

ORIGINAL

Decision No. 85012

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
RANCHO LAS POSAS WATER COMPANY, a
California corporation, for authori-
zation to increase its rates charged
for all classes of water service
except public fire protection service.

Application No. 55008
(Filed June 28, 1974;
amended December 20, 1974)

Burris, Lagerlof, Swift & Senecal,
by Stanley C. Lagerlof, Attorney
at Law, for applicant.
J. E. Brown and I. B. Nagao, for
the Commission staff.

O P I N I O N

Rancho Las Posas Water Company (Rancho), a California corporation, seeks authority by its amended application to increase water rates in order to increase operating revenues for test year 1975 from \$140,210 to \$249,640, an increase of \$109,430 or 78.0 percent annually over the rates in effect at the time of filing of the application.

The amendment shows that granting the requested rate relief would increase Rancho's net income from a loss of \$29,280 to a gain of \$62,100, which would yield a rate of return of 9.30 on its rate base. Subsequent revisions to these estimates are discussed herein.

After notice, public hearings were held in the unincorporated community of Somis, in Ventura County, on January 8 and 9, 1975, and in Los Angeles on February 13 and 14, 1975, before Examiner

Jerry Levander. The matter was submitted on February 14, 1975, subject to the receipt of late filed exhibits which have been received.

History and Background of Rancho

Rancho was originally incorporated to acquire all of the operating facilities, water rights, and assets of Las Posas Water Company (Las Posas), a mutual water company serving in the sparsely populated agricultural area known as Rancho Las Posas. Decision No. 68660 dated February 24, 1965, in Application No. 45857 granted a certificate of public convenience and necessity to Rancho to serve approximately 9,400^{1/} acres of the 17,462 acres sought to be served by Rancho and authorized the issuance of stock for the purchase of Las Posas' December 31, 1962 assets, which were based upon the cost to Las Posas at the time Las Posas first placed the plant in service less the reserve for depreciation, for subsequent plant additions, and for working cash. Rancho's stock was originally purchased by Berylwood Investment Company (BIC). BIC owned 34 percent of Las Posas' stock and at least 9,400 acres within the requested service area. BIC planned to develop its properties into an urban area and acquired the facilities of Las Posas to provide water service to residential, commercial, and industrial customers. Rancho's general metered service rates are the same as those charged by Las Posas. Las Posas' rates had been designed to serve water at cost to its shareholders.

^{1/} The territory within which Las Posas' water system had been installed.

Rancho alleges that at the time Application No. 45857 was filed it anticipated that BIC'S planned development would tend to spread the capital costs of its water system over a greater number of services and that anticipated increases in water revenues would not have required a large rate increase to yield a reasonable rate of return; that BIC failed to put its development plan into effect; that in 1969 Kaiser Aetna (KA), a partnership of Kaiser Aluminum and Chemical and Aetna Life and Casualty Company, acquired all of Rancho's stock from BIC; that KA proposed to carry out a land development program^{2/} similar to that of BIC; that the county of Ventura adopted a limited growth land use plan which classified the major portion of Rancho's service area for agricultural use rather than for urban uses; that Rancho has operated at close to a break-even point; that KA provided a subsidy to Rancho by not charging for managerial and accounting services which it supplied to Rancho and by its advancing of funds to Rancho without interest; that low water rates assist in land development and land sales in the service area; that KA had hoped that a 170 acre portion of the Bell Ranch would be annexed to the city of Camarillo and subdivided as a residential subdivision and that Rancho hoped to improve its earnings with additional revenues from the Bell Ranch subdivision; that the annexation has been delayed due to litigation; and that KA now anticipates that if a smaller 150 acre^{3/} portion of the Bell Ranch is ultimately annexed to the city of Camarillo that

2/ KA purchased approximately 9,800 acres in the area.

3/ Ventura County would consider such development if the area was annexed to the city of Camarillo (Tr. 323).

water service to the subdivision would be provided by the city of Camarillo rather than by Rancho.

Rancho's water system contains three interconnected pressure zones. Its sources of supply are two wells with a total installed productive capacity of 3,050 gallons per minute, two metered connections to Calleguas Municipal Water District (CMWD), a member agency of the Metropolitan Water District of Southern California, and a connection to Ventura County Water Works District No. 1 (WW1). Three booster stations and two regulating reservoirs with a total storage capacity of 800,000 gallons are utilized in providing water service to Rancho's customers. The second well and a large storage tank were installed to meet increasing water requirements with ground water rather than purchase higher cost water from CMWD.

Decision No. 68660 authorized Rancho to provide general metered service and special metered service for construction and spray water. At that time irrigation water service was being provided within Rancho's requested certificated area by Zone Mutual Water Company (Zone), by Las Posas Orchard Company, by Berylwood Heights Mutual Water Company, (Berylwood) and by BIC on its own lands. BIC owned approximately 35 percent of Zone's shares on December 31, 1963.

Applicant's president, who is an employee of KA, testified that Zone and Berylwood were providing irrigation service in the easily served flat central portions of Rancho's service area. The mutual's water supplies are generally fed into irrigation ditches to supply row crops.

When KA was precluded from going forward with its planned residential, commercial, and industrial subdivisions within Rancho's unincorporated service area it commenced developing properties as agricultural subdivisions and commenced cultivation of citrus and avocado orchards on some of the hilly areas located on the periphery of Rancho's service area. These orchards were supplied with water from KA'S own wells, or pursuant to a metered irrigation service schedule filed by Rancho in March, 1971. Rancho's metered irrigation service is provided from the same pressure system supplying its general metered customers. KA installed drip irrigation facilities to lower the consumptive use of water and to avoid hillside erosion in citrus and avocado orchards. The mutuals are unable to provide pressurized irrigation service.

Since 1971 Rancho's service area has been increased by acceptance of several advice letter filings made pursuant to Section 1001 of the Public Utilities Code and General Order No. 96-A. Commencing in 1973 Rancho filed several advice letters requesting deletions from its service area. In one instance, a hospital with a high fire flow requirement could more readily be served by the city of Camarillo than by Rancho. Small deletions of Rancho's service area were made to adjust its service area boundaries with those of adjacent water purveyors.

Since filing the subject application Rancho was authorized to extend its service area and to make two major service area deletions resulting in a net reduction of Rancho's service area from approximately 14,500 acres to approximately 12,500 acres. These large deletions from Rancho's service area were authorized on representations that all of the property owners within the area petitioned for water service from another purveyor(s). KA owned the large deleted areas.

Rancho's president testified that it was in Rancho's best interest to transfer a several thousand acre parcel from its service area to WWI; that KA was irrigating 2,250 acres in this parcel; that no study analyzing potential affects of the loss of this service area on Rancho's operations had been made; that it would have cost less for Rancho to install utility plant in the transferred area than WWI but that Rancho would have problems in serving this area; that the 2,250 acres under irrigation had been supplied by KA'S own wells and during a transition period Rancho operated KA'S wells, paid electric power bills on KA'S wells, and billed KA at its metered irrigation rates; that electric demand and commodity costs to serve this area were approximately \$38 per AF; that WWI was charging \$55 per AF (Rancho's proposed irrigation commodity rate is \$65.34 per AF); that the system supplying this area was independent of Rancho's other water system; and that the WWI floated a \$1,555,000 bond issue to finance water system facilities for an improvement zone supplying KA'S properties.

If Rancho had served the deleted areas KA would have had to advance utility plant costs to Rancho. The magnitude of the advances required to serve these areas could have necessitated a request to modify Rancho's main extension rule by having KA defer or waive refunds of advances or contribute facilities.

KA does not anticipate significant development of new agricultural acreage of its properties within Rancho's service area after 1975. KA is selling subdivided orchard properties within Rancho's service area.

Results of Operation

Table 1 compares the estimated summary of earnings of Rancho and of the staff for test year 1975 at present rates and at the rates proposed in the amended application, and sets forth the adopted summary of earnings for test year 1975 at present rates.

There are inconsistencies in the summary of earnings estimates of Rancho and the staff because in addition to gross and net revenue changes, resulting from use of the revised proposed rates contained in the amendment to the application, there were other adjustments made which were not reflected in revised estimates at present rates. The examiner determined that parallel adjustments were appropriate for the estimates at present rates, but did not require the preparation of revised exhibits. These adjustments are:

(a) Rancho's estimate of miscellaneous revenues at proposed rates incorporates rental revenues for housing on Rancho's properties;

(b) Rancho's depreciation expense at proposed rates is based upon a revised depreciation study;

(c) Rancho's estimate of rate base at proposed rates reflects a \$13,000 reduction in its estimate of construction work in progress, a \$9,449 reduction in its estimate of utility plant in service, a \$2,800 reduction in its estimate of the reserve for depreciation, and a rounding adjustment;

(d) The staff stipulated to Rancho's revised estimate of working cash;

(e) The staff corrected an error in its calculation of special sales revenues.

Table 1
Summary of Earnings
(Estimated Year 1975)

	Rancho Estimate		Staff Estimate		
	Present	Proposed *	Present	Proposed*	Adopted
	Rates	Rates	Rates	Rates	at Present
	Exhibit 3:	Exhibit 3-1:	Exhibit 6:	Exhibit 7:	Rates
<u>Operating Revenues</u>					
Commercial	\$ 80,060	\$146,160	\$ 76,280	\$138,970	\$ 80,060
Special Sales	7,670	10,300	10,480	15,740	7,670
Irrigation	48,260	93,880	62,140	99,550	57,450
Private Fire Protection	340	670	340	670	340
Public Fire Protection	3,240	3,420	3,420	3,420	3,420
Miscellaneous	-	2,280	40	-	2,280
Total Operating Revenues	\$139,570	\$256,710	\$152,700	\$258,350	\$151,220
<u>Deductions</u>					
Operating Expenses	\$122,700	\$124,200	\$124,200	\$124,200	\$125,900
Taxes other Than Income	19,740	20,630	19,040	19,960	19,120
Depreciation Expense	26,850	29,500	27,180	27,180	29,500
Income Taxes	200	18,820	200	33,040	200
Total Deductions	\$169,490	\$193,150	\$170,620	\$204,380	\$174,720
Net Oper. Rev.	\$(29,280)	\$ 63,560	\$(17,920)	\$ 53,970	\$(23,500)
Deprec. Rate Base	\$667,600	\$648,000	\$625,500	\$636,200	\$629,300
Rate of Return	-	9.81%	-	8.48%	-

(Loss)

*Per amended application.

Operating Revenues

Rancho's witness testified that there was not a reasonable temperature correlation needed to estimate usage for commercial customers and that use of the modified-Bean method was not warranted. The staff utilized techniques described in a manual which covers several methods for estimating usage. The record does not show which method(s) the staff utilized. Rancho's estimate of commercial sales, based upon averaging usage over a several year period, is reasonable.

Rancho's estimate of special sales revenues is based upon four years of data, including a partially estimated year 1974. The actual level of sales for 1974 was considerably lower than Rancho's estimate. The staff utilized an adjusted consumption average from 1971 through 1973 in preparing its estimate. Rancho has supplied construction water and water for spraying lands since the inception of its operations as a utility. The increased acreage of orchard irrigation supplied by Rancho in 1975 compared to 1974 should not substantially affect the delivery volume of water Rancho sells for spraying purposes. The staff estimate is approximately twice the recorded amount for 1974. Rancho's estimate is adopted for special metered service.

Rancho's witness testified that the staff estimate of minimum charges at proposed irrigation rates were understated because the staff used average minimum charges rather than minimum charges for the larger meters to be installed in new irrigation subdivisions; that the staff utilized 1975 irrigated acreage projections initially furnished by Rancho but that further analysis showed that approximately 200 acres included in these projections were too steep to cultivate. Rancho and the staff used the same estimate of

usage per acre irrigated. Rancho's estimates of production and sales volumes are reasonable for all classes of service. Adopted irrigation revenues are based upon Rancho's estimated sales volumes and meter estimates. (Table 4 of Exhibit 10-1 plus revenue increments relating to 25 additional three-inch meters during 1975.)

Operating Expenses

Rancho stipulated to the staff's \$124,200 estimate of operating expenses at proposed rates. The staff adjustments to Rancho's expense estimates are summarized below:

- (a) The staff estimate for purchased water is based upon later data than Rancho's estimate as to actual purchased water requirements. This water is used to supplement Rancho's well supplies in the northeastern portion of the service area, during periods of heavy demand.
- (b) The staff's purchased power estimate of \$63,460 is based upon the power required to pump the staff estimate of production volumes. The staff used later and higher electric rates (in effect on November 13, 1974) than Rancho originally used.
- (c) The \$9,300 staff estimate for pumping expenses other than purchased power includes an annual amortization, of \$1,700 per year for a pump repair cost incurred in 1973, over five years.
- (d) The staff estimate for regulatory expense of approximately \$8,000 was amortized over three years. The staff estimate was based upon later data than Rancho's estimate of \$900 per year.
- (e) The staff estimate for maintenance of general plant of \$200 is based upon expenses incurred over the past five years. Rancho did not furnish the staff with the basis of its estimate for maintenance of general plant.

We adopt all of the staff expense estimates except for purchased power. Rancho estimated purchased power expenses at \$64,950 when pricing out 2,123,000 kwh (at the November 13, 1974 electric rates), which is the amount needed to pump the volumes of water contained in its estimate. Consistent with our determination that Rancho's water production estimates are reasonable we adopt \$65,160 for purchased power expenses, consisting of the above mentioned \$64,950 plus \$210 for an energy surcharge for the State Energy Resources Conservation and Development Fund.

The adopted amount of \$19,120 for taxes other than income consists of the later staff ad valorem tax estimate of taxable plant and tax rates, of Rancho's later data on payroll taxes and miscellaneous fees, and of county franchise taxes based upon adopted revenues.

The adopted income taxes at present rates consists of the minimum state corporation franchise tax, which is applicable since there would be an operating loss. Rancho and the staff used estimated book depreciation for tax purposes. Rancho's computation of taxes based upon income at proposed rates contains a \$14,000 interest deduction, approximately one half of an annual interest accrual, at ten percent, on estimated open advances from KA of \$280,000. The staff objected to this treatment, which lessens Rancho's tax liability, because no authorization for long-term financing had been approved by this Commission.

Rancho could have issued demand notes with KA for amounts it owed KA. Exhibit 13 shows that KA had advanced \$311,129 to Rancho, \$75,500 of which were for operating costs, and \$3,291 was for a water requirement and facilities study used for cash flow estimates. If Rancho issued demand notes for this outstanding balance and subsequently sought authorization to issue long-term debt, we could not authorize long-term debt for the \$75,500 or the \$3,291. Rancho's

proposal to deduct interest expense for tax purposes is reasonable if limited to advances for utility plant. Rancho's net income for Federal income tax purposes at either proposed or authorized rates would produce tax liabilities lower than the new investment tax credit based upon 1975 additions (Rancho) or a five year average (staff). Federal income tax deductions include operating expenses, book depreciation, annual interest charges of \$23,200, taxes other than income, the State Corporation Franchise Tax, and the investment tax credit.

Depreciation Expense

A staff witness testified that Rancho's revised estimate of depreciable gross plant in Exhibit 3-1 was the closest estimate of the true value of this plant; that Rancho's estimated depreciation accruals, based upon a new study are realistic, but that he had not checked out Rancho's revised beginning of year plant balances. We adopt Rancho's estimate of depreciation expense.

Rate Base

Rancho revised its amended plant and reserve for depreciation estimates to incorporate changes recommended by the staff accountant and to incorporate later data on new plant and retirements. Rancho's estimate of utility plant and of the reserve for depreciation is reasonable.

Rancho's Exhibit 3-1 does not reflect the large increase in contributed plant in 1974.^{4/} The staff estimate of contributions in aid of construction is reasonable.

The staff's later estimate of advances for construction is reasonable and is adopted.

The staff concurred in Rancho's updated estimate of working cash and Rancho's estimate of materials and supplies. These estimates are reasonable.

^{4/} Rancho's Exhibits 10 and 10-1 show that approximately \$9,400 of the construction work in progress as of January 1, 1975, was contributed.

Rancho's amended estimate of \$43,000 for construction work in progress was based upon the average of year-end balances recorded in 1971, 1972, and 1973. This amount was revised to \$30,000. The staff estimate for 1975 contemplated completion of all budget items before the end of the year and did not include any amount for work in progress. There was work in progress as of January 1, 1975, and some additional construction activity for improvements and replacement of old mains is to be anticipated. The adopted rate base of \$629,300 includes \$10,000 for construction work in progress.

At present rates Rancho would experience an operating loss of \$23,500. At proposed rates Rancho's gross revenues would total \$256,710, an increase of \$105,490, (69.8 percent) yielding net operating revenues of \$76,060. These net revenues would yield a rate of return of 12.09 percent on rate base.

Rates, Cost of Service, and Rate of Return

Rancho's filed rates for irrigation service were designed to recover a large portion of irrigation revenues from minimum charges. The application states that present annual meter minimums for irrigation service are equal to those for general metered service.^{5/} This rate design provides cash flow during the months when such requirements are below normal due to weather fluctuations. The service charge type of rate proposed by Rancho would provide additional minimum levels of cash flow both for irrigation and commercial service.

^{5/} The calculated monthly minimum is \$11.50 for a 1-1/2 inch irrigation meter. The corresponding general metered minimum is \$11 per month.

Rancho's amended application did not analyze the reasonableness of its proposed rate spread between customer classes. The staff results of operation exhibit contained no discussion of rate spread or rate design.

The pattern of Rancho's irrigation deliveries as compared to its commercial deliveries show that the greater peak demands on the system are related to irrigation deliveries.

Special metered service and public and private fire protection services impose high short-term demands on the system.

Rancho's present and proposed quantity rates for metered irrigation are \$0.115 per Ccf (\$50.09 per acre foot (AF) and \$0.15 per Ccf (\$65.34 per AF) respectively. The present general metered service tail block rate for consumption in excess of 26,000 Ccf is \$0.15 per Ccf. Rancho's proposed tail block quantity rate is \$0.27 per Ccf (\$117.61 per AF), for general metered service.

Many of Rancho's residential and irrigation customers objected to the magnitude of proposed increases. Customers alleged that there was a lack of arms-length dealings between Rancho and KA; that their orchard operations were marginally commercial; that the proposed increase in water rates could prove to be ruinous; that Rancho's rates were considerably higher than those of adjacent purveyors; that there were unresolved service problems including low pressures and pressure surges; and that KA received preferential irrigation deliveries.

The examiner directed Rancho to prepare a cost of service study.

Rancho used a cost allocation known as the "base-extra capacity" method in which the water system being analyzed is initially divided into two components. The first component is the minimum

system required for each customer at a load factor of unity, i.e., each customer is provided water at a uniform consumption rate. The remaining component is the residual plant required for service to accommodate peaking demand. Under this method the hypothetical minimum water system is allocated to customer, commodity, or general functional cost categories and the residual plant is allocated to the demand functional cost category. The base-extra capacity method allocates transmission and distribution mains to commodity and demand categories. This differs from the staff standard practice^{6/} which allocates distribution main costs to the customer and demand functional categories. Rancho's witness testified that allocation of a portion of main costs to the customer category would require an accounting for differences in densities of services between customer classes, or between individual customers by size of service and by diameter of main in order to achieve accurate results and that this determination appears to be unwarranted in a cost-of-service study.

A staff witness purportedly prepared a cost allocation in accordance with the staff standard practice. There are certain discrepancies in the staff's allocation process, namely, an allocation of 90 percent of plant additions for a second well and of utility plant necessary to deliver water from this well to the system which was assigned, on a judgmental basis, to the irrigation class of customer, and an allocation of all of the pumping equipment to the demand category. The 1975 system sales volumes are approximately equal for commercial and irrigation customers. The record shows that

^{6/} "Guide for use in Preparing Cost of Service Studies of Water Utilities" dated February 28, 1958.

both wells are used to supply all classes of customers. The standard practice allocates all pumping equipment to the demand component, but it contains an analysis of a water system where there are substantial amounts of imported water utilized and the water system contains a large impounding reservoir. It could well be that the system analyzed in the standard practice used pumped water supplies exclusively for peak demands. Rancho utilizes its own well supplies for practically all of the water requirements on its system.

Rancho's witness testified in support of the proposed rates which he estimated would yield an overall rate of return^{2/} of 9.81 percent on rate base and would yield allocated rates of return of 10.39 percent for commercial customers and 4.90 percent for irrigation customers. The corresponding rate of return estimates of the staff are 8.50 percent on an overall company rate base and allocated rates of return of 10.0 percent for commercial customers and 4.10 percent for irrigation service.

We will utilize Rancho's methodology for allocating costs in this proceeding.

A staff accounting witness recommended an overall return of 8.75 percent on rate base based upon rates of return authorized for other water utilities and assuming a \$693,900 all equity capital structure. He testified that if long-term debt was authorized he anticipated that the authorized interest rate would be lower than the ten percent requested by Rancho and that he would recommend a lower rate of return based upon a debt-equity capitalization. He questioned Rancho's ability to repay \$280,000 in long-term debt.

Rancho's proposed rates would yield a return on rate base of 12.09 percent which is excessive. We will adopt the staff recommendation for an overall rate of return of 8.75 percent on a \$629,300 rate

^{2/} Fire protection, special service, and miscellaneous allocated rate bases were reassigned to the commercial and irrigation rate bases.

base. The adopted rates contained in Appendix A, attached hereto, will yield gross revenues of \$233,660, an increase of \$82,440 (54.5 percent). The \$232,300 of advances used for Rancho financed plant construction is 33.5 percent of Rancho's total capitalization. A return of 8.75 percent on total capitalization would yield a return on common equity of 8.12 percent. The apportionment of the rate increases by class of service is discussed in the following paragraphs.

Commercial revenue at proposed rates would total \$146,160, an increase of \$66,100 (82.6 percent). This revenue would yield a rate of return of 12.21 percent on an allocated commercial rate base of \$440,300, which is excessive. A rate of return of 7.41 percent on the allocated commercial rate base would be reasonable for test year 1975. The rates authorized herein would yield commercial revenues of \$123,150, an increase of \$43,090 (53.8 percent).

A 6.85 percent rate of return on an allocated rate base of \$142,300 for irrigation service at the authorized (and requested) rates is reasonable for test year 1975. The authorized irrigation rates would yield revenues of \$93,880, an increase of \$36,430 (63.4 percent).

The proposed increases for special metered service and for private fire protection service are reasonable and should be authorized.

We recognize that the magnitude of the increases authorized herein will adversely affect Rancho's customers. However, Rancho is entitled to recover reasonable operating expenses and a return of its investment. Rancho's unit costs are relatively high because of a high level of plant in-service per customer. This further affects depreciation expenses, property taxes, and return per customer. Rancho's operating and maintenance expenses are adversely affected by low customer density in its service area.

In our determination of the setting of rates and of rate of return we have also given consideration to the following:

- (a) Rancho's parent, KA, has obtained benefits from its control of Rancho. The low irrigation rates filed by Rancho helped KA's sales of orchard properties. Rancho might have been supplying over twice the irrigation acreage estimated for test year 1975, but for the transfer of lands owned by KA from Rancho's service area to the service area of other water purveyors. Now that KA's development is nearing completion, Rancho seeks rate relief to achieve a high overall compensatory rate of return.
- (b) The estimated 1975 average duty of water per acre for Rancho's irrigation service is 0.39 acre-feet per acre per year. Both Rancho and the staff anticipate that the duty per acre will increase by approximately 0.1 acre-feet per acre to 0.8 acre-feet per acre as the trees in the existing orchards mature. Thus, there is a substantial built-in escalator in water sales volumes to Rancho's irrigation customers in future years, which would tend to increase Rancho's rate of return.
- (c) The service charge type of rate proposed by Rancho provides a reasonable method for spreading commercial and irrigation rates.

- (d) The special conditions for scheduling irrigation deliveries contained in Exhibit 2-1 are reasonable and should be adopted. Carrying out of deliveries on that basis should alleviate problems concerning irrigation deliveries in portions of Rancho's service area.

Further Discussion

The record shows that Rancho has been subsidized by KA; that certain plant additions which are part of the system have been contributed by KA to Rancho and in some instances the costs of these facilities^{8/} are not recorded on Rancho's books as plant in service or as contributions in aid of construction; that Rancho has made several errors in recordation of plant additions and retirements; that advances for construction have not been adjusted to actual cost as provided for in its Main Extension Rule; that Rancho has not properly distinguished between advances to serve individuals and advances to serve subdivisions; that certain service problems have been caused by old, rusty, undersized mains inherited from Las Posas. ✓

A Rancho witness denied that preferential irrigation deliveries were accorded to KA properties.

The pressure recordings reproduced in Exhibit 2 do not support allegations of low pressures. However, additional checks should be made during periods of heavy demand and corrective measures should be taken to eliminate any low pressure or excessive variations in pressure. (See Section II.3.a. of General Order No. 103.)

^{8/} Another KA affiliate contracted for construction of utility plant and of customer water distribution facilities and commingled utility and nonutility costs. ✓

The pressure recordings actually show pressures in excess of that permitted by General Order No. 103. Rancho should reduce delivery pressures to the limits set forth in General Order No. 103 or secure waivers from customers supplied at excessive pressures, pursuant to Section II.3.a. of that order. Certain low pressure and dirty water problems were mitigated through the connection to WW1.

Rancho has scheduled main replacement work. Any such main replacements should conform to the minimum size provisions of General Order No. 103. First priority should be given to installations needed to correct low pressure conditions. A high priority should also be given to main replacements or to the installation of corrective facilities where dirty water conditions cannot be corrected by flushing or by other operating procedures.

Rancho states that it will engage personnel to keep its records in conformity with this Commission's uniform system of accounts for water utilities. Rancho's 1974 Annual Report^{9/} does not reflect the staff accounting changes adopted by its consultant in Exhibit 3-1. ✓

The staff accounting recommendations contained in Exhibit 6, Chapter II, Paragraph 38, are reasonable. Rancho should maintain supplementary schedules for customer deposits, accounts payable, and advances for construction.

The staff engineer's recommendations that Rancho maintain a customer complaint file, that Rancho should install a main replacement on Price Road and a hydropneumatic tank in Tract 2185, and that Rancho should submit a program for replacement of all two-inch and three-inch mains are reasonable.

^{9/} The Annual Report was filed over one month after receipt of Exhibit 3-1. ✓

Any future advice letter filing by Rancho requesting extension of or deletion from its service area where Rancho's parent or an affiliated company is the landowner or developer of affected properties should be accompanied by a statement of that fact together with an analysis showing why it was or was not feasible for Rancho to serve the area. The analysis should include revenue projections resulting from the change in service areas.

Any advice letter filing to extend Rancho's service area should describe any special facilities or different pressure system required to provide the service to the extended area.

Findings

1. The adopted estimates previously discussed herein of operating revenues, operating expenses, and rate base for test year 1975 are reasonable.

2. Rancho's 1975 revenues at the amended proposed rates would yield total operating revenues of \$256,710 and a rate of return of 12.09 percent on an adopted rate base of \$629,300. This rate of return is excessive.

3. Rancho is in need of additional revenues but the proposed general metered service commercial rates set forth in the amended application are excessive. The amended proposed rates for metered irrigation service (including the special conditions contained in Exhibit 2-1) for private fire protection service, and for special metered service are reasonable.

4. Rancho's parent, KA, has subsidized Rancho's operations as an adjunct to its major developmental and sales activities in Rancho's service area.

5. Governmental land use policies have confined KA's development activity to agricultural development. KA has developed citrus and avocado orchards on its properties on the periphery of Rancho's service area and has subdivided and sold orchard properties. KA's orchard sales program, within Rancho's service area, is nearing completion.

6. KA has caused Rancho to petition for transfer of certain of its orchard properties from Rancho's service area and has caused the annexation of these properties to the service areas of other water purveyors. These transfers have caused Rancho to lose future water sales.

7. Rancho's water sales to orchard properties now served by it should double in several years. These increased sales should increase Rancho's rate of return.

8. A rate of return of 8.75 percent on the adopted rate base of \$629,300 is reasonable. An 8.75 percent rate of return on Rancho's debt-equity capital structure as described herein would provide a return on common equity of 8.12 percent. The allocated rates of return for general metered service and irrigation service at authorized rates as discussed herein are reasonable.

9. The authorized rates contained in Appendix A attached hereto should provide general metered service revenues of \$123,150, an increase of \$43,090 (53.8 percent); special metered service revenues of \$10,300, an increase of \$2,630 (34.3 percent); irrigation revenues of \$93,880, an increase of \$36,430 (63.4 percent); private fire protection service revenues of \$670, an increase of \$330 (97.1 percent).

10. 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.

11. Rancho should retest pressures at the locations described in Exhibit 2 during a period of heavy system demand. Rancho should take corrective measures to eliminate any low pressure or to eliminate excessive variations in pressure if the measurements do not conform to the requirements contained in Section II.3.a. of General Order No. 103.

12. Rancho should reduce excessive delivery pressures to the limits set forth in Section II.3.a. of General Order No. 103 or secure waivers from customers supplied excessive pressures.

13. Rancho should maintain a customer complaint file.

14. Rancho should install a main replacement on Price Road and a hydropneumatic tank in Tract 2185.

15. Rancho should submit a program for replacement of all 2- and 3- inch mains with mains meeting the minimum requirements set forth in General Order No. 103. First priority should be given to installations needed to correct low pressure conditions. A high priority should also be given to main replacements or to the installation of corrective facilities where dirty water conditions cannot be corrected by flushing or other operating procedures.

16. Rancho should make the following accounting changes in its operations:

- (a) Establish a work order system in conformance with Uniform Systems of Accounts for Water Utilities which is fully documented for identification and for accounting purposes.
- (b) Reestablish the Accounts Payable Journal to comply with the accrual system of accounting.
- (c) Reconcile plant detail within primary plant accounts to the totals of each utility plant account.

- (d) Adjust main extension contracts to conform with its Tariff Rule 15 provisions distinguishing between extensions to serve individuals and extensions to serve subdivisions. Contracts should be adjusted to actual costs. Future contracts should be in conformity with Rancho's Rule 15.
- (e) Amortize Account 142, Preliminary Survey and Investigation, charges over 10 years beginning with the calendar year 1974.
- (f) Maintain supplementary schedules for customer deposits, accounts payable, and advances for construction.

17. Rancho should file an amended 1974 annual report reflecting the accounting changes recommended by the Commission staff.

18. Any future advice letter filing by Rancho requesting extension of or deletion from its service area where Rancho's parent or an affiliated company is the landowner or developer of affected properties should be accompanied by a statement of that fact together with an analysis showing why it was or was not feasible for Rancho to serve the area. The analysis should include revenue projections resulting from the change in service areas.

19. Any advice letter filing extending Rancho's service area should describe any special facilities or different pressure systems required to provide service to the extended area.

20. The effective date of this order should be on less than statutory notice because of prompt need for rate relief.

Conclusions

1. The application should be granted to the extent set forth in the order which follows.

2. Rancho should take necessary actions to improve the quality of its service and the adequacy of its accounting procedures in the areas described in Findings 11 to 17 herein.

3. Rancho should advise this Commission of extensions to or deletions from its service area where its parent or affiliate is the affected landowner or developer, or of extensions of its service area where special facilities are required, as required in Findings 18 and 19.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order Rancho Las Posas Water Company is authorized to file the revised rate schedules attached to this order as Appendix A and concurrently cancel and withdraw presently effective schedules for general metered service, irrigation service, special metered service, and private fire protection service. 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.

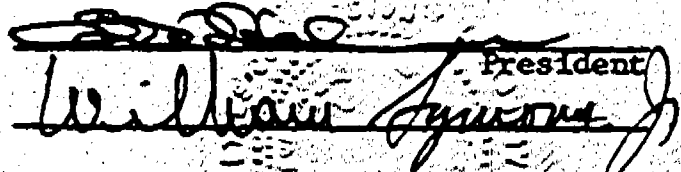
2. Rancho Las Posas Water Company shall take the necessary actions to carry out the required tests set forth in Finding 11 herein during the summer of 1976. Rancho Las Posas Water Company shall file the results of its tests together with a description of any corrective action taken within thirty days after the date of testing.


3. Rancho Las Posas Water Company shall take the necessary actions to carry out the requirements set forth in Findings 12 to 17 within ninety days after the effective date of this order. Rancho Las Posas Water Company shall file a description of the actions it has taken and of its improvement program within one hundred days after the effective date of this order.

4. If the situations described in Findings 18 and 19 occur, Rancho Las Posas Water Company shall comply with the requirements set forth in those findings.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 15th
day of OCTOBER, 1975.



President


Commissioners

I abstain
Robert B. Quinn Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
Page 1 of 7

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service, except metered irrigation service.

TERRITORY

Somis and vicinity, Ventura County.

RATES

Service Charge:

	Per Meter Per Month	
For 5/8 x 3/4-inch meter	\$ 3.00	(I) ✓
For 3/4-inch meter	4.50	
For 1-inch meter	7.50	
For 1 1/2-inch meter	15.00	
For 2-inch meter	24.00	
For 3-inch meter	45.00	
For 4-inch meter	60.00	
For 6-inch meter	90.00	

Quantity Rates:

First 13,500 cu.-ft., per 100 cu.-ft.	\$ 0.43	
Next 12,500 cu.-ft., per 100 cu.-ft.	0.37	
Over 26,000 cu.-ft., per 100 cu.-ft.	0.22	(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. 2

METERED IRRIGATION SERVICE

APPLICABILITY

Applicable to all metered irrigation service.

TERRITORY

Somis and vicinity, Ventura County.

RATES

Service Charge:

	Per Meter Per Month
For 1-inch, or smaller, meter	\$ 7.50
For 1½-inch meter	15.00
For 2-inch meter	24.00
For 3-inch meter	45.00
For 4-inch meter	60.00
For 6-inch meter	90.00

(I) ✓

Quantity Rate:

Per 100 cu.ft.	\$ 0.15
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(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.

(Continued)

APPENDIX A
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Schedule No. 2

METERED IRRIGATION SERVICE
(Continued)

SPECIAL CONDITIONS

1. Water obtained under this tariff schedule is to be used for irrigation purposes only. If any portion of such water is used for domestic purposes, the service will be billed under Schedule No. 1, General Metered Service.

2. Scheduling may be required for use of irrigation water in such portion or portions of the service area where it is determined by the utility to be of benefit to the water users.

- (a) Within those portions of the service area wherein the utility has determined that scheduling will be beneficial to the water users, said scheduling shall be a mandatory requirement for those irrigation services with a meter size of 2 inches or larger.
- (b) Requests for irrigation service scheduling shall be made not less than 24 hours in advance of the time irrigation water is desired.
- (c) In the event of a scheduling conflict, the utility shall provide a solution such that irrigation water shall be available for use by the requestor within three days from the date and time requested for availability of irrigation service. However, this condition shall not be construed such that it supersedes or takes precedence over the terms and conditions contained within Rule No. 14.

(N) ✓

(N) ✓

APPENDIX A
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Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Somis and vicinity, Ventura County

RATE

Per Month

For each inch of diameter of service connection \$4.00 (I) ✓

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

(Continued)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—(Contd.)

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage, or waste of water and the cost is to be paid by the applicant. Such payment shall not be subject to refund.

5. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

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Schedule No. 9M

SPECIAL METERED SERVICE.

APPLICABILITY

Applicable to all users of construction or spray water from special metered services.

TERRITORY

Somis and vicinity, Ventura County.

RATES

	<u>Per Meter</u> <u>Per Day</u>	
Service Charge	\$2.00 per day	(I) ✓
	for the period	
	of use.	
Quantity Rate:		
Per 100 cu.ft.	\$0.54	(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.

SPECIAL CONDITIONS

1. Bills shall be rendered monthly as part of the regular billing procedure.

(Continued)

APPENDIX A
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Schedule No. 9M

SPECIAL METERED SERVICE

SPECIAL CONDITIONS—(Contd.)

2. Users shall apply at office of the utility prior to use of service for permit authorizing use.
3. Water shall be delivered only to customer-owned containers.
4. Service under this schedule will be furnished only from hydrants specified by the utility.