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ORIGINAL

Decision No. 85824

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Gabriel Valley Water Company for authority to increase rates charged for water service in its EL MONTE DIVISION.	Application No. 55495 (Filed February 14, 1975)

J. E. Skelton, Attorney at Law, for applicant.
Lionel B. Wilson, Attorney at Law, Andrew Tokmakoff, and C. Frank Filice, for the Commission staff.

O P I N I O N

San Gabriel Valley Water Company (SG), a California corporation, seeks authority to increase water rates in its El Monte Division (EMD) in order to increase EMD operating revenues for test year 1975 from $3,425,572 to $4,589,559 an increase of $1,163,987 or 33.98 percent annually over the rates in effect at the time of filing of the application. A portion of the requested increase for test year 1975 was authorized by Resolution No. W-1715 dated April 15, 1975 in Advice Letter 120, to offset increased payroll and payroll tax costs. SG's revised summary of earnings,(see Exhibit 11), shows that at proposed rates EMD operating revenues would increase from $3,550,281 to $4,589,559 an increase of $1,039,278 or 29.3 percent above the rates authorized by Resolution No. W-1715. Exhibit 11 shows that for test year 1975 net income for EMD would increase from $499,406 to $1,017,613 at proposed rates, which would increase the rate of return on the 1975 EMD rate base from 5.23 percent to 10.44 percent.

After notice, public hearings were held in the city of El Monte on January 7, 1976 and in the city of Los Angeles on January 8 and 9, 1976 before Examiner Jerry Levander. The matter was submitted on the latter date subject to the receipt of late-filed Exhibits 11 and 12 which have been received.

SG has systems for the production, distribution, and sale of water in its EMD and Whittier division (WD) in Los Angeles County, and a system for the distribution and sale of water in its Fontana Water Company Division (FD) in San Bernardino County, California. SG's general office and shops are located in the city of El Monte. EMD includes all or portions of the cities of Arcadia, Baldwin Park, El Monte, Industry, La Puente, Montebello, Monterey Park, Rosemead, San Gabriel, South El Monte, West Covina, and the community of Hacienda Heights and adjacent unincorporated territory in the county of Los Angeles. EMD contains the El Monte tariff area (EMT) and the Vallecito tariff area (VT). The Vallecito Water Company was merged into SG pursuant to authorization granted in D.83735 dated November 19, 1974 in A.55260. The two service areas are interconnected and all water sold in EMD is produced from ground water within the service area.

SG is proposing to change from a minimum type rate metered service schedule to a service charge type of rate schedule in its EMT. The proposed service charges would be the same as those in Zone 1 of the VT. SG anticipates that general rate increases in the EMD will be concentrated in the EMT until they reach the level of the VT Zone 1. The tabulation on the following page sets forth the present and proposed metered service rates for the EMD. No increase was requested for metered service rates in VT.

El Monte Division Rates

Item	El Monte Tar. Area: Present Rates	El Monte Tar. Area: Co. Prop. Rates	Vallecito Tar. Area[c]: Zone I	Vallecito Tar. Area[c]: Zone II
			Per Meter Per Month	
Quantity Rates:				
First 20,000 cu.ft., per 100 cu.ft.	$ -	$ -	$ 0.263	$ 0.303
For all over 20,000 cu.ft., per 100 cu.ft.	-	-	0.213	0.252
For all water delivered, per 100 cu.ft.	-	0.248	-	-
First 400 cu.ft. or less	2.60	-	-	-
Next 4,600 cu.ft., per 100 cu.ft.	.205	-	-	-
Over 5,000 cu.ft., per 100 cu.ft.	.195	-	-	-
Type of Charge:	Minimum[a]	Service[b]	Service[b]	Service[b]
For 5/8 x 3/4-inch meter	$ 2.60	$ 3.20	$ 3.20	$ 3.45
For 3/4-inch meter	2.90	3.50	3.50	3.80
For 1-inch meter	3.70	4.80	4.80	5.20
For 1 1/2-inch meter	5.75	6.40	6.40	6.90
For 2-inch meter	8.00	8.65	8.65	9.30
For 3-inch meter	13.75	16.00	16.00	17.25
For 4-inch meter	21.50	21.75	21.75	23.45
For 6-inch meter	58.00	36.15	36.15	-
For 8-inch meter	98.00	54.00	54.00	-
For 10-inch meter	148.00	67.00	-	-

a/ The minimum service charge will entitle the customer to the quantity of water that the minimum charge will purchase at the quantity rates.

b/ No water included.

c/ No increase proposed.

Authorizing the full rate increase would result in a lower billing in VT Zone 1 as compared to EMT for consumption in excess of 286 Ccf per month. Approximately 25 percent of VT's Zone 1 sales exceed 200 Ccf per month. These large sales are to commercial, public authority, and industrial customers.

SG does not propose to increase its rates for metered service or for limited irrigation service in VT. No change is sought for construction and tank truck service or for service to tract homes during construction.

SG requests authorization to revise the special conditions in its public fire protection schedules to reflect current special conditions. These special conditions set out procedures for causing fire hydrants to be connected to SG's mains, require a district or an agency to pay for hydrant relocation costs and for hydrant operation and maintenance costs, and incorporate a hold-harmless clause against SG for any claims rising out of its providing public fire hydrant service. SG's witness believes that a request for an increase in public fire hydrant service rates might precipitate a move by the agencies to discontinue making any payment for such service.

SG seeks to increase the rates for private fire protection service[1/] in both the EMT and the VT. The requested increase from $2.00 to $3.00 per inch of diameter of fire protection service per month is reasonable. Authorization of this separate schedule will

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1/ Revised special conditions for this service were filed with Advice Letter No. 128 (Exhibit 4 in this proceeding). These special conditions, which are now effective, supersede the special conditions shown in the application.

necessitate revision of Schedule No. AA-4 since it will no longer be applicable in SG's entire territory. SG should refile its present rates for private fire protection service to be applicable to service in its WD and FD.

Both SG and the staff estimate that an average of 25,695 customers will be served in EMT in 1975 approximately 0.4 percent above 1974. The staff estimate for VT, which is based upon later data than that used by SG, is that an average of 5,456 customers would be served in 1975, approximately 3.2 percent above 1974. SG estimates an increase in the numbers of private fire connections from an average of 340 in 1974 to 378 in 1975 and in public fire hydrants from 2,573 to 2,626.

A SG witness testified that residential growth in EMD is occurring primarily in VT; that there is a change occurring in the character of customers served in the EMT, i.e. older homes are demolished and replaced with warehouses and light industrial or commercial buildings requiring little water for consumptive uses, in some instances, less than those of the residences they have replaced; that warehouses, light industrial, and commercial buildings have required and will continue to require high capacity fire protection service which requires SG to construct larger mains designed to meet higher fire flow requirements; that the construction of larger and more expensive facilities required to meet fire flow requirements, which yield relatively minor increases in revenue, is the primary cause of attrition in the EMD rate of return; that it would not be reasonable to lower VT rates during an inflationary period to equalize the VT and EMT rates of return; and that increasing EMT rates will not result in a subsidy to VT customers.

One customer, an apartment house owner supplied in the EMT, stated that he was opposed to the magnitude of the proposed 34 percent increase; that he would have to increase rents to offset such a large increase; and that SG's service was satisfactory.

Results of Operations

Table 1 compares the revised summary of earnings estimates of SG and of the staff for 1974 and 1975 at the rates authorized by Resolution No. W-1715 and at SG's proposed rates, and shows the adopted summary of earnings for test year 1975. Both SG's and the staff's revised exhibits reflect the federal income tax rates in effect through 1975 which have been continued through June 30, 1976.

Operating Revenues

Both SG and the staff utilize the modified-Bean method to correlate water usage with rainfall and temperature. The differences between the sales estimates lie in the staff's use of later data which resulted in a greater average number of customers and a greater use per customer in the Vallecito service area. The resultant increase in revenues was more than offset due to staff utilization of revenue correction factors to correlate revenues with water use tables for a recorded period. The staff revenue estimates should be adopted.

Operating Expenses

SG's and the staff's estimates have modified certain expenses by rolling back current 1975 price, wage, or cost levels to 1974. Some of these expenses have been rolled back in offset rate increases. SG has filed two offset rate applications and four advice letter offsets since a general rate increase was authorized for EMD by D.80315 dated July 25, 1972 in A.53003. This treatment eliminates the trending effect on rate of return attributable to changes in revenues and expenses rolled back.

Both SG and the staff estimated EMD would require 16,885,000 Kwhr for pumping usage. The staff estimate for purchased power was $47,800 lower than that of SG because the staff used the Southern California Edison Company's (Edison) rates in effect as of December 31, 1975 as opposed to SG's use of the rates requested in Edison's A.54946.

Table 1

SAN GABRIEL VALLEY WATER COMPANY

Summary of Earnings for El Monte Division
(Estimated Years 1974 & 1975)

Item	1974 S.G. Est.a/ Ex. 11	1974 Staff Est. Ex. 12	1975 S.G. Est. Ex. 11	1975 Staff Est. Ex. 12	1975 Adopted
	(Dollars in Thousands)				
At Rates Authorized by Resolution No. W-1715					
Operating Revenues	$3,489.3	$3,441.9	$3,550.3	$3,525.7	$3,525.7
Operating Deductions					
Operating Expenses	$2,254.8	$2,202.8	$2,365.2	$2,271.1	$2,271.1
Depreciation & Amort.	314.3	308.7	330.6	323.1	323.1
Taxes other than Inc.	336.5	336.1	348.0	350.7	350.7
Income Taxes	24.4	21.0	7.0	12.1	12.1
Total Deductions	$2,930.0	$2,868.6	$3,050.9 b/	$2,957.0	$2,957.0
Net Oper. Rev.	$ 559.3	$ 573.3	$ 499.4	$ 568.7	$ 568.7
Deprec. Rate Base	$9,252.6	$9,120.7	$9,743.4	$9,502.1	$9,512.1
Rate of Return	6.04%	6.29%	5.13% c/	5.98%	5.98%
At Proposed Rates					
Operating Revenues	$4,516.3	$4,494.4	$4,589.6	$4,593.4	$4,593.4
Operating Deductions					
Operating Expenses	$2,266.6	$2,214.6	$2,377.2	$2,282.9	$2,282.9
Depreciation & Amort.	314.3	308.7	330.6	323.1	323.1
Taxes other than Inc.	336.5	336.1	348.0	350.7	350.7
Income Taxes	559.2	569.2	516.1	568.4	568.4
Total Deductions	$3,476.6	$3,428.6	$3,571.9	$3,525.1	$3,525.1
Net Oper. Rev.	$1,039.6 b/	$1,065.8	$1,017.6 b/	$1,068.3	$1,068.3
Deprec. Rate Base	$9,252.6	$9,120.7	$9,743.4	$9,502.1	$9,512.1
Rate of Return	11.24%	11.69%	10.44%	11.24%	11.23%

a/ Modified 1974.

b/ Does not balance due to rounding.

c/ Exhibit 11 incorrectly shows 5.23%

The staff purchased water estimates are based upon later data than used by SG in establishing unit costs for watermaster service, leased water rights, replenishment water, and replacement water. The staff estimate of total water production is slightly below that of SG due to a staff adjustment reducing excessive water losses in the VT system to 10 percent.

The staff utilized the presently authorized safe yield of the main San Gabriel Basin at 200,000 acre feet for both 1974 and 1975. SG used the declining adopted safe yields of 210,000 acre feet for 1974 and 200,000 acre feet for 1975.

The staff adjusted administrative expenses to eliminate charges for certain dues and donations not allowed for ratemaking purposes. The staff estimated the same amount for 1974 and 1975 regulatory expenses, administrative expenses transferred, and rents using more recent data than SG.

Certain common operating expenses and taxes which could not be directly assigned were allocated on two bases.

(1) The four-factor method in which the following four factors, each given equal weight, were used for district allocations:

(a) Number of active service connections.

(b) Direct payroll expenses.

(c) Direct operating expenses excluding administrative and general expenses, uncollectibles, purchased water (excluded by SG but not by the staff), depreciation, and taxes.

(d) Utility plant less intangibles and common plant.

(2) Certain expenses, e.g. meter expenses, meter reading expenses, and billing expenses, were allocated on a customer basis.

SG used average expenses for 1971, 1972, and 1973 with an additional seven percent for estimated 1974 and a further seven percent added for estimated 1975 in estimating common expenses. The staff utilized recorded data for 1973, 1974, and nine months of 1975 in preparing its estimates. The staff excluded items for dues, donations, and contributions which have been disallowed by us in the past for ratemaking purposes. The staff rolled back 1975 wage and benefit levels to 1974 in all accounts. Both estimates allocated certain common expenses to all divisions and others only between EMD and WD.

A SG witness testified that in the past the Commission had given recognition to the fact that there were substantial differences in relative purchased water and/or purchased power expenses attributable to the various districts; and that both purchased water and/or purchased power expenses were excluded from past four-factor allocations; that due to changes in relative expense levels there would be little difference in allocation factors if purchased power and purchased water expenses were included in the four-factor allocation; and that if the Commission adopted a four-factor allocation, including both purchased water and purchased power, that this same method of allocation should be carried through for the WD and the FD in future rate proceedings.

A staff witness testified that the four-factor method which included both purchased water and purchased power expenses was generally utilized by the multidistrict utilities regulated by this

Commission; that any method of allocation would be arbitrary to some extent; that SG's situation as to relative differences in purchased water and power expenses between districts was not unique.

Both SG and the staff used the increased postage rates which went into effect in December 1975. In the event that the postage increase is reduced by court order or that a credit is authorized for bulk mailings of SG bills, SG should reduce its service charges in the EMT by the amount of such decrease for each billing sent out.

The staff estimates of operating expenses are reasonable and are adopted. The staff methodology in determining four-factor allocations is reasonable. This methodology should be followed in establishing future allocations for all districts of SG absent substantial changes which would justify use of a different method.

Other Differences in Estimates

SG and the staff used similar methodologies in deriving their respective estimates with the exception of the proper treatment for a $155,000 pipeline project and in the determination of the Investment Tax Credit (ITC).

A SG witness testified that SG had negotiated for rights-of-way for the pipeline in May or June of 1975; that a work order was opened on August 18, 1975 and fittings for 24-inch pipe were ordered; that a purchase order for the pipe was issued on October 8, 1975 and the construction contract was awarded on December 24, 1975; that construction was about to commence on the pipeline which would be finished in early 1976. He included one-half of the estimated cost of this pipeline as average utility plant in 1975.

A staff witness included one-twelfth of the cost of this pipeline as average construction work in progress (CWIP) for 1975.

This project should be treated as CWIP for 1975. The staff estimate of CWIP and of rate base should be increased by $10,000 for 1975.

SG originally estimated ITC at four percent of average of eligible plant additions for five years. This method was consistent with past treatment of its ITC.

A staff witness testified that his estimate of SG's 1974 and 1975 ITC is based upon a ten percent rate applied to the average eligible plant additions for 1975 and 1976;[2/] that this level of expenditures was likely to continue in the future; and that it was reasonable to use the ten percent rate and the two year level of eligible plant for future ratemaking purposes.

The examiner directed both SG and the staff to use current surtax credits and the current ITC rate in Exhibits 11 and 12 and to reflect and explain the changes and corrections in their respective summaries of earnings estimates. SG's "modified" 1974 estimate (which rolled back certain expenses) and 1975 estimate used the ten percent ITC rate for 1974 and 1975 and four percent for the other years used in the rolling five year average.

The staff ITC methodology should be adopted.

The remaining differences flow from the staff's using later recorded information than SG on operating expenses, on depreciation expenses, on rate base items, and on ad valorem and payroll tax[3/] rates.

2/ SG furnished preliminary estimates of its 1976 construction budget to the staff.

3/ Includes use of the higher state unemployment insurance tax base of $7,000 which was effective on January 1, 1976.

The remaining staff estimates are reasonable. The modification of CWIP and rate base will marginally affect the calculated rate of return at proposed rates.

Rate of Return

SG, a closely held corporation has not had to secure new, privately placed long term debt[4/] or preferred stock for several years. SG had $9,482,000 of long term debt and $1,075,000 of preferred stock outstanding as of December 31, 1974. SG's outstanding preferred stock is being redeemed at a $37,500 annual rate and its outstanding long term debt is being reduced by $2,500 per year.

The ratio of SG's earnings to book value decreased from 14.59 percent in 1970 to 8.66 percent in 1973 and then increased to 8.72 percent in 1974. SG estimates an 8.82 percent ratio in 1975 and approximately 10 percent from 1976 to 1978. The corresponding dividend to earnings ratios increased from 25.3 percent in 1970 to 44.1 percent in 1973, and dropped to 43.1 percent in 1974. SG plans to increase payouts to approximately 53 percent of earnings for 1975 dropping to approximately 48 percent from 1976 to 1978.

SG's plan to use internally generated funds and its short-term line of credit should reasonably meet its 1976 financial requirements.

SG requests that the rates contained in its application be authorized to permit it to earn a return of 8.63 percent on its average capital structure for the three years 1976 through 1978 (the years the increased rates would be in effect), to yield an average of

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4/ A staff financial witness testified that SG's financial situation would justify an A rating on the open market.

13.50 percent on common stock equity. SG has embedded a 0.87 percent attrition rate, including the rollback of certain expenses,[5] in developing the 8.63 percent average rate of return. The following tabulation shows SG's estimates of rate of return and return on common equity for 1975 through 1978 to achieve an average 8.63 percent return:

Year	1975	1976	1977	1978	Average 1976-1978
Rate of Return	10.37%	9.50%	8.63%	7.76%	8.63%
Return on Common Equity	17.9%	15.7%	13.5%	11.3%	13.5%

SG's president testified that the yearly average ratios of earnings to price of three publicly traded, large California water utilities, California Water Service Company, San Jose Water Works, and Southern California Water Company, have increased from 1972 through 1975; that SG was seeking earnings on common equity at a level equal to that experienced by the three companies in 1975; that its stockholders might seek alternate investments if increased earnings were not authorized; that recognition should be given to SG's efficient management, to its low, 5.46 percent, cost of embedded debt, and to its conservative request; that embedded debt costs would increase if new debt was issued at rates which could exceed ten percent,[6] as an alternative to continued reinvestment of earnings; and that attrition must be recognized if SG is to be afforded an opportunity to earn the authorized rate of return.

5/ A SG witness testified that SG had experienced lags between the time expenses increased and the time it was granted corresponding offset rate relief.

6/ Two of SG's bondholders believe that California usury laws would preclude debt issuance in 1976 if the rate exceeded ten percent. We have authorized California debt issues which exceeded ten percent.

SG contends that while the initial return on equity for the EMD would be high its present overall rate of return is low, and that its overall rate of return would be reasonable.

A Commission staff financial examiner testified that a reasonable range for SG's rate of return on rate base would be from 7.95 percent to 8.25 percent; that a 7.95 percent to 8.25 percent range of return on SG's capital structure would yield earnings on common stock equity of between 12.24 percent and 13.06 percent; that a reasonable rate of return should allow for servicing SG's fixed charges, provide an allowance for common stock which permits payment of a suitable dividend, and provide for moderate additions to retained earnings; that the earnings allowance for common stock equity is necessarily a judgment figure based upon many considerations, some of which are: (a) capital structure and embedded cost; (b) comparative earnings of other water utilities; (c) financial requirements for construction and other purposes; (d) the amount of funds available from advances, contributions, and other sources; (e) maintenance of financial integrity; (f) recently authorized rates of return; (g) balancing of consumer interests with the benefits accruing to the investors in the company; (h) trends in interest rates and coverage for senior securities; and (i) the general economic climate.

He also testified that SG has a monopoly to sell a necessary commodity; that SG's customers expect adequate service and at rates which are not excessive or exorbitant; that SG should have the opportunity to earn a fair and reasonable return on its investment; that if SG was not afforded a reasonable return, service would deteriorate and both consumers and investors would suffer; that the high level of unemployment and inability of some customers to pay higher rates should be considered in determining rates; that important factors in his recommendation were (a) SG's December 31, 1975 capital structure; (b) that SG planned no new issue of long-term debt or of preferred stock in the near future; (c) the availability of internally generated funds; (d) the high level of advances and contributions which provide a large part of SG's construction funds; and (e) the decline in the prime rate from recent highs; that after-tax coverage would vary from 2.55 times interest at a 7.95 percent rate of return to 2.64 times interest at 8.25 percent rate of return; and that the pre-tax earnings were approximately .7 times interest higher than after-tax coverage.

SG noted that the recorded common equity as of November 30, 1975 was higher than the staff witnesses' estimate of common equity at year end 1975. The amount of difference is less than half a percent of SG's common equity. SG's water sales declined to below average levels in December which might reduce its earned surplus.

Attrition

SG's Exhibit 11 shows that absent any rollback of 1975 level expenses to 1974 the average of attrition at present and proposed rates would be 1.29 percent per year, and that with the rollback of certain items there would be an annual attrition rate of 0.86 percent. The staff estimate of average attrition with rollback of certain expenses, based on Exhibit 12, is 0.38 percent. The staff financial witness did not consider attrition in rate of return as an element in his recommendation of rate of return.

Staff counsel argues that SG's different attrition rates (the partially rolled back basis and the unmodified basis), conflict and do not provide a proper basis for our giving recognition to attrition in this proceeding; that SG chose the test year and could have picked another test year to eliminate this problem; that the staff engineers have not demonstrated where attrition would occur; that the burden of determining attrition into the future was not met; and that SG has not met its necessary burden of proof.

SG's use of the years 1974 and 1975 for test year purposes in its February 14, 1975 filing is reasonable.

The following tabulation shows attrition both in magnitude of changes and in percentage changes in the modified SG and staff estimates between 1974 and 1975 at the rates authorized by Resolution No. W-1715.

Attrition Between 1974 and 1975
(At Resolution No. W-1715 Rates)

Item	San Gabriel		Staff	
	Changes			
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Operating Revenues	$ 61.0	1.75	$ 83.8	2.43
Operating Deductions				
Operating Expenses	110.4	4.90	68.3	3.10
Depreciation & Amort.	16.3	5.19	14.4	4.66
Taxes other than Income	11.5	3.42	14.6	4.34
Income Taxes	(17.4)	(71.31)	(8.9)	(42.38)
Total Deductions	$ 120.8	4.12	$ 88.4	3.08
Net Oper. Rev.	$ (59.8)	(10.69)	$ (4.6)	0.80
Deprec. Rate Base	$ 490.8	5.30	$ 381.4	4.18
Rate of Return	(0.91)%	(15.07)	(0.31)%	(4.93)

( ) Red Figure

This information shows that the relatively small increase in operating revenues due to growth in customers and use per customer was of far lesser magnitude than the increase in operating deductions and the growth in rate base. Both SG and the staff agree that there will be continued large growth in rate base in the future within the EMD. There has been and, unless there are major changes in SG's operation, will continue to be attrition in the rate of return in the EMD exclusive of increases due to inflation, e.g. (a) smaller mains are being replaced with much larger and much more costly mains, primarily to meet fire flow requirements; (b) increasing water requirements in the EMD will increase the cost per acre foot (AF) of water used to supply the EMD due to the adjudication of the Main San Gabriel Valley Basin (Basin).

The staff's rollback approach shows that SG's cost per AF of water will increase even if the unit cost of factors included in purchased water costs remain constant. The cost of watermaster service and replenishment charges are relatively minor administrative costs related to the management of the ground water basin. SG is entitled to pump an allocated portion of the annually determined safe yield of the ground water basin without payment of additional charges for these extractions. In addition, other parties having surplus pumping rights lease these rights to SG at a negotiated price which is below the cost of replacement water purchased by Basin. This replacement water is spread to balance Basin extractions with recharge. Growth in EMD's water requirements is in the most expensive replacement water category.

A staff witness rolled back all of the component purchased water unit costs from 1975 to 1974, adjusted excessive water losses in VT, and rolled back the safe yield of the Basin and the negotiated quantities of the leased water rights from 1975 to 1974. This resulted in a $31,900 or 6.39 percent increase in purchased water costs between 1974 and 1975 to cover a 2.4 percent increase in water requirements (from 31,719 AF in 1974 to 32,472 AF in 1975). The staff estimated unit costs went from $15.73 per AF in 1974 to $16.35 per AF in 1975. SG's 1975 estimate which is approximately $65,500 (13.65 percent) above its 1974 estimate reflects a decline in safe yield, a decline in available leased water rights, and growth in water requirements.

The attrition allowance authorized in this order, on the staff basis, reflects the increase in unit costs per AF under the assumption that SG's pumping rights remain at 19,760 AF and its leased water rights remain at 7,062 AF.

We take official notice of the below normal rainfall experienced in the EMD and in the watershed supplying recharge to Basin. If this condition persists there would be a decline in SG's allocated pumping rights and there could be a drop in available leased water rights which would increase purchased water costs. However, below average rainfall would result in increased water sales. The net effect of these changes cannot be quantified on this record.

<u>Discussion on Rate of Return and on Attrition</u>

In addition to the above described considerations going into the rate of return recommendations, we have given consideration to staff testimony concerning the good quality of service and the satisfactory procedures followed by SG in resolving customer complaints in establishing the adopted rate of return. In our opinion a rate of return of 8.15 percent on rate base, which is the two-thirds point in the staff's recommended range of rate of return, is reasonable for setting initial rates in this proceeding. The staff's estimated capital structure as of December 31, 1975 is reasonable.

We will adopt a range of return on rate base of 8.00 percent to 8.30 percent as reasonable. This range would yield from 12.37 percent to 13.19 percent on SG's common stock equity. An 8.15 percent rate of return on the December 31, 1975 capital structure would yield 12.78 percent on SG's common stock equity which is reasonable for setting initial rates in this proceeding.

The authorized rates contained in Appendix A attached to this decision together with existing unchanged rates should result in EMD revenues of $4,044,000 in 1976, an increase of approximately $518,000, 14.69 percent. The amount of this increase has been designed to yield an 8.15 percent return on the 1975 rate base and rate spread, a return on common equity of 12.78 percent, and an allowance of $77,000 to offset attrition in 1976. Further step increases of $77,000 should be authorized as of January 1, 1977 and January 1, 1978 to offset a 0.38 percent attrition rate. These offsets would increase revenues by 1.90 percent in 1977 over those derived from 1976 rates and would increase revenues by 1.86 percent in 1978 over those derived from 1977 rates. The offset increases authorized in Appendix A should be modified in the event that the earned rate of return for the 12 months ended October 31, 1976 and/or the 12 months ended October 31, 1977 exceeds 8.30 percent. The October 31 date was selected to permit timely filing by December 1 and to provide an adequate review of the Advice Letter filings requesting the attrition offsets.

In the event that the return on rate base for the recorded 12 months ended October 31, 1976 or October 31, 1977 exceeds the 8.30 percent upper limit of this range, the offset rates authorized in Appendix A should be reduced by an amount which would yield that upper limit of return for the adjusted year ending October 31. The adjustments should be limited to revenues, income and franchise taxes, and uncollectibles.

Rate Design

A staff witness testified that the change from a minimum charge rate to a service charge rate for EMT would result in large percentage increases for small usage customers which is not in accordance with the lifeline concept. He recommended that either the minimum type rates be continued or that service charges be reduced for meters up to one inch in size. Exhibit 9 contains two alternate staff rate proposals, one of which would adopt the amount of SG's proposed service charge but would include up to four Ccf of usage as a minimum charge, and the other would reduce SG's proposed monthly service charge by one dollar.

SG's rebuttal testimony and exhibits show that recent offset increases have given higher percentage increases in the higher usage blocks; that there were large operating deficits in the early months of the year; and that the charges recommended by the staff do not relate to the cost to serve its customers.

We find it reasonable to continue the use of a minimum charge rate, but with a single quantity charge block. This will result in smaller percentage increases in charges for users of small quantities.

Findings

1. A reasonable estimate of SG's EMD results of operations for test year 1975 at present (authorized by Resolution No. W-1715) and at proposed rates is contained in Table 1.

2. The rates proposed by SG would yield EMD operating revenues of $4,593,400, an increase of $1,067,700, 30.28 percent, and a rate of return of 11.23 percent on an adopted 1975 rate base of $9,512,100. This rate of return is excessive.

3. SG is in need of additional revenues in its EMD but the proposed EMT metered service rates are excessive.

4. The proposed rates for SG's EMD private fire protection service are reasonable. SG should refile its present rates for private fire protection rates to restrict their applicability to its WD and FD.

5. SG's request to revise the special conditions related to public fire protection service without an increase in rates is reasonable.

6. A rate of return of 8.15 percent on the adopted 1975 EMD rate base is reasonable. Attrition in the EMD rate of return should be recognized in the rates authorized herein.

7. The staff's estimated capital structure as of December 31, 1975 is reasonable. A range of return on rate base of 8.00 percent to 8.30 percent would be reasonable. This range would yield from 12.37 percent to 13.19 percent on SG's common stock equity. An 8.15 percent rate of return on the December 31, 1975 capital structure would yield 12.78 percent on SG's common stock equity which is reasonable for setting initial rates in this proceeding.

8. The continuation of a minimum charge form of rate is reasonable.

9. The authorized rates contained in Appendix A attached to this decision together with existing unchanged rates should result in EMD revenues of $4,044,000 in 1976, an increase of approximately $518,000, 14.69 percent. These rates have been designed to offset attrition between the 1975 test year and 1976 in the amount of $77,000.

10. Further step increases of $77,000 should be authorized as of January 1, 1977 and January 1, 1978 to offset a 0.38 percent attrition rate. These offsets would increase revenues by 1.90 percent in 1977 over those derived from 1976 rates and would increase revenues by 1.86 percent in 1978 over those derived from 1977 rates. The offset

increases authorized in Appendix A should be modified in the event that the adjusted and normalized rate of return for the 12 months ended October 31, 1976 and/or the 12 months ended October 31, 1977 exceeds 8.30 percent, in the manner described in the opinion.

11. In the event that the postage rates are reduced by court order or by provision for bulk mailing discounts, SG should file revised rates reducing its EMT metered service charges below those contained in Appendix A by an amount equal to the reduction in postage charges per billing.

12. 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 in this decision, are for the future unjust and unreasonable.

13. The 5.98 percent rate of return on SG's 1975 rate base at present rates would decline to 5.67 percent in 1976 due to attrition.

Conclusions

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

2. In the event that the postage rates are reduced by court order or by provision for bulk mailing discounts, SG should file revised rates reducing its EMT metered service charges below those contained in Appendix A by an amount equal to the reduction in postage charges per billing.

3. Step increases to offset attrition in rate of return should be authorized in the manner set forth in Finding 10.

4. The Commission concludes that the effective date of this order should be the date on which it is signed because there is an immediate need for rate relief.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, San Gabriel Valley Water Company is authorized to file the initial revised tariff schedules attached to this order as a portion of Appendix A. Such filing shall comply with General Order No. 96-A. 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. San Gabriel Valley Water Company is authorized to file on or before December 1, 1976 the first attrition offset increases attached to this order as a portion of Appendix A or to file a lesser increase in the event that the El Monte Division rate of return on rate base, adjusted for initial revised rates authorized herein and for normal climatic conditions, for the twelve months ended October 31, 1976, exceeds 8.30 percent. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be January 1, 1977. The revised schedules shall apply only to service rendered on and after January 1, 1977.

3. San Gabriel Valley Water Company is authorized to file on or before December 1, 1977 the second attrition offset increases attached to this order as a portion of Appendix A or to file a lesser increase in the event that the El Monte Division rate of return on rate base, adjusted for first attrition offset rates and for normal climatic conditions, for the twelve months ended October 31, 1977, exceeds 8.30 percent. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be January 1, 1978. The revised schedules shall apply only to service rendered on and after January 1, 1978.

4. In the event that the postage rates are reduced by court order or by provision for bulk mailing discounts, San Gabriel Valley Water Company shall file revised rates reducing its El Monte tariff area metered service charges below those contained in Appendix A by an amount equal to the reduction in postage charges per billing.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 18th day of MAY, 1976.

President

William Symons Jr.

Vernon L. Sturgeon

Commissioners

I abstain
Robert Batinovich Commissioner

A.55495 kw *

Schedule No. EME-1

El Monte Division

El Monte Tariff Area

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Arcadia, Baldwin Park, El Monte, Industry, La Puente, Montebello, Monterey Park, Rosemead, San Gabriel, South El Monte, West Covina, and vicinity, Los Angeles County.

RATES

	Per Meter Per Month			
	Before 1/1/77	After 12/31/76	After 12/31/77	
Quantity Rates:				
First 400 cu.ft. or less	$ 2.90	$ 2.95	$ 3.00	(I)
Over 400 cu.ft., per 100 cu.ft. ..	.244	.251	.258	
Minimum Charge:				
For 5/8 x 3/4-inch meter	$ 2.90	$ 2.95	$ 3.00	
For 3/4-inch meter	3.50	3.55	3.60	
For 1-inch meter	4.70	4.80	4.90	
For 1-1/2-inch meter	7.80	8.00	8.15	
For 2-inch meter	11.20	11.50	11.70	
For 3-inch meter	20.00	20.50	21.00	
For 4-inch meter	32.00	33.00	34.00	
For 6-inch meter	66.00	67.00	68.00	
For 8-inch meter	105.00	107.00	109.00	
For 10-inch meter	153.00	157.00	160.00	(I)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

Schedule No. EM-4

El Monte Division (N)

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for private fire protection purposes.

TERRITORY

The El Monte Division, Los Angeles County.

RATE

	Per Service Per Month	
For each inch of diameter of fire protection service . . .	$3.00	(I)

SPECIAL CONDITIONS

1. The customer will pay, without refund, the entire cost of the fire protection service.

2. The fire protection service shall be installed by the Utility or under the Utility's direction and shall be the sole property and subject to the control of the Utility, with the right to alter, repair, replace and remove upon discontinuance of service.

3. The minimum diameter for fire protection service will be 4 inches. The maximum diameter shall not be larger than the diameter of the water main to which the fire protection service is attached unless said main is circulating, in which case with the approval of the Utility the maximum diameter may be larger by not more than 2 inches than the diameter of said circulating main.

(Continued)

Schedule No. EM-4

El Monte Division (N)

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - Contd.

4. If a water main of adequate size is not available adjacent to the premises to be served, than a new main from the nearest existing main of adequate size will be installed by the Utility at the cost of the customer. Such cost shall not be subject to refund.

5. The fire protection service facilities will consist of a detector check valve, or other similar device acceptable to the Utility which will indicate the use of water, and related piping and fittings. At the option of the Utility, the facilities may be located within the customer's premises or within public right-of-way adjacent thereto. Where located within the premises, the Utility and its duly authorized agents shall have the right of ingress to and egress from the premises for all purposes related to said facilities.

6. No structure shall be built over the fire protection service and the customer shall maintain and safeguard the area occupied by the service from traffic and other hazardous conditions. The customer will be responsible for any damage to the fire protection service facilities resulting from the use or operation of appliances and facilities on customer's premises.

7. Subject to the approval of the Utility, any change in the location or construction of the fire protection service as may be requested by public authority or the customer will be made by the Utility following payment to the Utility of the entire cost of such change.

8. The customer's installation must be such as to separate effectively the fire protection service from that of the customer's regular domestic water service. Any unauthorized use of water through the fire protection service will be charged for at the applicable tariff rates and may be grounds for the Utility's discontinuing fore protection service without liability.

(Continued)

Schedule No. EM-4

El Monte Division (N)

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - Contd.

9. There shall be no cross connection between the system supplied by water through the Utility's fire protection service and any other source of supply without the specific approval of the Utility. The specific approval, if given, will at least require, at the customer's expense, a special double check valve installation or other device acceptable to the Utility. Any unauthorized cross connection may be grounds for immediately discontinuing fire protection service without liability.

10. The Utility will supply only such water at such pressure as may be available from time to time as a result of its operation of the system. The customer shall indemnify the Utility and save it harmless against any and all claims arising out of service under this schedule and shall further agree to make no claims against the Utility for any loss or damage resulting from service hereunder.

11. The customer shall be responsible for the periodic testing of backflow prevention devices as required by public authority or the Utility. Any repair or replacement of such devices or of any other facilities installed to provide fire protection service shall be done at the customer's expense. Any refusal to comply with the above requirements may be grounds for the Utility's discontinuing fire service protection without liability. (N)