applicant's contention that it had used up substantially all available accelerated depreciation prior to becoming a public utility under this Commission's jurisdiction.

We have attempted to adopt the capital structure and rate base of applicant as it exists at the present time. In our rate of return and rate base analysis we excluded capital consumed by past operating losses and all contributed plant. Consistent with our analysis of capital structure and rate base, the basis of applicant's property in terms of depreciation available for federal income tax purposes should be taken as the basis available as of July 1, 1972.

The right to utilize the more rapid depreciation under the federal tax laws and reduce tax liability was available to applicant and its parent prior to July 1, 1972. Applicant and its parent exercised that right when Rossmoor was not subject to our jurisdiction. There is no suggestion of any impropriety in the past conduct of applicant or its parent corporation. Under the circumstances it does not appear reasonable to impute allowances for tax depreciation in excess of those available to Rossmoor.

The total income tax liability is based upon applicant's computation of actual federal tax liability for 1973.

#### Interest Income

Counsel for Leisure World argues that interest income from developer's advance contributions should not be excluded from Rossmoor's revenues. The contention is that this income is derived from customer money.

We have reduced rate base by the estimated advance deposits for construction available to Rossmoor. Rossmoor's transactions with affiliated and nonaffiliated developers have reduced the need for investment capital. Based on the evidence available we conclude that Rossmoor's transactions with affiliated and nonaffiliated developers have not been detrimental to Rossmoor's customers.

We do not have a detailed report on Rossmoor's past and present use of advance contributions from developers. Under the circumstances, we will exclude the interest income item from the 1973 results of operations. Such exclusion at this time appears reasonable because the transactions with developers appear to be conducted to the advantage of Rossmoor and its customers. However, we will require that interest income be credited to the contributions account in the future in order to properly account for such funds.

#### Adopted Results

The adopted results of operations for Rossmoor are set forth in Table III. The adopted results include the cost of electric power at rates in effect on November 13, 1974. This item increases the operating and maintenance expenses by approximately \$15,300.

Table III

Rossmoor Sanitation, Inc.

Summary of Earnings  
1973 Test Year

Item	Applicant (Exhibit 2):		Staff (Exhibit 2):		Adopted	
	Company :		Company :		At : At 7.31% :	
	Present	Proposed	Present	Proposed	Present	Rate of
	Rates	Rates	Rates	Rates	Rates	Return
(Dollars in Thousands)						
Operating Revenues	\$640.0	\$837.4	\$644.7	\$844.9	\$644.7	\$802.4
<u>Operating Expenses</u>						
Maintenance	284.5	284.5	316.3	316.3	331.6 <sup>1/</sup>	331.6 <sup>1/</sup>
Administrative & Gen.	72.0	72.0	71.6	71.6	71.6	71.6
Depreciation	88.5	88.5	59.8	59.8	59.8	59.8
Taxes, Other than						
Income	103.2	103.2	126.2	126.2	126.2	126.2
Income Taxes	9.1	112.0	0.1	89.3	0.1	66.4
Total Expenses	\$557.3	\$660.2	\$574.0	\$663.2	\$589.3	\$655.6
Net Operating Revenues	\$82.8	\$177.2	\$70.7	\$181.7	\$55.4	\$146.8
Aug. Rate Base	\$2,770.7	\$2,770.7	\$2,311.7	\$2,311.7	\$2,007.7	\$2,007.7
Rate of Return	2.99%	6.40%	3.06%	7.86%	2.76%	7.31%

<sup>1/</sup> Electric power at November 13, 1974.

## RATES AND CHARGES

### Revenue Requirement

Based upon our 1973 estimated results of operations and rate base, applicant's proposed rates would result in net operating revenues of \$167,000 for the fiscal year 1973. Applicant's proposed rates would result in an 8.3 percent rate of return.

We have determined that the reasonable rate of return is 7.31 percent. Applicant's proposed rates are excessive. Based on our adopted estimates, applicant will require an increase of \$157,700 in gross operating revenues in order to achieve a return of 7.31 percent. The required increase in gross revenues is 24 percent.

### Applicant's Present and Proposed Rates

The present rates of applicant for residential sewer service range from \$3.50 per month per dwelling unit to \$4.50 per month per dwelling unit. The present rate structure purportedly is the result of a cost study made by Toups Engineering prior to July 1, 1972. The study is no longer available.

The applicant proposes to retain the existing rate relationships by increasing the rates by a uniform percentage. The staff supports this proposal.

The present \$3.50 rate applies to "Restricted Family Residences". The \$4.00 rate applies to "Unrestricted Family Residences". The \$4.50 rate applies to the unrestricted class where Rossmoor's ownership of sewer lines terminates within five feet of the building line, or extends under the building foundation.

Rossmoor's Rule No. 1 defines Restricted Family Residences as dwelling units restricted to adult only occupancy (by recorded deed or zoning) and all one bedroom apartment units. Unrestricted Family Residences are units which do not have adult only occupancy restrictions by recorded deed or zoning.

The staff recommends that the word "restricted" be deleted in the rule and rate schedules. The staff contends that the term "restricted" implies invidious discriminatory practices. We do not agree. The term appears to be descriptive of the situation within Leisure World, a retirement community where residential areas are restricted to adult occupancy only.

The proposed uniform percentage increase is strongly opposed by various mutual housing corporations inside Leisure World. A cost study was presented on behalf of these interested customers.

The Cost Study

Exhibit 16 was a cost study presented on behalf of various mutuals within Leisure World. The Leisure World restricted customers argue that the cost study establishes that the restricted customer classes are entitled to substantially lower rates than applicant proposes.

The cost study purports to fully allocate Rossmoor's costs for the 1973 fiscal year. Expenses for effluent disposal, pumping and treatment were allocated on assigned volumes of sewage. Collection and transmission expense was allocated using length of mains; customer account expense was allocated by number of bills. Exhibit 16 develops rates based on the cost study which produce gross revenues of \$845,231.

The proposed rates in Exhibit 16 would change the monthly charge to unrestricted customers from \$4.00 to \$7.76. Restricted rates, now \$3.50 monthly, would be \$3.49. The commercial rate of \$0.50 per 1,000 gallons would increase to \$1.03 per 1,000 gallons of sewage.

Witness Howard prepared and testified in support of the cost study. He assigned volumes of sewage flow to each customer class. Volumes of sewage for respective residential customer classes were developed by an inspection of the volumes of water taken by each class. Data on delivered water was available from the water company's rate proceedings. The estimated sewage volumes per



dwelling unit were checked against data on the average number of residents per dwelling unit in the restricted area and the unrestricted single-family residential areas. Witness Howard testified that the accepted estimates of sewage production per person, applied to the average persons per unit data, confirmed his estimates of sewage flow for residential customer classes.

The applicant presented rebuttal evidence. A study by Rossmoor of volumes of water delivered to the New World customers (an unrestricted class at the \$4.50 rate) was compared to Mutuals 60 and 61 (restricted customers at the \$3.50 rate). The restricted mutuals took an average of 210.64 gallons per day per meter in contrast to the New World average of 177.14 gallons per day per meter.

Witness Howard did not attempt to challenge the claim that Mutuals 60 and 61 would, under the assumptions used in the cost study, generate more sewage per unit than the New World area. He testified that the units in Mutuals 60 and 61 are quite similar to a house while most of the restricted area units are apartment complexes, condominium type. He stated that his data would be affected only minutely because Mutuals 60 and 61 are only 142 units.

The explanation of witness Howard raises serious questions regarding the validity of Rossmoor's residential customer classifications. A prior sewer company cost of service study by witness Howard (for California City) did not differentiate between restricted and unrestricted classes. The rates adopted in California City did establish higher rates for single-family residences than for other dwelling units, according to witness Howard. The evidence regarding Mutuals 60 and 61 indicates that classifications based on multiple units as contrasted to single-family type housing may be more appropriate than the restricted-unrestricted classifications used by Rossmoor.

Not only is the lower cost restricted classification for Mutuals 60 and 61 suspect, but also customer groups unrepresented by separate counsel were averaged into the restricted-unrestricted classes. In the case of mobile homes unrestricted, assigned volume of water used to develop the data to assign costs was an average of figures for the restricted and unrestricted areas. Witness Howard stated there were a minimal number of customers so it did not affect the numbers very much.

Using witness Howard's average figures, costs allocated to mobile homes (unrestricted) would apparently result in a monthly rate of \$3.83 (Table 6, allocated expenses; Table 1, number of connections). However, these minimal numbers of customers fall into the unrestricted class and were averaged into that group. Their proposed monthly rate becomes \$7.76. As to this small group of customers, averaging has affected their numbers very much indeed.

If the cost study is assumed to be valid, the present residential customer classifications of Rossmoor would appear to be invalid. Witness Howard's testimony that the Leisure World area is largely apartment-type condominium housing may explain why his assigned costs are lowest for the restricted class. It does not explain why the restricted to adults only classification should be continued when that classification includes all types of residential housing. The differential in residential rates between restricted and unrestricted customers cannot be continued indefinitely if its only support is "rate history".

Both applicant and the staff recommend uniform percentage increases to all customers. No party has requested any change in substance in Rossmoor's present customer classifications. While we must recognize that this is our first review of Rossmoor's residential rate classifications, we cannot accept those existing classifications uncritically.

The residential customer rate classification based upon ownership of sewer lines will be discontinued. This classification has a present monthly rate of \$4.50 to New World customers. Not only is the additional \$0.50 charge unsupported by any evidence of additional cost related to such surcharge, the evidence regarding Mutuals 60 and 61 indicates that New World customers may generate less sewage per dwelling unit than mutuals that qualify for the \$3.50 monthly rate.

At this time we will continue the existing rate differential of \$0.50 monthly between restricted and unrestricted classes. The rate increase authorized herein will increase the remaining residential rate classifications by the same amount. The resulting rate spread will continue the present \$0.50 differential between the residential classes.

Rossmoor should, by a study of customer classes, present revised classifications which delete the restricted to adult only distinction. The record indicates that rate classifications for residential sewer service have been based upon the type of dwelling unit (single-family residence vs. apartment units). The number of occupants per unit or the square footage per unit may provide a basis of classification. If no rational basis can be found or recommended, a single residential flat rate may become appropriate.

#### Connection Charges

The Hydraulic Branch of the Utilities Division of the staff opposes continuation of the connection charge received by Rossmoor for each new service added. The connection charge in question is used to pay for backbone plant. New construction in Rossmoor's service area is by developers. Developers pay the cost of in-tract mains and services as well as such connection charges. The position of the Hydraulic Branch of the Utilities Division is that such connection charges are unfair. The charges clearly involve a contribution of money to the utility for the privilege of receiving service. The Hydraulic Branch contends that such a charge is inconsistent with established regulatory policy.

The Finance and Accounts Division of the staff, counsel for Leisure World, and applicant recommend retaining the connection charges. There is no contention that connection charges have been improperly used by Rossmoor. The fact is that 65 percent of the capital used to supply utility plant is represented by monies from such charges and in-tract contributions.

Sewer service in the State of California is provided largely by publicly owned systems. Only a very small number of sewer systems are privately owned operations under this Commission's jurisdiction. Connection charges similar to Rossmoor's are a common practice in the publicly owned systems. Such charges are collected to finance plant construction.

If we were to terminate Rossmoor's connection charges, developers in Rossmoor's service area would benefit by lower construction costs. Customers of Rossmoor would, in the future, support additional invested capital required for plant construction in their rates. The termination of connection charges would require present customers, who enjoy lower rates as a result of the unusually large amount of contributed plant, to pay higher rates as a result of a lower level of contributions.

We agree with the Hydraulic Branch that large amounts of customer supplied capital require careful surveillance. The situation is subject to possible abuse. Our order will establish appropriate accounting requirements and controls for the contributed monies, for such contributions should not be confused with earned surplus.

The practice of using connection charges to pay for utility plant construction in the sewer industry is too well established and too pervasive to alter at this late date. It has benefited Rossmoor's customers, and they support its continuation. Connection charges will be authorized, subject to appropriate regulations as set forth by our order herein.

AD VALOREM TAXES

Counsel for Leisure World has called the matter of ad valorem taxes to our attention. The Orange County Assessor has imposed ad valorem taxes upon contributed plant as well as the plant financed by the capital invested in Rossmoor's operations. Of course, Rossmoor is not entitled to a return on contributed plant, and we have excluded contributed plant from rate base.

The Los Angeles County Assessor does not impose taxes upon contributed plant, and substantial arguments may be advanced in support of such exclusion. However, the Orange County Assessor has rejected those arguments and the test year reflects the tax imposed on contributed plant. We cannot determine the exact additional cost to customers of the ad valorem tax on contributed plant, but it appears to be in excess of \$50,000 for the test year 1973.

We cannot, of course, predict the outcome of any informal or formal action Rossmoor may take regarding this tax matter. What is clear is that Rossmoor management cannot expect the Commission to recognize the very high annual cost to its customers of the present ad valorem tax situation unless Rossmoor has pursued all available reasonable appeals to reduce this cost. Rossmoor will be required to report on the action taken. Such report shall include proposed rate reductions if Rossmoor is able to obtain any substantial reduction of its present ad valorem tax expense.

INTERESTED PARTIES

Salinas Utility Services (Salinas), a public utility sewer corporation, appears as an interested party in this proceeding. On behalf of itself and other privately owned sewer corporations, Salinas expresses concern that determinations made in this proceeding might bind other regulated sewer corporations by way of dictum. We can only respond that the regulatory principles applied to Rossmoor will be applicable to other privately owned sewer corporations. This Commission intends to assure California utility customers adequate service at reasonable rates.

Findings

1. It is reasonable to use the fiscal year ending September 30, 1973 for the test year in estimating the revenue requirements of applicant.
2. A reasonable rate of return for applicant is 7.31 percent based upon the 1973 test year.
3. The reasonable estimates for applicant's results of operations, rate base, and rate of return for the test year 1973 are set forth in Table III.
4. Applicant's annual gross revenues for the test year 1973 are estimated as \$644,700 at present rates. Applicant requires annual gross revenues of \$802,400 in order to achieve a rate of return of 7.31 percent.
5. Applicant will be authorized to increase rates by \$157,700 annually, an increase in gross revenues of 24 percent.
6. The increases in rates and charges authorized herein are reasonable. The present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

7. The present residential customer classifications of applicant are unreasonable. Applicant should file amended rules deleting the residential customer classification for Unrestricted Family Residences based upon ownership of sewer lines. Applicant should prepare recommended revised rates and rules for residential customer classes after further study. The parties to this proceeding should be given an opportunity to comment upon any such proposed rates and rules.

8. Applicant should develop and present recorded data for 12 months ending December 31 of the year preceding any test year presented in any future rate proceeding. The test year should also be presented as 12 months ending December 31. Applicant should prepare and present a detailed account of its use of advances received from developers in any future rate proceeding. Applicant should account for all connection fees and in-tract contributed plant as contributions and not as paid-in surplus.

9. Applicant should use straight-line remaining life depreciation rates as set forth in Exhibit 2, Table 3 of this proceeding until further study becomes necessary. Review of depreciation accruals should be made at intervals of not more than three years.

10. Applicant should continue its present practice of requiring developers to contribute in-tract plant and to pay connection fees. The amount charged developers for connection fees should be established as a condition of service filed with this Commission.

11. The application should be granted to the extent set forth in the preceding findings upon the conditions set forth in the following order.

#### O R D E R

IT IS ORDERED that:

1. After the effective date of this order applicant is authorized to file the revised rate schedules and rules attached to this order as Appendix A. Such filing shall comply with General

Order No. 96-Series. The effective date of the revised schedules shall be five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

2. Applicant shall file amended rules deleting the residential customer rate classification for Unrestricted Family Residences based upon ownership of sewer lines.

3. Applicant shall prepare a study and recommend revised rates and rules for classification of residential customers within six months of the effective date of this order. Applicant shall file such report and recommendation with the Commission and concurrently serve all appearances with a copy of such filing. All appearances may comment on such report within sixty days after the date of filing.

4. Applicant, in any report filed with this Commission, shall account for all contributions of in-tract plant and connection fees received from developers, both affiliated and nonaffiliated, as contributions in aid of construction and not as paid-in surplus. Interest income on advance deposits for construction shall be accounted for as a credit to the contributions account.

5. Applicant shall refile rate Schedules Nos. 4 and 5 as conditions of service, and shall set forth the amounts to be charged as connection fees at the levels presently charged. Modification of the amounts to be charged shall be by advice letter filing and shall be subject to approval by resolution of the Commission.

6. Applicant shall adopt straight-line remaining life depreciation rates as set forth in the staff's Exhibit 2, Table 3. Applicant shall determine the accruals for depreciation by dividing the original cost of the utility plant, less estimated future net salvage, less depreciation reserve, by the estimated remaining life of the plant. Applicant shall review the depreciation rates whenever major changes in utility plant composition occur or at intervals of



not more than three years. Results of these reviews shall be submitted to this Commission.

7. Applicant shall make all reasonable efforts to obtain relief from the taxes presently imposed on contributed plant. Commencing six months from the effective date of this order, applicant shall advise the Commission staff of the action taken and shall continue to advise the staff of the status of the matter until such efforts are concluded. Should applicant obtain a reduction in its tax expenses in this matter, applicant shall advise the Commission staff and propose appropriate rate reductions.

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

Dated at San Diego, California, this 4<sup>th</sup> day of FEBRUARY, 1975.

Vernon L. Stenger  
President  
William J. Lyons  
Donald Ross  
Commissioners

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Schedule No. 1

GENERAL RESIDENTIAL SERVICE

APPLICABILITY

Applicable to General Residential Sewer Service.

TERRITORY

El Toro, Laguna Hills, Rossmoor Leisure World and vicinity, Orange County.

RATES FOR SEWER SERVICE

Unrestricted Family Residences .....	\$4.95 per month, per residential dwelling unit	(I)
		(D)
Restricted Family Residences .....	\$4.45 per month, per residential dwelling unit	(I)

TERMS OF PAYMENT

All sewer charges are payable in advance on the first day of the period for which the bill is rendered.

ASSOCIATIONS, APARTMENTS, CONDOMINIUMS, AND OTHER MULTIPLE RESIDENCES

When more than one residential dwelling unit is connected to the system of Rossmoor by service connections less in number than the number of residential dwelling units serviced, the rate per residential dwelling unit, as set forth above, shall be due and payable for each and every living or dwelling unit connected to the system.

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Schedule No. 2

COMMERCIAL AND INDUSTRIAL SERVICE

APPLICABILITY

Applicable to commercial and industrial service.

TERRITORY

El Toro, Laguna Hills, Rossmoor Leisure World and vicinity, Orange County.

SERVICE CHARGES TO COMMERCIAL AND INDUSTRIAL SERVICE

- (A) The service charge to commercial and industrial customers, hereinafter in this rule referred to as "customer", shall be based on the actual amount of sewage to be discharged into the Rossmoor Sanitation, Inc. system.
- (B) The basic service charge shall be \$0.63 per 1,000 gallons of sewage to be discharged. The minimum service charge shall be the amount equal to the charge for single-family residences, as set forth in Tariff Sheet No. 1 of Rossmoor Sanitation, Inc. (I)
- (C) The actual amount of sewage so discharged shall be defined and determined by Rossmoor Sanitation, Inc. in accordance with one of the following methods:

Method 1:

By the application of a water use factor to the amount of metered domestic water use of the customer's establishment.

The customer's establishment shall be classified as to the ratio between the rate of sewage discharge and the actual metered rate of domestic water use. Said ratio shall be determined by Rossmoor Sanitation, Inc. and shall be termed "factor".

(Continued)

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Schedule No. 2

COMMERCIAL AND INDUSTRIAL SERVICE

SERVICE CHARGES TO COMMERCIAL AND INDUSTRIAL SERVICE - Contd.

Example: Class 1 establishment

Metered water use by customer's establishment for a two-month billing period - 20,000 gallons - Factor 0.9.

Service charge for the two-month billing period equals  
 $20 \times 0.9 \times \$0.63 = \$11.34.$

(I)

Method 1 shall be used initially for all commercial and industrial establishments.

Rossmoor Sanitation, Inc. may change said factor or estimated discharge rate from time to time on the basis of the increase or the decrease in the estimated sewage discharge rate.

Method 2:

By the actual measurement by meter sewage discharge from the customer's establishment and the application of the service charge to the measured discharge.

Example: Measured total sewage discharge from customer's establishment for a two-month billing period - 22,000 gallons.

Service charge for the two-month billing period equals  
 $22 \times \$0.63 = \$13.86$

(II)

This method shall be used only when requested by the customer, and only where metering of the sewage discharge is possible and practical. All metering shall be performed by or under the supervision of Rossmoor Sanitation, Inc. and at the expense of the customer.

(Continued)

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Schedule No. 2

COMMERCIAL AND INDUSTRIAL SERVICE

SERVICE CHARGES TO COMMERCIAL AND INDUSTRIAL SERVICE - Contd.

Method 3:

By the estimation by Rossmoor Sanitation, Inc. of the sewage discharge rate from the customer's establishment.

The estimated sewage discharge rate shall be based on standard and accepted methods such as fixtures, unit count, etc.

Example: Estimated total sewage discharge for a two-month billing period - 22,000 gallons.

Service charge for the two-month billing period equals  
 $22 \times \$0.63 = \$13.86$

(I)

This method shall be used only where no records of actual water use are available and where metering of sewage discharge is impractical.

Rossmoor Sanitation, Inc. may change said factor or estimated discharge rate from time to time on the basis of the increase or the decrease in the estimated sewage discharge rate.

- (D) The basic rate of \$0.65 per 1,000 gallons for sewerage service shall (I)  
apply where sewage discharged is equivalent in strength to ordinary domestic sewage. For the purpose of these rules ordinary domestic sewage shall be defined as sewage continually having a suspended solids concentration not exceeding 300 ppm, a 5-day B.O.D. of not more than 300 ppm, and having no unusual concentration of chemicals or minerals which would have an adverse effect on the Rossmoor Sanitation, Inc. sewerage system.

(Continued)

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Schedule No. 2

COMMERCIAL AND INDUSTRIAL SERVICE

SERVICE CHARGES TO COMMERCIAL AND INDUSTRIAL SERVICE - Contd.

- (E) Should sewage discharged by any commercial or industrial establishment be determined to have suspended solids or B.O.D. concentration in excess of 300 ppm for significant periods of time, the basic rate for that establishment shall be increased by the ratio between the determined actual B.O.D. or suspended solids concentration and 300 ppm, whichever ratio is the larger.

Example: Determined B.O.D. - 400 ppm  
Determined suspended solids concentration - 450 ppm

Service charge -  $\frac{450}{300} \times \$0.63 = \$0.945$  per 1,000 gallons of actual sewage discharge (I)

- (F) Should the sewage discharged by any commercial or industrial establishment be determined by Rossmoor Sanitation, Inc. to have excessive concentrations of adverse chemicals or minerals, the basic rate will be increased by a factor established by Rossmoor Sanitation, Inc. based on the effect of said concentrations on the Rossmoor Sanitation, Inc. sewerage system. Rossmoor Sanitation, Inc. may change said factor from time to time on the basis of analysis of sewage quality.
- (G) In no case will Rossmoor Sanitation, Inc. accept sewage having either B.O.D. or suspended solids concentrations in excess of 500 ppm for significant periods of time, or sewage having chemical or mineral concentrations which, for significant periods of time, will have excessive adverse effect on the Rossmoor Sanitation, Inc. system. The degree of significance shall be determined by Rossmoor Sanitation, Inc. For further delineation of limitation of wastes see other sections of these Rules and Regulations. (D)

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Schedule No. 2

COMMERCIAL AND INDUSTRIAL SERVICE

SERVICE CHARGES TO COMMERCIAL AND INDUSTRIAL SERVICE - Contd.

- (H) Should Rossmoor Sanitation, Inc. determine that any commercial or industrial customer is, for significant periods of time, discharging sewage into its system which does not comply with the limitations of Paragraph (G) above, Rossmoor Sanitation, Inc. may upon two days' written notice, discontinue service to that customer indefinitely or until that customer furnishes satisfactory evidence of continuing conformance with the limitation of said Paragraph (G).
- (I) Rossmoor Sanitation, Inc. may require from any prospective customer, and prior to commencement of service to that customer, a statement as to the quantity and quality of sewage to be discharged into its system. At the option of Rossmoor Sanitation, Inc. the statement may be used to any degree in determining the sanitation service fee to be charged the customer. In the event there is a difference between the basis for service fee determined by Rossmoor Sanitation, Inc. and that received from the prospective customer, Rossmoor Sanitation, Inc. shall make appropriate determination. (T)

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PARAGRAPHS MODIFIED OR DELETED  
SCHEDULES AND RULES

(Present Schedule No. 4)

CONNECTION CHARGES FOR RESIDENTIAL CUSTOMERS

- (A) The connection charge for any unrestricted family residential dwelling unit shall be \$239.00 for each dwelling unit. (C)  
(D)
- (B) The connection charge for any multiple family residential dwelling unit shall be \$119.50 for each dwelling unit. (C)  
(D)
- (E) Rossmoor Sanitation, Inc. may require from any prospective residential customer and prior to commencement of service to that customer, a statement as to the quantity and quality of sewage to be discharged into its system. At the option of Rossmoor Sanitation, Inc. the statement may be used to check if the connection fee to be charged to the customer should be residential or commercial, if it does not meet the characteristics of ordinary domestic sewage as to quantity and quality. (T)  
|  
(T)

(Present Schedule No. 5)

CONNECTION CHARGES FOR  
COMMERCIAL AND INDUSTRIAL CUSTOMERS

- (B) The basic connection charge shall be an amount equal to the number of gallons of sewage to be discharged into the Rossmoor Sanitation, Inc. system each day times \$0.60. (C)  
(D)
- (E) The minimum connection charge for any commercial or industrial establishment shall be \$239.00 and no adjustment below that amount will be allowed. (c)

(Continued)



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(Present Schedule No. 5)

CONNECTION CHARGES FOR  
COMMERCIAL AND INDUSTRIAL CUSTOMERS  
(Continued)

- (G) If the sewage discharged by a commercial or industrial establishment does not conform to the definition of ordinary domestic sewage as set forth in Rule 10(D), the basic rate set forth in (B) above shall be increased proportionately by the method set forth in Rule 10(E) and/or Rule 10(F). This increase will be determined by Rossmoor Sanitation, Inc. either before connection or within 2 years thereafter. Immediately upon notification of a customer of such an increase, it shall be due and payable in 15 days and failure to pay shall be grounds for disconnection of service to the customer by Rossmoor Sanitation, Inc. (T)  
(T)
- (H) Rossmoor Sanitation, Inc. may require, from any prospective commercial or industrial customer, and prior to commencement of service to that customer, a statement as to the quantity and quality of sewage to be discharged into its system. At the option of Rossmoor Sanitation, Inc. the statement may be used to any degree in determining the connection fee to be charged the customer. (D)