SW/JR *

Decision No. 84211

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SANTA PAULA WATER WORKS, LTD., a California corporation, For Authorization to Increase Rates and Charges for Water Service.	Application No. 54653 (Filed February 15, 1974; amended August 6, 1974)

Gibson, Dunn & Crutcher, by Raymond L. Curran, Attorney at Law, for applicant.
Robert C. Durkin and I. B. Nagao, for the Commission staff.

O P I N I O N

By this amended application, Santa Paula Water Works, Ltd. (applicant), a California corporation, requests increases in measured water rates which are designed to increase its annual revenues in test year 1974 by $94,190 over the rates now in effect.[1/] At proposed rates applicant estimates its total operating revenues at $643,610, an increase of 17.2 percent over present rates.

Copies of the application and amendment were duly served and notice of hearing was published, posted, and mailed to applicant's customers.

Public hearing was held at Santa Paula on October 24, 1974 before Examiner Levander, and the matter was submitted on that date.

1/ Resolution No. W-1549 authorized increased rates to offset increased purchased power costs in the amount of $33,700. This increase was effective as of May 5, 1974.

Applicant provides general metered, limited irrigation, resale, temporary construction, contract, public fire protection, and private fire protection water service to approximately 5,300 customers located in and around the city of Santa Paula, in Ventura County.

Applicant shares personnel, office facilities, and shop facilities with Farmers Irrigation Company (Farmers), a public utility, Thermal Belt Mutual Water Company (Thermal), and Middle Road Mutual Water Company. The four associated companies share office space rented from the Limoneira Company (Limoneira). Limoneira owns 28 percent of applicant's stock, which is the largest holding.

Applicant, Farmers, and Thermal all have production facilities at a single site. The land and improvements, which include a shop building of applicant's, are recorded on the respective books of the associated companies. A work order and time card system is utilized to record direct charges of time and material expended for the benefit of each of the associated water companies. Electric submetering is used to determine the distribution of electric power costs between the companies in proportion to their recorded use of power. Applicant also shares a booster station site with Farmers and distributes costs through electrical submetering allocations.

During 1973 an average of 26 people worked for applicant. These employees also performed services for the three associated water companies and for Limoneira. Applicant alleges that the effective average number of personnel working for it is 18.

Applicant prorates payroll costs of administrative personnel between the associated water companies based upon a judgmental allocation of the proportional time spent working for each of the companies. Approximately 70 percent of this total is charged to applicant, a percentage which closely corresponds to the recorded 1972 distribution of direct time charges to applicant by its field and shop personnel. Approximately three-quarters of the salaries of applicant's president, secretary, treasurer, and a clerk are paid for by Limoneira. The remaining 25 percent of their salaries are allocated to the four water companies.

Two independent systems supply the demands of applicant's general metered and irrigation customers. Three wells, with a combined capacity of approximately 3,650 gpm, two of which are utilized primarily for irrigation service, can be utilized in either system. Applicant owns a dam used for diverting water from the Santa Paula Creek to its 658,000-gallon Canyon Reservoir and to its screen house. Applicant has experienced growing maintenance problems associated with a conduit connecting Canyon Reservoir to its screen house. The creek water is used solely for irrigation purposes at this time. On January 21, 1971, the State Department of Health directed applicant not to utilize water diverted from Santa Paula Creek for domestic purposes without full treatment. When surface supplies are not available for the irrigation system, water is supplied to that system from wells and booster pumps at a higher cost than the gravity water supply from Santa Paula Creek.

Most of applicant's irrigation customers are served from its Canyon Gravity Line located roughly parallel to and westerly of Santa Paula Creek. The La Cuesta Ranch (Ranch) takes water from applicant's gravity diversion conduit and utilizes its own booster station installations to irrigate its property. A Ranch booster is also supplied with water from applicant's Canyon Pump Line.

The owners of groves on the southeast side of Santa Paula Creek and north of Mud Creek divert water by pumping directly from the surface supply.

There are five contract customers who are diverting small quantities of untreated Santa Paula Creek water.

Applicant's potable water system is supplied by six wells with a combined capacity of approximately 5,750 gpm, by deliveries taken from one of Farmers' wells and by the wells which can be utilized for its irrigation system. The potable system is divided into three pressure zones. Applicant uses six reservoirs with a combined capacity of 6,155,000 gallons and seven booster pump stations to supply its potable system.

There has been a continued degradation of water quality in the ground water basin utilized by applicant. A recent test indicated that water from all of its wells, except for Well No. 11, exceeds 1,000 parts per million of total dissolved solids, the State Health Department limit on total dissolved solids. The nitrate concentration in applicant's well supplies has been increasing. The concentration of nitrate from three of the wells slightly exceeds the 45 parts per million limit prescribed by the United States Public Health Service. Applicant's water supplies all have concentrations of dissolved solids well below the 1,500 parts per million temporary limit for total dissolved solids.

Applicant has contracted for a master plan study for meeting its water supply and water quality requirements. The basic alternative programs for improving water quality are:

(a) To construct water treatment facilities for its creek supply at a present cost of approximately $1,500,000. Total dissolved solids in the creek supply range from 400 to 700 parts per million. This supply would not be available in the summer time, applicant's period of greatest usage.

(b) To construct an impounding reservoir in order to participate with the United Conservation District (United) in delivering northern California water to the Santa Clara Valley area.

(c) A combination of alternatives (a) and (b).

Before an economic choice of the most cost effective alternative can be made, United must advise applicant how, in what time limit and at what initial capital cost to applicant it intends to provide for the importation of northern California water.

In addition, an environmental dispute involving the United States Corps of Engineers construction of flood control facilities in Santa Paula Creek must be resolved. If the flood control facilities are constructed according to plan, a spillway will pass through applicant's diversion works requiring a relocation and extension of applicant's irrigation system.

A near term solution to these problems is not anticipated by applicant. Applicant points out that the Engineering News Record Construction Cost Index for the Los Angeles area since 1970 has increased at an average annual rate of 14.5 percent. Applicant doubts that it can drill a well supplying high quality water. Implementation of any of these plans would markedly increase applicant's revenue requirements.

Results of Operation

The following tabulation compares applicant's and staff's summary of earnings at present and proposed rates for test year 1974 and the adopted summary of earnings at present rates and at the rates authorized herein, which are contained in Appendix A attached to this decision. The basis for the adopted results are described in the following paragraphs.

Summary of Earnings
(Estimated Year 1974)

Item	Present Rates: Applicant	Present Rates: Staff	Proposed Rates: Applicant	Proposed Rates: Staff	Adopted Results: Present Rates	Adopted Results: Authorized Rates
	(Dollars in Thousands)					
Operating Revenues	$ 549.4	$ 549.4	$ 643.6	$ 643.6	$ 537.6	$ 628.4
Operating Expenses						
Oper. & Maint. Exp.	238.0	238.9	238.1	239.0	236.9	237.0
Admin. & Gen. Exp.	94.9	98.5	94.9	98.5	98.5	98.5
Depreciation	47.7	48.3	47.7	48.3	48.3	48.3
Taxes, Except Income	52.5	51.9	52.5	51.9	51.9	51.9
Income Taxes	32.5	29.9	82.0	79.5	24.8	72.5
Total Expenses	465.6	467.5	515.2	517.2	460.4	508.2
Net Operating Revenue	83.9	81.9	128.4	126.4	77.2	120.2
Average Rate Base	1,472.2	1,486.1	1,472.2	1,486.1	1,486.7	1,486.7
Rate of Return	5.70%	5.51%	8.72%	8.51%	5.19%	8.09%

There are no revenue differences between the normalized water sales estimated by applicant and by the staff. Applicant's purchased power estimate is $3,550 higher than the staff's estimate because it was based upon a fuel adjustment requested by its supplier, Southern California Edison Company (Edison), rather than on the authorized fuel adjustment. The staff estimate utilized Edison's authorized rates as of August 19, 1974 for 3,443,567 kwh.

Both applicant and the staff estimated a major increase in consumption to 79,500 Ccf per year by Shell Oil, one of applicant's industrial customers, to carry out an oil field flooding program beginning in January 1974. Our adopted revenues reflect sales to Shell Oil of 18,000 Ccf based upon annualization of ten months of recorded sales. The corresponding adjustment would reduce purchased power expenses to $93,000 for 3,339,000 kwh at Edison's August 19, 1974 rates.

Applicant seeks to change its rules to increase its reconnection charge from $1, regardless of the time the reconnection is made, to $5 during normal working hours and $10 for after working hours to recover the expenses associated with such reconnections.

Applicant's five contract customers have been diverting quantities of water from Santa Paula Creek in excess of their contractual limits. Applicant contends that much or all of this excess diversion is wasted but that contract termination could be difficult to enforce. It seeks the option of either terminating its agreements when excess quantities of water are diverted or of charging for such excess diversion at the tailblock rate contained in its general metered service schedule. Applicant anticipates a material decrease in such excess diversions if this policy is carried out. The revenues associated with charges for such excess diversions and for reconnection charges, not reflected in either applicant or staff estimates, are included in our adopted revenues.

We will adopt the staff's annualized estimates for payroll expense and for office rentals which are based upon current payroll levels and current rentals.

We will adopt the staff estimates of taxes other than income. The staff property tax estimate is based upon actual assessments and the latest tax rates. The staff estimate of payroll taxes reflects the adopted payroll adjustments.

There is no difference in approach between applicant and the staff in estimating income taxes. These taxes are dependent on the level of net operating income.

Applicant's consultant prepared a straight line remaining life depreciation study on applicant's utility plant which was utilized by the staff. Applicant should utilize this study for book purposes until a further review warrants revision of these depreciation rates. We will adopt the staff estimates of utility plant ($2,567,300) and reserve for depreciation ($826,800), which are components of rate base and of depreciation expense, all of which are based upon later recorded data.

We will adopt the staff's estimate of $16,500 for construction work in progress based upon the average of the last four years of recorded data and of the staff's use of later data on applicant's actual construction program. The staff adjustmentsto materials and supplies, based upon recorded inventory for the last two years adjusted for removal of meter parts which should more properly be reflected in Account 754 and upon an adjustment of inventory to allocate a portion of the supplies to the other three associated water companies, are reasonable. Applicant's consultant concurs in the latter adjustment.

Applicant and staff utilized the staff's simplified method for calculating the working cash allowance. The working cash allowance included in the adopted rate base reflects adopted operating results.

We will adopt the staff's estimate of advances for construction and contributions in aid of construction. These are based in part on later recorded data and reflect reclassification of the unrefunded amount in an expired main extension contract from advances for construction to contributions in aid of construction.

Both applicant and staff show an upward trend in rate of return from 1973 to 1974 at both present and proposed rates. These projections are distorted by the overestimate of sales to Shell Oil. Even if this usage materialized in a future year the growth rate of revenues would not necessarily continue.

Rate of Return

Applicant states that its cash position has deteriorated since the commencement of its preparation for this proceeding and that its capital structure will contain an estimated outstanding debt of $290,000 at an effective interest rate of 11.20 percent on December 31, 1974. Applicant's estimated end-of-year rate base approximates its pro forma capitalization. It requests authorization of its proposed rates to provide an 8.72 percent rate of return on its estimated 1974 rate base which will yield 12.50 percent on its common equity. Applicant's estimate of its pro forma, end-of-year capital structure at proposed rates is shown in the following tabulation.

Rate of Return on Pro Forma Capital Structure

Capital Components	Capital Ratio	Cost Factor	Weighted Cost
Notes Payable	18.25%	11.20%	2.04%
Preferred Stock	47.20	5.00	2.36
Common Stock	34.55	12.50	4.32
Total	100.00%		8.72%

Applicant requests that the Commission give consideration to its level of earnings so that, when necessary, it may obtain a loan of approximately $1,000,000 to help finance a program to improve the quality of the water supplied by it. Applicant states that the financial criteria which it must meet to be eligible for a long-term loan is that its net income before interest and income taxes shall be two times its interest coverage.

The staff financial examiner states that at proposed rates the rate of return of 8.51 percent on the staff rate base will produce a return on common stock equity of approximately 11.6 percent utilizing applicant's September 30, 1974 capital structure. He concludes that this rate of return on rate base is not unreasonable and that a return on applicant's common equity of 12 to 12.5 percent is reasonable.

We conclude that the granting of the rate increase requested by applicant will not result in an unreasonable rate of return.

<u>Service</u>

Service has been generally satisfactory. Applicant proposes to install larger mains in the Fern Oaks area in 1975 to eliminate pressure complaints.

<u>Rate Design</u>

Applicant's existing general metered service schedule contains five quantity rate blocks, with minimum charges for various meter sizes which entitle customers to the quantity of water which that minimum charge will purchase at the quantity rates. Applicant's amended application proposes two quantity rate blocks with service charges for various meter sizes, lower than present meter minimums, which are additive to the quantity charge computed at the quantity rates.

Applicant derived its proposed readiness-to-serve charges from a cost of service analysis allocating customer functional components of costs between different meter sizes. The quantity rates were designed to yield the revenue requirements desired by applicant and to result in as uniform as possible percentage rate increases for various consumption levels and meter sizes.

Applicant prepared a cost of service study to determine revenue requirements for its irrigation customers. The total allocation of cost to the irrigation class appears to be reasonable. Applicant followed its historical pattern of assigning twice the unit cost of water for well supplies as compared to creek supplies. Applicant's witness testified that this pattern should be continued rather than adhering strictly to cost of service considerations to the mutual benefit of applicant and of its irrigation customers; that if strict cost of service considerations governed there would be a drop in rates for creek supplies and an increase for pumped well water supplies; that if this occurred applicant would have an incentive to not utilize available gravity flows but could increase its revenues through increasing the proportion of pumped water in the mix delivered to its irrigation customers.

A staff engineer testified that applicant's proposed pattern of rate spread is equitable; that its proposal to convert its general metered service structure to a service charge rate structure has been designed to minimize the disproportionate increases which usually accompany these conversions and that at proposed rates revenues would increase by 16.9 percent for this class of service; that the large irrigation increases are based on a cost of service study prepared by applicant to which he found no significant objections; that the charges for excess diversion for the five contract customers above their contract diversion limits is not expected to generate significant revenues but is requested as a means to curtail their excessive diversions; and that the proposed increase in reconnection charges more closely reflects actual reconnection costs.

Accounting Recommendations

The staff accountant recommends that applicant adjust its materials and supplies account to reclassify its meter parts inventory to an appropriate expense account and to allocate portions of the inventory to the other three water companies; that applicant enter a journal entry to reclassify its expired main extension contract with a journal entry debiting advances for construction by $28,269, crediting earned surplus by $1,681, and crediting contributions in aid of construction by $26,538; that applicant reclassify non-industry related dues from miscellaneous general expenses to a below the line entry; and that applicant maintain its books and records to permit a monthly analysis of other taxes assignable to capital and to expenses.

Findings

1. A reasonable estimate of applicant's results of operations for test year 1974 at present rates is:

Adopted 1974 Summary of Earnings
At Present Rates

Item	Present Rates (Dollars in Thousands)
Operating Revenues	$ 537.6
Operating Expenses	
Operation & Maintenance	236.9
Administrative & General	98.5
Taxes Excluding Income	48.3
Income Taxes	51.9
Depreciation	24.8
Total Operating Expenses	$ 460.4
Net Operating Revenues	$ 77.2
Depreciated Rate Base	$1,486.7
Rate of Return	5.19%

2. The authorized increase in rates will provide increased revenues of $90,000 annually based upon the adopted estimates for test year 1974, an increase of 16.9 percent.

3. Applicant's rate of return on rate base at proposed rates of 8.09 percent is not unreasonable.

4. The rate design proposed by applicant contained in Appendix A attached to this decision is reasonable.

5. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

6. The recommendations of the staff accountant as to inventory adjustment, reclassification of an expired advanced contract, reclassification of non-industry related dues, and maintenance of books and records to permit a monthly analysis of tax assignments to capital and to expenses, are reasonable. Applicant should be ordered to carry out these recommendations.

7. Applicant should advise the Commission of changes in conditions relating to improvements in water quality and construction of main replacements to serve the Fern Oaks area.

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, applicant, Santa Paula Water Works, Ltd., is authorized to file the revised tariff schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. Applicant is authorized to amend the contracts for diversion of water in accordance with the provisions in Appendix A.

The effective date of the revised schedules and contracts shall be five days after the date of filing. The revised schedules and contracts shall apply only to service rendered on and after the effective date of the revised schedules.

2. Applicant shall carry out the accounting recommendations set forth in Finding 6.

3. Applicant shall file semiannual status reports on plans for importing northern California water to its service area, of construction which might affect its Santa Paula Creek supply,

of its plans for improving the quality of its potable water supply, and of its progress on installing main replacements in the Fern Oaks area. The initial report shall be filed on May 1, 1975.

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

Dated at San Francisco, California, this 18th day of MARCH, 1975.

President

Commissioners

A. 54658 JR

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to general metered water service.

TERRITORY

Santa Paula and vicinity, Ventura County.

RATES

	Per Meter Per Month	
Quantity Rates:		
First 1,000 cu.ft., per 100 cu.ft.	$ 0.291	(I)
Over 1,000 cu.ft., per 100 cu.ft.	0.254	(I)
Service Charge:		(N)
For 5/8 x 3/4-inch meter	$ 2.25	(R)
For 3/4-inch meter	2.50	
For 1-inch meter	3.00	
For 1-1/2-inch meter	4.00	
For 2-inch meter	5.00	
For 3-inch meter	7.00	
For 4-inch meter	9.00	
For 6-inch meter	14.00	
For 8-inch meter	20.00	(R)

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. (C)

A. 54658 JR

Schedule No. 3 ML

LIMITED MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service furnished on a limited basis.

TERRITORY

Santa Paula and vicinity, Ventura County.

RATES

	Per Miner's-Inch Day	
Quantity Rates:		
For gravity flow prior to the commencement of pumping operations.	$0.657	(I)
When gravity flow is insufficient to supply all of the utility's irrigation customers and pumping operations of the utility are necessary.	1.314	(I)
Minimum Charge:		
	Per 24-hour Day or Any Portion Thereof	
For each irrigation delivery.	$6.50	(I)

SPECIAL CONDITIONS

1. Service under this schedule is limited to the lands being rendered irrigation service as of February 15, 1954.

2. Requests for each irrigation water delivery shall be made to the utility not less than 48 hours in advance of the time said delivery is desired.

3. A miners's-inch day is defined as the volume resulting from a continuous flow of one-fiftieth of a cubic foot of water per second for a 24-hour period.

A. 54658 JR

Change in Paragraph G
Of Rule and Regulation No. 11

"Rule and Regulation No. 11

"DISCONTINUATION AND RESTORATION OF SERVICE (C)

"G. Restoration-Reconnection charge.

"Where service has been discontinued for noncompliance with any of the rules or regulations contained within this tariff schedule, the utility may charge $5.00 for reconnection of service (I)
during regular working hours or $10.00 for reconnection of service (I)
at other than regular working hours when the customer has requested that the reconnection be made at other than regular working hours."

Addition to Contracts
With Santa Paula Creek Customers (N)

"EXCESS DIVERSION OF WATER

"In the event the second party (diverter) diverts water in excess of the maximum annual quantity limit hereinbefore stated, then the first party (Company) shall have the option of either terminating this agreement, or charging for the excess water at the quantity rate applicable to the maximum consumption block contained in Tariff Rate Schedule No. 1, General Metered Service." (N)