

Decision No. 85942

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of DIAMOND BAR WATER COMPANY
for authority to increase rates for
water service.

} Application No. 55752
(Filed June 19, 1975)

Everett L. Clark and Carlton J. Peterson, for applicant.
Ted W. Staley, for Diamond Bar Home Owners Assoc., Inc., interested party.
William J. Jennings, Attorney at Law, and Andrew Tokmakoff, for the Commission staff.

O P I N I O N

Diamond Bar Water Company (DBWC), a California corporation and wholly owned subsidiary of Transamerica Development Company, sought authority at the time of filing of its application to increase its water rates in order to increase operating revenues for test year 1976 from \$854,518 to \$1,170,277, an increase of \$315,759 (36.95 percent) annually over the rates in effect at the time of filing of the application which would result in an estimated net operating income of \$286,271, or 7.92 percent on its rate base of \$3,615,393.

By its letter to the Commission dated February 27, 1976 and the enclosures attached thereto it sought authority to increase its water rates in order to increase operating revenues for test year 1976 from \$854,518 to \$1,275,911, an increase of \$421,393 (49.31 percent) annually over the rates in effect at the time of

filing of the application which would result in an estimated net operating income of \$342,881, or 9.48 percent return on its rate base of \$3,615,393.

At the hearing its motion was granted to amend its application so that it sought authority to increase its water rates in order to increase operating revenues for test year 1976 in the amount of \$276,758 or 38.1 percent annually, whichever is less, in order that the increase not exceed the amount of the proposed increase expressed in dollar and percentage terms that it had notified its customers it was seeking, as required by Section 454(a) of the Public Utilities Code and Rule 24 of the Rules of Practice and Procedure of the Commission.

DBWC was granted a certificate by Decision No. 56524 dated April 15, 1958 in Application No. 39540 and commenced operations in April 1960. It was granted its last increase in rates effective October 1, 1971 by Decision No. 77738 dated September 22, 1970 in Application No. 51783.

DBWC's property consists of water system facilities constructed and currently being constructed for the purpose of supplying the public within its service area with domestic water. The source of the water supplied is the Metropolitan Water District's imported waters obtained from the Pomona Valley Municipal Water District and from Walnut Valley Water District. The water is purchased at rates fixed by the Districts and is received at two locations through facilities paid for by DBWC but otherwise owned and operated by the Districts. It receives the water at booster pumping stations which lift water to an elevation of 1,350 feet (U.S.G.S. DATUM) and to storage reservoirs subtending four distribution pressure zones within the rolling hills in the area of service at Diamond Bar (unincorporated), California.

All services on the system, except fire services, are metered. The service area is being developed into residential properties including attendant commercial centers, schools, and similar properties typical of a well-planned community development. The subdivider or developer, pursuant to the main extension rule as established by the Commission in Decision No. 75205, in effect and effective since February 10, 1969, and as contained in DBWC's regularly filed tariff schedules, shall deposit with DBWC the amount of the required monies to effect the extension, except that the advance shall not include meters. The deposits are to be refunded pursuant to said main extension rule.

Active metered services totalled 4,841 as of December 31, 1974. DBWC estimates that 341 additional services will be added to the system during 1975 and 341 in 1976 based on growth experienced during past years, for a total of 5,523 metered customers for test year 1976. It states that it will be required to furnish and install meters, needed pumping equipment, mainline pressure regulating stations, storage tanks or reservoirs, transmission mains, office and warehouse facilities, and miscellaneous properties and equipment necessary to meet the design, construction, and operation of the waterworks facilities required to adequately supply domestic water under normal operating pressures at the customer's service connection. It alleges that it will need to finance an estimated original cost of \$926,200 for the waterworks facilities not includable in advances for construction pursuant to the main extension rule.

After proper notice, a public hearing was held before Examiner James D. Tante on April 12, 1976 in Diamond Bar and the matter was submitted upon the filing of the staff's late-filed Exhibit 7, a summary of earnings statement and rate of return on equity based upon an increase in operating revenues for 1976 of \$276,758 and based upon the staff's estimates in Table 3-C of Exhibit 6, to be filed on or before April 16, 1976.

Three letters protesting the application were received. At the hearing one customer made a statement against an increase in rates and a past president and director of the Diamond Bar Home Owners Association, Inc. made a statement in behalf of that organization. He offered Exhibit 2 in evidence and stated that there was to be a bond issue proposition on the June 8, 1976 ballot which, if successful, would permit the Walnut Valley Water District to purchase DBWC. He requested that if a rate increase is granted that it not be done before June 8 and preferably as late as July 15, 1976 to give the prospective purchaser sufficient time to complete the purchase upon the success or failure of the bond issue.

A vice president, treasurer, and director of DBWC, who is also a vice president, treasurer, and director of Transamerica Development Company; the general manager who is also the chief engineer and a director of DBWC; and the assistant secretary-treasurer, who is also one of its directors; testified for DBWC. A financial examiner assigned to the Finance and Accounts Division and an associate utilities engineer assigned to the Hydraulic Branch testified for the Commission. Exhibits 1 to 6 and the staff's late-filed Exhibit 7 were received in evidence.

Exhibit 1 showed that DBWC had given proper notice of the filing of its application and the time, date, and place of public hearing but gave notice to its customers that it was seeking authorization to increase its water rates in order to increase operating revenues for test year 1976 in the amount of \$276,758 (38.1 percent) and did not give its customers notice that it proposed to increase its rates sufficiently to increase operating revenues \$421,393 (49.31 percent) as it had stated in its letter to the Commission dated February 27, 1976. Counsel for the Commission staff properly objected to proceeding unless the application was amended to conform with the notice given the customers. The presiding officer advised DBWC that it may have a continuance in order to amend its notice to customers but it declined the offer and elected to amend its application as set forth above and proceed.

For the purpose of the hearing DBWC and the staff stipulated that the staff's summary of earnings for test year 1976 at present rates and the company proposed rates as set forth in Table 3-C of the staff's results of operations study (Exhibit 6) are accurate. That table provides as follows:

TABLE 3-C

Summary of Earnings
Year 1976 Estimated

Item	Applicant		Staff	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$ 854.5	\$1,275.9	\$ 887.9	\$1,335.2
<u>Operating Expenses</u>				
Operating & Maintenance	507.2	507.2	488.7	488.7
Administrative & General	100.6	100.6	83.8	83.8
Taxes Other Than Income	134.5	139.6	134.6	140.0
Income Taxes	0.2	73.8	0.2	141.1
Depreciation	111.9	111.9	111.9	111.9
Total Operating Expenses	\$ 854.4	\$ 933.1	\$ 819.2	\$ 965.5
Net Operating Revenue	\$ 0.1	\$ 342.8	\$ 68.7	\$ 369.7
Depreciated Rate Base	\$3,497.6	\$3,497.6	\$3,318.9	\$3,318.9
Rate of Return	0.00%	9.80%	2.07%	11.14%

The staff's results of operations report (Exhibit 6) recommended on page 7 that an increase of rates be granted to provide a rate of return of 8.85 percent on the depreciated rate base which would provide a 9.16 percent return on equity. In addition, on page 24 in paragraph 24 of that report the Utilities Division recommended an allowance of 0.40 percent per year in rate of return to allow for attrition other than for items for which the Commission has to date granted offset relief, for a total staff recommendation of 9.25 percent return on rate base. The staff's financial examiner testified that an increase in operating revenues of \$276,758 would be reasonable and would not exceed the staff's recommendation.

The staff's late-filed Exhibit 7 shows that an increase in rates to provide additional annual revenue of \$276,758 would result in a rate of return on depreciated rate base of \$3,318,900 of 8.74 percent and a 9.01 percent return on equity.

An increase, as requested by DBWC, to produce 8.74 percent on rate base of \$3,318,900 would increase estimated operating revenues from \$887,900 to \$1,164,658 (31.17 percent) and increase net operating revenue from \$68,700 to \$290,000 and result in a 9.01 percent return on common equity and is reasonable and is adopted.

The staff's report (Exhibit 6) at page 3 contains the following:

- a. Applicant erroneously charges interest during construction (IDC) on the retention fees withheld from payments to contractors. The staff recommends that the applicant be ordered to make a study of this and report the result of the study to the Commission.
- b. Applicant is not amortizing a franchise fee over the life of the investment. The staff recommends that the appropriate accounts be adjusted retroactively and the investment be continued to be amortized over the remainder of its life.
- c. Applicant has not adjusted the land account in accordance with the staff's recommendation in the previous rate case, Application No. 51783.
- d. Applicant's wells should be retired because they have not been operated since 1961, and their future use appears doubtful.
- e. Applicant should retire certain abandoned water mains related to a relocation.
- f. Applicant erroneously charged transportation equipment with motor vehicle license and title fees.

- g. Applicant's unamortized debt discount and expense balance should be written off because it no longer applies.
- h. Applicant should reclassify certain preliminary survey and investigation charges to the two tracts on which the related construction has started.
- i. Applicant has incorrectly credited the other deferred credits account with contributions in aid of construction and other items which should have been expensed when incurred.

DBWC's assistant secretary-treasurer testified that item d. involves a book value of \$318, item f. involves \$344, item g. has been complied with, and that DBWC will comply with all of the items set forth above. He stated that as to item i. he is of the opinion that the manner in which DBWC has been crediting contributions in aid of construction to the other deferred credits account pending completion of construction is proper and consistent with the Commission's Uniform System of Accounts. He stated that \$38,000 of the \$44,000 involved has been transferred to the contributions account upon completion of that portion of the construction for which the contributions were made. He stated that this method of handling contributions was a matter of convenience only and he would not object to complying with item i. We find that DBWC has not been complying with Section XI, paragraph 265 on pages 35 and 36 of the Commission's Uniform System of Accounts in crediting the other deferred credits account with contributions in aid of construction pending completion of construction.

The Commission staff agreed that the increase in rates requested by DBWC for service applicable to Schedules 4 H, 4, 5, and 6 of its present tariff (page 2 of Exhibit D to Exhibit 5) was reasonable and we find that the new rates set forth therein are reasonable and they are adopted. The staff did not agree with DBWC's proposal in Schedule 1 applicable to all metered water service. The staff recommended in its report (Exhibit 6, paragraph 27, page 24) that there not be a change to a service charge type of rate schedule with two consumption blocks as requested, but that the rate schedule remain the minimum charge type with four consumption blocks instead of the present five blocks. The staff engineer testified that the blocks should be for the first 400 cu. ft. or less; for the next 4,600 cu. ft.; for the next 35,000 cu. ft.; and for over 40,000 cu. ft. DBWC stated it had no opposition to the staff's recommendation, which we find to be reasonable and is adopted.

Findings

1. A reasonable estimate of DBWC's results of operations for test year 1976 at present rates is:

Summary of Earnings
Test Year 1976

Item	Present Rates (Dollars in Thousands)
Operating Revenues	\$ 887.9
<u>Operating Expenses</u>	
Operating & Maintenance	488.7
Administrative & General	83.8
Taxes Other Than Income	134.6
Income Taxes	0.2
Depreciation	<u>111.9</u>
Total Operating Expenses	\$ 819.2
Net Operating Revenue	\$ 68.7
Depreciated Rate Base	\$3,318.9
Rate of Return	2.07%

2. A rate of return of 8.74 percent on rate base adopted herein and as requested by DBWC is reasonable and will yield 9.01 percent return on common equity.

3. The rates attached to Appendix A of this decision are reasonable for 1976. These rates should yield \$1,164,658, an increase of \$276,758 (31.17 percent) annually over 1976 revenues at present rates.

4. 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.

5. DBWC has agreed to and should make a study of whether it is erroneously charging interest on the retention fees withheld from payments to contractors and report the result of the study to the staff.

6. DBWC has failed to comply with the Commission's Uniform System of Accounts in the instances as set forth in Exhibit 6, page 3, items b to i.

The Commission concludes that the application should be granted to the extent set forth in the order which follows and that DBWC should be ordered to make the study and report the result thereof to the staff and should be ordered to comply with the Commission's Uniform System of Accounts and comply with the accounting principles as set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order Diamond Bar Water Company is authorized to file the revised tariff schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be five days after the date of the filing. The revised schedules shall apply only to service rendered on or after the effective date of the revised schedules.

2. If it has not yet done so, Diamond Bar Water Company is ordered to conduct a study to determine whether it is erroneously charging interest during construction on the retention fees withheld from payments to contractors and report the result

of the study to the Commission staff within ten days of the effective date of this order, and is ordered to:

- (a) Amortize its franchise fee over the life of the investment and retroactively adjust the appropriate accounts;
- (b) Adjust its land account so that the difference of \$1,826 between the recorded cost and the agreed upon cost of land exchanged between it and its parent be charged to the land account and credited to earned surplus;
- (c) Retire its wells and write off the balance in the account;
- (d) Record the retirement in its accounting records of 766 feet of water mains which were abandoned and cost approximately \$3,628 in connection with its work order No. 2142;
- (e) Write off to earned surplus the license and title fees of \$344 erroneously charged to its transportation equipment account;
- (f) Write off its unamortized debt discount and expense balance;
- (g) Reclassify the balance of \$4,497 in its preliminary survey and investigation charges account for two tracts for which the work has been completed and allocate the charges to the two tracts;
- (h) Refrain from crediting its other deferred credits account with contributions in aid of construction and reclassify \$44,614, or any portion thereof not heretofore so reclassified, as contributions in aid of construction and reclassify expense items of \$297 by transferring from the other deferred credits account to earned surplus.

(1) Report to the Commission within thirty days after the effective date of this order that it has complied with the above paragraph 2(a) to (h) of the order or the reasons for not complying.

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

Dated at San Francisco, California,
this 15th day of JUNE 1, 1976.

William J. Squore President
Vernon L. Sturgeon
Robert B. Fumant Commissioners

Commissioner Leonard Ross, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Diamond Bar, Walnut and vicinity, Los Angeles County.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>	
First 400 cu.ft. or less	\$ 3.75	(1) ----- (I)
Next 4,600 cu.ft., per 100 cu.ft.	0.70	
Next 35,000 cu.ft., per 100 cu.ft.	0.50	
Over 40,000 cu.ft., per 100 cu.ft.	0.32	
 Minimum Charges:		
For 5/8 x 3/4-inch meter	\$ 3.75	
For 3/4-inch meter	5.30	
For 1-inch meter	8.00	
For 1 1/2-inch meter	15.00	
For 2-inch meter	20.00	
For 3-inch meter	29.00	
For 4-inch meter	43.00	
For 6-inch meter	56.00	
For 8-inch meter	75.00	

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

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for privately owned fire protection systems other than to private fire hydrants.

TERRITORY

Diamond Bar, Walnut and vicinity, Los Angeles County.

RATE

Per Service Per Month

For each inch in diameter of service connection \$2.80 (I)

SPECIAL CONDITIONS

1. The fire protection service connection will be installed by the utility or by a construction agency acceptable to it at the cost of the applicant. The cost will not be subject to refund.
2. The minimum diameter for fire protection service will be four inches, and the maximum diameter will 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 adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of the applicant. The cost will not be subject to refund.

(Continued)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

4. The customer's installation must be such as to effectively separate the fire protection system from that of the customer's regular water service. As part of the fire protection service installation there shall be a detector check or other similar device acceptable to the utility which will indicate the use of water. Any unauthorized use will be charged for at the regular established rate for general metered service, and may be grounds for the utility to discontinue the fire protection service without liability to the utility.

5. There shall be no cross-connection between the fire protection system supplied by water through the utility's fire protection service to any other source of supply without the specific written approval of the utility. This specific written approval will require, at the customer's expense a special double check valve installation or other device acceptable to the utility. Any such unauthorized cross-connection may be grounds for utility to immediately discontinue the fire protection service without liability to the utility.

6. The utility will supply only such water at such pressures as may be available from time to time as the result of its normal operation of the system.

Schedule No. 4-H

PRIVATE FIRE HYDRANT SERVICE ON PRIVATE PROPERTY

APPLICABILITY

Applicable to all fire hydrant service rendered from fire hydrants located on private property that are connected to company-owned mains.

TERRITORY

Diamond Bar, Walnut and vicinity, Los Angeles County. (T)

RATES

Per Month

4-inch Riser-type fire hydrant with single 2½-inch outlet	\$3.50	(1)
6-inch Standard type fire hydrant	7.00	(1)

SPECIAL CONDITIONS

1. The fire hydrant service will be installed by the utility or by a construction agency acceptable to it at the cost of the applicant. The cost will not be subject to refund.

2. The relocation, replacement, or enlargement of any hydrant shall be at the expense of the party making such request.

3. The cost of maintenance and repair of hydrants will be borne by the utility.

4. The utility or its authorized agents shall have at all reasonable time the right of ingress to and egress from the customers' premises for any purpose connected with private fire hydrant service.

(Continued)

Schedule No. 4-H

PRIVATE FIRE HYDRANT SERVICE ON PRIVATE PROPERTY

SPECIAL CONDITIONS--Contd.

5. 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.
6. The fire hydrant shall be used for fire fighting purposes and fire drills only. Any unauthorized use will be charged for at the regular established rates for general metered service and may be grounds for the utility to discontinue the fire hydrant service without liability to the utility.
7. The utility will supply only such water at such pressures as may be available from time to time as the result of its normal operation of the system.

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to duly organized or incorporated fire districts or other political subdivisions of the State.

TERRITORY

Diamond Bar, Walnut and vicinity, Los Angeles County. (T)

RATE

Per Month

For each hydrant \$4.00 (I)

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.

2. The cost of installation and maintenance of hydrants will be borne by the utility.

3. Relocation of any hydrant shall be at the expense of the party requesting relocation.

4. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.

Schedule No. 6

SERVICE TO TRACT HOUSES DURING CONSTRUCTION

APPLICABILITY

Application to all tract houses being constructed as part of a total real estate development.

TERRITORY

Diamond Bar, Walnut and vicinity, Los Angeles County. (T)

RATE

Per Month

For each residential lot - construction period only..... \$2.25 (I)

SPECIAL CONDITIONS

1. This rate is available only to real estate developers who undertake the construction of all, or a substantial portion, of the houses in a tract as part of a tract development. It does not apply to builders of houses at tracts subdivided for lot sales.

2. The water service, under this tariff schedule, applies only to use of water for construction of residences. It does not include water for landscaping, gardening, irrigation for model homes, or for general tract improvement work.

3. Water service under this schedule may be discontinued by the builder upon notification to the water company office, after which no water shall be utilized on the residential lot until proper notification has again been given to the water company.

(Continued)

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Schedule No. 6

SERVICE TO TRACT HOUSES DURING CONSTRUCTION

SPECIAL CONDITIONS---Contd.

4. The developer shall assume all responsibility for the service and the use of water associated with the water service provided under this schedule.

5. Any unauthorized use of water provided under this schedule will result in the water company discontinuing service to the residential property for which the service is installed or permitted.