

Decision 84 06 095

JUN 6 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SUBURBAN WATER SYSTEMS, a corpora-)
tion, for an order authorizing it)
to increase rates charged for water)
service in the San Jose-Whittier)
District.)

Application 83-08-29
(Filed August 10, 1983)

McCutchen, Doyle, Brown & Enersen, by A. Crawford
Greene, Attorney at Law, for Suburban Water
Systems, applicant.
Alberto Guerrero, Attorney at Law, and Mehdi
Radpour, for Commission staff.

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OPINION

This is an application in which Suburban Water Systems (Suburban) seeks to increase rates for water service in its San Jose-Whittier District.

A duly noticed public hearing was held in this matter before Administrative Law Judge (ALJ) Donald B. Jarvis in Los Angeles on December 12, 13, 14, 1983. It was submitted subject to the filing of transcripts and briefs, which have been received.

Summary of Decision

This decision authorizes the separation of the San Jose and Whittier service areas into separate districts for accounting and ratemaking purposes.

An increase in rates for the San Jose District is granted to yield additional revenues of \$751,100 in 1984 and \$544,600 in 1985, for returns on rate base of 12.64% in 1984 and 12.78% in 1985 and a return of 14.25% on common equity. The bill of an average customer will be increased 13.0% in 1984 and 8.7% in 1985.

An increase in rates for the Whittier District is granted to yield additional revenues of \$562,600 in 1984 and \$309,100 in 1985 for returns on rate base of 12.64% in 1984 and 12.78% in 1985 and a 14.25% return on common equity. The bill of an average customer will be increased 19.3% in 1984 and 7.0% in 1985.

The decision also provides that the company may file a separate application for a rate base offset concerning the costs of reconstructing the Bartolo pipeline.

Description of System

Suburban is a wholly-owned subsidiary of Southwest Water Company. It operates two separate districts: La Mirada District and San Jose-Whittier District, which is the subject of this proceeding. The San Jose service area is located on the north side of the Puente Hills. It encompasses portions of Hacienda Heights, City of Industry, La Puente, Valinda, West Covina, Covina, and Glendora. The

Whittier service area is located on the south side of the Puente Hills. It is primarily east and south of the central portion of the City of Whittier.

Preliminary Considerations

A. Division of Service Areas
Into Separate Districts

Suburban requests authority in this proceeding to separate the San Jose and Whittier service areas. It proposes to establish two separate districts for ratemaking and accounting purposes. Suburban contends that the two service areas are geographically and operationally separate. The service areas have different weather patterns, different rate bases per customer, different amounts of water use per customer, and different water supply costs. Suburban argues that because of these differences it is appropriate to establish each area as a separate district for ratemaking and accounting purposes.

The Commission Staff (Staff) indicated that it had no objection to the request to divide the two service areas into separate districts.

In the circumstances, Suburban's request is reasonable and will be granted. The ensuing discussion will deal with the areas as separate districts.

B. ALJ's Ruling on Additional Hearings
on the Bartolo Transmission Main

The Bartolo transmission main (Bartolo) carries approximately 50% of Suburban's water production in the Whittier District. Bartolo began as a dirt channel used for irrigation purposes. When the water started to be used for domestic consumption the channel was lined. It was later covered in sections. Bartolo has been upgraded since the early 1900s.

About six years ago the State Department of Health (Department of Health) advised Suburban that Bartolo did not meet

minimum health requirements. After receiving the communication from the Department of Health, Suburban has expended \$75,000 per year to replace portions of Bartolo. Suburban, in the exhibits furnished the Staff pursuant to the Regulatory Lag Plan, had the amount of \$75,000 included in rate base for each of the three years involved. The Staff did not disagree with this amount.

During the summer of 1983 Suburban's management questioned whether it was proceeding at a proper pace in replacing Bartolo. It retained Zimmerman Consulting Engineers (Zimmerman), an outside consultant, for an independent report on the problem.

Zimmerman transmitted its report to Suburban about a week prior to the hearing. Suburban informed the Staff of the receipt of the report. The Zimmerman report recommends that Suburban embark on a revised program, expending \$400,000 a year for ten years to replace Bartolo.

Suburban sought to introduce the Zimmerman report in evidence. The Staff objected to its receipt. The ALJ overruled the objection and marked the report as Exhibit 10 for identification. It was not received in evidence. The objection was overruled with the understanding that the matter would be submitted except on the question of the inclusion of the amount for the transmission line. A further hearing was to be calendared in 1984 to address that issue, affording the Staff opportunity to cross-examine Yarborough and to present any evidence it may have on this issue.

The Staff filed a motion along with its brief seeking to have the Commission overturn the ruling of the ALJ. We hereby reverse the ALJ's ruling.

The company apparently commissioned the Zimmerman study prior to the filing of the instant application. Without awaiting the results of the study, it chose to move forward with this application.

An application for a rate increase must be filed under our rules of procedure and follow the requirements of the Public Utilities Code. Applications are noticed and their contents are a matter of public record. Consequently, they should be whole documents, with the specific assumptions and justifications for the increases contained within their four corners. Since the Zimmerman study was not included as part and parcel of this application, it should not and cannot be considered in this decision.

As to the notion that, even taking into consideration the revenues associated with the Zimmerman report's recommendations, the decision would not exceed the rate increase noticed by the company, we agree with the Staff that such reasoning disregards the substance of the notice. As the Staff points out, a contrary rule might encourage utilities to overestimate their revenue requirements in order to provide a cushion for later informal amendments to their applications.

Although we will not permit the consideration of the acceleration of the Bartolo pipeline improvements in this matter, we invite the company to file a separate application for a rate base offset to consider the capital expenditures not included in this order with appropriate allegations and proofs as to the urgency of the accelerated improvements plan. That application should be separately noticed and subject to the full scrutiny of the public and our Staff.

Suburban's Request

Suburban requests authority to increase its revenues by \$1,326,100 (34.5%), \$339,300 (6.6%), and \$356,300 (6.5%) in the Whittier District for the test years 1984, 1985, and 1986 and revenue increases of \$2,183,300 (28.4%), \$801,300 (8.1%), and \$813,300 (7.6%) in the San Jose service area for the same test years.

Suburban's present and proposed rates are:

SUBURBAN WATER SYSTEMS
SAN JOSE HILLS DISTRICT
Present and Proposed Rates
(Per meter per month)

	PROPOSED			
	<u>Present</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Service Charge:				
5/8 x 3/4	\$ 5.05	\$ 6.40	\$ 7.00	\$ 7.45
3/4	6.69	9.60	10.50	11.17
1	8.50	16.00	17.50	18.63
1-1/2	12.90	32.00	35.00	37.25
2	17.20	51.20	56.00	59.60
3	30.00	96.00	105.00	111.75
4	42.00	160.00	175.00	186.25
6	70.00	320.00	350.00	372.50
8	104.00	512.00	560.00	596.00
Quantity:				
Zone 1				
0-300	0.297	0.434	0.464	0.509
Over 300	0.546	0.579	0.619	0.679
Zone 2				
0-300	0.336	0.514	0.544	0.589
Over 300	0.591	0.659	0.699	0.759
Zone 3				
0-300	0.375	0.624	0.654	0.699
Over 300	0.635	0.769	0.809	0.869

SUBURBAN WATER SYSTEMS
WHITTIER DISTRICT
Present and Proposed Rates
(Per meter per month)

	PROPOSED			
	<u>Present</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Service Charge:				
5/8 x 3/4	\$ 5.05	\$ 6.90	\$ 7.35	\$ 7.80
3/4	6.69	10.35	11.03	11.70
1	8.50	17.25	18.38	19.50
1-1/2	12.90	34.50	36.75	39.00
2	17.20	55.20	58.80	62.40
3	30.00	103.50	110.25	117.00
4	42.00	172.50	183.75	195.00
6	70.00	345.00	367.50	390.00
8	104.00	552.00	588.00	624.00
Quantity:				
Zone 1				
0-300	0.297	0.418	0.455	0.498
Over 300	0.546	0.557	0.607	0.664
Zone 2				
0-300	0.336	0.498	0.535	0.578
Over 300	0.591	0.664	0.713	0.771
Zone 3				
0-300	0.375	0.608	0.645	0.688
Over 300	0.635	0.774	0.825	0.881

Contentions of the Parties

A. Suburban's Position

Suburban contends that it is entitled to an increase in rates. It argues that present rates are not sufficient to cover increased operation and maintenance expenses not recoverable by offset proceedings, continuing reduction of water consumption by existing customers, and increases in the cost of money. Suburban seeks rates which would yield a return on equity of 16%.

B. Position of Public Witnesses

Eleven members of the public made sworn statements at the hearing. These statements contained the following points: The rate of inflation has decreased and the rates requested by Suburban are out of line with the current consumer price index. The water system

is not expanding so there is no need to attract capital. There have been substantial rate increases since 1980. The present requested rate increase is excessive when added to the previous ones granted. Persons with low incomes and those on social security or fixed incomes cannot afford the proposed increase. Two customers complained of pressure problems in a portion of the Whittier District. A representative of a country club complained that the proposed rates would increase the club's bill by 40%, which would be confiscatory.

C. Staff's Position

The Staff agrees that Suburban is entitled to an increase in rates but disagrees with the amount requested. It controverts certain estimates made by Suburban. The Staff contends that a 13.75% to 14.25% return on equity would be reasonable.

Material Issues

The material issues presented in this proceeding are:

- (1) Is Suburban entitled to an increase in rates? (2) If Suburban is entitled to a rate increase, what is the appropriate amount?

Discussion

The Staff and Suburban used 1984 and 1985 as the test years for purposes of this proceeding. The following is a comparison of return on rate base under existing rates for the test years:

Rates of Return

	<u>Staff</u>		<u>Utility</u>	
	<u>1984</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>
<u>Whittier Service Area</u>				
At present rates	8.55%	6.44%	5.01%	2.79%
<u>San Jose Service Area</u>				
At present rates	10.01%	8.41%	6.04%	3.55%

Using the higher Staff estimates, it is clear that Suburban is entitled to an increase in rates. (Lyon & Hoan v Railroad Commission (1920) 183 C 145.) The question is one of magnitude.

A. Water Consumption and
Operating Revenues

Suburban and the Staff differed in their estimates of residential water consumption for the test years. The differences are as follows:

Average Consumption (Ccf/Service)

	<u>Staff</u>		<u>Utility</u>	
	<u>1984</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>
Residential Customers San Jose District	235.1	235.1	219.8	217.3
Residential Customers Whittier District	223.0	223.0	211.0	208.0

The differences result from the way in which the parties applied the Modified Bean Method of forecasting water consumption.

The Modified Bean Method is described in Standard Practice U-25 and its supplement. It is a regression analysis using, as independent variables, time, precipitation, and temperature to predict normalized consumption. The Modified Bean Method uses 30 years of weather data, which is consistent with what the National Weather Service uses to calculate the average temperature and average rainfall. Thirty years of weather data is used to minimize the effects of large variations in temperature and precipitation.

Together with the Modified Bean Method, the Staff employed the basic procedures for determining water consumption as set forth in an agreed upon method recommended in June 1976 by the Staff and representatives of the California Water Association. This procedure, commonly referred to as the Committee Method, uses the Modified Bean Method to obtain a weather normalized estimate of the last recorded year by analyzing various time spans. This normalized recorded year estimate is then used as the normalized test year estimates.

Suburban did not follow the procedure used by the Staff. It extrapolated, by the trend developed in the Modified Bean study, data to obtain test year estimates. This deviated from the basic

procedures of the Committee Method which states the normalized usage for the last recorded year shall be used as the normalized test year estimate. In addition, Suburban did not use the computer regression run that produced the lowest inverse McSee ratio. The McSee ratio is a mathematical measure of fit of the equation developed.

In addition, the Staff used the Covina Temple weather station, which is within the San Jose District service area for precipitation data. Suburban used the San Gabriel Fire Department weather station, which is not within its service areas.

The Staff used a trend line based on the last five years while Suburban used a trend based on the years 1971-1981. Suburban's method produced a downward trend in both the San Jose and Whittier Districts. The Staff's method produced an upward trend in the San Jose District and a slight downward trend in the Whittier District.

Suburban contends that an upward trend in one district and a downward trend in another raises a question as to whether the Staff's use of the best statistical fit produced a reasonable result. It argues that the Staff's upward trend is clearly unreasonable. Suburban asserts that, under the Committee Method, if the best statistical fit proves unreasonable under the circumstances, another run and another trend line with good statistical parameters should be used which produce the most reasonable result. It used such an approach here. Suburban also argues that over the past 12 years there has been a downward trend in domestic use per customer in the San Jose District. Therefore, use of a short-term upward trend flies in the face of recent history and is clearly unreasonable, regardless of how good a statistical fit may have been achieved.

The purpose of Standard Practice U-25 is "to promote reasonable uniformity and reliability in the preparation of revenue estimates...." The Staff's estimate, which uses weather stations entirely within Suburban's service areas, is more consonant with the purposes of the Standard Practice. It is more reasonable and will be adopted.

B. Operation and Maintenance
(O&M) Expenses

1. Purchased Water

Suburban and the Staff agree on the cost of purchased water. There is a disagreement over the estimated quantity of water to be purchased. This disagreement relates to the estimate of water consumption previously considered. Having adopted the Staff's estimate of water consumption we find the Staff's estimate for purchased water to be reasonable. It is as follows:

Purchased Water

San Jose District

1984	\$676,500
1985	864,000

Whittier District

1984	540,400
1985	701,700

2. Purchased Power

Suburban and the Staff are also in agreement on the cost of purchased power. They disagree on the amount needed, which relates to the estimate of water consumption. Since the Staff's water consumption estimate has been adopted, its purchased power estimate is reasonable and will be adopted. It is as follows:

Purchased Power

San Jose District

1984	\$1,408,200
1985	1,396,400

Whittier District

1984	693,300
1985	686,200

3. Interdistrict Expense

Interdistrict expense credits of \$228,900 in 1984 and \$226,900 in 1985 is applicable only to the Whittier District. These

expense credits reflect revenues from the sale of water to the La Mirada District. When Suburban purchased the La Mirada District, there existed a contract whereby water was sold to La Mirada from the Whittier District. Even though La Mirada is now part of the utility, the interdistrict exchange of water is still considered an expense (a positive expense for La Mirada, and a negative one for Whittier). The parties are in agreement as to the amounts and they will be adopted.

4. Payroll

a. Number of Employees

Suburban requested 21½ new employee positions through mid-1984. The Staff recommended 17. At the hearing, Suburban urged including at least two of the disputed positions. They are the manager of budgeting and regulation, and the controller. The manager of budgeting and regulation would be hired in 1985 and the controller in 1984.

The staff contends that neither of these positions is justifiable. There is no present position called controller. The proposed duties of the controller are to oversee the recently installed new computer systems and to oversee accounting law changes. The Staff argues that it has allowed four additional personnel to help with the new computer system, including a programmer analyst and a data processing manager. The Staff asserts that Suburban has not justified why a fifth position is necessary to manage the system. The Staff also contends that the task of overseeing accounting law changes has been the responsibility of the treasurer and the accounting manager and that no adequate reason has been shown why a third person is needed to fulfill this duty.

The Staff also argues that Suburban's stated purpose for hiring a new budgeting and regulation manager in 1985 is to replace Mr. Robert Randall who currently holds this position and who is scheduled to retire in 1987. It takes the position that a two-year advance hiring is not necessary. The Staff argues that the new

manager will be a person with experience in the field or someone promoted from within the company. In these circumstances the Staff believes that the new manager should not be hired this far in advance of the proposed retirement.

The Commission is of the opinion that Suburban has failed to sustain its burden of showing that the disputed number of employees is reasonable for the test years here involved. The Staff's estimate is reasonable and will be adopted.

b. Amount of Increases

Aside from the difference over the number of employees, Suburban used an 8% wage escalation factor while the Staff used a 5% factor.

Suburban based its 8% estimate on the average 1983 wage increases for ten water utilities in the United States. In addition, Suburban introduced evidence of a resolution by its board of directors adopting the prospective proposed 8% increase. Suburban contends that the board's resolution is akin to a union contract.

The Staff based its 5% on Suburban's current wage levels, the inflation expectation for the next two years, and the wage escalation factors forecast by the Economics Section of the Revenue Requirements Division (4.3% for 1984, 5.2% for 1985). The Staff tabulated the wage increases historically given by Suburban and found that the company's wages have kept up with inflation.

The board's resolution is the first time Suburban has attempted to set salaries three years in advance. Unlike a union contract, the board's action is unilateral. It can be changed unilaterally.

The record also reflects the Commission's actions for wage increases in recent water rate cases. In the Southern California Water rate case, Decision (D.) 83-08-006, a 5.1% increase for 1984 was adopted. In the California Water Service rate case, D.83-12-037, a 4.24% increase was adopted for 1984. In the San Gabriel Valley water rate case, D.83-10-002, a 4% increase was

adopted. In the San Jose water rate case, Application 83-06-01, the company stipulated to the staff's recommended increase of 4.6%.

The Staff's estimate for wage escalation is more reasonable than Suburban's because it better reflects inflationary trends and prospective wage escalations for the test years. It will be adopted.

c. Payroll Allocation

The Staff took the position that 69% of the total payroll should be considered as an O&M expense and the remaining 31% be considered as an Administrative and General (A&G) expense. However, the 31% does not appear in the Staff's A&G expense tables. It is allocated to each district by a four-factor percentage and is included as part of the General Office (GO) prorated expense. Of the 69% allocated to O&M, 23.9% goes to the San Jose District and 13.9% goes to the Whittier District. Suburban does not controvert the Staff's methodology and it will be adopted.

d. Summary

A summary of the authorized district payrolls is as follows:

Authorized Payroll

San Jose District

1984	\$502,100
1985	528,100

Whittier District

1984	292,000
1985	307,100

5. Uncollectibles

Suburban estimated an uncollectible rate of 0.524% for all of its districts for the test years. The Staff used a 0.262% rate, which is half of the utility's percentage. The reason for this is that Suburban is going from a bimonthly to a monthly billing program. The Staff's position is that since the customers will be

paying twice as often, each bill should be half as large. Suburban will be able to identify delinquent bills much more quickly and the amount of the delinquency will be half as large. Suburban does not dispute the Staff's estimate and it will be adopted.

6. Other O&M Expenses

Suburban does not contest the Staff's estimate of other O&M expenses. The Staff analyzed the total expenses and concluded that a four-year average of total other expenses provided a reasonable starting point for projecting the test year estimates. To account for inflation and miscellaneous increases, the Staff increased its figure by 6% each year. The Staff, as it did with payroll expenses, allocated other O&M expenses to the districts. It calculated that 39.02% belonged to the San Jose District and 20.74% belonged to the Whittier District. The common portion of 26.40% was allocated to each district by a four-factor percentage and is included as part of the GO prorated expense. The following other O&M expenses are reasonable:

Other O&M Expenses

San Jose District

1984	\$344,900
1985	365,100

Whittier District

1984	183,100
1985	194,000

C. A&G Expenses

1. Regulatory Expense

Suburban does not disagree with the Staff's estimate of regulatory expense. The Staff spread the estimated \$25,700 cost over three years, with 65.9% being allocated to the San Jose District and 34.1% going to the Whittier District. The following regulatory expense estimates will be adopted:

Regulatory Expense

San Jose District

1984	\$5,600
1985	5,600

Whittier District

1984	2,900
1985	2,900

2. Local Franchise Tax

Both Suburban and the Staff used a franchise tax rate of 1.5% of gross revenue. The estimates differed because of dissimilar estimates of gross revenues. Since we have adopted the Staff's estimate of gross revenues, its estimate for franchise tax is reasonable and will be adopted.

3. Bank Charges

Suburban maintains a minimum bank balance primarily to offset activity fees charged by its bank. These fees cover a number of bank services, including account maintenance, telegraphic transfers, and check handling. Suburban has the option of paying these fees or avoiding the fees by maintaining a minimum bank balance. The minimum balance must be of sufficient size to enable the bank to loan it out and receive interest equal to or greater than the amount of the fees. The Staff agrees that it is beneficial to the ratepayers to keep the minimum bank balance as low as possible and pay the fees. Suburban and the Staff agree that \$21,700 should be allocated to the San Jose District and \$11,300 to the Whittier District as an A&G expense for the banking fees. These amounts will be adopted.

4. Outside Services

The parties are in agreement that certain charges for outside services are directly chargeable to the two districts. The following charges are reasonable and will be adopted:

Outside ServicesSan Jose District

1984	\$4,500
1985	5,500

Whittier District

1984	3,000
1985	3,000

D. GO Prorated Expenses

All of Suburban's operations and administration are based at its office in La Puente. Therefore, general office expenses for the districts here under consideration are part of the common office expenses for the La Puente office. The Staff utilized a four-factor formula to prorate the common office expenses. Suburban does not disagree with the methodology. Where controversy exists, it stems from the estimates to which the formula is applied.

1. General Office Payroll

Suburban and the Staff presented differing estimates for GO payroll. The differences are the same as considered under O&M payroll. We found the Staff's wage escalation factor of 5% to be more reasonable than Suburban's for O&M payroll. We adhere to that determination for GO payroll. The following estimates for GO payroll are reasonable and will be adopted:

GO PayrollSan Jose District

1984	\$1,070,100
1985	1,125,300

Whittier District

1984	554,800
1985	583,400

2. Postage

There is no dispute between Suburban and Staff over the amounts for postage. The following amounts are reasonable and will be adopted:

PostageSan Jose District

1984	\$91,000
1985	91,000

Whittier District

1984	47,200
1985	47,200

3. Transportation

Suburban indicated that it does not controvert the Staff's estimates for transportation. The following estimates are reasonable and will be adopted:

TransportationSan Jose District

1984	\$219,900
1985	240,400

Whittier District

1984	114,000
1985	124,600

4. O&M Other Attributable to GO

Again, Suburban indicated that it did not controvert the Staff's estimates for this category. The following estimates are reasonable and will be adopted:

O&M Other Attributable to GOSan Jose District

1984	\$120,500
1985	127,700

Whittier District

1984	62,400
1985	66,200

5. Employee Pensions and Benefitsa. Pensions

The difference in estimates for pension expense is due to the difference in payroll estimates by Suburban and the Staff.

Since we have adopted the Staff's payroll estimates, we adopt its pension estimates as reasonable. They are as follows:

Pensions

San Jose District

1984	\$110,300
1985	117,200

Whittier District

1984	57,200
1985	60,700

b. Medical and Dental

The Staff's estimate for the cost of medical and dental insurance was based on an analysis of selected water utilities. It then came up with a judgmental figure of 15% increase in cost per year. The Staff excluded data which did not support its position. For example, while the Staff referred to the San Jose rate case to support its position on wage escalation factors, it disregards the case on the question of acceleration of medical and dental costs. In the San Jose case the Commission allowed an increase of 162.4% for Blue Cross coverage required by union contract.

Suburban estimated a 30% increase in cost per year. It introduced evidence of its actual experience and attempts to reduce medical and dental costs.

The record indicates that Suburban experienced increases in the cost of its medical and dental coverage of 129% in 1981, 31% in 1982, and 52% in 1983. In the spring of 1982, Pacific Mutual Life Insurance Company, Suburban's medical and dental carrier, notified Suburban that its premium for coverage in 1983 would increase by 67.5% over the 1982 premium. Suburban decided to seek coverage elsewhere. It sought bids from four other carriers, all of which, except for its present carrier, New York Life Insurance Company, quoted similar substantial increases in premiums. Suburban's existing coverage, sponsored by New York Life, is

basically a self-insurance type of plan in which a set monthly administrative fee is charged based on number of employees, with applicant reimbursing the carrier for claims actually paid out.

The Staff witness who testified in behalf of the Staff's estimates was unaware that medical and dental insurance is based on experience rating.

Suburban has taken action to reduce medical and dental costs. Its estimate based on actual experience and the cost-cutting actions taken is more reasonable than the Staff's and will be adopted. It is as follows:

Medical and Dental

San Jose District

1984	\$219,200
1985	278,800

Whittier District

1984	113,600
1985	144,500

c. Worker's Compensation

The Staff estimated \$128,100 as the yearly cost of worker's compensation for the test years. It based its estimate on an analysis of the percentage of total payroll paid for this coverage for the years 1978-1982. However, the Staff excluded 1980, in which there was a large percentage. The Staff claims this was not a typical year and that new employee safety programs will prevent the recurrence of such a year.

Suburban estimated the cost of worker's compensation coverage at \$135,000 for 1984 and \$195,000 for 1985.

Suburban contends that worker's compensation insurance is based on payroll, class of payroll, a rating system based on a so-called modification factor which is determined by the insured's accident record, and the cost of health care and rehabilitation. It argues that the worker's compensation field is not competitive and

because of the problem of escalating medical costs a number of carriers have been dropping out of the field completely. It is a seller's market. The premium for any given year is based in part upon the accident record over the prior three years and upon how much the carrier has paid out in claims. This so-called modification factor will increase to reflect an increase in the accident record in any year. Suburban experienced a high accident level in 1979 and accordingly the relationship of premium to payroll for 1980 rose to 11.4%. It asserts that fluctuations in the accident level are to be expected since even with the institution of employee safety programs they are basically out of the employer's control and severe accidents in a construction crew are to be expected from time to time. Suburban also contends that its exposure is higher than that of other water utilities because it performs a substantial portion of its own main installation while most other utilities contract such work out to others.

The Commission finds that Suburban's estimate of \$135,000 for 1984 is more reasonable than the Staff's because it is based on an actual quotation for the insurance. We further find that the Staff's estimate for 1985 is too low and Suburban's is too high. A 10% escalation factor applied to the 1984 estimate is appropriate. The sum of \$148,500 is a reasonable estimate for 1985. The following will be authorized:

Worker's Compensation Insurance

San Jose District

1984	\$69,800
1985	76,800

Whittier District

1984	36,200
1985	39,800

d. Vacation Accrual

Suburban's vacation accrual estimate for 1985 consists of three components - Retirements, Discharged, and Buy Back. It pays

employees retiring or being discharged for vacation credits not used. Employees normally cannot carry vacation credits for more than two years. After two years the company buys back a portion of the unused credits. The Staff found that generally, when employees retire or are being discharged, they are not replaced for weeks. Therefore, the expenses incurred to pay off their vacation accruals tend to be offset by the wages and benefits that Suburban would not have to pay but is allowed elsewhere in payroll expenses. The Staff's estimate allows only the buy back portion of the vacation accruals. Suburban does not controvert the Staff's estimate. The following estimates will be adopted:

Vacation Accrual

San Jose District

1984	\$6,500
1985	6,500

Whittier District

1984	3,400
1985	3,400

6. Property and Liability Insurance

Suburban and the Staff agree that \$130,200 is a reasonable estimate for the cost of casualty and liability insurance for 1984. They disagree over the 1985 estimate.

A witness called by Suburban testified that four factors go into determining the price of this insurance, namely: (1) the condition of the marketplace, (2) the effects of inflation on the assets being insured, (3) additions to those assets either through replacements or new plant and equipment, and (4) the number of employees and motor vehicles covered. For the last two or three years the property and casualty insurance marketplace has been highly competitive and chaotic. While interest rates were high, underwriters competed fiercely for business and were willing to expose themselves to losses on the premium side of their business in

order to obtain funds which could be invested at rates as high as 20-25%. Profits of property and liability carriers were at a seven-year low in 1983, down 53% from the prior year. Casualty insurers took in premiums of \$2.73 billion in the third quarter of 1983 but suffered underwriting losses against those premiums of \$3.1 billion. The witness stated that he and more knowledgeable insurance experts predict that this chaotic condition cannot go on much longer and that the marketplace must firm up, with increases in premiums of 50% to 100% over the present rates.

The witness also stated that the Staff's estimate of an increase of 6½% does not cover the increased cost of insuring new assets, the increased cost attributable to inflation of existing assets, or the cost of additional employees covered by liability insurance or additional vehicles being insured.

The Staff contends that Suburban's 1985 estimate is based on speculative projections that are highly unrealistic and should not be allowed. The Staff based its estimate on what other water utilities were seeking in other rate cases.

Suburban's estimate is highly speculative and will not be adopted. However, it does not appear that the figures used by the Staff considered the increased cost attributable to inflation of existing assets for 1985. Using the same escalation factor used for wages, we find that the 1985 estimate should be increased to 11½%.

The following amounts will be adopted for property and liability insurance:

Property and Liability Insurance

San Jose District

1984	\$67,300
1985	75,100

Whittier District

1984	34,900
1985	38,900

7. Outside Services GO

Suburban does not controvert the Staff's estimates for outside services. They will be adopted and are as follows:

Outside Services GO

San Jose District

1984	\$93,500
1985	98,900

Whittier District

1984	48,500
1985	51,200

8. A&G - GO

Suburban does not controvert the Staff's estimates on A&G - GO. They will be adopted and are as follows:

A&G - GO

San Jose District

1984	\$156,100
1985	160,000

Whittier District

1984	80,900
1985	82,900

E. Taxes Other Than Income

1. Ad Valorem Taxes

The Staff's estimates for ad valorem taxes were computed by taking the beginning-of-year balance for plant in service, subtracting depreciation reserve, and adding construction work in progress (CWIP). The Staff then used the latest 1982-83 effective tax rate of 1.016% for the San Jose District, 1.184% for the Whittier District, 1.357% for the GO allocation to compute the estimated tax. Suburban estimated the market value of the plant in each district and applied a rate of 1.30% to this figure to estimate the tax.

The Staff's methodology, which uses the most recent tax rate is more reasonable than Suburban's and will be adopted. The

amounts will be adjusted in accordance with the finding made here.
The amounts are as follows:

Ad Valorem Taxes

San Jose District

1984	\$163,800
1985	169,600

Whittier District

1984	94,300
1985	98,700

2. Payroll Taxes

The difference between the Staff's estimates for payroll taxes and Suburban's is due to the difference in payroll estimates and the difference in wages not subject to FICA. Since the Staff's payroll estimates have been adopted, we find its estimates for payroll taxes to be more reasonable than Suburban's. They will be adopted and are as follows:

Payroll Taxes

San Jose District

1984	\$117,900
1985	123,600

Whittier District

1984	61,100
1985	64,100

F. Income Taxes

The differences between the Staff's estimates and Suburban's for income taxes relate to differences in capital recovery of cost for property added to plant. There are disputed items, however, there is no dispute over methodology. We find the following estimates for income taxes reasonable:

<u>Income Taxes</u>			
<u>San Jose District</u>	<u>California Franchise Tax</u>	<u>Federal Income Tax</u>	<u>Total</u>
1984	\$172,500	\$780,200	\$952,700
1985	175,000	804,200	979,200
<u>Whittier District</u>			
1984	95,300	424,300	519,600
1985	94,900	426,900	521,800

G. Utility Plant in Service

1. Whittier Main Replacement Program

Suburban estimated the cost of its Whittier District main replacement program at \$150,000 for 1984 and \$100,000 for 1985. The Staff agrees with the 1985 estimate but contends the 1984 estimate should be reduced to \$110,000.

The Staff based its estimate on a schedule of specific replacement jobs which was furnished by Suburban in July of 1983. Suburban introduced evidence that there were jobs of lower priority and unknown jobs which would cause the amount expended in 1984 for the Whittier main replacement program to be \$150,000 or more. We find Suburban's evidence to be convincing on this issue. Therefore, Suburban's estimate is more reasonable than the Staff's and will be adopted.

2. Fairgrove Project

Suburban proposes to install a 9,000-foot transmission main in Fairgrove Avenue to transport water from Plant 140 to the distribution system in the San Jose District. The estimated cost of this project is \$900,000 and Suburban proposes to construct the project in three phases. It has included \$300,000 per year in the test years for construction of this project.

The proposed transmission main would replace old low pressure lines which currently transport the water from this plant to the distribution system. There are currently three wells at Plant 140. One well, 140 W-2, has not been in service for many years

because of the high nitrate level present in the water. Well No. 140 W-1 has not been used since 1978 because of the high nitrate level present in the water. Well No. 140 W-3 is presently still in use, since it was drilled later and at a deeper depth. Suburban also proposes to drill a new well in 1985 on this site.

The Staff contends that the Fairgrove Project should not be included in plant for the test years - in effect, that it should not be constructed. The Staff asserts that the water supply for the area is adequate and that the expenditure of \$900,000 is not justified to transport more water into a zone which has an adequate amount. The Staff bases its assertion of adequate water supply on the premise that "a number of the wells not in service because of high TCE or nitrate levels are available for standby use." The Staff also questions whether the proposed new well will provide the necessary amount of water.

The Fairgrove Project would be located in a portion of Suburban's San Jose District. The sources of water supply for that area are Suburban's wells, water which can be moved from an adjacent service zone into the Zone 547 area, a connection with the Rowland Area County Water District, and existing storage facilities.

Suburban's chief engineer testified that the maximum day demand for the area in question is approximately 22,300 gallons per minute. The maximum day supply is approximately 20,500 gallons per minute, which results in a deficiency of approximately 1,800 gallons per minute on a maximum day demand. While there is a deficiency in the maximum day supply, the annual production is adequate to meet the annual needs of the area.

Some of the wells serving the area have a quality problem. This problem pertains to TCE (trichlorethylene), PCE (tetrachloroethylene) and nitrates. The quality problem is affected by the depth of the well. All three contaminants affect shallow wells. Wells drilled by Suburban to approximately 1,000 feet in depth have had no water quality problem. The quality problem is more

pronounced in the southern part of the system, the so-called Zone 520 system, where wells have a contamination of TCEs and PCEs. The northerly part of the Zone 547 system has a lesser degree of contamination but nevertheless is approaching, if not exceeding, the current acceptable levels spelled out by the Department of Health.

Ground water is generally available throughout the system. But, because of the quality problem, all new wells must be drilled to a depth of approximately 1,000 feet. The best aquifers are in the area closest to the San Gabriel River to the west of the service area, where new wells can be expected to produce between 3,000 and 4,000 gallons per minute. Wells drilled further easterly, even to the 1,000-foot depth, will only produce something in the area of 600 to 800 gallons per minute. The importance to Suburban of the replacement of the Fairgrove line is that the new transmission main will be able to bring water into the system from the best ground water supply area, namely, the Plant 140 site. At that site Suburban proposes to drill a new well in 1985 which, with an expected production of from 3,000 to 4,000 gallons per minute will make up the existing maximum day deficiency.

Suburban's witness testified that replacement of the existing Fairgrove main, installed in the early 1900s, is essential since it is a low pressure line which does not meet Department of Health standards. The new 18-inch main would not only meet such standards but would also be of sufficient size to carry the production from the Plant 140 site to the center of the system.

Suburban studied the alternatives to the replacement of the Fairgrove line. Its chief engineer testified that none of them is acceptable. One alternative is that Suburban abandon the 140 site area and drill additional wells elsewhere in the San Jose area in substitution for the existing 140 well and for the well which it proposes to drill at that site in 1985. However, to obtain a comparable supply elsewhere would require installation of at least five additional wells at a cost of \$250,000 for each well. In

addition, alternate sites are limited since the area is fully developed and there is insufficient room at all but three or four of Suburban's existing well sites for the installation of additional wells.

Another alternative would be to bring Metropolitan Water District water into the system. Such a project would require between 15,000 and 20,000 feet of transmission main in addition to installation of a service connection to the Metropolitan, the latter at a cost of approximately \$250,000. The overall cost of such a project would approximate \$1.8 million instead of \$900,000 for the Fairgrove pipeline. The cost of Metropolitan water would be about four times the cost to Suburban of producing its own water.

Suburban contends that the most appropriate solution to its current maximum day supply deficiency in the San Jose area is the replacement of the Fairgrove main and the drilling of a new well at the Plant 140 site. It argues that the Staff's allegation that there are five different purveyors from whom water may be purchased when a maximum day deficiency occurs is not correct. Suburban's chief engineer testified that during periods of high demand these purveyors have no excess water. Suburban also attacked the Staff's contention that a number of wells not in service because of high TCE or nitrate levels would be available for standby emergency use. Its chief engineer testified that wells in the south 520 area had such high TCE concentrations that they could not be used for domestic consumption. Their only use would be for fire protection or other purposes.

The Commission is of the opinion that the record establishes the need for the Fairgrove main replacement as the most reasonable and least costly way to remedy the maximum day supply deficiency problem in the affected portion of the San Jose District. Suburban's estimates with respect to the project are reasonable and will be adopted.

3. New Reservoir

Suburban proposes to construct a new reservoir in 1985 and 1986. There is agreement between Suburban and the Staff of the need for the reservoir. They disagree about its estimated cost. Suburban estimates the cost at \$800,000. The Staff's estimate is \$713,500. Each estimate includes the undisputed amount of \$120,000 for site preparation, on-site plumbing, controls, telemetering, and engineering.

Suburban's vice-president for operations testified its estimate was based on an industry rule of thumb of 25 cents per gallon for the cost of construction of the tank itself. This produced a figure of \$625,000 to which was added an inflation factor of 5% for 1984 and 4% for 1985. The cost of the tank was estimated to be \$680,000, which, added to the \$120,000 for site preparation, etc., resulted in a total estimate of \$800,000.

The Staff derived its estimate by submitting information supplied by Suburban to Natgun Corporation, a firm with 50 years of experience constructing concrete reservoirs of the type proposed. Natgun sent the Staff a letter which included the following:

"Based on 1983 construction costs, a suitable estimating figure for a 2.5 MG precast, prestressed concrete storage reservoir with an overflow height of 40 ft. or less is \$600,000.00. Local, state, and federal taxes, if applicable, are not included in the price.

"As we discussed, the above price is based on a municipal bid and union construction. Private type work involving non-union construction negotiated contract can be up to 15% to 20% less than a municipal bid price."

The Staff, using the Natgun letter as a guide, deducted 10% from Suburban's estimate to arrive at its estimate.

Suburban contends that the Natgun letter supports its estimate. It argues that the estimate in the letter is based on 1983 construction costs with no inflation allowance and that local, state, and federal taxes were not included in it.

The Staff witness who testified in support of its estimate was ambivalent. He acknowledged that the Commission favored the use of competitive bidding for such projects. He was unaware that this was also Suburban's policy. At one point he stated the Staff's estimate was obtainable through competitive bidding. Later, he testified that it might be necessary to use a negotiated contract to obtain a bid at the Staff's estimate.

We find that Suburban's estimate, which takes into account inflation factors, local, state, and federal taxes, and is based on competitive bidding, is more reasonable than the Staff's. It will be adopted.

4. Video Equipment

Suburban included in its estimate \$42,000 for video equipment. The Staff excluded this amount from its estimate, considering it an unjustified expense. The expense includes two components: (1) Microfilming equipment and (2) projection equipment.

Suburban proposed to acquire the microfilming equipment, at a cost of \$36,000, to store current and past records. The Staff contends that Suburban has failed to justify why the use of its existing computer system and physical storage of records is not sufficient. We find that Staff's position on this point to be correct. Suburban has failed to justify the reasonableness of this item.

The remaining \$6,000 was earmarked for the replacement of a 16-millimeter film projector and a 35-millimeter slide projector, both over 20 years old. The record indicates that the projectors are used by applicant in its conservation program and also for board meetings, employee safety films, and employee training. The existing equipment is heavy, unreliable, and tends to break down. The Commission finds that Suburban has established the reasonableness of this portion of the estimate, and \$6,000 will be allowed for projection equipment.

5. CWIP

The Staff and Suburban have agreed upon a method to be used in determining CWIP estimates which uses the CWIP amount at the beginning of the year. Both parties also have agreed that the Staff's and Suburban's plant additions will be adjusted with weighting factors based on a 13-month weighted average of utility plant in service, plus CWIP.

6. Rate Base

Based on the findings herein made, the following rate base is reasonable:

	<u>Rate Base</u>	
<u>San Jose District</u>	<u>1984</u>	<u>1985</u>
Utility Plant		
Depreciation Reserve	\$ 7,546,200	\$ 7,843,300
Average Depreciated		
Rate Base	11,746,800	12,253,000
<u>Whittier District</u>		
Utility Plant		
Depreciation Reserve	4,209,700	4,405,200
Average Depreciated		
Rate Base	6,115,000	6,135,300

H. Rate of Return

Suburban seeks a return on rate base of 14.28% for 1984, 14.30% for 1985, and 14.32% for 1986 with a corresponding return on equity of 16.00% in each of the three years. The Staff recommends rates of return on rate base within the following range: 12.34% to 12.64% for 1984, 12.48% to 12.78% for 1985, and 12.51% to 12.81% for 1986. The corresponding return on equity is in the range of 13.75% to 14.25%.

The question of what constitutes a reasonable rate of return is one to be determined by the Commission. (City of Visalia (1969) 69 CPUC, 311, 319; PT&T Co. (1954) 53 CPUC 275, 284.)

"Among the factors which the Commission has enumerated in recent decisions on other utilities as influencing the rate of return which also might affect the level of rates or of a particular rate area: investment in plant, cost of money, dividend-price and earnings-price ratios, territory, growth factor, comparative rate levels, diversification of revenues, public relations, management, financial policies, reasonable construction requirements, prevailing interest rates and other economic conditions, the trend of rate of return, past financing success, future outlook for the utility, outstanding securities and those proposed to be issued. Additional factors to be considered are adequacy of the service, rate history, customers acceptance and usage developed under existing rates, value of the service and cost to serve. No one of the above factors is solely determinative of what may constitute reasonableness of earnings, rates, or rate of return." (PT&T Co., supra, at p. 309.)

Cost of money is not decisive on the issue of rate of return.

(So. Cos. Gas Co. (1960) 58 CPUC 27, 44; California Water & Tel Co. (1952) CPUC 180, 190.)

" The differences between Suburban's request and the Staff's recommendation are due to: (1) The lower borrowing costs the Staff assumed on future debt financing, and (2) Suburban's request for a higher return on common stock equity than that which Staff recommended.

Suburban included a projected debt issue of \$3,000,000 in its application with an estimated interest rate of 16%. Its interest rate was derived from quotes informally obtained from a number of insurance companies during the earlier part of 1983. The Staff's estimate of the cost associated with this financing was based, in part, on a review of historical trends in interest rates and interest rate forecasts published by Data Resources, Inc., including data up to October 1983. The Staff contends that since Suburban's debt is not rated, a comparison of the coupon rates on its more recent debt issues with those of public utility bonds issued in the same time

period is appropriate. Such comparison shows that Suburban has obtained rates similar to those of A-rated utilities. Since Data Resources, Inc., publishes a forecast for AA-rated debt only, Staff considered the historical interest rate spread between AA- and A-rated utility bonds to arrive at Staff's recommended rate of 13.00% for the company's debt financing in 1984. The Staff introduced evidence indicating that Southern California Water Company issued debt at 11.75% in August 1983 and that California Water Service issued debt at an effective rate of 13.26% in October 1983.

Suburban and the Staff disagreed in their estimates for return on common equity because of their reliance upon differing methodologies. Both used a discounted cash flow analysis (DCF) to develop a return on common equity. The DCF model recognizes that the current market price of a share of common stock equals the present value of the expected future stream of dividends and the future sale price of the share of stock, discounted at the investor's discount rate. This discount rate represents the investor's opportunity cost of capital, i.e., the rate of return he can earn on alternative investments of comparable risk.

The Staff disagrees with Suburban's use of company-specific data in its DCF analysis. The company's common stock is not listed on any exchange and is thinly traded. Therefore, market data for this company is not readily available. The Staff asserts that any data about the stock is suspect as far as embodying investor expectations and valuations. The Staff argues that an underlying assumption in making any kind of a market analysis using a financial model such as the DCF is to incorporate efficient market data resulting from active stock trading between buyers and sellers so that investors' expectations and evaluations of the company and of the economy are embodied in the rate of return on equity. To obtain a more precise estimate from the DCF analysis, the Staff relied on data from a group of eight water companies comparable to Suburban for which market data is readily available. The Staff also contends that

the Suburban's reliance on a single company's data for use in the DCF analysis results in less precise estimates since it is subject to a greater degree of error. The Staff also considered the relative risk of Suburban with the average risk of the group of companies. The Staff argues that Suburban has a lower financial risk due to: (1) A greater common equity ratio, (2) Greater financial flexibility from internal cash flow, and (3) Greater interest coverage protection for its fixed charge obligations.

The Staff employed market data pertaining solely to water utilities in its DCF and risk premium analyses. It excluded energy utilities in its analyses because it contends that business and financial risks for energy companies are dissimilar to those of water companies. Suburban argues that energy utilities should be included because the financial risk for water utilities is equal to, if not greater than, energy utilities.

The Staff also proposed that an operational attrition in rate of return based on the adopted summary of earnings for 1984 and 1985 should be considered in setting rates for the year 1986. It also proposed that: (1) On or after November 15, 1984, Suburban be required to file an advice letter, with appropriate workpapers, requesting the step rate increases, or to file a lesser increase in the event that the rate of return on rate base for each district, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1984, exceeds the lower of (a) the rate of return found reasonable by the Commission for it during the corresponding period in the then most recent rate decision, or (b) the rate of return adopted in this proceeding. (2) On or after November 15, 1985, Suburban be authorized to file an advice letter, with appropriate workpapers, requesting the attrition offset rate increases, or to file a lesser increase in the event that the rate of return on rate base for each district, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1985, exceeds the lower of

(a) the rate of return found reasonable by the Commission for Suburban Water System during the corresponding period in the then most recent decision, or (b) the rate of return adopted in this proceeding. Suburban does not object to these Staff proposals. The Staff's methodology using non-specific company data in the DCF analysis and using more current market data is more reasonable than Suburban's and will be adopted. In using the Staff's methodology we find that the top of the suggested ranges should be utilized. We find the following rates of return on rate base to be reasonable: 1984, 12.64%; 1985, 12.78%; 1986, 12.81%. These figures translate to a return on equity of 14.25%.

I. Rate Design

Suburban contends that its rate structure should be changed. It argues that the present structure is too heavily weighted to the commodity charge, as opposed to the service charge. Suburban asserts that the service charge should reflect the utility's fixed charges while the commodity charge should reflect a table or volume-related charges. This is not the case with the present rate structure. Suburban's present service charge provides 75% of its revenue, while its fixed costs are 75% of total Suburban argues that because of this imbalance, a difference of 1 ccf will have an effect on revenue in the strict in excess of \$17,000, while the concurrent effect will be only \$7,000. Suburban also contends that if rates prove to be too high, its revenues will be less than its expenses. It argues that if the rate structure reflects a higher service charge level, so that a portion of fixed costs were assured of being recovered, it asks that the large meter size service charge be reduced and the small meter size service charge be increased.

CORRECTION

CORRECTION

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TO ASSURE LEGIBILITY

(a) the rate of return found reasonable by the Commission for Suburban Water System during the corresponding period in the then most recent decision, or (b) the rate of return adopted in this proceeding. Suburban does not object to these Staff proposals. ✓

The Staff's methodology using non-specific company data in the DCF analysis and using more current market data is more reasonable than Suburban's and will be adopted. In using the Staff's methodology we find that other calculations testified to by Staff witnesses indicate that the top of the suggested ranges should be utilized. We find the following rates of return on rate base to be reasonable: 1984, 12.64%; 1985, 12.78%; 1986, 12.81%. These figures translate to a return on equity of 14.25%.

I. Rate Design

Suburban contends that its rate structure should be changed. It argues that the present structure is too heavily weighted to the commodity charge, as opposed to the service charge. Suburban asserts that the service charge should generally reflect a utility's fixed charges while the commodity charge should reflect the variable or volume-related charges. This is not the case with the present rate structure. Suburban's present service charge provides only 37% of its revenue, while its fixed costs are 75% of total costs. Suburban argues that because of this imbalance, a difference in use per customer of 1 ccf will have an effect on revenue in the San Jose District in excess of \$17,000, while the concurrent effect on expenses will be only \$7,000. Suburban also contends that if water usage estimates prove to be too high, its revenues will be reduced far more than its expenses. It argues that if the rate design were to reflect a higher service charge level, so that a greater percentage of fixed costs were assured of being recovered, its risk would be reduced.

Suburban also asks that the large meter size service charge be increased in relation to the small meter size service charge. It

argues that the relation between the service charge (readiness to serve charge) for the large meter and the service charge for the small meter should be in direct proportion to the capacity of the meter as a reflection of the demand which the individual customer can place on applicant's system. Suburban asserts that the existing relationship, established in 1968, was based on a cost analysis which is no longer applicable and which made no attempt to relate the readiness to serve charge to demand. It contends that fairness to individual customers as well as to the utility requires that the relationship between the various service charges be revised.

The Staff opposed Suburban's attempt to change its rate structure on the ground that the proposed changes are contrary to current Commission policy. It recommended the following rate design: (1) Authorized increases should be spread equally to service charges and commodity rates. (2) A differential of 25% in increase since January 1, 1976 between life line usage (service charge for 5/8 x 3/4-inch meter plus 300 cu. ft. of water) and accumulated system average increase should be maintained. (3) Suburban should continue the present policy of limiting increase to any usage level to twice the average system increase.

The Staff also opposes Suburban's request to set service charges in proportion to meter capacity. The Staff argues that this would result in an increase of more than 300% for customers with large meters, which is not justified.

The Staff had no objection to an increase in rates for private fire protection (Schedule 4) and fire hydrant service on private property (Schedule 4A). It recommended that the rates for these services be increased proportionally to the increase in the total gross revenue.

"In PG&E Decision No. 84902, (1975), 78 CPUC 638, 726-727, and 737, several ratemaking factors are listed for consideration when designing a particular rate spread. The Commission stated that:

"Over the years a generally accepted set of attributes of a good rate structure has evolved; these are:

- Production of the revenue requirement.
- Simplicity and ease of understanding.
- Stability of revenue.
- Fair apportionment of cost of service.
- Discouragement of wasteful use.
- Encouragement of efficient operation of system.

"In the attempt to design rates possessing these attributes, various factors are usually considered. These are:

- Cost of service.
- Historical rate structure.
- Competitive conditions.
- Value of service, including 'what the traffic will bear.'
- Adequacy of service.
- Customer acceptance."

"The Commission also stated at page 737:

"Earlier we listed the generally accepted attributes of a good rate structure. These criteria are as valid now as they have ever been, but, ... their application requires a major overhaul in the traditional 'declining block' rate structure. ... Today, the overriding task for this Commission, the utilities, and the public is conservation." (PG&E, Angels Water System (1980) 4 PUC 2d 347, 369.)

The assertion that present rate structures have reflected increased revenues almost entirely in the commodity charge component and very little in the readiness to serve component causes a lack of revenue stability was presented to the Commission in Calif. Water Service Co. (1981) 6 CPUC 2d 88. In that decision, we stated:

"While we recognize that much merit underlies applicant's assertions, we are here most immediately concerned with the intent to bend every effort to bring about maximum incentives to promote conservation. As the staff witness pointed up: If you do not give incentive to the customer, he is not likely to conserve.

Conservation is one of the primary objectives that we look to in designing rates. We believe that the staff's proposal of spreading the increase percentagewise equally between the service charge and the commodity charge is more likely to achieve our objective than is applicant's proposal to increase the service charge twice as much as the commodity charge." (6 PUC 2d at p. 108.)

We decline to change our policy here. The Staff's rate design proposals are consistent with Commission policy and are more reasonable than Suburban's and will be adopted.

No other points require discussion. The Commission makes the following findings and conclusions:

Findings of Fact

1. The San Jose and Whittier service areas of Suburban's San Jose-Whittier District are geographically and operationally separate. They have different weather patterns, different rate bases per customer, different amounts of water use per customer, and different water supply costs. It is reasonable to allow Suburban to establish each area as a separate district for ratemaking and accounting purposes.

2. The acceleration of the reconstruction of the Bartolo transmission main was not included in Suburban's application and should not be considered in this proceeding.

3. At presently authorized rates Suburban would have a return on rate base for its Whittier District of 8.23% for test year 1984 and 5.96% for test year 1985.

4. At presently authorized rates Suburban would have a return on rate base for its San Jose District of 9.57% for test year 1984 and 7.70% for test year 1985.

5. The Staff's estimate of water consumption for the test years is more consonant with the purposes of Standard Practice U-25

than Suburban's estimate. The Staff's estimate uses weather stations entirely within the service areas and Suburban's does not. The Staff's estimate of water consumption for the test year is more reasonable than Suburban's.

6. Estimates of purchased water and purchased power are dependent on the estimate of water consumption. Having found the Staff's estimate of water consumption to be more reasonable than Suburban's, its estimates for purchased water and purchased power are more reasonable than Suburban's.

7. Suburban has failed to sustain its burden of showing that it needs more than 17 new employees for the test years. The Staff's estimate of 17 is more reasonable than Suburban's.

8. The Staff's estimate of increase for wage escalation for the test years is more reasonable than Suburban's because it better reflects inflationary trends and projected wage escalations for the period.

9. The Staff's estimate for employee pensions and benefits is based on its estimate of number of employees heretofore found reasonable. The Staff's estimate is more reasonable than Suburban's.

10. Suburban experienced increases in the cost of its medical and dental coverage of 129% in 1981, 31% in 1982, and 52% in 1983. Suburban's estimate for medical and dental expenses which is based on actual experience and cost-cutting actions which it has taken is more reasonable than the Staff's.

11. Suburban's estimate for 1984 for worker's compensation insurance is based on an actual quotation for that insurance and is more reasonable than the Staff's estimate.

12. Suburban's estimate for 1985 for worker's compensation insurance is too high. The Staff's estimate is too low. A reasonable estimate is derived by applying a 10% escalation factor to the 1984 estimate. The sum of \$148,500 is a reasonable estimate for worker's compensation insurance for 1985.

13. The same escalation factor as adopted for wages should be utilized in estimating property and liability insurance for 1985. The sum of \$75,054 is a reasonable amount for the San Jose District. The sum of \$38,906 is a reasonable amount for the Whittier District.

14. Suburban's estimate for the 1984 Whittier District main replacement program is more reasonable than the Staff's because it encompasses all work to which the company is committed.

15. The Fairgrove project (drilling a deep well and installing a 9,000-foot transmission main) is the reasonable and least costly way to remedy the maximum day supply deficiency problem in the affected portion of the San Jose District. Suburban's estimates with respect to the project are reasonable.

16. Suburban's estimate for the proposed new reservoir which takes into account inflation factors, local, state, and federal taxes and is based on competitive bidding is more reasonable than the Staff's estimate.

17. Suburban has failed to establish the reasonableness of its total estimate for video equipment. It has established that the sum of \$6,000 is a reasonable estimate for the replacement of a 16-millimeter film projector and a 35-millimeter slide projector, both over 20 years old.

18. Since most of Suburban's estimates for plant additions were found to be reasonable, its estimates for CWIP are reasonable.

19. The following results of operations for the test years 1984 and 1985 are reasonable:

	<u>1984</u>	<u>1985</u>
<u>San Jose District</u>		
Operating Revenues	8,613.6	9,173.1
<u>Deductions</u>		
Purchased Power	1,408.2	1,396.4
Purchased Water & Asses.	676.5	864.0
Payroll O&M	502.1	528.1
Interdistrict	-	-
Uncollectibles	22.6	24.0
Other O&M	344.9	365.1
Franchise A&G	129.2	137.5
Regulatory A&G	5.6	5.6
Outside Service A&G	4.5	5.5
Payroll GO	1,070.9	1,125.5
Postage GO	91.0	91.0
Transportation GO	219.9	240.4
Other O&M GO	120.5	127.7
Employee Benefit GO	466.7	550.1
Insurance Prop-/Liab. GO	67.3	75.1
Outside Services GO	93.5	98.9
Other A&G GO	156.1	160.0
Bank Charges A&G	21.7	21.7
Subtotal	5,401.2	5,816.6
Payroll Taxes	117.9	123.6
Ad Valorem Taxes	163.8	169.6
Depreciation	493.2	518.3
Income Taxes (Fed. & State)	952.7	979.2
Total Expenses	7,128.8	7,607.3
Net Operating Revenues	1,484.8	1,565.8
Rate Base	11,746.8	12,253.1
Rate of Return	12.64%	12.78%

	<u>1984</u>	<u>1985</u>
<u>Whittier District</u>		
Operating Revenues	4,463.4	4,777.5
<u>Deductions</u>		
Purchased Power	693.3	686.2
Purchased Water & Asses.	540.4	701.7
Payroll O&M	292.0	307.1
Interdistrict	(228.9)	(226.9)
Uncollectibles	11.7	12.5
Other O&M	183.1	194.0
Franchise A&G	66.9	71.7
Regulatory A&G	2.9	2.9
Outside Service A&G	3.0	3.0
Payroll GO	554.8	583.4
Postage GO	47.2	47.2
Transportation GO	114.0	124.6
Other O&M GO	62.4	66.2
Employee Benefit GO	242.0	285.1
Insurance Prop./Liab. GO	34.9	38.9
Outside Services GO	48.5	51.2
Other A&G GO	80.9	82.9
Bank Charges A&G	11.3	11.3
Subtotal	2,760.4	3,043.0
Payroll Taxes	61.1	64.1
Ad Valorem Taxes	94.3	98.7
Depreciation	255.1	265.8
Income Taxes (Fed. & State)	519.6	521.8
Total Expenses	3,690.5	3,993.4
Net Operating Revenues	772.9	784.1
Rate Base	6,115.0	6,135.3
Rate of Return	12.64%	12.78%

20. The following returns on rate base reasonably reflect Suburban's cost of capital and are reasonable: 1984, 12.64%; 1985, 12.78%; 1986, 12.81%.

21. The Staff's methodology for reviewing operational attrition is reasonable.

22. The Staff's methodology for rate design is consistent with Commission policy and is reasonable.

23. 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.

24. The total amounts of increase in annual revenues, the rate of return on rate base, and the return on common equity for the San Jose District are:

	<u>Revenues</u>	<u>Return on Rate Base</u>	<u>Return on Equity</u>
1984		12.64%	14.25%
1985		12.78%	14.25%

25. The total amounts of increase in annual revenues, the rate of return on rate base, and the return on common equity for the Whittier District are:

	<u>Revenues</u>	<u>Return on Rate Base</u>	<u>Return on Equity</u>
1984		12.64%	14.25%
1985		12.78%	14.25%

26. To avoid further revenue loss to Suburban, since we are in the test year 1984, it is reasonable for this decision to be effective today.

Conclusions of Law

1. Suburban should be authorized to establish separate districts for ratemaking and accounting purposes for its San Jose and Whittier service areas.

2. Suburban should file a separate rate base offset application concerning the acceleration of the Bartolo transmission main replacement.

3. The Staff's estimate of water consumption for the test years should be adopted.

4. The Staff's estimate of purchased water and purchased power for the test years should be adopted.

5. The Staff's estimate for the number of new employees for the test years should be adopted.

6. The Staff's estimate for wage escalation for the test years should be adopted.

7. The Staff's estimate for employee pensions and benefits should be adopted.

8. Suburban's estimate for medical and dental expenses should be adopted.

9. Suburban's estimate for the 1984 cost of worker's compensation insurance should be adopted.

10. The sum of \$148,500 should be adopted for estimated worker's compensation insurance for 1985 for total company.

11. The following amounts should be adopted as estimates for property and liability insurance for 1985: San Jose District, \$75,100; Whittier District, \$38,900.

12. Suburban's 1984 estimate for the cost of the Whittier District main replacement plan should be adopted.

13. Suburban should be authorized to construct the Fairgrove projects. Its estimates for the test years in connection with the project should be adopted.

14. Suburban's estimate for the proposed new reservoir should be adopted.

15. The estimated sum of \$6,000 should be authorized for the replacement of a 16-millimeter film projector and a 35-millimeter slide projector.

16. The results of operations set forth in Finding 19 should be adopted for the test years 1984 and 1985 and used in establishing the rates authorized in this proceeding.

17. Suburban should be authorized to file the revised water rates set forth in Appendix A.

18. Appendix B should contain the provisions for operational attrition found reasonable.

O R D E R

IT IS ORDERED that:

1. Suburban Water Systems (Suburban) is authorized to establish separate districts for ratemaking and accounting purposes for its San Jose and Whittier service areas.

2. Suburban is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order 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.

3. Suburban is authorized to make advice letter filings in 1985 and 1986 to implement the provisions for operational attrition set forth in Appendix B.

4. On or after November 15, 1984, the utility is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increases, or to file a lesser increase in the event that the rate of return on rate base for this district, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1984, exceeds the lower of (a) the rate of return found reasonable by the Commission for Suburban during the corresponding period in the then most recent rate decision, or (b) 12.64%. This filing should comply with G.O. 96-A. The requested step rates should be reviewed by the Staff to determine their conformity with this order and should go into effect upon the Staff's determination of conformity. But the Staff will inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedule should be no earlier than January 1, 1985, or 30 days after the filing of the step rate, whichever is later. The revised schedule should apply only to service rendered on and after its effective date.

5. On or after November 15, 1985, the utility is authorized to file an advice letter, with appropriate workpapers, requesting the attrition offset rate increases, or to file a lesser increase in the event that the rate of return on rate base, for this district, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1985, exceeds the lower of (a) the rate of return found reasonable by the Commission for Suburban during the corresponding period in the then most recent decision, or (b) 12.78%. Such filing should comply with G.O. 96-A and include evidence of annual expenditure of \$300,000 in 1984 and 1985 for Fairgrove main replacement project. If Suburban does not replace the Fairgrove main as anticipated, the allowable rate of return due to attrition will be reduced accordingly. The requested step rates should be reviewed by the Staff to determine their conformity with this order and shall go into effect upon the Staff's determination of conformity. But the Staff will inform the Commission if it finds that the proposed attrition rate increase is

not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedule shall be no earlier than January 1, 1986, or 30 days after the filing of the attrition rate increase, whichever is later.

6. The application is granted as set forth above.

This order is effective today.

Dated June 6, 1984, at San Francisco, California.

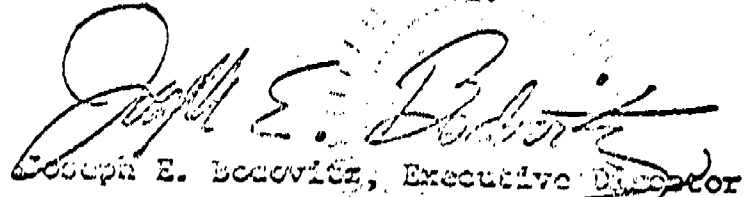
VICTOR CALVO
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

I abstain.

/s/ LEONARD M. GRIMES, JR.
Commissioner

Commissioner Priscilla C. Grew,
being necessarily absent, did not
participate.

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Joseph E. Beovitz, Executive Director

APPENDIX A

Page 1

Suburban Water System
San Jose District
Schedule No. SJ-1

(N)
(N)
(T)

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Covina, West Covina, La Puente, Glendora,
Los Angeles County.

RATES

		Per Meter Per Month	
Service Charges:			
For 5/8 x 3/4-inch meter.....	\$ 6.00	(I)	
For 3/4-inch meter.....	7.30		
For 1-inch meter.....	9.30		
For 1-1/2-inch meter.....	14.00		
For 2-inch meter.....	18.80		
For 3-inch meter.....	34.00		
For 4-inch meter.....	46.00		
For 6-inch meter.....	76.00		
For 8-inch meter.....	114.00	(I)	

Quantity Rates:

For all water delivered, per 100 cu.ft.

Tariff Area No. 1

First 300 cu.ft. per month.....	\$ 0.354	(I)
Over 300 cu.ft. per month.....	0.594	(I)

APPENDIX A
Page 2
Suburban Water System
San Jose District
Schedule No. SJ-1

(N)
(N)
(T)

GENERAL METERED SERVICE
(Continued)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates: (Continued)		
Tariff Area No. 2		
First 300 cu.ft. per month.....	\$ 0.400	(I)
Over 300 cu.ft. per month.....	0.643	(I)
Tariff Area No. 3		
First 300 cu.ft. per month.....	0.447	(I)
Over 300 cu.ft. per month.....	0.691	(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. The boundaries of the zones in which the above rates apply are delineated on the tariff service area maps filed as part of these tariff schedules.
2. The tariff areas include all customers in elevation zones designated as follows:

<u>Tariff</u> <u>Area</u>	<u>San Jose District</u> <u>Elevation, Feet</u>		(T)
	<u>Above</u>	<u>Including</u>	
1	-	547	
2	547	1140	
3	1140	-	

APPENDIX A
Page 3
Suburban Water System
Whittier District
Schedule No. WH-1

(N)
(N)
(N)

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service. (L)

TERRITORY

Whittier and vicinity of Los Angeles and Orange
Counties. (L)

RATES

		Per Meter Per Month	
Service Charges:			
For 5/8 x 3/4-inch meter.....	\$ 6.50	(I) (L)	
For 3/4-inch meter.....	7.50		
For 1-inch meter.....	9.60		
For 1-1/2-inch meter.....	14.50		
For 2-inch meter.....	19.30		
For 3-inch meter.....	35.00		
For 4-inch meter.....	48.00		
For 6-inch meter.....	80.00		
For 8-inch meter.....	117.00	(I) (L)	

Quantity Rates:

For all water delivered, per 100 cu.ft. (L)

Tariff Area No. 1 (L)

First 300 cu.ft. per month..... \$ 0.381(I) (L)
Over 300 cu.ft. per month..... 0.613(I) (L)

APPENDIX A
Page 4
Suburban Water System
Whittier District
Schedule No. WH-1

(N)
(N)
(N)

GENERAL METERED SERVICE
(Continued)

RATES

Per Meter
Per Month

Quantity Rates: (Continued)

Tariff Area No. 2

First 300 cu.ft. per month..... \$ 0.431(I)(L)
Over 300 cu.ft. per month..... 0.664(I)(L)

Tariff Area No. 3

First 300 cu.ft. per month..... 0.481(I)(L)
Over 300 cu.ft. per month..... 0.718(I)(L)

The service charge is applicable to all metered service. It (L)
is a readiness-to-serve charge to which is added the charge,
computed at the Quantity Rates, for water used during the month.(L)

SPECIAL CONDITIONS

1. The boundaries of the zones in which the above rates (L)
apply are delineated on the tariff service area maps (L)
filed as part of these tariff schedules. (L)
2. The tariff areas include all customers in elevation (L)
zones designated as follows: (L)

Tariff Area	Whittier District Elevation, Feet		(T)(L)
	Above	Including	
1	-	300	(L)
2	300	820	
3	820	-	

APPENDIX A
Page 5
Suburban Water System
Schedule No. 4

(N)

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

All tariff areas.

RATES

	<u>Service Area</u>		
	<u>San Jose</u>	<u>Whittier</u>	<u>La Mirada</u>
For each inch of diameter of service connection, per month.....	\$6.00 (I)	\$6.20 (I)	\$4.38

SPECIAL CONDITIONS

1. The fire protection service and connection shall be installed by the utility or under the utility's direction. Cost of the entire fire protection installation excluding the connection at the main shall be paid for by the applicant. Such payment shall not be subject to refund.
2. The expense of maintaining the private fire protection facilities on the applicant's premises (including the vault, meter, and backflow device) shall be paid for by the applicant.
3. All facilities paid for by the applicant shall be the sole property of the applicant. The utility and its duly authorized agents shall have the right to ingress to, and egress from the premises for all purposes relating to said facilities.

APPENDIX A
Page 6
Suburban Water System
Schedule No. 4

(N)

PRIVATE FIRE PROTECTION SERVICE
(Continued)

4. 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.
5. If the 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 main extension from the nearest existing main of adequate capacity shall be installed by the utility. The cost of such main extension attributable to the fire protection requirement shall be paid to the utility as a contribution in aid of construction.
6. 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. All facilities are to be installed according to the utility's specifications and maintained to the utility's satisfaction. The utility may require the installation of a back-flow prevention device and a standard detector type meter approved by the Insurance Service Office for protection against theft, leakage, or waste of water.
7. 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.

APPENDIX A
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Suburban Water System
Schedule No. 4

(N)

PRIVATE FIRE PROTECTION SERVICE
(Continued)

8. 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.
9. 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 fire protection service without liability.
10. The utility shall be required to supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

APPENDIX A
Page 8
Suburban Water System
Schedule No. 4A

(N)

FIRE HYDRANT SERVICE ON PRIVATE PROPERTY

APPLICABILITY

Applicable to all fire hydrant service rendered from fire hydrants connected to Company owned mains on private property.

TERRITORY

Throughout all tariff areas.

RATES

	<u>San Jose</u>	<u>Service Area</u> <u>Whittier</u>	<u>La Mirada</u>
4" riser type fire hydrant with single 2-1/2" outlet.....	\$4.45	(I) \$4.65	(I) \$3.66
6" riser type fire hydrant with steamer head.....	6.25	(I) 6.50	(I) 5.10
6" standard type fire hydrant.....	8.90	(I) 9.30	(I) 7.20

SPECIAL CONDITIONS

1. The fire hydrant will be installed by the utility or under the utility's direction at the cost of the applicant. The cost will not be subject to refund.
2. The fire hydrant shall be used for fire fighting purposes and fire drills only. Water use for fire drills will be limited to 15 minutes per week.

APPENDIX A
Page 9
Suburban Water System
Schedule No. 4A

FIRE HYDRANT SERVICE ON PRIVATE PROPERTY
(Continued)

SPECIAL CONDITIONS

3. The replacement, enlargement, or relocation of any hydrant made at the request of the customer shall be paid for by the customer.
4. All facilities paid for by the applicant shall be the sole property of the applicant. The utility and its duly authorized agents shall have the right to ingress to, and egress from premises for all purposes relating to said facilities.
5. The repair and maintenance of the hydrants will be the responsibility of the applicant.
6. Any unauthorized use of water will be charged therefore under the General Metered Service schedule for the particular tariff area, and/or may be grounds for the utility to discontinue the service without liability to the utility.
7. There shall be no cross-connection between the fire hydrant service and any other source of supply without the specific approval of the utility. This specific 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 immediate disconnection of the fire hydrant service without liability to the utility.
8. The utility shall be required to supply only such water at such pressure as a result of its normal operation of the system.

(END OF APPENDIX A)

APPENDIX B
Page 1
Suburban Water System
San Jose District

Each of the following increases in rates may be put into effect on the indicated dates by filing rate schedule which adds the appropriate increase to the rates which would otherwise be in effect on that date.

Effective Dates
1-01-85 1-01-86

SCHEDULE SJ-1

Service Charges:

For 5/8 x 3/4-inch meter.....	\$ 0.75	\$ 0.40
For 3/4-inch meter.....	0.45	0.45
For 1-inch meter.....	0.50	0.50
For 1-1/2-inch meter.....	0.90	0.80
For 2-inch meter.....	1.10	1.10
For 3-inch meter.....	2.00	2.00
For 4-inch meter.....	3.00	3.00
For 6-inch meter.....	5.00	4.00
For 8-inch meter.....	7.00	6.00

Quantity Rates:

For all water delivered, per 100 cu.ft.

Tariff Area No. 1

First 300 cu.ft. per month....	\$ 0.040	\$ 0.022
Over 300 cu.ft. per month....	0.035	0.035

APPENDIX B
Page 2
Suburban Water System
San Jose District
(Continued)

Effective Dates
1-01-85 1-01-86

SCHEDULE SJ-1

Quantity Rates: (Continued)

Tariff Area No. 2

First 300 cu.ft. per month...	\$ 0.048	\$ 0.025
Over 300 cu.ft. per month....	0.039	0.038

Tariff Area No. 3

First 300 cu.ft. per month...	0.053	0.028
Over 300 cu.ft. per month....	0.041	0.041

APPENDIX B
Page 3
Suburban Water System
Whittier District

Each of the following increases in rates may be put into effect on the indicated dates by filing rate schedule which adds the appropriate increase to the rates which would otherwise be in effect on that date.

Effective Dates
1-01-85 1-01-86

SCHEDULE WH-1

Service Charges:

For 5/8 x 3/4-inch meter.....	\$ 0.45	\$ 0.45
For 3/4-inch meter.....	0.50	0.50
For 1-inch meter.....	0.70	0.60
For 1-1/2-inch meter.....	1.00	1.00
For 2-inch meter.....	1.30	1.30
For 3-inch meter.....	3.00	2.00
For 4-inch meter.....	4.00	3.00
For 6-inch meter.....	6.00	5.00
For 8-inch meter.....	8.00	7.00

Quantity Rates:

For all water delivered, per 100 cu.ft.

Tariff Area No. 1

First 300 cu.ft. per month....	\$ 0.027	\$ 0.025
Over 300 cu.ft. per month....	0.043	0.041

APPENDIX B
Page 4
Suburban Water System
Whittier District
(Continued)

Effective Dates
1-01-85 1-01-86

SCHEDULE WH-1

Quantity Rates: (Continued)

Tariff Area No. 2

First 300 cu.ft. per month...	\$ 0.030	\$ 0.029
Over 300 cu.ft. per month....	0.047	0.044

Tariff Area No. 3

First 300 cu.ft. per month...	0.033	0.032
Over 300 cu.ft. per month....	0.050	0.047

APPENDIX B
Page 5.
Suburban Water Service

Each of the following increases in rates may be put into effect on the indicated dates by filling rates schedule which adds the appropriate increase to the rates which would otherwise be in effect on that date:

Effective Dates
1-01-85 1-01-86

SAN JOSE DISTRICT

SCHEDULE NO.4

For each inch of diameter of service connection, per month	\$ 0.40	\$ 0.40
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SCHEDULE NO. 4A

4" riser type fire hydrant with single 1/2" outlet.....	0.30	0.25
6" riser fire hydrant with steamer head.....	0.35	0.30
6" riser type fire hydrant....	0.60	0.50

WHITTIER DISTRICT

SCHEDULE NO. 4

For each inch of diameter of service connection, per month.....	\$ 0.40	\$ 0.40
---	---------	---------

SCHEDULE NO. 4A

4" riser type fire hydrant with single 1/2" outlet.....	0.35	0.30
6" riser fire hydrant with steamer head.....	0.45	0.45
6" riser type fire hydrant....	0.65	0.65

(END OF APPENDIX B)

APPENDIX C
Page 1
San Jose District

ADOPTED QUANTITIES

Name of Company: Suburban Water System

1. Net-to-Gross Multiplier: 2.08517
2. Federal Tax Rate: 46%
3. State Tax Rate: 9.6%
4. Local Franchise Tax Rate: 1.5%
5. Uncollectibles Rate: 0.262%

	<u>Offset Items</u>	<u>Test Years</u>	
		<u>1984</u>	<u>1985</u>
6.	<u>Purchased Power</u>		
A.	Water Production - A.F.	22,640	22,675
B.	kWh/A.F.	330.74	327.44
C.	Cost/kWh (10/83)	\$0.078	\$0.078
D.	kWh Cost	\$584,060	\$579,127
E.	Therm/A.F.	50.7	50.2
F.	Cost/Therm (10/83)	\$0.718	\$0.718
G.	Therm Cost	\$824,155	\$817,289
H.	Total Power Cost	\$1,408,215	\$1,396,416

APPENDIX C
Page 2.
San Jose District

ADOPTED QUANTITIES
(Continued)

7.	<u>Purchased Water</u>	<u>1984</u>			<u>1985</u>	
		<u>Rate-7/83</u>	<u>Quantity</u>	<u>Cost</u>	<u>Quantity</u>	<u>Cost</u>
	<u>San Gabriel Basin</u>	<u>(\$/A.F.)</u>	<u>(A.F.)</u>	<u>(\$1000)</u>	<u>(A.F.)</u>	<u>(\$1000)</u>
	Replacement	\$ 125.00	\$ -	\$ -	\$ 1,609.0	\$201.1
	Make Up Water	9.00	18,723.0	168.5	17,143.0	154.3
	Administrative	1.27	18,723.0	23.8	18,752.0	23.8
	Leased	111.00	553.0	61.4	553.0	61.4
	<u>South Covina</u>	93.75	860.0	80.6	862.0	80.8
	<u>Covina Irrigation</u>	111.93	<u>3,057.0</u>	<u>342.2</u>	<u>3,061.0</u>	<u>342.6</u>
	Total Cost			\$676.5		\$864.0

	<u>1984</u>	<u>1985</u>
8. Ad Valorem Taxes	\$ 163.800	\$ 169.600
Effective Tax Rate	1.016%	1.016%

APPENDIX C
Page 3
San Jose District

ADOPTED QUANTITIES
(Continued)

9. Number of Services

	No. of Services		Usage - KCcf		Avg. Usage Ccf/Yr.	
	1984	1985	1984	1985	1984	1985
Residential	32,056	32,106	7,536.4	7,548.1	235.1	235.1
Commercial	454	455	1,174.0	1,176.6	2,585.9	2,585.9
Industrial	13	13	63.5	63.5	4,884.6	4,884.6
Public Auth.	92	92	458.2	458.2	4,980.7	4,980.7
Construction	17	17	18.7	18.7	1,100.0	1,100.0
Irrigation	1	1	8.5	8.5	8,500.0	8,500.0
Gov't. Agency	1	1	11.2	11.2	11,200.0	11,200.0
<u>Total Metered</u>	<u>32,634</u>	<u>32,685</u>	<u>9,270.5</u>	<u>9,284.8</u>		
Priv. Fire Protect.	190	191				
Priv. Fire Hydrant	82	82				
Construction	<u>2</u>	<u>2</u>				
<u>Total Flat Rate</u>	<u>274</u>	<u>275</u>				
 Total Services	 32,908	 32,960				
Unaccounted for Water			591.7	592.6		
<u>Total Water Supply</u>			<u>9,862.2</u>	<u>9,877.4</u>		

APPENDIX C
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San Jose District

ADOPTED QUANTITIES
(Continued)

10. Adopted Service by Meter Size

<u>Meter Size</u>	<u>1984</u>	<u>1985</u>
5/8" x 3/4"	2,082	2,082
3/4"	26,012	26,012
1"	3,652	3,702
1-1/2"	350	350
2"	360	360
3"	129	129
4"	45	46
6"	2	2
8"	-	-
10"	-	-
	<u>32,632</u>	<u>32,683</u>

11. Metered Water Sales Used to Design Rates

<u>Range - Ccf</u>	<u>1984</u>	<u>1985</u>
0 - 3	1,145,155	1,146,947
> 3	<u>8,105,633</u>	<u>8,118,183</u>
Total	9,250,788	9,265,130

APPENDIX C
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San Jose District

ADOPTED INCOME TAX CALCULATION

Line No.	Item	1984		1985	
		CCFT (A)	FIT (B)	CCFT (C)	FIT (D)
1	Operating Revenues	\$8,613.6	\$8,613.6	\$9,173.1	\$9,173.1
2	O&M Expenses	5,401.2	5,401.2	5,816.5	5,816.5
3	Taxes Other Than Income	281.7	281.7	293.2	293.2
4	CCFT	0.0	172.5	0.0	175.0
5	Subtotal	\$5,682.9	\$5,855.4	\$6,109.7	\$6,284.7
6	Deductions From Taxable Income				
7	Tax Depreciation	\$ 586.6	\$ 471.3	\$ 637.3	\$ 491.4
8	Capitalized Overhead	43.1	43.1	48.9	48.9
9	Interest	459.6	459.6	509.6	509.6
10	Dividend Exclusion	11.5	9.8	11.5	9.8
11	Subtotal Deductions	\$1,100.8	\$ 983.8	\$1,207.3	\$1,059.7
12	Net Taxable Income For CCFT	1,829.9		1,856.1	
13	CCFT	175.7		178.2	
14	Amortization	-3.2		-3.2	
15	Total CCFT	\$ 172.5		\$ 175.0	
16	Net Taxable Income For FIT		\$1,774.4		\$1,828.7
17	Federal Income Tax		816.2		841.2
18	Graduated Tax Adjustment		-10.5		-10.5
19	Investment Tax Credit		-12.2		-14.0
20	Federal Income Tax Before Adjustment		793.5		816.7
21	Amort. of Defr. Tax		-13.3		-12.5
13	Total FIT		\$ 780.2		\$ 804.2

APPENDIX C
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Whittier District

ADOPTED QUANTITIES

Name of Company: Suburban Water System

1. Net-to-Gross Multiplier: 2.08517
2. Federal Tax Rate: 46%
3. State Tax Rate: 9.6%
4. Local Franchise Tax Rate: 1.5%
5. Uncollectibles Rate: 0.262%

	<u>Offset Items</u>	<u>Test Years</u>	
		<u>1984</u>	<u>1985</u>
6.	<u>Purchased Power</u>		
A.	Water Production - A.F.	12,893	12,889
B.	kWh/A.F.	316.63	313.46
C.	Cost/kWh (10/83)	\$0.078	\$0.078
D.	kWh Cost	\$318,420	\$315,135
E.	Therm/A.F.	40.5	40.1
F.	Cost/Therm (10/83)	\$0.718	\$0.718
G.	Therm Cost	\$374,916	\$371,098
H.	Total Power Cost	\$693,336	\$686,233

APPENDIX C
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Whittier District

ADOPTED QUANTITIES
(Continued)

7.	<u>Purchased Water</u>	<u>1984</u>			<u>1985</u>	
		<u>Rate-7/83</u>	<u>Quantity</u>	<u>Cost</u>	<u>Quantity</u>	<u>Cost</u>
	<u>San Gabriel Basin</u>	<u>(\$/A.F.)</u>	<u>(A.F.)</u>	<u>(\$1000)</u>	<u>(A.F.)</u>	<u>(\$1000)</u>
	Replacement	\$ 125.00	\$ 947.0	\$118.4	\$ 2,344.0	\$293.0
	Make Up Water	9.00	8,194.0	73.7	6,833.0	61.5
	Administrative	1.27	9,141.0	11.6	9,177.0	11.7
	Leased	111.00	220.0	24.4	220.0	24.4
	<u>Central Basin</u>					
	Replenishment	\$ 27.00	\$ 1,147.0	\$ 31.0	\$ 1,108.0	29.9
	Exchange Pool	118.00	161.0	19.0	160.0	18.9
	<u>Cal Domestic</u>					
	Volume Charge	\$ 41.38	\$ 2,605.0	\$107.8	\$ 2,604.0	\$107.8
	Stock Assessment	-	-	111.4	-	111.4
	Share Lease	-	-	6.3	-	6.3
	Excess	126.50	291.0	36.8	291.0	36.8
				<u>\$540.4</u>		<u>\$701.7</u>

APPENDIX C
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Whittier District

ADOPTED QUANTITIES
(Continued)

<u>Offset Items</u>		<u>Test Years</u>			
		<u>1984</u>		<u>1985</u>	
8.	Ad Valorem Taxes	\$	94,300	\$	98,700
	Effective Tax Rate		1.184%		1.184%
9.	<u>Number of Services</u>				
		<u>No. of Services</u>		<u>Usage - KCcf</u>	
		<u>1984</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>
				<u>Avg. Usage</u>	
				<u>Ccf/Yr.</u>	
		<u>1984</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>
	Residential	16,730	16,750	3,730.8	3,735.3
	Commercial	178	178	504.6	504.6
	Industrial	3	3	16.1	16.1
	Public Auth.	38	38	211.9	211.9
	Flooding (Const)	3	3	3.3	3.3
	Other Utility	1	1	3.4	3.4
	<u>Total Metered</u>	<u>16,953</u>	<u>16,973</u>	<u>4,470.1</u>	<u>4,474.6</u>
	Priv. Fire				
	Protect.	65	65		
	Priv. Fire				
	Hydrant	24	24		
	<u>Total Flat</u>	<u>89</u>	<u>89</u>		
	Rate				
	Total Services	17,042	17,062		
	Unaccounted for				
	Water			409.9	410.3
	Interdistrict Sales			736.2	729.6
	<u>Total Water Supply</u>			<u>5,616.2</u>	<u>5,614.5</u>

APPENDIX C
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Whittier District

ADOPTED SERVICE BY METER SIZE

10. Adopted Service by Meter Size

<u>Metered</u>	<u>1984</u>	<u>1985</u>
5/8" x 3/4"	5,467	5,467
3/4"	8,701	8,701
1"	2,330	2,350
1-1/2"	236	236
2"	147	147
3"	39	39
4"	24	24
6"	4	4
8"	1	1
10"	0	0
	<u>16,949</u>	<u>16,969</u>

11. Metered Water Sales Used to Design Rates

<u>Range - Ccf</u>	<u>1984</u>	<u>1985</u>
0 - 3	595,204	595,907
> 3	<u>3,868,181</u>	<u>3,871,938</u>
Total	4,463,385	4,467,845

APPENDIX C
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Whittier District

ADOPTED INCOME TAX CALCULATION

Line No.	Item	1984		1985	
		CCFT (A)	FIT (B)	CCFT (C)	FIT (D)
1	Operating Revenues	\$4,463.4	\$4,463.4	\$4,777.5	\$4,777.5
2	O&M Expenses	2,760.4	2,760.4	3,043.0	3,043.0
3	Taxes Other Than Income	155.4	155.4	162.8	162.8
4	CCFT	0.0	95.3	0.0	94.9
5	Subtotal	\$2,915.8	\$3,011.1	\$3,205.8	\$3,300.7
6	Deductions From Taxable Income				
7	Tax Depreciation	\$ 295.8	\$ 247.8	\$ 309.7	\$ 251.1
8	Capitalized Overhead	17.6	17.6	15.6	15.6
9	Interest	241.3	241.3	257.6	257.6
11	Subtotal Deductions	\$ 554.7	\$ 506.7	\$ 582.9	\$ 524.3
12	Net Taxable Income For CCFT				
13	CCFT	992.9		988.8	
14	Amortization	95.3		94.9	
15	Total CCFT	992.9		988.8	
16	Net Taxable Income For FIT		945.6		952.5
17	Federal Income Tax		435.0		438.2
18	Graduated Tax Adjustment		-5.4		-5.4
19	Investment Tax Credit		-5.3		-5.9
13	Total FIT		\$ 424.3		\$ 426.9

(END OF APPENDIX C)

APPENDIX D
Page 1
Suburban Water System

Comparisons of typical bills for residential metered customers in Zone I area of various usage level and average level at present and authorized rates for the Year 1984.

<u>General Metered Service</u>			
<u>Monthly Usage</u> <u>(Cubic Feet)</u>	<u>At Present</u> <u>Rate</u>	<u>At Authorized</u> <u>Rate</u>	<u>Percent</u> <u>Increase</u>

SAN JOSE DISTRICT

5/8 x 3/4-inch meter

300	5.94	7.06	18.9%
500	7.03	8.25	17.4
1,000	9.76	11.22	15.0
1,830 (Average)	14.29	16.15	13.0
2,000	15.22	17.16	12.7
4,000	26.14	29.04	11.1
6,000	37.06	40.92	10.4
10,000	58.90	64.68	9.8

WHITTIER DISTRICT

5/8 x 3/4-inch meter

300	5.94	7.64	28.6%
500	7.03	8.87	26.2
1,000	9.76	11.93	22.2
1,760 (Average)	13.91	16.59	19.3
2,000	15.22	18.06	18.7
4,000	26.14	30.32	16.0
6,000	37.06	42.58	14.9
10,000	58.90	67.10	13.9

(END OF APPENDIX D)

minimum health requirements. After receiving the communication from the Department of Health, Suburban has expended \$75,000 per year to replace portions of Bartolo. Suburban, in the exhibits furnished the Staff pursuant to the Regulatory Lag Plan, had the amount of \$75,000 included in rate base for each of the three years involved. The Staff did not disagree with this amount.

During the summer of 1983 Suburban's management questioned whether it was proceeding at a proper pace in replacing Bartolo. It retained Zimmerman Consulting Engineers (Zimmerman), an outside consultant, for an independent report on the problem.

Zimmerman transmitted its report to Suburban about a week prior to the hearing. Suburban informed the Staff of the receipt of the report. The Zimmerman report recommends that Suburban embark on a revised program, expending \$400,000 a year for ten years to replace Bartolo.

Suburban sought to introduce the Zimmerman report in evidence. The Staff objected to its receipt. The ALJ overruled the objection and marked the report as Exhibit 10 for identification. It was not received in evidence. The objection was overruled with the understanding that the matter would be submitted except on the question of the inclusion of the amount for the transmission line. A further hearing was to be calendared in 1984 to address that issue, affording the Staff opportunity to cross-examine Yarborough and to present any evidence it may have on this issue.

The Staff filed a motion along with its brief seeking to have the Commission overturn the ruling of the ALJ. We hereby reverse the ALJ's ruling.

The company apparently commissioned the Zimmerman study prior to the filing of the instant application. Without awaiting the results of the study, it chose to move forward with this application. ~~To include the recommendations of its consultants in~~ ✓

~~this case on a post-hoc basis would do violence to the orderly administration of this proceeding and we will not allow this based upon the record before us.~~

An application for a rate increase must be filed under our rules of procedure and follow the requirements of the Public Utilities Code. Applications are noticed and their contents are a matter of public record. Consequently, they should be whole documents, with the specific assumptions and justifications for the increases contained within their four corners. Since the Zimmerman study was not included as part and parcel of this application, it should not and cannot be considered in this decision.

As to the notion that, even taking into consideration the revenues associated with the Zimmerman report's recommendations, the decision would not exceed the rate increase noticed by the company, we agree with the Staff that such reasoning disregards the substance of the notice. As the Staff points out, a contrary rule might encourage utilities to overestimate their revenue requirements in order to provide a cushion for later informal amendments to their applications.

Although we will not permit the consideration of the acceleration of the Bartolo pipeline improvements in this matter, we invite the company to file a separate application for a rate base offset to consider the capital expenditures not included in this order with appropriate allegations and proofs as to the urgency of the accelerated improvements plan. That application should be separately noticed and subject to the full scrutiny of the public and our Staff.

(a) the rate of return found reasonable by the Commission for California Water Service during the corresponding period in the then most recent decision, or (b) the rate of return adopted in this proceeding. Suburban does not object to these Staff proposals.

The Staff's methodology using non-specific company data in the DCF analysis and using more current market data is more reasonable than Suburban's and will be adopted. In using the Staff's methodology we find that other calculations testified to by Staff witnesses indicate that the top of the suggested ranges should be utilized. We find the following rates of return on rate base to be reasonable: 1984, 12.64%; 1985, 12.78%; 1986, 12.81%. These figures translate to a return on equity of 14.25%.

I. Rate Design

Suburban contends that its rate structure should be changed. It argues that the present structure is too heavily weighted to the commodity charge, as opposed to the service charge. Suburban asserts that the service charge should generally reflect a utility's fixed charges while the commodity charge should reflect the variable or volume-related charges. This is not the case with the present rate structure. Suburban's present service charge provides only 37% of its revenue, while its fixed costs are 75% of total costs. Suburban argues that because of this imbalance, a difference in use per customer of 1 ccf will have an effect on revenue in the San Jose District in excess of \$17,000, while the concurrent effect on expenses will be only \$7,000. Suburban also contends that if water usage estimates prove to be too high, its revenues will be reduced far more than its expenses. It argues that if the rate design were to reflect a higher service charge level, so that a greater percentage of fixed costs were assured of being recovered, its risk would be reduced.

Suburban also asks that the large meter size service charge be increased in relation to the small meter size service charge. It

not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedule shall be no earlier than January 1, 1986, or 30 days after the filing of the attrition rate increase, whichever is later.

This order is effective today.

Dated JUN 6 1984, at San Francisco, California.

VECTOR CALVO
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

I abstain.

LEONARD M. CRIMES, JR., Commissioner

Commissioner Priscilla C. Crew,
being necessarily absent, did
not participate.