

Decision No. 85716

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

IN THE MATTER OF THE APPLICATION OF
PARK WATER COMPANY, A CALIFORNIA
CORPORATION, FOR AUTHORITY TO INCREASE
RATES CHARGED FOR WASTE WATER SERVICE
IN ITS VANDENBERG DISPOSAL DIVISION.

Application No. 55367
(Filed December 6, 1974)

Chirs S. Rellas, Attorney at Law, for applicant.
John E. Brown for the Commission staff.

O P I N I O N

Applicant, Park Water Company, seeks authority to increase rates for sewer service in its Vandenberg Disposal Division in order to increase Division gross annual revenue by \$16,300 or 15.0 percent.

Public hearings were held in Lompoc on November 5 and 6, 1975. Copies of the application had been served and notices of filing the application and of the hearing had been published in accordance with this Commission's rules of procedure. The matter was submitted on November 6, 1975, subject to receipt of a late-filed exhibit and the hearing transcripts. The exhibit has been received, the hearing transcripts have been filed, and the matter is now ready for decision.

Applicant presented testimony of its Senior Vice President and an outside engineer. The Commission staff presentation was made through one staff engineer.

Applicant owns and operates water systems in Los Angeles County and San Bernardino County, and both water and sewer systems in the Vandenberg Village Subdivision near the city of Lompoc in Santa Barbara County.

Rates

Applicant's present sewer tariffs provide flat rates for all customers under two schedules. The general residential service schedule provides for a single rate for each single-family residence or apartment of \$4.72 per month, which would be increased to \$5.67. The commercial and industrial service schedule provides a particular rate for each commercial customer.

Testimony at the public hearings revealed that the rate recommendations of applicant's engineer were based on unsupported assumptions. It is suggested that, prior to any future rate proceeding, applicant study the literature and make tests of its own to study the relationship between water use and sewage flow. It is further suggested that all sewage generating functions be determined to help verify the results obtained from measurements. There is no shortage of material concerning metering devices that can be used on existing sewers and manholes to measure sewage flow.

We note that applicant's proposal results in reduced rates for a number of commercial customers. We do not believe it is appropriate at this time to reduce the rates for certain customers at the expense of others. This concept will be recognized by providing a single flat rate for each single-family residence or residential apartment. Small commercial customers will be charged a single, higher flat rate, estimated to reflect the average use of sewer systems by small commercial establishments. All commercial customers which have a rate higher than the rate authorized herein for small commercial customers will be continued at current rates subject to minor rounding, until studies are made which provide better evidence than that submitted in this proceeding.

Waste water is sometimes a salable commodity. However, there is no evidence before us at this time that there is currently a market for waste water from this utility. Applicant will be expected to report on this matter at its next rate proceeding.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operating results. Applicant's tabulation in late-filed Exhibit No. 11 with its revised proposed rates contains an 8.45 percent figure for rate of return. However, there was no advocacy for this lower rate of return and we regard the figure as part of an argument for the new proposed rates, that is, the new increases would result in an 8.45 percent rate of return, well within the 9.5 percent recently authorized the Park Water Company. Since we do not accept the revised proposal by the company, we view the rate of return sought to be 9.50 percent as put forward in the application and closing arguments. Summarized in the following tabulation, from late-filed Exhibit No. 11 filed jointly by applicant and staff, are the estimated results of operation for the test year 1975 under present sewer rates and under those proposed by applicant. For comparison, this table also shows the corresponding results of operation adopted in this decision.

ESTIMATED RESULTS OF OPERATION
TEST YEAR 1975

Item	Applicant:	Staff	Adopted
<u>At Present Rates</u>			
Operating Revenues	\$105,640	\$105,640	\$105,640
<u>Operating Expenses</u>			
Operation and Maintenance	53,638	46,620	46,620
Admin. and General	29,465	23,680	25,280
Taxes Other than Income	7,475	7,780	7,780
Depreciation	12,953	12,940	12,940
Subtotal	103,531	91,020	92,620
Income Taxes	200	3,680	2,740
Total Expenses	103,731	94,700	95,360
Net Revenue	1,909	10,940	10,280
Rate Base	168,465	165,960	165,960
Rate of Return	1.13%	6.59%	6.19%
<u>At Proposed and Authorized Rates</u>			
Operating Revenues	\$125,340*	\$121,290**	\$116,820***
<u>Operating Expenses</u>			
Operation and Maintenance	53,638	46,620	46,620
Admin. and General	29,465	23,680	25,280
Taxes Other than Income	7,475	7,780	7,780
Depreciation	12,953	12,940	12,940
Subtotal	103,531	91,020	92,620
Income Taxes	7,569	11,930	8,430
Total Expenses	111,100	102,950	101,050
Net Revenue	14,240	18,340	15,770
Rate Base	168,465	165,960	165,960
Rate of Return	8.45%	11.05%	9.50%

* Company proposed rates (Revised in Exhibit No. 11)

** Company proposed rates (Original application)

*** At rates authorized herein.

Operating Revenues

Both applicant and staff used the same customers and rate spread at both present and company proposed rates in developing revenues, so the only difference results from applicant's increase in single-family rates to provide additional revenue. Applicant asserted that its rates must be adopted since they were the only rates introduced into evidence. We cannot accept that position. It is this Commission's prerogative to determine the rates to be charged and we have done so as indicated in Appendix A to this decision. Using Appendix A rates and the customer count indicated in the evidence before us, we have arrived at the adopted revenues shown in the foregoing tabulation.

Operating Expenses

Applicant's engineer attempted to establish a "normal" year by taking the operating results for 1973 and performing certain adjustments to those results. He made no direct comparison of those results or of the adjustments with the actual results of any other year of this utility. The staff followed the more customary approach of examining the recorded operations for several years and then trending where the results showed an obvious trend or averaging where the results did not present a trend. The staff then adjusted its results to reflect current tax, power, and wage rates. We believe that the staff approach results in more reasonable results so the staff recommendations are adopted except where indicated otherwise.

One item of difference between applicant and staff was the amount of regulatory Commission expense to be charged. The staff generated an amount based on judgment estimates of salary levels and man-hours appropriate for this proceeding. Applicant's presentation indicated that it reflected actual charges by consultants. We believe that actual expenses generated by the regulatory process

should be allowed unless they are clearly excessive. Expenses charged by applicant do not appear to be excessive for this proceeding. Accordingly, applicant's claim for regulatory Commission expense is hereby adopted.

An issue was made concerning the amount of the salary of the president of Park Water Company to be allowed for rate-making purposes for Vandenberg Disposal Division. Applicant claimed that its allocation was based on actual time spent in managing this particular division. However, there was no showing made that such time allocation was equal and consistent each year and that it would be so in the future. The staff used a four-factor allocation for determining the amount to be charged to Vandenberg Disposal Division. We feel that the four-factor allocation is more equitable, and accordingly adopt the staff's allocation for this proceeding.

Rate Base

Applicant and staff were in essential agreement on rate base, including the use by staff of later data. The only item at issue was the amount of working cash to be allowed. Applicant adopted one month's operating expenses without any further showing that such an amount is reasonable. The staff used the standard staff practice in computing the amount of working cash allowance for its summary of operations. While neither method is precise, we have considered the staff standard practice to be more reasonable than other methods in the past and do so again. Accordingly, the staff's estimates are adopted for this proceeding.

Rate of Return

In the revenue requirements study appended to the application, applicant requested rates which it calculated to result in a 9.5% rate of return. The staff also recommended a 9.5% rate of return since this was the level authorized for Park Water Company in a recent decision. Accordingly, we herein adopt the 9.5% rate of return recommended by both applicant and staff.

Findings

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

2. Vandenberg Disposal 1975 revenues at proposed rates would yield total operating revenues of \$121,290 and a rate of return of 11.05% on an adopted rate base of \$165,960. This rate of return is excessive.

3. Vandenberg Disposal is in need of additional revenues, but the proposed rates are excessive and the proposed rate spread is unreasonable.

4. A rate of return of 9.5% on the adopted rate base of \$165,960 is reasonable.

5. An engineering study correlating volumes of water intake and sewer discharge may be considered as a reasonable basis for establishing sewer rates.

6. The authorized rates contained in Appendix A attached hereto should provide annual service revenues of \$116,820, an increase of \$11,180 (10.6%) over the present rates for the test year 1975.

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

Conclusions

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

2. Applicant should make an engineering study of the comparative water intake and sewage discharge of its customers to reasonably estimate amounts of sewage discharged in connection with any future request for a general increase in sewer rates.

O R D E R

IT IS ORDERED that after the effective date of this order, Park 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 sewer 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 or after the effective date thereof.

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

Dated at San Francisco, California, this
20th day of APRIL, 1976.

President
William Lyons

Vernon L. Stinson

Robert B. ...

Commissioners

Commissioner D. W. Holmes, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

GENERAL RESIDENTIAL SERVICE

APPLICABILITY

Applicable to General Residential Sewer Service for single-family residences and apartment buildings.

TERRITORY

Vandenberg Village and vicinity, north of Lompoc, Santa Barbara County. (T)
(T)

RATES

Single-Family Residence	\$5.25 per month	(I)
Apartments (Multiple Residential)	\$5.25 per month, per unit	(I)

SPECIAL CONDITIONS

1. Single-family residences are billed monthly.
2. Apartment buildings are billed monthly.
3. If service is discontinued for nonpayment of bills, a reconnection charge of \$100 is charged.

APPENDIX A
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Schedule No. 2

COMMERCIAL SERVICEAPPLICABILITY

Applicable to Commercial and Industrial Sewer Service.

TERRITORY

Vandenberg Village and vicinity, north of Lompoc, Santa Barbara County. (T)

RATES

Monthly sewer charges are determined for each commercial establishment based on the estimated sewage discharge of each customer.

<u>Commercial Establishment</u>	<u>Monthly Charge</u>	
Vandenberg Village Development Company Office	\$ 7.00	(I)
Vandenberg Van and Storage	7.00	(I)
Security Pacific National Bank	7.00	(I)
Village Marine	7.00	(I)
Ed's Union Service Station	9.50	
Ernie's Richfield Service Station	9.50	
General Telephone Company	11.75	
United Church of Christ	21.25	
Gray, Denson and Phillips	23.50	
Constellation Professional Center	37.75	
Calvary Baptist Church	39.00	
Vandenberg Village Country Club	42.50	
La Mesa School	80.25	
Buena Vista School	80.25	
Vandenberg Village Shopping Center	118.00	
Cabrillo High School	153.25	
Village Inn and Motel	225.25	

SPECIAL CONDITIONS

1. Commercial establishments are billed monthly.
2. If service is discontinued for nonpayment of bills, a reconnection fee of \$100 is charged.