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Decision 88 12 082 DEC 19 1988

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Mailed

In the Matter of the Application of Santa Paula Water Works, Ltd., (U 320 W), for authority to increase rates as authorized by NOI 87-08-038.	)	Application 87-09-035 (Filed September 23, 1987)

DEC 20 1988

Hill, Farrer & Burrill, by David A. Ebershoff, Attorney at Law, for Santa Paula Water Works, Ltd., applicant.
Carl Barringer, for City of Santa Paula, and Steven A. Smith, for himself, protestants.
Laurence O. Garcia, Attorney at Law, and Willem R. Van Lier, for the Commission Advisory and Compliance Division.

I N D E X

O P I N I O N

Summary

This decision grants Santa Paula Water Works a rate increase of $468,000 or 27.7% for 1989, and an additional $52,000 or 2.3% for 1990. The average domestic customer will experience a monthly increase from the current $19.10 monthly bill to $24.52. There will be an additional $0.15 increase in 1990. We have rejected the City's proposal to disallow all central office expenses, which was based on the theory that the work done there is unnecessary. We have, however, adopted a Staff-proposed disallowance to bring Santa Paula's payroll labor costs into line with other comparable utilities. We have also adopted Staff disallowances for:

- o The cost of a computer;
- o Income tax interest deduction;
- o Working cash - replenishment, purchased power and goods and services.

The adopted rate of return on equity is 13%; this equates to 10.18% on all investment, less than the amount recently allowed for Park Water Company (Park)(applicant's parent) and another subsidiary.

Applicant Santa Paula Water Works, Ltd., provides water service to about 6,500 customers in the City of Santa Paula and vicinity in Ventura County. Park's operating divisions and subsidiaries provide utility service in several other locations in California. It also has a water utility operation in Montana. Park furnishes engineering, financial, data processing, and other management services to applicant.[1] Park's purchase of

1 Applicant also shares facilities and expenses with two mutual water companies.

applicant's common and preferred stock was authorized in 1980 by Decision (D.) 90217.

Utility operations to serve Santa Paula began in 1871, when a reservoir and main system were placed in service to distribute water from Santa Paula Creek. In 1891, applicant purchased the water rights in the creek and the system. Creek water was relied on for domestic water service until 1971, when public concerns about clean water led applicant to drill wells. Wells are now used for all domestic service and some irrigation; creek water is used only for irrigation.

Applicant's existing rates were established by D.84-11-115 in Application (A.) 83-12-60; those now in effect are the last step increase authorized by that decision. The decision authorized a rate of return on equity of 14.75% with overall return on rate base of 10.34%. Park's rate of return was last set by D.87-09-071 in A.86-01-011 and -012 (referred to below as the Central Basin Division/Uehling matter; Uehling Water Co. at that time was another wholly owned subsidiary).

This application sought a series of three annual rate increases. For test 1988 the increase was $445,900 or 26.7%; for test year 1989 and attrition year 1990, the increase was $201,900 (8.7%) and $145,740 (6.3%), respectively. These increases would produce returns on equity of 13% and overall returns of 10.03% for 1988 and 10.20% for 1989.

The staff held an informal public meeting in Santa Paula on the evening of November 19, 1987. Representatives of Staff, utility, and the City Manager and six members of the public attended. One customer asked why the proposed increase was so large when the original mains and plant were depreciated long ago. The utility noted that outdated plant must be replaced, and upgraded to meet current operating and fireflow standards. An irrigation customer protested an increase in irrigation rates. The customer complained that the new rate would compel all irrigation

customers to pay for pumping costs even though two of the customers relied exclusively on their own pumps. (See discussion below.)

Hearing was held in Santa Paula on January 26, 1988 and on January 27 and 28 in Los Angeles before Administrative Law Judge (ALJ) Gilman. During the Santa Paula hearing, the company offered evidence (Exhibit A) that the filing of the application, the customer meeting, and the hearing had been noticed according to the Rules of Practice and Procedure. Notices were given by mailing to local cities, by publication and by bill insert. Individuals also testified on behalf of each of the irrigation customers which receive no pumped irrigation water. (See discussion below.) Another customer made a statement in opposition to the domestic increase. He maintains a large garden, using domestic water received through two meters. He contends that the increase would increase his bill from $150 per month to $200 per month.

The mayor testified on behalf of the City of Santa Paula that Santa Paula's economy is based on agriculture. Consequently, much employment is seasonal and at low wages. He urged that rates be set at the lowest possible level, with a no-frills approach to all expenditures. He noted that an individual who was paying $5.00 for water in 1980 would pay $8.11 today. With the proposed increase, the same consumption would cost $11.84. He stated that the city-owned sewer system had only needed a 42.5% increase in the same time frame, even though required to make substantial capital improvements. He also referred to a nearby city-owned water system; its rates, while comparable to applicant's at today's levels, would be much lower if the proposed increases are authorized. He argued that the local operation employs enough people to take care of all aspects of operation and recommended that all main office expenses be disallowed.

A final day of hearing was held in San Francisco on February 17. The matter was taken under submission with the filing of briefs and the joint comparison exhibit on March 28.

The following items, originally at issue, were resolved by stipulation during the course of hearing:

- Numbers of Customers
- Water Consumption
- Present Rate Revenues
- Escalation Factors
- Medical Insurance Premiums
- Main Office Allocated Expenses
- 1987 Company Funded, Advanced, and Contributed Plant Additions and Retirements for Santa Paula
- Main Office Depreciation Expenses
- Total Life for Calculation of Depreciation Rate for Source of Supply Reservoirs
- Total Life for Calculation of Depreciation for T & D Reservoirs
- Total Life for Calculation of Depreciation Rate for Power Operated Equipment
- Working Cash - Revenue Lag Day
- Working Cash - Materials from Stores Lag Day
- Working Cash - P.U.C. Surcharge Lag Day
- Working Cash - Operational Cash Requirement - Mutual Water Companies

During the course of the proceeding, both Staff and applicant revised their estimates of the total increase required for 1988. The amounts in the original application had assumed a large refund, $95,000, would be made to balance a production cost balancing account. As of submission the overcollection had been reduced to $65,200, making it necessary to meet revenue requirements with

higher rates. Since the notices did not discuss the offsetting effect of the over-collection, it was not necessary to give additional notice.[2]

The text and tables which follow analyze the disputes between Staff and applicant which have not been resolved by stipulation. In analyzing the disputes, the impact of any issue on gross revenue can be calculated according to the following formulas:

- For differences in operating expenses, taxes other than income and depreciation the effect is roughly equal to the amount in issue, once the effect on income taxes is incorporated.
- For rate base differences the effect is roughly 20% of the amount in issue per year.
- Differences in rate of return on rate base of .1% are equivalent to a $5,000 difference in gross revenue.
- Each $10,000 increase in gross revenues will add roughly 7.5 cents to the average monthly residential bill.

The estimates in this record were based on pre-1988 income tax law. As indicated by the last column in Tables I and II, the effect of current lower tax rates has been considered in fixing the level of rates. The benefits have been flowed through to consumers.

The ALJ Proposed Decision

The proposed decision was issued October 28, 1988. Applicant and staff filed comments to the ALJ's proposed decision; applicant also filed replies to staff's comments.

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2 Other revisions are reflected in the late-filed Exhibit 24, the joint comparison exhibit.

In response to these comments, we have changed the allowances for Unaccounted-for-Water and main office rate base. We have adopted the results recommended by the report for meters, rate of return, and income tax depreciation, but with different explanations. We have also issued this as a final decision, rather than the interim decision recommended by the report.

In all other respects, we have not adopted the changes recommended by comments.

TABLE I
SANTA PAULA WATER WORKS, LTD.
1988
SUMMARY OF EARNINGS
($000)

Items	Utility		Staff		Adopted		Authorized
	Present	Proposed	Present	Proposed	Present	Authorized	@TRA-86
Oper. Revenues	$1,668.7	$2,123.7	$1,668.7	$2,123.7	$1,668.7	$2,091.7	$2,056.5
Deferred Revenues	-	-	-	-	-	-	1.0
Total Revenues	$1,668.7	$2,123.7	$1,668.7	$2,123.7	$1,668.7	$2,091.7	$2,057.5
O & M Expenses	799.0	799.0	785.0	785.0	790.4	790.4	790.4
Uncollectibles	3.5	4.5	3.5	4.5	3.5	4.4	4.3
Subtotal O & M	802.5	803.5	788.5	789.5	793.9	794.8	794.7
A & G Expenses	441.3	441.3	431.4	431.4	436.8	436.8	436.8
Franchise	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Main Off. Alloc.	190.3	190.3	190.3	190.3	190.3	190.3	190.3
Subtotal A & G	631.6	631.6	621.7	621.7	627.1	627.1	627.1
Ad Valorem Taxes	42.5	42.5	40.2	40.2	42.5	42.5	42.5
Payroll Taxes	37.2	37.2	36.0	36.0	36.0	36.0	36.0
Refund Overcollection	0.0	(65.2)	0.0	(65.2)	0.0 1/	0.0 1/	0.0 1/
Depreciation	160.7	160.7	146.3	146.3	161.0	161.0	161.0
Ca. Income Tax	(4.7)	45.1	(7.0)	42.9	(10.7)	29.8	27.3
Federal Income Taxes	(25.5)	190.5	(35.0)	181.0	(51.3)	124.2	88.3
Total Expenses	1,664.3	1,845.9	1,590.7	1,792.4	1,598.5	1,815.4	1,776.9
Net Revenues	24.4	277.8	78.0	331.3	70.2	276.3	280.6
Rate Base	$2,729.7	$2,729.7	$2,402.4	$2,402.4	$2,714.2	$2,714.2	$2,756.3
Rate of Return	0.89%	10.18%	3.25%	13.79%	2.59%	10.18%	10.18%

1/ Overcollection of $65,200 as a negative surcharge.

(Negative)

TABLE II
SANTA PAULA WATER WORKS, LTD.
1989
SUMMARY OF EARNINGS
($000)

Items	Utility		Staff		Adopted		Authorized @IRA-86
	Present	Proposed	Present	Proposed	Present	Authorized	
Oper. Revenues	$1,691.2	$2,299.3	$1,691.2	$2,299.3	$1,691.2	$2,187.3	$2,158.5
Deferred Revenues	-	-	-	-	-	-	1.0
Total Revenues	$1,691.2	$2,299.3	$1,691.2	$2,299.3	$1,691.2	$2,187.3	$2,159.5
O & M Expenses	830.5	830.5	816.4	816.4	816.4	816.4	816.4
Uncollectibles	3.6	4.8	3.6	4.8	3.6	4.5	4.5
Subtotal O & M	834.1	835.3	820.0	821.2	820.0	820.9	820.9
A & G Expenses	470.0	470.0	460.3	460.3	465.7	465.7	465.7
Franchise	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Main Off. Alloc.	195.1	195.1	195.1	195.1	195.1	195.1	195.1
Subtotal A & G	665.1	665.1	655.4	655.4	660.8	660.8	660.8
Ad Valorem Taxes	47.4	47.4	41.5	41.5	47.4	47.4	47.4
Payroll Taxes	37.8	37.8	36.7	36.7	36.7	36.7	36.7
Refund Overcollection	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	177.0	177.0	153.6	153.6	177.7	177.7	177.7
Ca. Income Tax	(9.7)	48.6	(11.3)	47.0	(16.0)	31.5	29.2
Federal Income Taxes	(50.8)	201.6	(56.4)	195.9	(78.4)	127.5	93.3
Total Expenses	1,700.9	2,012.8	1,639.5	1,951.3	1,648.2	1,902.5	1,866.0
Net Revenues	(9.7)	286.5	51.7	348.0	43.0	284.8	293.5
Rate Base	$2,813.9	$2,813.9	$2,384.6	$2,384.6	$2,796.8	$2,796.8	$2,882.6
Rate of Return	(0.34%)	10.18%	2.17%	14.59%	1.54%	10.18%	10.18%

(Negative)

In this instance, the increase for 1990 is intended to offset operational attrition only. Basically an allowance for operational attrition is needed when anticipated increases in revenues and productivity are insufficient to offset anticipated increases in expenses. We have determined that an increase in gross revenues to $2,210,000 or 2.3% will be sufficient to offset the net increase in expenses in 1990.

There is no need to make an allowance for financial attrition. The adopted rate of return is just slightly above that needed to be comparable to return on other investments in 1989 and just slightly below comparability for 1990.

A. Expenses

1. Production Costs

Purchased Power, Replenishment Charges, and Chemical expense all vary in relation to water production. Both Staff and applicant have revised their estimates to reflect stipulated customer and consumption estimates as well as the current power and replenishment rates. Applicant has reduced its estimate of Unaccounted-for-Water from 14.1% to 8%, the recorded 1987 percentage. Staff's estimate for Unaccounted-for-Water is 7%. This issue alone accounts for the following differences in the production cost estimates between Staff and applicant:

1988

	Applicant	Staff $(000)	Difference	Adopted
Replenishment	30.3	29.9	.4	30.3
Purchased Power	303.4	300.7	2.7	303.4
Water Treatment	7.8	7.7	.1	7.8
Total Expenses	341.4	338.3	3.1	341.4

1989

	Applicant	Staff	Difference	Adopted
Replenishment	30.7	30.4	.3	30.7
Purchased Power	306.6	304.0	2.6	306.6
Water Treatment	8.3	8.2	.1	8.3
Total Expenses	345.6	342.6	3.0	345.6

It appears that applicant is willing to absorb the costs associated with unaccounted for losses of more than 7% if allowed enough revenue to support its accelerated meter replacement program.

We have therefore adopted 7% as an appropriate target.

2. Insurance

The only item at issue in this category is the estimate for Worker's Compensation premiums. This premium is based in part on an experience modifier factor (EMF). The utility estimates that its EMF in the rate years will be 1.0. This is the industry average, but represents an increase over applicant's prior rating. Its estimate adopts the opinion of its insurance broker. He based his estimate on the company's experience of abnormally high claims in 1986; he also noted that additional claims arose in 1985. Staff testifies that EMF was at the industry average in 1986 and projects a three-year average of .89.

The applicant's estimate is based on an analysis of the company's actual claims history by a person who is familiar with insurance rates. Staff's witness did not claim a comparable

expertise. This is another instance where we need more than a bare opinion. We will adopt the applicant's estimate.

Another factor in the applicant/Staff difference is their dispute over payroll. As explained below we have adopted the Staff payroll estimate. This will reduce the amount of worker's compensation premium claimed by applicant.

Workers' Compensation Cost

	Applicant	Staff $(000)	Difference	Adopted
1988	$105.4	$103.3	$2.1	$104.9
1989	118.8	115.6	3.2	118.1

	1988	1989
Difference due to EMF	$1.6	$2.4
Difference due to Payroll issues	.5	.8

3. Regulatory Commission Expense

Applicant's claim of $20,000 per year (for a total of $60,000) is based on an effort to estimate the charges of its attorney and outside experts for this case. Its attorney's fees were fixed using the actual hourly rate, $200 per hour. It also used the expected billings of the outside consultants who worked on this case. The total thus derived was then arbitrarily written down to $60,000, and amortized over three years. This unilateral cap on this category of expense was an effort to anticipate the amount the Staff would recommend for disallowance.

Staff claimed that no more than $125 per hour should be allowed for attorney's fees. It did not challenge the skill or time efficiency of this attorney's efforts. It claimed, however, that the Commission had never allowed more than $125 per hour to intervenor attorneys and reasoned that utilities should be expected to hire their attorneys without paying any more.

Staff also proposed to disallow part of the cost of outside regulatory experts. It noted that Park at one time had

possessed an experienced staff of in-house, salaried experts, which was disbanded and then replaced by less experienced employees. In Staff's judgment, the customers should not be expected to pay any more for such expertise than it would have paid for the salaries of the experienced employees.

There are several flaws in the Staff presentation. First it should not have applied its disallowances to the "capped" figure presented by applicant. Its disallowance and that accomplished by the cap overlap, since they are based on the same considerations. Deducting the disallowance from the "capped" figure could produce a doubled adjustment, thus giving consumers a windfall. Logically, the customers can have either the benefit of the cap or the benefit of the full cost less any disallowance supported by evidence, but not both.

Since we have no means of calculating the amount of actual cost above the cap, we cannot determine whether the Staff disallowance has any net effect or how large the effect would be. This defect alone would lead us to reject the Staff adjustment.There are, however, other flaws in the Staff presentation. With regard to the attorney hourly rate, the Staff overlooked recent decisions in which we awarded more than $125 per hour to intervenors. (Cf., e.g., D.87-07-042 in A.86-09-030, $150 per hour enhanced to $175 when the attorney doubles as an expert; D.86-07-012 in A.84-07-027, $150 per hour.) Staff also failed to look behind the findings in the decision to discover the age of the underlying survey data.

Regarding expert witness costs, Staff's disallowance assumed that the experienced staff was disbanded because of an imprudent management decision. That was not demonstrated. Company management could not be faulted if, for example, a retirement were involved.

We have adopted the applicant's costs of $20,000 per year, noting that this figure includes a cap which may be less or more than the disallowance proposed by Staff.

	Applicant	Staff $(000)	Difference	Adopted
1988	$20.0	$14.6	$5.4	$20.0
1989	20.0	14.6	5.4	20.0

Difference due to attorney fees $2.0
Difference due to Consultant/In house $3.4

4. Payroll

Applicant's basic figure was derived from its managers' best estimate of labor required during the test period. It includes an additional $14,000 per year for labor to implement the termination notice provisions of its new Tariff Rule 11.[3]

Staff's estimate is based on the amount allowed to justify applicant's current rates, updated to current levels using the adjustment methodology adopted in D.84-11-115 (supra). Staff notes that applicant's payroll is significantly higher than those of other apparently comparable utilities.

Applicant contends that the $14,000 increase is needed because of economic conditions in Santa Paula. It asserts that many customers regularly allow their bills to go unpaid until nearly the last minute before the water is turned off. Most such customers pay on final notice, so the cost is not adequately offset by revenue from reconnection fees.

We are unwilling to saddle the majority of customers with such a large cost on behalf of those who regularly abuse the utility's forbearance. We think applicant should exercise its

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3 This rule, adopted to comply with Resolution W-3396, imposes additional requirements for notices of termination for non-payment.

considerable managerial talent to reduce the number of slow-paying customers, before asking for a full cost recovery. We have rejected the applicant's claim for any extra costs for Rule 11 implementation at this time.

Applicant contends that it is much smaller than the other companies cited by the Staff and that diseconomies of small scale justify its higher payroll costs. We do not believe that this is an adequate explanation. Considering that it is part of a multi-district operation, it should be able to achieve economies of scale comparable to other multi-district companies. Since applicant has not adequately explained why its labor costs are higher than other companies, we will adopt the Staff adjustment.

	Payroll for Test Year 1988 $(000)		
	Applicant	Staff	Difference
Operations	$ 81.0	$ 78.7	$ 2.3
Customer Accounts	82.0	79.4	2.6
Maintenance	124.0	120.2	3.8
Admin. & General	185.0	179.5	5.5
Total	$472.0	$457.8	$14.2

	Payroll for Test Year 1989 $(000)		
	Applicant	Staff	Difference
Operations	$ 87.0	$ 84.1	$ 2.9
Customer Accounts	86.0	83.7	2.3
Maintenance	132.0	128.1	3.9
Admin. & General	197.0	191.2	5.8
Total	$502.0	$487.1	$14.9

B. Plant in Service

Both Staff's and applicant's estimates have been updated to include recorded 1987 additions and retirements.

The differences between Staff's and applicant's figures result from:

- Staff's recommended disallowance of a portion of the cost of two storage tanks. Staff claims that the method used to coat the tanks is experimental and argues that the excess cost should not be borne by the ratepayers. Applicant claims that the method is proven and will greatly extend both the recoating time and the life of the underlying tank.

- Applicant claims that more recent information demonstrates that one of the advance-funded projects will require a booster pump at a cost of $30,000 (plus associated mains). Staff agrees.

- In Account 345 (Services), Staff's projections were based on a proportion between customer growth and additions. Applicant's projections are based on its capital budget.

- In Account 346 (Meters), Staff used a 20-year replacement cycle. Applicant projected requirements for the test years under its meter replacement program.

- In Account 348 (Hydrants), Staff estimates of company-funded additions were based on a recorded relationship between customer growth and hydrant placement. It also allowed $5,000 for hydrant replacement. Applicant used its own expected requirements for the test years. The difference in the advance figures in due to the different methodology for estimating advances.

- Account 373 (Transportation Equipment) differences. Applicant's estimates are based on its projected requirements for the test years. Staff used a historical figure.

- There are two issues concerning Account 372 (Office Furniture) expenditures. First, the company had budgeted $5,000 for the purchase of a PC level personal computer in 1989. Staff argued that with the falling prices for such computers, the company could purchase a satisfactory computer for $2,000. The second involves Staff's claim that a camcorder purchased in 1987 for $1,500 is unneeded.

- There is also a dispute involving retirements. Applicant's estimate is tied to the specific items to be replaced. Staff's estimate is based on the ratio of recorded retirements and recorded additions, with the latter element supplied by Staff's estimate of additions.

The following table shows the differences between applicant's and Staff's revised estimates for total plant as shown in the final comparison exhibit:

	Applicant	Staff $(000)	Difference
End-of-Year 1987 Plant	$6,633.1	$6,551.9	$ 81.2
1988			
Additions	674.6	350.9	323.7
Retirements	(62.7)	(25.2)	(37.5)
End-of-Year 1988	7,245.0	6,877.6	367.4
1989			
Additions	850.1	343.0	507.1
Retirements	(61.7)	(25.0)	(36.7)
End-of-Year 1989	8,033.0	7,195.6	837.4

1. Reservoir Coating Costs

Applicant's Case and Cherry Hill reservoirs were coated in 1985 and 1986. Staff contended that $34,115 and $46,997 of the coating costs respectively should be disallowed because applicant used a non-solvent polyurethane (poly-u) coating rather than the more usual and less expensive epoxy or coal tar enamel coatings. It is conceded that no other utility has ever used this material to coat the inside of a water tank.

Applicant contends, however, that this material is superior to epoxy or coal tar because of its characteristics as a coating material. The company called a recognized expert in the field of coating materials who testified that a forty-year life for such a coating would be a very conservative estimate. The extraordinary life of the coating is expected to prolong the life of the tank structure. In addition, use of this coating is expected to reduce the number of times the structure must be sandblasted and recoated during its life.

In addition to the economic savings achieved by reducing the need for a labor-intensive recoating process, applicant's evidence indicated that use of a long-lived coating has environmental advantages. The coating industry is becoming more and more aware that sandblasting poses significant environment hazards which could endanger the health of nearby residents. It is possible to prevent most of the sand and old paint from being exhausted into the air. Staff did not consider the very high costs of containing the debris from sandblasted epoxy or coal tar coatings.

Applicant's evidence shows that the coal tar coating is so noxious that workers applying it must use breathing protection. Even with a protective coating, their exposed skin will be severely irritated at the end of the working day. Staff did not consider the advisability of releasing such solvents into the air. In contrast, the poly-u coating does not release any solvent into the atmosphere.[4] We find this to be a significant advantage over coal tar enamels.

Staff claims that using the more expensive coating makes customers bear the entire risk of failure. It also claims that, since Santa Paula's water is not unusually corrosive, there was no reason not to use conventional coatings. Staff contends that allowing the company's claims would impose all of the risk of an unproven venture on the ratepayers. It also contends that there was a conflict of interest; one of the projects was performed by a subsidiary which specialized in the application of such coatings. Staff also notes that the company did not go through a competitive bidding process for either project.

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4 It is applied by mixing two solids at or just above the surface to be coated.

Applicant's decision to use an untried coating was not imprudent. It had more than enough evidence to indicate that poly-u would last almost indefinitely, and would consequently save future customers the cost of several recoatings. In such a context, the environmental and workplace safety effects were frosting on the cake.

This does not mean that its ratemaking proposal is beyond criticism. As Staff argues, the expected economic benefits will not be realized by this generation of ratepayers. Yet, the utility has asked today's ratepayers to pay much of the extra costs of the superior coating. Staff is also correct that there is some chance that the coating will not have the expected long life. Even if the risks of early failure are not as significant as Staff claims, the decision to use poly-u imposes some risk on customers. As Staff claims, we need a better way to allocate both benefits and risks between shareholders and customers.

On the other hand, the Staff proposal to disallow the extra costs is not an appropriate response to the problems it has diagnosed. Disallowance does not share risks; rather it creates a certainty that applicant will never recoup its added investment, no matter how well the coating performs. Nor will disallowance shift burdens from today's ratepayers to the generations who will benefit economically from the product's long life. Instead it shifts them to stockholders.

A disallowance would send a message to applicant and all other utilities--never innovate, no matter how great the potential benefit to consumers. In our opinion, we should encourage, rather than discourage, utilities to look for ways to reduce maintenance and extend property lives.

Applicant's failure to obtain three bids is excusable; Staff did not refute applicant's testimony that there were not three coating contractors competent to apply poly-u. The use of a subsidiary might justify disallowing the inter-company profit from

the transaction. However, Staff did not investigate to determine whether there was a profit.

We have therefore rejected the Staff's proposed disallowance, despite the weaknesses in the utility position.

2. Pumping Equipment

More recent information indicates that one of the projects funded by advances will require a booster pump. This $30,000 addition to Account 324 was not included in applicant's original estimate. Staff and applicant agree on this point.

3. Mains

The joint exhibit belatedly indicated a need for additional mains to support the booster pump installation. Staff and applicant agree. We will allow the additional funds. The "Advances" difference is due to the dispute over methodology in handling advances; since we have rejected the Staff reasoning on advances, the higher figure will be used.

	Applicant	Staff $(000)	Difference
1988			
Company funded	$167.5	$ 83.8	$ 83.7
Advances	244.2	101.1	143.1
Total	$411.7	$184.9	$226.8
1989			
Company funded	$171.0	$ 85.5	$ 85.5
Advances	345.8	101.2	244.6
Total	$516.8	$187.0	$329.8

4. Services

Differences in the company funded additions are due to Staff's use of a 3-year recorded relationship of additions to customer growth while applicant relied on its capital budget. Applicant is willing to accept the Staff's higher figure which is

adopted. Differences in the advances portion are again due to the different methodology for estimating advances.

1988	Applicant	Staff $(000)	Difference
Company funded	$ 20.0	$23.5	$(3.5)
Advances	69.8	28.9	40.9
Contributed	25.0	25.0	0.0
Total	$114.8	$77.4	$37.4

5. Account 373 - Transportation Equipment

Applicant's estimates are based upon its projected requirements for the test years. Staff reduced applicant's estimates, relying on a ratio of the annualized recorded 11-month additions to applicant's estimate of 1987 additions.

	Applicant	Staff $(000)	Difference	Adopted
1988	$23.0	$16.1	$6.9	$23.0
1989	20.0	14.0	6.0	20.0

The Staff witness contended that "in view of the size of the utility, Staff believes that the utility's request for some 7 to 8 vehicles over the three-year period (1987-1989) is excessive..."

Applicant has 7 or 8 vehicles which were purchased in 1980; it plans to replace all of them during the test period.

Applicant argues that the age of the vehicles and not the size of the company is the valid criterion to use for determining the vehicle replacement requirements. Applicant also argues that Staff's methodology is illogical. It argues that it delayed replacing some of the vehicles in 1987; this increased the number of vehicles needing replacement.

Since these vehicles are fully depreciated even under staff's proposed depreciation schedule, it should at least have inquired about their physical condition before predicting that they can economically remain in service. While we recognize that it

sometimes makes economic sense to continue to use vehicles which are fully depreciated, there is no hint that such special circumstances apply here.

We have adopted the applicant's figures.

6. Meters

Staff criticized the utility for the abnormally large amount of water it could not account for, in excess of 14%. Applicant contends that this water is not lost, but that local water conditions (high iron and manganese) make even relatively new meters run slow. It has agreed to accept a much lower Unaccounted-for-Water estimate for ratemaking purposes, unless the funds it plans to spend for new meters are disallowed.

We have therefore allowed in full the capital costs of applicant's plans to reduce Unaccounted-for-Water.

7. Hydrants

Staff notes that the company proposes to spend more on hydrant head replacements than in previous years. The expenditures will amount to $10,000 in 1988 and 1989. Staff proposed to halve this sum. Applicant showed that its plan to speed up replacements is in response to a formal request from the local fire department. Staff has given us no reason to question the judgment of the local fire department. We will adopt the applicant's figures.

8. Mains

Under its former owners, applicant was willing to serve customers using stretches of 2- and 4-inch mains. It now proposes to accelerate replacement of these mains, spending $167,000 in 1988 and $171,000 in 1989. Staff recommends that we allow only amounts consistent with a prior three-year average. Applicant points out that it is commonly accepted that smaller mains are no longer acceptable for fireflow and service reliability. It also notes that customers, particularly those served by 2-inch mains, complain of inadequate pressure for normal household use.

The replacement program is supported by the local fire department.

Our policy is to encourage all utilities to use reasonable diligence in replacing undersized mains, particularly 2-inch and smaller mains. We also encourage utilities to consider the input from local fire authorities concerning the need for fireflow. We have therefore adopted the company position with a finding that priority should be given to those mains that severely restrict fire flow or generate consumer service complaints.

9. Camcorder

The applicant purchased a camcorder in 1987 for $1500 for use in its safety program. Staff seeks to disallow the expenditure. It questions whether the item was needed, arguing that water companies are not hazardous enterprises. It argues that, if a camcorder was needed, it should have been purchased by Park for use by all of Park's California systems.

Applicant responds that the purchase was recommended by a well-known utility consultant as part of a proposed safety program. The recommendation was seconded by applicant's insurance broker as a means to improve applicant's workers' compensation claims history.

Applicant has used the camcorder to permit review of worker practices in operations which involve hazards to life or property. It notes that in one main blowout, the camcorder was also useful in making a contemporary record of the damage to the property of others. It suggests that having such a pictorial record could help it to avoid spurious tort claims.

We reject the Staff's opinion that water companies are not hazardous enough to require expenditures on safety. In fact, applicant's own experience with worker's claims suggests that at least a moderate level of expenditure is justified on purely economic grounds. Staff's argument that Park should maintain

custody of a camcorder on behalf of all the systems is ill-conceived; as applicant points out, a round trip for a single use of the device would require 175 miles of travel.

We have adopted the utility position.

10. Computer Purchase

Applicant has budgeted $5,000 for the purchase of a new personal computer. Staff claims that an adequate machine can be purchased for $2000; Staff defines an adequate computer to be an XT-level IBM compatible with a monochrome monitor and a 20 megabyte hard disk. Applicant responds that we should defer to the judgment of its executives concerning its operational needs. It has not specified the kind of system which it intends to purchase. Nor has it specified the tasks for which the computer will be used.

The Staff-specified system is a standard business machine; while not state of the art, it has the capability of running most of today's popular business programs. The budgeted sum, on the other hand, would buy a far more powerful system. Applicant has not identified any application which would utilize even a fraction of the capabilities of such a computer. We have consequently disallowed all but $2,000 of the proposed cost.

11. Retirements

Applicant's estimate is tied to its proposals for equipment to be replaced. Staff's estimates are based on a recorded relationship of retirements to additions.

We have adopted applicant's methodology. Our analysis indicates that the item-by-item review conducted by applicant should produce a more realistic prediction of conditions during the test and attrition years than Staff's methodology.

C. Depreciation

The difference between applicant's and Staff's estimates of depreciation expense is due to differences in the estimate of the depreciation rate for certain accounts and differences in the estimates of the plant balances to which these rates are applied.

1988	Applicant	Staff $(000)	Difference
Santa Paula	$160.7	$146.3	$14.4
Main Office	23.7	23.7	0.0
Total	$184.4	$170.0	$14.4
1989			
Santa Paula	$177.0	$153.6	$23.4
Main Office	24.7	24.7	0.0
Total	$201.7	$178.3	$23.4

Applicant and Staff disagree on the depreciation rates for the following accounts:

Account	Applicant	Staff
315 Wells	3.52%	2.41%
332 Water Treatment Equipment	3.45%	1.93%
342 Reservoirs & Tanks	1.86%	1.83%
373 Transportation Equipment	11.84%	8.52%
372 Computer Equipment	32.26%	14.96%

1. Wells

In estimating the lives of wells (Account 316), Staff used a 40-year life. This is the upper limit of the life range set forth in Standard Practice U-4. Applicant proposes a 30-year life based on experience. The Staff witness complicated the discussion by considering the life of the Santa Paula Creek diversion facilities in his calculation. The figure we have adopted is for wells only.

We have adopted applicant's shorter lives. Its position is based on its experience with wells in the area. Staff has not provided us with evidence to support a finding that the average well will be in service for a longer period. If our projection is too pessimistic, it can be corrected under the remaining life principle. Either staff or applicant could initiate a remaining life review in any rate case. As a practical matter, we would not

expect that either party would initiate a review without a strong indication that the adopted lives are wrong.

2. Water Treatment Equipment

In this instance, applicant adopted the 20-year life used in the prior decision, D.84-11-115 for Account 332 plant. The Staff witness reviewed the kinds of equipment used by applicant and determined that a 30-year life would be appropriate. He did not inspect the plant. Applicant argued that without an inspection, the witness had insufficient foundation to predict a 30-year life.

Findings in rate proceedings are unlike findings in a judicial proceeding. Such findings are not res judicata and are theoretically subject to relitigation in subsequent rate cases. As practical matter, however, it can be wasteful and inefficient to reconsider depreciation of long-lived equipment with each successive general rate case. Here Staff has not made a remaining life evaluation of the actual equipment; it has not suggested that there was a flaw in the way the prior decision was reached; and it has not claimed any change in circumstances since the prior decision. It simply seeks a different outcome.

We will therefore use the 20-year life adopted in the prior decision.

3. Computer Equipment

Staff has recommended a 10-year life for computer equipment, claiming that modern electronic equipment which survives the burn-in period is likely to be serviceable for long periods. Applicant relied on Staff's stipulation in the Central Basin case (D.86-11-022, supra) that a 6-year life was proper.

Staff seeks to relitigate a question which the Commission has already decided in a proceeding concerning applicant's other company. The Staff did not show any reason why either the applicant (and ultimately its ratepayers) or taxpayers should pay to relitigate this issue other than the fact that Staff has changed its mind about the prior stipulation. In the absence of any

showing that the stipulation was based on some excusable mistake or of changed circumstances, we will adopt the prior finding.

4. Vehicles

Applicant wishes to use an eight-year life for vehicles in Account 373, claiming that peculiar local conditions[5] wear out its vehicles quickly. Staff, apparently relying on general knowledge rather than any particular expertise, claims that modern vehicles have longer service lives. Its witness apparently has never examined the vehicles which applicant wishes to replace. Nor has it attempted to consider the experience or practices of other fleet managers. This is another instance where we need more support for a Staff opinion. We have adopted the utility position.

D. Income Tax

The tables which follow illustrate the difference between Staff and applicant estimates of the income tax applicant will pay.

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5 Among these were the need for extensive rural and off-road travel. Applicant also runs vehicle engines to provide job site lighting.

TABLE III

SANTA PAULA WATER WORKS, LTD.
1988
INCOME TAX
($000)

Item	Utility		Staff		Adopted		Authorized
	Present	Proposed	Present	Proposed	Present	Authorized	@ TRA-86
Total Revenues	$1,668.7	$2,123.7	$1,668.7	$2,123.7	$1,668.7	$2,091.7	$2,057.5
Expenses							
Operations & Maintenance	802.5	803.5	788.5	789.5	793.9	794.8	794.7
Administrative & General	607.9	607.9	598.0	598.0	603.4	603.4	603.4
Ad Valorem Taxes	42.5	42.5	40.2	40.2	42.5	42.5	42.5
Payroll Taxes	37.2	37.2	36.0	36.0	36.0	36.0	36.0
Refund Overcollection	0.0	(65.2)	0.0	(65.2)	0.0	0.0	0.0
Unbilled Rev. Adj.	0.0	0.0	0.0	0.0	0.0	0.0	(16.0)
Subtotal	1,490.1	1,425.9	1,462.7	1,398.5	1,475.8	1,476.7	1,460.6
Deductions							
CA Tax Depreciation	202.4	202.4	186.4	186.4	202.4	202.4	201.0
Interest	25.3	25.3	92.6	92.6	101.8	101.8	102.1
CA Taxable Income	(49.1)	470.1	(73.0)	446.5	(111.3)	310.9	293.8
CCFT	(4.7)	45.1	(7.0)	42.9	(10.7)	29.8	27.3
Deductions							
Fed. Tax Depreciation	187.7	187.7	172.0	172.0	187.7	187.7	186.3
Interest	25.3	25.3	92.6	92.6	101.8	101.8	102.1
FIT Taxable Income	(29.7)	439.7	(51.6)	418.0	(85.9)	295.8	281.2
FIT (Before Adjustment)	(13.7)	202.3	(23.7)	192.3	(39.5)	136.0	96.0
Prorated Adjustment	-	-	-	-			
Investment Tax Credit	(11.8)	(11.8)	(11.3)	(11.3)	(11.8)	(11.8)	(7.6)
Net Federal Income tax	($25.5)	$190.5	($35.0)	$181.0	($51.3)	$124.2	$88.3

TABLE IV

SANTA PAULA WATER WORKS, LTD.
1989
INCOME TAX
($000)

Item	Utility		Staff		Adopted		Authorized
	Present	Proposed	Present	Proposed	Present	Authorized	@ TRA-86
Total Revenues	$1,691.2	$2,299.3	$1,691.2	$2,299.3	$1,691.2	$2,187.3	$2,159.5
Expenses							
Operations & Maintenance	834.1	835.3	820.0	821.2	820.0	820.9	820.9
Administrative & General	640.4	640.4	630.7	660.7	636.1	636.1	636.1
Ad Valorem Taxes	47.4	47.4	41.5	41.5	47.4	47.4	47.4
Payroll Taxes	37.8	37.8	36.7	36.7	36.7	36.7	36.7
Refund Overcollection	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unbilled Rev. Adj.	0.0	0.0	0.0	0.0	0.0	0.0	(16.0)
Subtotal	1,559.7	1,560.9	1,528.9	1,530.1	1,540.2	1,541.1	1,525.1
Deductions							
CA Tax Depreciation	213.2	213.2	187.7	187.7	213.2	213.2	213.4
Interest	18.9	18.9	91.8	91.8	104.8	104.8	106.7
CA Taxable Income	(100.6)	506.3	(117.2)	489.7	(167.0)	328.2	314.3
CCFT	(9.7)	48.6	(11.3)	47.0	(16.0)	31.5	29.2
Deductions							
Fed. Tax Depreciation	202.9	202.9	178.0	178.2	202.9	202.9	203.3
Interest	18.9	18.9	91.8	91.8	104.8	104.8	106.7
FIT Taxable Income	(80.6)	468.0	(96.4)	452.2	(140.7)	306.9	295.1
FIT (Before Adjustment)	(37.1)	215.3	(44.3)	208.0	(64.7)	141.2	100.7
Prorated Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment Tax Credit	(13.7)	(13.7)	(12.1)	(12.1)	(13.7)	(13.7)	(7.4)
Net Federal Income tax	($50.8)	$201.6	($56.4)	$195.9	($78.4)	$127.5	$93.3

1. ITC Adjustment

Both Staff and applicant have revised their estimates to be consistent with revised plant estimates. The difference shown in the tax table is due solely to the remaining difference between Staff's and applicant's plant estimates.

2. Federal Tax Depreciation

The tax table shows a difference between staff and utility in tax depreciation; the difference is due solely to the various disputes over plant, resolved elsewhere.

3. Interest Deduction

Staff's estimate was calculated by treating Park's advances to applicant as if they were debt; the constructive interest rate developed for the cost of capital was applied to the amount of this "debt." This is consistent with the approach used by both rate of return experts.

Applicant criticizes this approach. It points out that the advances from Park would not produce a deduction on the consolidated return Park files on behalf of the corporate family. The only deduction on that return will be for the actual interest paid on Park's outside borrowings. Applicant's estimate is based on an allocated portion of that deduction. The ratio is based on net plant investment.

	Applicant 1/	Staff 1/ $(000)	Difference 1/	Adopted
1988	$25.3	$92.6	$67.3	$92.6
1989	18.9	91.8	72.9	91.8

1/ The above amounts are the amount of deduction.

Staff claims that its methodology was approved in the Central Basin decision, supra. Applicant challenges the applicability of that decision. It claims that "the issue in that case was not which methodology to use, but rather the two different

interest deductions calculated by two different Staff witnesses." That analysis is not supported by the text of the decision.

Adopting applicant's reasoning would produce an allowance that would cover its actual tax bill. The process of allocating the actual deduction from the consolidated return, if applied in establishing rates for all Park subsidiaries and operating divisions, would allow the total enterprise enough to cover its actual tax bill.

Applicant's approach would be an innovation. This Commission has long followed a practice of calculating income taxes using the revenues and expenses allowed for ratemaking purposes. Applicant has not given us adequate reason to deviate from this practice.

Since staff's position is consistent with long-standing practice, applicant's proposal is rejected.

E. Rate Base

1. Plant

The differences in Plant in Service were discussed above. It should be noted that any difference in plant added in any test year will only have half the normal effect; we have employed the traditional presumption that all additions are made in the middle of the year.

TABLE V

SANTA PAULA WATER WORKS, LTD.
1988
RATE BASE
($000)

Items	Utility	Staff	Adopted	Authorized @ TRA-86
Average Balances				
Plant in Service	$6,939.0	$6,714.8	$6,940.8	$6,940.8
Work in Progress	0.0	0.0	0.0	0.0
Materials & Supplies	37.4	31.1	37.4	37.4
Working Cash	29.7	(47.6)	21.6	24.7
Method 5 Adj.	-	-	-	4.7
Cap. Int. Adj.	-	-	-	1.8
Subtotal	7,006.1	6,698.3	6,999.8	7,009.4
Less:				
Depreciation Reserve	1,798.2	1,803.4	1,798.9	1,798.9
Advances	2,050.5	2,061.6	2,050.5	2,050.5
Contributions	175.5	175.5	175.5	175.5
Unamortized ITC	0.0	0.0	0.0	0.0
Deferred Income Tax	394.7	389.5	394.7	365.6
Subtotal	4,418.9	4,429.9	4,419.6	4,390.5
Net District Rate Base	2,587.3	2,268.4	2,580.2	2,618.9
Main Office Allocation	142.4	134.0	134.0	137.4
Total Rate Base	$2,729.7	$2,402.4	$2,714.2	$2,756.3

TABLE VI

SANTA PAULA WATER WORKS, LTD.
1989
RATE BASE
($000)

Item	Utility	Staff	Adopted	Authorized @ TRA-86
Average Balances				
Plant in Service	$7,639.2	$7,036.6	$7,643.0	$7,643.0
Work in Progress	0.0	0.0	0.0	0.0
Materials & Supplies	41.2	32.5	41.2	41.2
Working Cash	35.7	(45.1)	24.9	27.8
Method 5 Adj.	-	-	-	9.8
Cap. Int. Adj.	-	-	-	3.0
Subtotal	7,716.1	7,024.0	7,709.1	7,724.8
Less:				
Depreciation Reserve	1,937.0	1,951.4	1,938.8	1,938.8
Advances	2,403.6	2,133.7	2,403.6	2,403.6
Contributions	194.8	194.8	194.8	194.8
Unamortized ITC	0.0	0.0	0.0	0.0
Deferred Income Tax	494.9	479.3	494.9	429.0
Subtotal	5,030.4	4,759.3	5,032.1	4,966.2
Net District Rate Base	2,685.7	2,264.8	2,677.0	2,758.6
Main Office Allocation	128.2	119.8	119.8	124.0
Total Rate Base	$2,813.9	$2,384.6	$2,796.8	$2,882.6

2. Advances

Applicant's estimate is based on its prediction of projects to be finished in the test years. Staff relied on a trend developed from historical data. We will not adopt the Staff figure. It would require a prediction that the housing market during the test and attrition years can be predicted from the results of past period. It may be possible for a qualified expert in the local housing market to make such a prediction. However, the Staff witness did not purport to have such expertise. We will consequently adopt the utility figure which is based on an item-by-item survey of proposed real estate developments.

Staff recommended that we disregard the impact of any real estate development which has not entered into a signed contract with the utility. That might be an adequate test if we were concerned only with near term effects. However it is likely to produce a distorted picture of the conditions to be expected toward the end of the test and attrition periods.

3. Materials and Supplies

Staff's figure is based on the 1986 recorded figure, adjusted for non-labor escalation and customer growth. Applicant also relied on a trend; it derived a ratio between plant and this account for the years 1982-86, and extrapolated this figure into the test years.

Applicant's figure seems slightly preferable, since it relied on a longer sample period; it will be adopted.

4. Main Office Rate Base

The Staff brief explains the issue as follows:

> "SPWW and Staff are apart because the company desires to calculate the depreciation reserve to reflect the effective date of Park's Central Basin Decision No. 87-09-071 rather than to calculate it from the beginning of test year 1987 which was used in that Decision. Staff disagrees.

> "Rates, resulting from a general rate increase request, are calculated according to the beginning of each test year. The cure for what the utility perceives as a problem is to file a rate application at a time so that a decision can be issued coincident with the beginning test year. The Notices of Intention to File General Rate Increase Application For Park's Central Basin and for Uehling Water Company were tendered for filing August 26, 1986. The actual applications were filed November 13, 1986. The test years used were 1987, 1988, 1989. Tardiness in filing for a 1987 test year is the reason that the Decision was issued in latter 1987."

Applicant's proposal is an ingenious method to ameliorate one type of problem caused by our regulatory lag plan for water companies. We believe however that the time for patchwork solutions in long past. Resolution M-4705 was adopted in 1979 on an experimental basis. Water utilities including applicant should have long ago moved to replace this experimental plan with a permanent one incorporating the lessons learned in nine years of experience.

We have rejected applicant's proposed adjustment. We will instead use an as-recorded figure as recommended by staff.

5. Depreciation Reserve

The differences here are caused by differing estimates of plant and depreciation rates.

6. Deferred Tax Reserve

The differences here are caused by differing estimates of plant and depreciation rates.

7. Working Cash

a. Deferred Credits for Consultant's Fees

Staff criticizes applicant's inclusion of deferred fees in its working cash estimate. It asserts that a utility should not include such item in the working cash computation

"because the ratepayer is already reimbursing applicant for the amount of unamortized costs as an expense item."

This statement is not an acceptable explanation of the rule Staff has invoked; it would apply to any other expense which is included in working cash.

Staff relies on the holdings of D.82-11-018 in A.82-03-65, Azusa Valley Wtr., and D.82-09-061 in A.82-01-06, Del Este Water. Both of these decisions in turn rely on a purported tradition. The "tradition" started in So. Cal Gas, D.92497 in A.59316, where the issue concerned amortized costs from an abandoned project. It appears that the real reason for refusing to allow carrying costs was an attempt to split the burden of a failed project between shareholders and ratepayers. Moreover, the decision emphasized the necessity of examining each situation on an individual basis to achieve an equitable allocation of the risks of new projects between customers and investors. Del Este reasoned that: "The fact of this entire proceeding working to the benefit of applicant, argues for the traditional rule..." The tradition does not adequately explain why we allow a working cash adjustment for some categories of expense but not for regulatory costs.

We have therefore concluded that applicant's regulatory costs should be treated like any other cost in allowing working cash capitalization. Since there is an immediate payment with a deferred recovery from ratepayers, the lag should be recognized.

b. Vacation and Sick Leave Accrual

Standard Practice U-16 states that "these amounts represent monies accrued through operating expenses which the utility has available until payments to employees for vacation and sick leave are made." Staff relied on this statement as justification for including such accruals in working cash. It neglected, however, to show that this applicant does have a funded accrual for such costs. Applicant claims that it is not accruing

any funds, just a potential liability. Applicant contends that the accrual under applicant's practice is from each employee's salary not from expenses. In the absence of proof that the conditions referred to in U-16 exist, we have excluded the accruals from working cash.

c. Replenishment Cost

Staff assumed that there would be an additional three days of float on applicant's payments for replenishing the underground basin from which its wells draw. Applicant argues that the bill must be considered paid when due. That does not necessarily mean that there is no float, even if the check is actually received on the due date. We have adopted the Staff position.

d. Purchased Power

Applicant claims that it batches its bills to save postage and processing costs. These savings are presumably reflected in the operating cost estimates. Staff points to another utility which is able to delay paying its power bills, thereby conserving its capital. Applicant should have compared the benefit of capital reduction savings with the alleged postage and processing savings. It did not. We have therefore adopted the Staff position.

e. Goods and Services

Staff used the estimate developed in D.87-09-071. It does not appear that the choice between Staff's and Park's position was made on the merits. Instead, the decision stated that Park had not met its burden of proof. That being the case, a Park affiliate should be free to make another attempt to meet that burden of proof in its own rate case. However, applicant claims that the regulatory expense of making an appropriate study would outweigh the benefit.

We encourage Park to make at least an abbreviated study which could be applied in rate cases for all divisions and subsidiaries. In the meantime we will accept the Staff estimate.

8. Reservoir Financing

Staff contended that the Cherry Hill and Case tank projects should have been funded 100% by advances. Staff's theory is that the need for these projects is attributable to projects for which main extension advances have already been collected. It bases its conclusion that these projects were not needed for existing customers on the fact that neither the Health Department nor the Local Fire Department had requested that capacity be added.

Staff based this contention on its interpretation of Tariff Rule 15, which governs main extensions. As the name implies, the Rule deals with financing for mains to serve new tracts, as well as other classes of real estate developments. Under the Rule, the normal method of financing in-tract facilities is by advances under main extension contracts. The contracts provide for refunds.

Rule 15(C)(1)(b) provides that the utility "may" also demand an advance for the cost of out-of tract plant, if at least 50% of the plant is "required" to serve the tract. Under Rule 15(C)(1)(d), the utility "may" demand a contribution rather than an advance if "in the opinion of the utility" the extension is economically not feasible or "if it appears to the utility" that other customers will be burdened.

We have therefore concluded that there is no mandatory provision for financing out-of-tract facilities. The utility has wide discretion to decide how to finance such facilities. Only the Commission has any power to override a utility's discretion. We are not persuaded to do so in this case. We will adopt the utility decision.

F. City of Santa Paula's Position

The City argued that applicant's local employees have the skills and enough time to perform all needed utility functions without any assistance from the central office. The City did not make a study to support its recommendation that all payments for central office services be disallowed.

Our Staff investigated the relationship between Park and applicant. It recommended a disallowance of some of applicant's payroll, which we have adopted. It recommended a disallowance of part of Park's claimed regulatory expense, which we have rejected.

There was also a stipulation between Staff and applicant concerning main office services. The utility adopted the staff figures. For 1988, the Staff allowance for data processing and other main office services was slightly over $115,000, roughly $10,000 less than applicant. The 1989 figures were comparable.

The Commission is, of course, not bound by the stipulation; it could adopt a larger disallowance if there were evidence to support findings of inefficiency or waste. However, there is none.

We note that City was informed of the stipulation, and has not objected. We will therefore assume that it is satisfied to accept the stipulated adjustment, plus whatever level of adjustment in the other categories is justified by the record.

We have consequently determined that the City's recommendation to disallow all main office expense is not supported by evidence.

G. Rate of Return

1. Staff Position

a. Financial Attrition

Rather than advocating a different rate of return for each of the three years studied to offset financial attrition, Staff recommended a constant rate of return for the anticipated three-year life of this rate order. (During the course of the proceeding, applicant adopted this approach.) Staff's finance

witness contended that this would minimize rate shock. He also recommended a constant cost of debt to be assigned to the monies advanced by the parent. (Applicant also adopted this approach.) He recommended a range of return on rate base between 9.78% and 9.98% for test years 1988 and 1989 and attrition year 1990. This would accommodate an interest rate of 10.5% on funds advanced by Park to applicant, plus a return on equity between 12.00% and 12.50%, and the 5% contractual dividend on preferred stock.

b. Capital Structure

Park, applicant's parent, owns 99.1% of applicant's common stock and 98.5% of the preferred stock. Applicant's non-equity capital consists of advances from Park. The Staff's expert recommended that we adopt the constructive capital structure proposed by applicant, 35% debt, 24% preferred stock, and 41% common equity; he would, however, use a constant 40% equity ratio for all three years of the rate period. The Staff expert stated that this would be fair to ratepayers, since it would emulate the well-balanced rate structure which an independent utility would be expected to maintain.

c. Cost of "Debt" and Preferred Stock

The Staff expert noted that the dividend on preferred stock was fixed by contract at 5% of the value of the stock. He recommended that this actual cost be used. To supply a cost for applicant's debt, he imputed interest at the prevailing cost of single "A" utility bond yield, which he projects at 10.5% through 1990. (This contrasts with the figure in the utility proposal which would vary with anticipated costs of "Baa" debt; this is the "interest" rate provided for in a contract between applicant and Park.)

d. Cost of Common Equity

The Staff expert explained that his goal was to allow a fair return on common equity, by definition one which would enable applicant to attract capital and maintain its credit. A

fair return on equity should also compare with the rates of return on equity earned by similarly situated enterprises. For comparison purposes, the Staff's expert relied on a group of regulated water utilities. Three of them were California utilities, California Water Service, San Jose Water Co., and Southern California Water Co.; nine were in other jurisdictions. He noted that bond rating agencies and the Commission have traditionally considered water companies to be less risky than other types of regulated utilities.

e. Discounted Cash Flow

The Staff expert based his allowance for equity in part, on a Discounted Cash Flow (DCF) analysis. The DCF model compares utility stocks, using the total of anticipated dividends plus anticipated growth in the value of stock. He notes that DCF methodology is a standard method of analyzing returns for most regulatory commissions. He arrived at a current 12-month average expected dividend yield of 5.68% and the 6-month yield of 5.88%. He also applied a growth factor, which consisted of one half of the average historical compound dividend and earnings growth. Using 6-month figures, he concluded that investors should require 12.37%, combining an anticipated yield of 5.88% and a growth rate of 6.49%. For 12 months, the return should be 12.17%, resulting from a yield of 5.68% and a growth of 6.49%.

f. Risk Premium

The Staff also relied on a Risk Premium (RP) analysis. This model recognizes that a common stock investor will want a higher rate from an equity investment in a privately owned utility than from private or government debt. The method produces a premium which is added to the expected return on debt securities to produce a required rate of return on equity. During the hearing, the Staff witness changed his estimate of required return on equity under analysis from 11.27%, 11.01%, and 11.64% for 1988, 1989, and 1990 to 12.42%, 12.16%, and 12.79%; another comparison was changed from 11.18%, 12.24%, and 13.85% to 12.98%, 13.39%, and

13.85%. He did not change his recommendation based on these changes. He claimed that even after the changes, his recommended range of return on equity falls within the results justified under both methods.

g. Quality of Service

Staff contends the quality of service is not relevant to determination of rate of return on equity. According to Staff, return on equity should be determined solely by finding the appropriate cost of capital.

We note this argument overlooks Public Utilities Code § 456, under which the Commission can reward a utility for economies, efficiencies, and improvements. Nor would it be consistent with the Commission's practice of reducing return on equity for poor service.

However, because of the methodology we have used to fix return on equity, applicant's return on equity has been established without rating applicant's service.

2. Applicant's Position

As of the time of submission, applicant had adopted a slightly modified return on equity request, designed to achieve an average 13% return on equity throughout the life of the rates to be established in this proceeding. The corresponding rate of return on rate base was 10.18%, which falls between its original requested return on rate base for test years 1988 and 1989. To support its request for a 13% return on equity, applicant challenges the tradition that water utilities are less risky than other classes of utility. It contends that new environmental regulations, dwindling supplies and inability to raise needed capital have increased water utilities' risks. It also argues that the Commission should give additional returns for good service. It argues that it would be entitled to such a premium on return because of what it claims to be exemplary service.

a. Material Errors in Staff RP Analysis

Applicant relies heavily on the errors and alleged inconsistencies in the Staff report. It asserts that once the original errors in the RP analysis were corrected upward, it was illogical not to increase the recommended rate of return. It argues that applying the Staff's RP methodology to the revised figures will automatically require an increase in the recommended return on equity to a range of 12.27% to 13.41%.

b. Comparison with California Utilities; DCF Analysis

Applicant argues that the data relied on in the Staff in its DCF analysis are skewed to under-emphasize California utilities. It notes that the Staff recommendation is significantly less than the amount awarded any of the three California water utilities, even though they are less highly leveraged than applicant. It asserts that its parent, with 77% equity, was recently awarded a rate of return intended to produce a 12% rate on equity. Applicant proposes that we exclude the out-of-state utilities from our DCF analysis, thus justifying a return on equity of 13.1%.

c. Quality of Service

Applicant relies on the following items to support a finding that it renders good service:

- Eleven of its field personnel hold valid Department of Health Services certificates;
- All of Parks' divisions use hand-held meter reader/calculators;
- Park has followed the recommendations of a management audit conducted by Arthur Young;
- Park has followed a strategy which reduced its insurance premiums;
- Park was asked by the Commission to take over the Mission Hills system;

- Park has started a water quality assurance program.

d. Comparison with Return Allowed Park and Co-Subsidiary

Applicant notes that a recent Commission decision (the Park/Uehling decision, supra, awarded both Park and another Park subsidiary the same rate of return on rate base, 11.51%, to achieve a return on equity of 12%.

3. Adopted Rate of Return

The proposed decision recommended a 10.18% rate of return on total investment. The decision did not rely on the capital structure used by both rate witnesses; rather it imputed Park's structure. The decision also imputed the rate of return, 11.51%, authorized in the Central Basin decision, supra. Since however, applicant's ultimate request had been for a 10.18% rate of return, the decision would have reduced the allowed return to that level.

Both parties objected to this analysis. Staff recommended that we rely on the rate structure used by both staff and applicant witnesses. It also recommended that we follow the staff witness' recommendation and adopt a much lower rate of return on equity. Applicant on the other hand recommended that we adopt the full 11.51% rate of return on all investment.

It is common to impute the parent's allowed rate of return where the subsidiary has so little real independence especially in financing matters. Nevertheless, it appears that there was an agreement not to follow this practice.

We have found that a 13% rate of return on equity, using the agreed rate structure, is reasonable.

Even though the overall rate of return significantly less than the return authorized in Central Basin, it is not unreasonably low; this is the amount recommended by applicant's witness.

On the other hand, we believe it is not too high even though it exceeds the staff-recommended range. A 13% rate of

return on equity compares very well with the amounts allowed other major California water utilities. In addition, if the corrected, rather than original data is used, the staff RP analysis appears to support a funding that the rate of return should be 13% rather than falling within the recommended range.

Finally, adopting a rate within the staff range would produce a very great disparity between Santa Paula earnings and those allowed in the Central Basin decision. The staff presentation did not explain or justify this disparity.

The proposed decision attempted to adopt an integrated approach to both the interest deduction and the capital structure/rate of return issue, one which expressly considered Park's unusual capital structure. We have not disapproved this approach; in fact we recommend a similar approach for any future case involving rates for Park or a subsidiary.

The following table compares the witnesses' recommendation of the proposed decision and adopted results.

Staff Recommendation

	Capital Ratios	Cost Factor	Weighted Cost
Long-term Debt	36.00%	10.50%	3.78%
Preferred Stock	24.00	5.00	1.20%
Equity	40.00	12.25 *	4.90%
Total			9.88%

Applicant's Recommendation (Adopted)

	Capital Ratios	Cost Factor	Weighted Cost
Long-term Debt	36.00%	10.50%	3.78%
Preferred Stock	24.00	5.00	1.20%
Equity	40.00	13.00	5.20%
Total			10.18%

Central/Uehling

	Capital Ratios	Cost Factor	Weighted Cost
Long-term Debt	20.35%	9.60%	1.95%
Equity	79.65%	12.00%	9.56%
Total			11.51%

ALJ Proposed Decision

	Capital Ratios	Cost Factor	Weighted Cost
Long-term Debt	20.35%	9.60%	1.95%
Equity	79.65%	10.33%	8.23%
Total			10.18%

* Midpoint of Staff recommended range.

H. Rate Design

There was no controversy concerning rate design other than the irrigation rate question discussed below. The spread adopted is based on current Commission policy as expressed in

D.86-05-054 in I.84-11-041. It eliminates multiple blocks. Service charges have been fixed at a level high enough to offset a significant fraction of applicant's fixed costs.

I. Irrigation Rates

Applicant provides irrigation service, relying primarily on water from Santa Paula Creek. Most of the customers are located so that they can use water pumped from applicant's wells when the creek is low. Two of the customers, however, can only use gravity-fed creek water; they use their own pumps and pay for their own electricity to lift water from the creek to field level.

The currently applied rate structure is a rate which varies with electrical usage. Both of the gravity customers feel that they should not be required to pay for the electrical costs attributable to the other irrigation customers.

To save labor costs required to implement the differential rate, applicant wishes to substitute a new rate format with a single rate for both pumped and gravity consumption. The two gravity customers have protested this change. One, Steven Smith, appeared and testified as a public witness. He also called and examined a utility official. Ms. Wigley participated by making a statement on behalf of the other gravity water user.

During the course of the questioning, it became apparent that the question might require consideration of numerous contracts between irrigation customers and the utility as well as the statutory prohibition against discriminatory rates. It appeared that none of the parties was prepared to make a presentation on all of the matters potentially at issue during the time alloted for this rate case. The proposed report recommended that this proceeding be reopened to deal with this issue.

Applicant's comments note that the two protesting irrigation customers have filed a separate complaint. (C.88-09-086, Smith, Wigley, et al. v Santa Paula Waterworks.) Because of this filing, it is no longer necessary to issue this decision on an

interim basis. The proposed decision is modified insofar a necessary to make this a final decision. However, it is not intended that this change preclude complainants from seeking any type of relief they might have sought in this proceeding.

Findings of Fact

1. Applicant can achieve and maintain an 7% Unaccounted-for-Water loss, if it continues its meter replacement program. There is insufficient evidence to support a finding that it can maintain the 7% level without a program to achieve meter accuracy.

2. Because of dissolved minerals, applicant's meters will run slow after a comparatively short service life. Most of the past excessive water "loss" was due to slow meters.

3. During the test and attrition years, applicant's premium for Worker's Compensation Insurance will increase to the industry average, because of claims in 1985 and 1986.

4. Any disallowance from regulatory commission expense should be subtracted from the estimated full cost, not from a capped figure which represents the utility's prediction of the maximum amount of actual expense the Commission would allow.

5. Staff's estimate of $125 per hour as the going market rate for attorney services is not the proper measure for legal and regulatory expense.

6. Staff did not demonstrate the Park management was imprudent for disbanding its staff of experienced regulatory experts.

7. Applicant's payroll costs are higher than other comparable utilities, and to that extent, unreasonable.

8. Applicant has not adequately justified its request for an additional allowance for payroll to implement Rule 11.

9. Applicant had adequate grounds to believe that poly-u tanks coatings would not have to be recoated for at least 40 years, a much longer period than other coatings, and that the savings on recoating would, in the long run, offset the higher initial cost.

10. Applying a poly-u coating does not release any solvent into the atmosphere.

11. Recoating the inside of a tank requires additional effort and expense to avoid releasing abrasive and airborne debris into the environment. It is desirable for economic and/or environmental reasons to select a coating which will need replacement infrequently. Poly-u coating will require recoating less frequently than coal tar or epoxy coatings.

12. Poly-u coatings will extend the life of the tanks.

13. There is some degree of risk that the poly-u coating will have a shorter than predicted life when used to coat water tanks. Proper ratemaking treatment should provide an adequate means of sharing this risk between shareholders and customers.

14. The economic benefits of the poly-u will primarily benefit future customers who will be spared the cost of recoating. Proper ratemaking treatment should impose much of the added cost of poly-u on benefited customers.

15. Proper ratemaking treatment should encourage utilities to innovate prudently.

16. Neither Staff nor applicant has recommended proper ratemaking treatment for tank coating. Staff's proposed adjustments of the costs of recoating the tank should be disallowed.

17. Both Staff and applicant agree that a new pump and associated mains are needed and should be allowed as advances.

18. Both Staff and applicant agree that the Staff estimates for services is reasonable.

19. To be consistent with the useful lives we have adopted, vehicles purchased in 1980 should be found due for replacement, in the absence of proof that any specific vehicles are in unusually good condition or have unusually low mileage.

20. Applicant will spend more for replacing hydrant heads than in past years. The acceleration is in response to a

recommendation of fire officials. The recommendation is not unreasonable.

21. Applicant's 2- and 4-inch mains should be replaced. It should give priority to those small mains which provide inadequate pressure for fire protection or which generate customer service complaints.

22. Applicant's decision to purchase a camcorder was prudent.

23. Applicant has not proven that it needs to spend more than $2,000 for a new computer.

24. Staff's methodology for estimating retirements is more theoretical and complex than applicant's; absent a showing that it is more likely to produce realistic predictions of utility behavior or that management is likely to make imprudent retirements, it should not be adopted.

25. Wells should be depreciated over a 30-year life.

26. Staff has not introduced any evidence to cast doubt on the reasonableness of the 20-year life for water treatment equipment adopted in D.84-11-115.

27. Staff has not introduced any evidence to cast doubt on the reasonableness of the 6-year life for computer equipment adopted in D.87-09-071.

28. Staff has not adequately rebutted the utility's experience-based position that its vehicles should be depreciated over an 8-year span.

29. Applicant has not justified a deviation from established ratemaking practice in calculating interest for income taxes.

30. The Staff witness did not claim the expertise to predict local housing markets.

31. Ignoring planned developments for the sole reason that developers have not yet been asked to execute main extension agreements will distort the estimate of expected advances.

32. Applicant's estimate of Material and Supplies is based on a longer period than staff's single year and should be adopted.

33. It is not reasonable to recalculate the depreciation reserve for main office rate base to reflect the fact that the effective date of D.87-09-071 was delayed until well into the test period.

34. Staff has not shown that applicant accrues sums for vacation and sick leave before they are taken.

35. Applicant has not shown that there is no additional float on checks for replenishment after the payment is due.

36. Applicant has not made an adequate study to support its treatment of working cash for goods and services.

37. When deciding to batch bills for payment to achieve operating cost savings, applicant has failed to compare those savings with other savings which could be achieved by delaying payments until the date due.

38. There should be a constant rate of return on rate base for the anticipated life of this rate order.

39. Central office expenses should not be disallowed.

40. A rate of return on equity of 13.0% is reasonable, using the capital structure of 36% long-term debt, 24% low-dividend preferred stock, and 40% equity.

41. Applicant's rate structure should eliminate rate blocks and lifeline; the service charge should be high enough to offset a substantial portion of the fixed cost.

42. The same level of rates should be applied to all irrigation customers subject to the outcome of the complaint of two gravity-only customers.

43. Park controlled the litigation in the Central Basin/Uehling proceeding; Park controls Santa Paula's conduct of litigation in this proceeding.

44. Park's financial interest in rate of return in this matter is comparable to its interest in Central Basin/Uehling.

Conclusions of Law

1. Applicant's main extension rule does not prohibit it from financing any out-of-tract facility, such as the tanks, with investor funds.

2. A Standard Practice is not a rule or regulation. A utility may recommend and justify a different solution to a problem.

3. Standard Practices are guidelines; they do not bar Staff from adopting a different treatment if it finds an a typical situation which justifies an exception.

4. Unless a utility is not required to pay fees accountable as regulatory commission expense before the time when amortization of such fees produces revenues to cover the payments, such items should be considered in working cash.

5. Standard Practice U-16 does not require that vacation and sick leave be dealt with in working cash unless the utility in fact accrues enough payroll to fund such payments before the employees take the time off.

6. A utility is not required to forego use of a new technology that is predicted to reduce costs solely because it cannot find three bidders for competitive bidding.

7. The increases in rates and charges authorized by this decision are justified, and are just and reasonable.

8. The standard way to calculate income taxes for California ratemaking is to use the allowed expenses, including interest on debt.

9. To limit regulatory lag, applicant should be able to make the increases justified for 1989 effective immediately. This decision should therefore be effective when signed.

O R D E R

IT IS ORDERED that:

1. Applicant Santa Paula Water Works, Ltd. is authorized to file on or after the effective date of this order the revised rate schedules for 1989 shown in Appendix A. This filing shall comply with General Order 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 5, 1989, applicant is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1990 shown in Appendix A attached to this order, or to file a lesser increase in the event that its rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1989, exceeds the later of (a) the rate of return on rate base found reasonable by the Commission for Park Water Company for the corresponding period in the then most recent rate decision, or (b) 10.18%. This filing shall comply with General Order 96-A. The requested step rates shall be reviewed by the Staff to determine their conformity with this order and shall go into effect upon the Staff's determination of conformity. Staff shall inform the Commission, with notice to applicant, if it concludes that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than

January 1, 1990, or 40 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

This order is effective today.

Dated DEC 19 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

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

Victor Weisser, Executive Director

SANTA PAULA WATER WORKS, LTD.

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all general metered water service.

TERRITORY

Santa Paula and vicinity, Ventura County.

RATES

	Per Meter Per Month	
Quantity Rate:		
All water delivered per 100 cu.ft.	$0.656	(C) (I)
Service Charges:		
For 5/8 x 3/4-inch meter	$ 8.05	(I)
For 3/4-inch meter	8.90	
For 1-inch meter	12.00	
For 1-1/2-inch meter	16.05	
For 2-inch meter	21.40	
For 3-inch meter	40.10	
For 4-inch meter	54.50	
For 6-inch meter	90.50	
For 8-inch meter	134.50	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates, for water used during the month.

Note: From the above quantity rate a surcharge of $0.033 per Ccf should be subtracted for amortization of $65,200 overcollection in the balancing account. The surcharge is for a 12-month period starting with the effective date of this tariff. (N)

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SANTA PAULA WATER WORKS, LTD.

Schedule No. 1

GENERAL METERED SERVICE

AUTHORIZED STEP INCREASES

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

	Rates to be Effective 1-1-90
Quantity Rate:	
For all water delivered Per 100 cu.ft.	$0.0
Service Charge:	
For 5/8 x 3/4-inch meter	$0.15
For 3/4-inch meter	0.20
For 1-inch meter	0.30
For 1-1/2-inch meter	0.35
For 2-inch meter	0.75
For 3-inch meter	0.90
For 4-inch meter	1.50
For 6-inch meter	2.50
For 8-inch meter	3.00

SANTA PAULA WATER WORKS, LTD.

Schedule No. 3ML

LIMITED MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service furnished on a limited basis.

TERRITORY

Santa Paula and vicinity, Ventura County.

RATES

Quantity Rate:

For all water delivered, per 100 cu.ft.	$0.185	(C)

Special Conditions

1. Service under this schedule is limited to the lands being rendered irrigation service as of February 15, 1954.

2. Requests for each irrigation water delivery shall be made to the utility not less than 48 hours in advance of the time said delivery is desired.

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SANTA PAULA WATER WORKS, LTD.

Schedule No. 3ML

LIMITED MEASURED IRRIGATION SERVICE

AUTHORIZED STEP INCREASES

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

	Rates to be Effective 1-1-90
Quantity Rate:	
For all water delivered per 100 cu.ft.	$0.010

SANTA PAULA WATER WORKS, LTD.

Schedule No. 5

FIRE SPRINKLER SERVICE

APPLICABILITY

Applicable to all fire sprinkler service.

TERRITORY

Santa Paula and vicinity, Ventura County.

RATES

Size of Service:	Per Service Per Month	
4-inch	$10.25	(I)
6-inch	15.35	|
8-inch	20.45	(I)

Special Conditions:

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

2. The minimum diameter for fire sprinkler service will be 4 inches and the maximum diameter will not be more than the diameter of the main to which the service is connected.

3. The customer's installation must be such as to effectively separate the fire sprinkler system from that of the customer's regular water service. As a part of the sprinkler service installation there shall be a detector check or other similar device acceptable to the Company which will indicate the use of water. Any unauthorized use will be charged for at the regular established rate for General Metered Service, and/or may be grounds for the Company's discontinuing the fire sprinkler service without liability to the Company.

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

SANTA PAULA WATER WORKS, LTD.

Schedule No. 5

FIRE SPRINKLER SERVICE

AUTHORIZED STEP INCREASES

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

Size of Service:	Rates to be Effective 1-1-90
4-inch	$0.50
6-inch	$0.80
8-inch	$1.05

(End of Appendix A)

APPENDIX B
Page 1

SANTA PAULA WATER WORKS, LTD.

ADOPTED QUANTITIES

Net-to-Gross Multiplier	-	1.677
Uncollectibles Rate	-	0.21%
Franchise Tax Rate	-	0
Federal Tax Rate	-	34.12%
State Tax Rate	-	9.3%

1. WATER CONSUMPTION (A.F.)	1988	1989	1990
Water Sales (Dom)	4,481.0	4,545.0	4,608.8
Water Loss	373.5	378.3	383.1
Well Water (Irr.)	518.8	518.8	518.8
Water Production	5,373.3	5,442.1	5,510.7
Surface Water	1,050.5	1,050.5	1,050.5
Replenishment Cost (Eff. 7-1-1987)	$29,947	$30,359	$30,772

2. PURCHASED POWER (KWh)			
GS-1 (Eff. 2-1-1988)	9,190	9,320	9,449
PA-1 (Eff. 1-1-1988, 585 HP)	1,165,985	1,177,849	1,189,870
PA-2 (Eff. 1-1-1988, 590 KW)	2,401,538	2,433,077	2,446,245
Pumping Cost	$300,731	$303,972	$305,889

3. Water Consumption/Cust. By Class

Commercial	-	278.55	Ccf
Public Authority	-	1,542	Ccf
Temp. Service	-	500	Ccf
Resale	-	12,000	Ccf
Irrigation	-	22,482	Ccf

SANTA PAULA WATER WORKS, LTD.

ADOPTED QUANTITIES

4. Adopted Consumption by Block Size (Ccf)

Range	Ccf	1988	1989	1990
Block 1	0 - 3	233,244	236,844	240,444
Block 2	Over 3	1,718,652	1,742,907	1,767,162
Total		1,951,896	1,979,751	2,007,606
Gravity Flow (Irrigation)		281,025	281,025	281,025
Pumped Water (Irrigation)		281,025	281,025	281,025

5. Adopted Average Service by Meter Size

Commercial Metered			
5/8" x 3/4"	5,385	5,469	5,553
3/4	0	0	0
1"	758	771	784
1 1/2"	155	155	155
2"	139	142	145
3"	26	26	26
4"	14	14	14
6"	2	2	2
8"	0	0	0
Total	6,479	6,579	6,679
Irrigation	25	25	25
Private Fire			
4"	6	6	6
6"	13	13	13
8"	7	7	7
Total	6,530	6,630	6,730

(End Of Appendix B)

APPENDIX C

SANTA PAULA WATER WORKS, LTD.

COMPARISON OF MONTHLY CUSTOMER BILLS

AT PRESENT AND ADOPTED GENERAL

METERED RATES FOR A 5/8 x 3/4-INCH METER

1989

Usage Ccf	Present Rates	Adopted Rates	Amount Increase	Percent Increase
0	$ 5.00	$ 8.05	$ 3.05	61.0
3	6.24	10.02	3.78	60.6
10	10.31	14.61	4.30	41.7
20	16.13	21.17	5.04	31.2
25	19.04	24.45	5.41	28.4
25.1 Avg.	19.10	24.52	5.41	28.4
50	33.59	40.85	7.26	21.6
100	62.69	73.65	10.96	17.5

1990

0	$ 8.05	$ 8.20	$ 0.15	1.9
3	10.02	10.17	0.15	1.5
10	14.61	14.76	0.15	1.0
20	21.17	21.32	0.15	0.7
25	24.45	24.60	0.15	0.6
25.1 Avg.	24.52	24.67	0.15	0.6
50	40.85	40.00	0.15	0.4
100	73.65	73.80	0.15	0.2

(End of Appendix C)

ALJ/JCG/jc

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Santa Paula Water Works, Ltd., (U 320 W), for authority to increase rates as authorized by NOI 87-08-038.	Application 87-09-035 (Filed September 23, 1987)

Hill, Farrer & Burrill, by David A. Ebershoff, Attorney at Law, for Santa Paula Water Works, Ltd., applicant.
Carl Barringer, for City of Santa Paula, and Steven A. Smith, for himself, protestants.
Laurence O. Garcia, Attorney at Law, and Willem R. Van Lier, for the Commission Advisory and Compliance Division.

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I N D E X

INTERIM OPINION

Summary

As can be seen from the attached Appendix C, we have granted an increase which, for a typical domestic consumer (25.1 Ccf/mo.), will raise the monthly bill from $19.10 to $23.64 in 1988. In 1989 there will be an additional average $0.70 increase and an average $0.30 increase in 1990. We have rejected the City's proposal to disallow all central office expenses, which was based on the theory that the work done there is unnecessary. We have, however, adopted a Staff-proposed disallowance to bring Santa Paula's payroll labor costs into line with other comparable utilities. We have also adopted Staff disallowances for:

- The cost of a computer;
- Income tax interest deduction;
- Working cash - replenishment, purchased power and goods and services.

The adopted rate of return is 10.18%, less than the amount recently allowed for Park and another subsidiary.

Applicant Santa Paula Water Works, Ltd., provides water service to about 6,500 customers in the City of Santa Paula and vicinity in Ventura County; it is a subsidiary of Park Water Company (Park). Park's operating divisions and subsidiaries provide utility service in several other locations in California. It also has a water utility operation in Montana. Park furnishes engineering, financial, data processing, and other management services to applicant.[1] Park's purchase of applicant's common and preferred stock was authorized in 1980 by Decision (D.) 90217.

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1 Applicant also shares facilities and expenses with two mutual water companies.

OPINION

Summary

As can be seen from the attached Appendix C, we have granted an increase which, for a typical domestic consumer (25.1 Ccf/mo.), will raise the monthly bill from $19.10 to $23.64 in 1988. In 1989 there will be an additional average $0.70 increase and an average $0.30 increase in 1990. We have rejected the City's proposal to disallow all central office expenses, which was based on the theory that the work done there is unnecessary. We have, however, adopted a Staff-proposed disallowance to bring Santa Paula's payroll labor costs into line with other comparable utilities. We have also adopted Staff disallowances for:

- The cost of a computer;
- Income tax interest deduction;
- Working cash - replenishment, purchased power and goods and services.

The adopted rate of return on equity is 13%; this equates to 10.18% on all investment, less than the amount recently allowed for Park and another subsidiary.

Applicant Santa Paula Water Works, Ltd., provides water service to about 6,500 customers in the City of Santa Paula and vicinity in Ventura County; it is a subsidiary of Park Water Company (Park). Park's operating divisions and subsidiaries provide utility service in several other locations in California. It also has a water utility operation in Montana. Park furnishes engineering, financial, data processing, and other management services to applicant.[1] Park's purchase of applicant's common and preferred stock was authorized in 1980 by Decision (D.) 90217.

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1 Applicant also shares facilities and expenses with two mutual water companies.

Utility operations to serve Santa Paula began in 1871, when a reservoir and main system were placed in service to distribute water from Santa Paula Creek. In 1891, applicant purchased the water rights in the creek and the system. Creek water was relied on for domestic water service until 1971, when public concerns about clean water led applicant to drill wells. Wells are now used for all domestic service and some irrigation; creek water is used only for irrigation.

Applicant's existing rates were established by D.84-11-115 in Application (A.) 83-12-60; those now in effect are the last step increase authorized by that decision. The decision authorized a rate of return on equity of 14.75% with overall return on rate base of 10.34%. Park's rate of return was last set by D.87-09-071 in A.86-01-011 and -012 (referred to below as the Central Basin Division/Uehling matter; Uehling Water Co. at that time was another wholly owned subsidiary).

This application sought a series of three annual rate increases. For test 1988 the increase was $445,900 or 26.7%; for test year 1989 and attrition year 1990, the increase was $201,900 (8.7%) and $145,740 (6.3%), respectively. These increases would produce returns on equity of 13% and overall returns of 10.03% for 1988 and 10.20% for 1989.

The staff held an informal public meeting in Santa Paula on the evening of November 19, 1987. Representatives of Staff, utility, and the City Manager and six members of the public attended. One customer asked why the proposed increase was so large when the original mains and plant were depreciated long ago. The utility noted that outdated plant must be replaced, and upgraded to meet current operating and fireflow standards. An irrigation customer protested an increase in irrigation rates. The customer complained that the new rate would compel all irrigation customers to pay for pumping costs even though two of the customers relied exclusively on their own pumps. (See discussion below.)

Hearing was held in Santa Paula on January 26, 1988 and on January 27 and 28 in Los Angeles before Administrative Law Judge (ALJ) Gilman. During the Santa Paula hearing, the company offered evidence (Exhibit A) that the filing of the application, the customer meeting, and the hearing had been noticed according to the Rules of Practice and Procedure. Notices were given by mailing to local cities, by publication and by bill insert. Individuals also testified on behalf of each of the irrigation customers which receive no pumped irrigation water. (See discussion below.) Another customer made a statement in opposition to the domestic increase. He maintains a large garden, using domestic water received through two meters. He contends that the increase would increase his bill from $150 per month to $200 per month.

The mayor testified on behalf of the City of Santa Paula that Santa Paula's economy is based on agriculture. Consequently, much employment is seasonal and at low wages. He urged that rates be set at the lowest possible level, with a no-frills approach to all expenditures. He noted that an individual who was paying $5.00 for water in 1980 would pay $8.11 today. With the proposed increase, the same consumption would cost $11.84. He stated that the city-owned sewer system had only needed a 42.5% increase in the same time frame, even though required to make substantial capital improvements. He also referred to a nearby city-owned water system; its rates, while comparable to applicant's at today's levels, would be much lower if the proposed increases are authorized. He argued that the local operation employs enough people to take care of all aspects of operation and recommended that all main office expenses be disallowed.

A final day of hearing was held in San Francisco on February 17. The matter was taken under submission with the filing of briefs and the joint comparison exhibit on March 28.

The following items, originally at issue, were resolved by stipulation during the course of hearing:

- Numbers of Customers
- Water Consumption
- Present Rate Revenues
- Escalation Factors
- Medical Insurance Premiums
- Main Office Allocated Expenses
- 1987 Company Funded, Advanced, and Contributed Plant Additions and Retirements for Santa Paula
- Main Office Depreciation Expenses
- Total Life for Calculation of Depreciation Rate for Source of Supply Reservoirs
- Total Life for Calculation of Depreciation for T & D Reservoirs
- Total Life for Calculation of Depreciation Rate for Power Operated Equipment
- Working Cash - Revenue Lag Day
- Working Cash - Materials from Stores Lag Day
- Working Cash - P.U.C. Surcharge Lag Day
- Working Cash - Operational Cash Requirement - Mutual Water Companies

During the course of the proceeding, both Staff and applicant revised their estimates of the total increase required for 1988. The amounts in the original application had assumed a large refund,

$95,000, would be made to balance a production cost balancing account. As of submission the overcollection had been reduced to $65,200, making it necessary to meet revenue requirements with higher rates. Since the notices did not discuss the offsetting effect of the over-collection, it was not necessary to give additional notice.[2]

The text and tables which follow analyze the disputes between Staff and applicant which have not been resolved by stipulation. In analyzing the disputes, the impact of any issue on gross revenue can be calculated according to the following formulas:

- For differences in operating expenses, taxes other than income and depreciation the effect is roughly equal to the amount in issue, once the effect on income taxes is incorporated.
- For rate base differences the effect is roughly 20% of the amount in issue per year.
- Differences in rate of return on rate base of .1% are equivalent to a $5,000 difference in gross revenue.
- Each $10,000 increase in gross revenues will add roughly 7.5 cents to the average monthly residential bill.

The estimates in this record were based on pre-1988 income tax law. As indicated by the last column in Tables I and II, the effect of current lower tax rates has been considered in fixing the level of rates. The benefits have been flowed through to consumers.

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2 Other revisions are reflected in the late-filed Exhibit 24, the joint comparison exhibit.

TABLE I
SANTA PAULA WATER WORKS, LTD.
1988
SUMMARY OF EARNINGS
($000)

Items	Utility		Staff		Adopted		Authorized
	Present	Proposed	Present	Proposed	Present	Authorized	@TRA-86
Oper. Revenues	$1,668.7	$2,123.7	$1,668.7	$2,123.7	$1,668.7	$2,073.2	$2,045.4
Deferred Revenues	-	-	-	-	-	-	1.0
Total Revenues	$1,668.7	$2,123.7	$1,668.7	$2,123.7	$1,668.7	$2,073.2	$2,046.4
O & M Expenses	799.0	799.0	785.0	785.0	793.5	793.5	793.5
Uncollectibles	3.5	4.5	3.5	4.5	3.5	4.4	4.3
Subtotal O & M	802.5	803.5	788.5	789.5	797.0	797.9	797.8
A & G Expenses	441.3	441.3	431.4	431.4	436.8	436.8	436.8
Franchise	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Main Off. Alloc.	190.3	190.3	190.3	190.3	190.3	190.3	190.3
Subtotal A & G	631.6	631.6	621.7	621.7	627.1	627.1	627.1
Ad Valorem Taxes	42.5	42.5	40.2	40.2	42.5	42.5	42.5
Payroll Taxes	37.2	37.2	36.0	36.0	36.0	36.0	36.0
Refund Overcollection	0.0	(65.2)	0.0	(65.2)	0.0 1/	0.0 1/	0.0 1/
Depreciation	160.7	160.7	146.3	146.3	161.0	161.0	161.0
Ca. Income Tax	(4.7)	45.1	(7.0)	40.6	(13.3)	25.5	23.8
Federal Income Taxes	(25.5)	190.5	(35.0)	171.0	(62.6)	105.3	76.5
Total Expenses	1,664.3	1,845.9	1,590.7	1,780.1	1,587.7	1,795.2	1,764.7
Net Revenues	24.4	277.8	78.0	343.6	81.0	278.0	281.7
Rate Base	$2,729.7	$2,729.7	$2,402.4	$2,402.4	$2,730.9	$2,730.9	$2,767.6
Rate of Return	0.89%	10.18%	3.25%	14.30%	2.97%	10.18%	10.18%

1/ Overcollection of $65,200 as a negative surcharge.

(Negative)

The ALJ Proposed Decision

The proposed decision was issued October 28, 1988. Applicant and staff filed comments to the ALJ's proposed decision; applicant also filed replies to staff's comments.

In response to these comments, we have changed the allowances for Unaccounted-for-Water and main office rate base. We have adopted the results recommended by the report for meters, rate of return, and income tax depreciation, but with different explanations. We have also issued this as a final decision, rather than the interim decision recommended by the report.

In all other respects, we have not adopted the changes recommended by comments.

TABLE II
SANTA PAULA WATER WORKS, LTD.
1989
SUMMARY OF EARNINGS
($000)

Items	Utility		Staff		Adopted		Authorized
	Present	Proposed	Present	Proposed	Present	Authorized	@TRA-86
Oper. Revenues	$1,691.2	$2,299.3	$1,691.2	$2,299.3	$1,691.2	$2,167.9	$2,146.6
Deferred Revenues	-	-	-	-	-	-	1.0
Total Revenues	$1,691.2	$2,299.3	$1,691.2	$2,299.3	$1,691.2	$2,167.9	$2,147.6
O & M Expenses	830.5	830.5	816.4	816.4	819.4	819.4	819.4
Uncollectibles	3.6	4.8	3.6	4.8	3.6	4.5	4.5
Subtotal O & M	834.1	835.3	820.0	821.2	823.0	823.9	823.9
A & G Expenses	470.0	470.0	460.3	460.3	465.7	465.7	465.7
Franchise	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Main Off. Alloc.	195.1	195.1	195.1	195.1	195.1	195.1	195.1
Subtotal A & G	665.1	665.1	655.4	655.4	660.8	660.8	660.8
Ad Valorem Taxes	47.4	47.4	41.5	41.5	47.4	47.4	47.4
Payroll Taxes	37.8	37.8	36.7	36.7	36.7	36.7	36.7
Refund Overcollection	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	177.0	177.0	153.6	153.6	177.7	177.7	177.7
Ca. Income Tax	(9.7)	48.6	(11.3)	44.6	(18.7)	27.0	25.5
Federal Income Taxes	(50.8)	201.6	(56.4)	185.6	(90.0)	107.8	81.0
Total Expenses	1,700.9	2,012.8	1,639.5	1,938.6	1,636.8	1,881.3	1,853.0
Net Revenues	(9.7)	286.5	51.7	360.7	54.4	286.6	294.6
Rate Base	$2,813.9	$2,813.9	$2,384.6	$2,384.6	$2,815.4	$2,815.4	$2,893.8
Rate of Return	(0.34%)	10.18%	2.17%	15.12%	1.93%	10.18%	10.18%

(Negative)

A. Expenses

1. Production Costs

Purchased Power, Replenishment Charges, and Chemical expense all vary in relation to water production. Both Staff and applicant have revised their estimates to reflect stipulated customer and consumption estimates as well as the current power and replenishment rates. Applicant has reduced its estimate of Unaccounted-for-Water from 14.1% to 8%, the recorded 1987 percentage. Staff's estimate for Unaccounted-for-Water is 7%. This issue alone accounts for the following differences in the production cost estimates between Staff and applicant:

1988

	Applicant	Staff	Difference	Adopted
		$(000)		
Replenishment	30.3	29.9	.4	30.3
Purchased Power	303.4	300.7	2.7	303.4
Water Treatment	7.8	7.7	.1	7.8
Total Expenses	341.4	338.3	3.1	341.4

1989

	Applicant	Staff	Difference	Adopted
Replenishment	30.7	30.4	.3	30.7
Purchased Power	306.6	304.0	2.6	306.6
Water Treatment	8.3	8.2	.1	8.3
Total Expenses	345.6	342.6	3.0	345.6

The issue here concerns Unaccounted-for-Water. Staff has recommended an allowance of 7%. Applicant would accept an 8% estimate, if it is allowed to pursue its accelerated meter replacement program.

The staff witness explained his position by stating that high water losses were contrary to Commission policy. He concluded that this utility should be held to a goal of 7% Uaccounted-for-Water rather than the historical 14% figure. He explained this by

referring to the Central Basin/Uehling decision where the Commission used a 7% goal. This reliance was misplaced.

First, Central Basin and Uehling do not have the unusual water quality problems faced by this system. Here, waterborne minerals will be deposited in meters, causing them to register slow very early in their installed lives. Second, the decision rejected a staff methodology not materially different from that used here. It criticized the staff's presentation as based on "bare opinion."

The staff witness also contended that the Commission should expect this sharp reduction because the staff had not disallowed meter on main replacement plans in prior rate cases. We note, however, that the witness urged us to expect a decrease in loss through supply meters from a historical 3.5% to 1.5%, while assuming that the Commission would disallow the applicant's accelerated meter replacement program.

We will reject the staff recommendation. It would require a finding that it is feasible for applicant to achieve a reduction from historical levels to 7%. The staff witness has not adequately considered whether such a reduction is feasible.

The applicant's position can be adopted without a finding of feasibility. It is less a prediction than a guarantee. If its accelerated meter program does not produce an overall reduction to 8%, stockholders will be responsible for any excess losses. We will adopt the applicant's proposal, and base our revenue requirement on an 8% Uaccounted-for-Water loss.

2. Insurance

The only item at issue in this category is the estimate for Worker's Compensation premiums. This premium is based in part on an experience modifier factor (EMF). The utility estimates that its EMF in the rate years will be 1.0. This is the industry average, but represents an increase over applicant's prior rating. Its estimate adopts the opinion of its insurance broker. He based his estimate on the company's experience of abnormally high claims

A. Expenses

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1989

	Applicant	Staff	Difference	Adopted
Replenishment	30.7	30.4	.3	30.7
Purchased Power	306.6	304.0	2.6	306.6
Water Treatment	8.3	8.2	.1	8.3
Total Expenses	345.6	342.6	3.0	345.6

It appears that applicant is willing to absorb the costs associated with unaccounted for losses of more than 7% if allowed enough revenue to support its accelerated meter replacement program.

We have therefore adopted 7% as an appropriate target.

2. Insurance

The only item at issue in this category is the estimate for Worker's Compensation premiums. This premium is based in part on an experience modifier factor (EMF). The utility estimates that

in 1986; he also noted that additional claims arose in 1985. Staff testifies that EMF was at the industry average in 1986 and projects a three-year average of .89.

The applicant's estimate is based on an analysis of the company's actual claims history by a person who is familiar with insurance rates. Staff's witness did not claim a comparable expertise. This is another instance where we need more than a bare opinion. We will adopt the applicant's estimate.

Another factor in the applicant/Staff difference is their dispute over payroll. As explained below we have adopted the Staff payroll estimate. This will reduce the amount of worker's compensation premium claimed by applicant.

Workers' Compensation Cost

	Applicant	Staff $(000)	Difference	Adopted
1988	$105.4	$103.3	$2.1	$104.9
1989	118.8	115.6	3.2	118.1

	1988	1989
Difference due to EMF	$1.6	$2.4
Difference due to Payroll issues	.5	.8

3. Regulatory Commission Expense

Applicant's claim of $20,000 per year (for a total of $60,000) is based on an effort to estimate the charges of its attorney and outside experts for this case. Its attorney's fees were fixed using the actual hourly rate, $200 per hour. It also used the expected billings of the outside consultants who worked on this case. The total thus derived was then arbitrarily written down to $60,000, and amortized over three years. This unilateral cap on this category of expense was an effort to anticipate the amount the Staff would recommend for disallowance.

Staff claimed that no more than $125 per hour should be allowed for attorney's fees. It did not challenge the skill or

its EMF in the rate years will be 1.0. This is the industry average, but represents an increase over applicant's prior rating. Its estimate adopts the opinion of its insurance broker. He based his estimate on the company's experience of abnormally high claims in 1986; he also noted that additional claims arose in 1985. Staff testifies that EMF was at the industry average in 1986 and projects a three-year average of .89.

The applicant's estimate is based on an analysis of the company's actual claims history by a person who is familiar with insurance rates. Staff's witness did not claim a comparable expertise. This is another instance where we need more than a bare opinion. We will adopt the applicant's estimate.

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time efficiency of this attorney's efforts. It claimed, however, that the Commission had never allowed more than $125 per hour to intervenor attorneys and reasoned that utilities should be expected to hire their attorneys without paying any more.

Staff also proposed to disallow part of the cost of outside regulatory experts. It noted that Park at one time had possessed an experienced staff of in-house, salaried experts, which was disbanded and then replaced by less experienced employees. In Staff's judgment, the customers should not be expected to pay any more for such expertise than it would have paid for the salaries of the experienced employees.

There are several flaws in the Staff presentation. First it should not have applied its disallowances to the "capped" figure presented by applicant. Its disallowance and that accomplished by the cap overlap, since they are based on the same considerations. Deducting the disallowance from the "capped" figure could produce a doubled adjustment, thus giving consumers a windfall. Logically, the customers can have either the benefit of the cap or the benefit of the full cost less any disallowance supported by evidence, but not both.

Since we have no means of calculating the amount of actual cost above the cap, we cannot determine whether the Staff disallowance has any net effect or how large the effect would be. This defect alone would lead us to reject the Staff adjustment. There are, however, other flaws in the Staff presentation. With regard to the attorney hourly rate, the Staff overlooked recent decisions in which we awarded more than $125 per hour to intervenors. (Cf., e.g., D.87-07-042 in A.86-09-030, $150 per hour enhanced to $175 when the attorney doubles as an expert; D.86-07-012 in A.84-07-027, $150 per hour.) Staff also failed to look behind the findings in the decision to discover the age of the underlying survey data.

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Regarding expert witness costs, Staff's disallowance assumed that the experienced staff was disbanded because of an imprudent management decision. That was not demonstrated. Company management could not be faulted if, for example, a retirement were involved.

We have adopted the applicant's costs of $20,000 per year, noting that this figure includes a cap which may be less or more than the disallowance proposed by Staff.

	Applicant	Staff $(000)	Difference	Adopted
1988	$20.0	$14.6	$5.4	$20.0
1989	20.0	14.6	5.4	20.0

Difference due to attorney fees $2.0
Difference due to Consultant/In house $3.4

4. Payroll

Applicant's basic figure was derived from its managers' best estimate of labor required during the test period. It includes an additional $14,000 per year for labor to implement the termination notice provisions of its new Tariff Rule 11.[3]

Staff's estimate is based on the amount allowed to justify applicant's current rates, updated to current levels using the adjustment methodology adopted in D.84-11-115 (supra). Staff notes that applicant's payroll is significantly higher than those of other apparently comparable utilities.

Applicant contends that the $14,000 increase is needed because of economic conditions in Santa Paula. It asserts that many customers regularly allow their bills to go unpaid until nearly the last minute before the water is turned off. Most such

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customers pay on final notice, so the cost is not adequately offset by revenue from reconnection fees.

We are unwilling to saddle the majority of customers with such a large cost on behalf of those who regularly abuse the utility's forbearance. We think applicant should exercise its considerable managerial talent to reduce the number of slow-paying customers, before asking for a full cost recovery. We have rejected the applicant's claim for any extra costs for Rule 11 implementation at this time.

Applicant contends that it is much smaller than the other companies cited by the Staff and that diseconomies of small scale justify its higher payroll costs. We do not believe that this is an adequate explanation. Considering that it is part of a multi-district operation, it should be able to achieve economies of scale comparable to other multi-district companies. Since applicant has not adequately explained why its labor costs are higher than other companies, we will adopt the Staff adjustment.

Payroll for Test Year 1988 $(000)

	Applicant	Staff	Difference
Operations	$ 81.0	$ 78.7	$ 2.3
Customer Accounts	82.0	79.4	2.6
Maintenance	124.0	120.2	3.8
Admin. & General	185.0	179.5	5.5
Total	$472.0	$457.8	$14.2

Applicant contends that the $14,000 increase is needed because of economic conditions in Santa Paula. It asserts that many customers regularly allow their bills to go unpaid until nearly the last minute before the water is turned off. Most such customers pay on final notice, so the cost is not adequately offset by revenue from reconnection fees.

We are unwilling to saddle the majority of customers with such a large cost on behalf of those who regularly abuse the utility's forbearance. We think applicant should exercise its considerable managerial talent to reduce the number of slow-paying customers, before asking for a full cost recovery. We have rejected the applicant's claim for any extra costs for Rule 11 implementation at this time.

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Maintenance	124.0	120.2	3.8
Admin. & General	185.0	179.5	5.5
Total	$472.0	$457.8	$14.2

	Payroll for Test Year 1989 $(000)		
	Applicant	Staff	Difference
Operations	$ 87.0	$ 84.1	$ 2.9
Customer Accounts	86.0	83.7	2.3
Maintenance	132.0	128.1	3.9
Admin. & General	197.0	191.2	5.8
Total	$502.0	$487.1	$14.9

B. Plant in Service

Both Staff's and applicant's estimates have been updated to include recorded 1987 additions and retirements.

The differences between Staff's and applicant's figures result from:

- Staff's recommended disallowance of a portion of the cost of two storage tanks. Staff claims that the method used to coat the tanks is experimental and argues that the excess cost should not be borne by the ratepayers. Applicant claims that the method is proven and will greatly extend both the recoating time and the life of the underlying tank.

- Applicant claims that more recent information demonstrates that one of the advance-funded projects will require a booster pump at a cost of $30,000 (plus associated mains). Staff agrees.

- In Account 345 (Services), Staff's projections were based on a proportion between customer growth and additions.... Applicant's projections are based on its capital budget.

- In Account 346 (Meters), Staff used a 20-year replacement cycle. Applicant projected requirements for the test years under its meter replacement program.

- In Account 348 (Hydrants), Staff estimates of company-funded additions were based on a recorded relationship between customer growth and hydrant placement. It also allowed $5,000 for hydrant replacement. Applicant used its own expected

requirements for the test years. The difference in the advance figures in due to the different methodology for estimating advances.

- Account 373 (Transportation Equipment) differences. Applicant's estimates are based on its projected requirements for the test years. Staff used a historical figure.

- There are two issues concerning Account 372 (Office Furniture) expenditures. First, the company had budgeted $5,000 for the purchase of a PC level personal computer in 1989. Staff argued that with the falling prices for such computers, the company could purchase a satisfactory computer for $2,000. The second involves Staff's claim that a camcorder purchased in 1987 for $1,500 is unneeded.

- There is also a dispute involving retirements. Applicant's estimate is tied to the specific items to be replaced. Staff's estimate is based on the ratio of recorded retirements and recorded additions, with the latter element supplied by Staff's estimate of additions.

The following table shows the differences between applicant's and Staff's revised estimates for total plant as shown in the final comparison exhibit:

	Applicant	Staff $(000)	Difference
End-of-Year 1987 Plant	$6,633.1	$6,551.9	$ 81.2
1988			
Additions	674.6	350.9	323.7
Retirements	(62.7)	(25.2)	(37.5)
End-of-Year 1988	7,245.0	6,877.6	367.4
1989			
Additions	850.1	343.0	507.1
Retirements	(61.7)	(25.0)	(36.7)
End-of-Year 1989	8,033.0	7,195.6	837.4

1. Reservoir Coating Costs

Applicant's Case and Cherry Hill reservoirs were coated in 1985 and 1986. Staff contended that $34,115 and $46,997 of the coating costs respectively should be disallowed because applicant used a non-solvent polyurethane (poly-u) coating rather than the more usual and less expensive epoxy or coal tar enamel coatings. It is conceded that no other utility has ever used this material to coat the inside of a water tank.

Applicant contends, however, that this material is superior to epoxy or coal tar because of its characteristics as a coating material. The company called a recognized expert in the field of coating materials who testified that a forty-year life for such a coating would be a very conservative estimate. The extraordinary life of the coating is expected to prolong the life of the tank structure. In addition, use of this coating is expected to reduce the number of times the structure must be sandblasted and recoated during its life.

In addition to the economic savings achieved by reducing the need for a labor-intensive recoating process, applicant's evidence indicated that use of a long-lived coating has environmental advantages. The coating industry is becoming more and more aware that sandblasting poses significant environment hazards which could endanger the health of nearby residents. It is possible to prevent most of the sand and old paint from being exhausted into the air. Staff did not consider the very high costs of containing the debris from sandblasted epoxy or coal tar coatings.

Applicant's evidence shows that the coal tar coating is so noxious that workers applying it must use breathing protection. Even with a protective coating, their exposed skin will be severely irritated at the end of the working day. Staff did not consider the advisability of releasing such solvents into the air. In contrast, the poly-u coating does not release any solvent into the atmosphere.[4] We find this to be a significant advantage over coal tar enamels.

Staff claims that using the more expensive coating makes customers bear the entire risk of failure. It also claims that, since Santa Paula's water is not unusually corrosive, there was no reason not to use conventional coatings. Staff contends that allowing the company's claims would impose all of the risk of an unproven venture on the ratepayers. It also contends that there was a conflict of interest; one of the projects was performed by a subsidiary which specialized in the application of such coatings. Staff also notes that the company did not go through a competitive bidding process for either project.

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4 It is applied by mixing two solids at or just above the surface to be coated.

Applicant's decision to use an untried coating was not imprudent. It had more than enough evidence to indicate that poly-u would last almost indefinitely, and would consequently save future customers the cost of several recoatings. In such a context, the environmental and workplace safety effects were frosting on the cake.

This does not mean that its ratemaking proposal is beyond criticism. As Staff argues, the expected economic benefits will not be realized by this generation of ratepayers. Yet, the utility has asked today's ratepayers to pay much of the extra costs of the superior coating. Staff is also correct that there is some chance that the coating will not have the expected long life. Even if the risks of early failure are not as significant as Staff claims, the decision to use poly-u imposes some risk on customers. As Staff claims, we need a better way to allocate both benefits and risks between shareholders and customers.

On the other hand, the Staff proposal to disallow the extra costs is not an appropriate response to the problems it has diagnosed. Disallowance does not share risks; rather it creates a certainty that applicant will never recoup its added investment, no matter how well the coating performs. Nor will disallowance shift burdens from today's ratepayers to the generations who will benefit economically from the product's long life. Instead it shifts them to stockholders.

A disallowance would send a message to applicant and all other utilities--never innovate, no matter how great the potential benefit to consumers. In our opinion, we should encourage, rather than discourage, utilities to look for ways to reduce maintenance and extend property lives.

Applicant's failure to obtain three bids is excusable; Staff did not refute applicant's testimony that there were not three coating contractors competent to apply poly-u. The use of a subsidiary might justify disallowing the inter-company profit from

the transaction. However, Staff did not investigate to determine whether there was a profit.

We have therefore rejected the Staff's proposed disallowance, despite the weaknesses in the utility position.

2. Pumping Equipment

More recent information indicates that one of the projects funded by advances will require a booster pump. This $30,000 addition to Account 324 was not included in applicant's original estimate. Staff and applicant agree on this point.

3. Mains

The joint exhibit belatedly indicated a need for additional mains to support the booster pump installation. Staff and applicant agree. We will allow the additional funds. The "Advances" difference is due to the dispute over methodology in handling advances; since we have rejected the Staff reasoning on advances, the higher figure will be used.

	Applicant	Staff $(000)	Difference
1988			
Company funded	$167.5	$ 83.8	$ 83.7
Advances	244.2	101.1	143.1
Total	$411.7	$184.9	$226.8
1989			
Company funded	$171.0	$ 85.5	$ 85.5
Advances	345.8	101.2	244.6
Total	$516.8	$187.0	$329.8

4. Services

Differences in the company funded additions are due to Staff's use of a 3-year recorded relationship of additions to customer growth while applicant relied on its capital budget. Applicant is willing to accept the Staff's higher figure which is

adopted. Differences in the advances portion are again due to the different methodology for estimating advances.

1988	Applicant	Staff $(000)	Difference
Company funded	$ 20.0	$23.5	$(3.5)
Advances	69.8	28.9	40.9
Contributed	25.0	25.0	0.0
Total	$114.8	$77.4	$37.4

5. Account 373 - Transportation Equipment

Applicant's estimates are based upon its projected requirements for the test years. Staff reduced applicant's estimates, relying on a ratio of the annualized recorded 11-month additions to applicant's estimate of 1987 additions.

	Applicant	Staff $(000)	Difference	Adopted
1988	$23.0	$16.1	$6.9	$23.0
1989	20.0	14.0	6.0	20.0

The Staff witness contended that "in view of the size of the utility, Staff believes that the utility's request for some 7 to 8 vehicles over the three-year period (1987-1989) is excessive..."

Applicant has 7 or 8 vehicles which were purchased in 1980; it plans to replace all of them during the test period.

Applicant argues that the age of the vehicles and not the size of the company is the valid criterion to use for determining the vehicle replacement requirements. Applicant also argues that Staff's methodology is illogical. It argues that it delayed replacing some of the vehicles in 1987; this increased the number of vehicles needing replacement.

Since these vehicles are fully depreciated even under staff's proposed depreciation schedule, it should at least have inquired about their physical condition before predicting that they can economically remain in service. While we recognize that it

sometimes makes economic sense to continue to use vehicles which are fully depreciated, there is no hint that such special circumstances apply here.

We have adopted the applicant's figures.

6. Meters

Staff criticized the utility for the abnormally large amount of water it could not account for, in excess of 14%. Applicant contends that this water is not lost, but that local water conditions (high iron and manganese) make even relatively new meters run slow. It has agreed to accept a much lower Unaccounted-for-Water estimate for ratemaking purposes, unless the funds it plans to spend for new meters are disallowed. Staff has not attempted to rebut the testimony linking water conditions to meter life. Nor has it attempted to respond to the company's diagnosis of the Unaccounted-for-Water problem. When Staff recommends that a utility reduce Unaccounted-for-Water, it should allow for the expense or investment needed to reach that goal.

Also, Staff, relying on industry practice, criticized applicant's new policy of replacing rather than rebuilding old, large size meters. Applicant claims that Staff's information is outdated. Its evidence indicates that rebuilding old meters is impractical because of the difficulty of obtaining spare parts. It also argues that the process is labor-intensive and hence no longer cost-effective. Staff did not attempt to determine whether in fact its knowledge of industry practice is outdated.

There is evidence to support a finding on each of the company's allegations. There is no evidence to adequately support contrary findings. We have therefore adopted the company position.

7. Hydrants

Staff notes that the company proposes to spend more on hydrant head replacements than in previous years. The expenditures will amount to $10,000 in 1988 and 1989. Staff proposed to halve this sum. Applicant showed that its plan to speed up replacements

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We have therefore allowed in full the capital costs of applicant's plans to reduce Unaccounted-for-Water.

7. Hydrants

Staff notes that the company proposes to spend more on hydrant head replacements than in previous years. The expenditures will amount to $10,000 in 1988 and 1989. Staff proposed to halve this sum. Applicant showed that its plan to speed up replacements is in response to a formal request from the local fire department. Staff has given us no reason to question the judgment of the local fire department. We will adopt the applicant's figures.

8. Mains

Under its former owners, applicant was willing to serve customers using stretches of 2- and 4-inch mains. It now proposes to accelerate replacement of these mains, spending $167,000 in 1988 and $171,000 in 1989. Staff recommends that we allow only amounts consistent with a prior three-year average. Applicant points out that it is commonly accepted that smaller mains are no longer acceptable for fireflow and service reliability. It also notes that customers, particularly those served by 2-inch mains, complain of inadequate pressure for normal household use.

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The replacement program is supported by the local fire department.

Our policy is to encourage all utilities to use reasonable diligence in replacing undersized mains, particularly 2-inch and smaller mains. We also encourage utilities to consider the input from local fire authorities concerning the need for fireflow. We have therefore adopted the company position with a finding that priority should be given to those mains that severely restrict fire flow or generate consumer service complaints.

9. Camcorder

The applicant purchased a camcorder in 1987 for $1500 for use in its safety program. Staff seeks to disallow the expenditure. It questions whether the item was needed, arguing that water companies are not hazardous enterprises. It argues that, if a camcorder was needed, it should have been purchased by Park for use by all of Park's California systems.

Applicant responds that the purchase was recommended by a well-known utility consultant as part of a proposed safety program. The recommendation was seconded by applicant's insurance broker as

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Applicant has used the camcorder to permit review of worker practices in operations which involve hazards to life or property. It notes that in one main blowout, the camcorder was also useful in making a contemporary record of the damage to the property of others. It suggests that having such a pictorial record could help it to avoid spurious tort claims.

We reject the Staff's opinion that water companies are not hazardous enough to require expenditures on safety. In fact, applicant's own experience with worker's claims suggests that at least a moderate level of expenditure is justified on purely economic grounds. Staff's argument that Park should maintain

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We reject the Staff's opinion that water companies are not hazardous enough to require expenditures on safety. In fact, applicant's own experience with worker's claims suggests that at least a moderate level of expenditure is justified on purely economic grounds. Staff's argument that Park should maintain custody of a camcorder on behalf of all the systems is ill-conceived; as applicant points out, a round trip for a single use of the device would require 175 miles of travel.

We have adopted the utility position.

10. Computer Purchase

Applicant has budgeted $5,000 for the purchase of a new personal computer. Staff claims that an adequate machine can be purchased for $2000; Staff defines an adequate computer to be an XT-level IBM compatible with a monochrome monitor and a 20 megabyte hard disk. Applicant responds that we should defer to the judgment of its executives concerning its operational needs. It has not specified the kind of system which it intends to purchase. Nor has it specified the tasks for which the computer will be used.

The Staff-specified system is a standard business machine; while not state of the art, it has the capability of running most of today's popular business programs. The budgeted sum, on the other hand, would buy a far more powerful system. Applicant has not identified any application which would utilize even a fraction of the capabilities of such a computer. We have consequently disallowed all but $2,000 of the proposed cost.

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11. Retirements

Applicant's estimate is tied to its proposals for equipment to be replaced. Staff's estimates are based on a recorded relationship of retirements to additions.

We have adopted applicant's methodology. Our analysis indicates that the item-by-item review conducted by applicant should produce a more realistic prediction of conditions during the test and attrition years than Staff's methodology.

C. Depreciation

The difference between applicant's and Staff's estimates of depreciation expense is due to differences in the estimate of the depreciation rate for certain accounts and differences in the estimates of the plant balances to which these rates are applied.

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1988	Applicant	Staff $(000)	Difference
Santa Paula	$160.7	$146.3	$14.4
Main Office	23.7	23.7	0.0
Total	$184.4	$170.0	$14.4
1989			
Santa Paula	$177.0	$153.6	$23.4
Main Office	24.7	24.7	0.0
Total	$201.7	$178.3	$23.4

Applicant and Staff disagree on the depreciation rates for the following accounts:

Account	Applicant	Staff
315 Wells	3.52%	2.41%
332 Water Treatment Equipment	3.45%	1.93%
342 Reservoirs & Tanks	1.86%	1.83%
373 Transportation Equipment	11.84%	8.52%
372 Computer Equipment	32.26%	14.96%

1. **Wells**

In estimating the lives of wells (Account 316), Staff used a 40-year life. This is the upper limit of the life range set

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1. Wells

In estimating the lives of wells (Account 316), Staff used a 40-year life. This is the upper limit of the life range set forth in Standard Practice U-4. Applicant proposes a 30-year life based on experience. The Staff witness complicated the discussion by considering the life of the Santa Paula Creek diversion facilities in his calculation. The figure we have adopted is for wells only.

We have adopted applicant's shorter lives. Its position is based on its experience with wells in the area. Staff has not provided us with evidence to support a finding that the average well will be in service for a longer period. If our projection is too pessimistic, it can be corrected under the remaining life principle. Either staff or applicant could initiate a remaining life review in any rate case. As a practical matter, we would not

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2. Water Treatment Equipment

In this instance, applicant adopted the 20-year life used in the prior decision, D.84-11-115 for Account 332 plant. The Staff witness reviewed the kinds of equipment used by applicant and determined that a 30-year life would be appropriate. He did not inspect the plant. Applicant argued that without an inspection, the witness had insufficient foundation to predict a 30-year life.

Findings in rate proceedings are unlike findings in a judicial proceeding. Such findings are not res judicata and are theoretically subject to relitigation in subsequent rate cases. As practical matter, however, it can be wasteful and inefficient to reconsider depreciation of long-lived equipment with each successive general rate case. Here Staff has not made a remaining life evaluation of the actual equipment; it has not suggested that there was a flaw in the way the prior decision was reached; and it has not claimed any change in circumstances since the prior decision. It simply seeks a different outcome.

We will therefore use the 20-year life adopted in the prior decision.

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We will therefore use the 20-year life adopted in the prior decision.

3. Computer Equipment

Staff has recommended a 10-year life for computer equipment, claiming that modern electronic equipment which survives the burn-in period is likely to be serviceable for long periods. Applicant relied on Staff's stipulation in the Central Basin case (D.86-11-022, supra) that a 6-year life was proper.

Staff seeks to relitigate a question which the Commission has already decided in a proceeding concerning applicant's other company. The Staff did not show any reason why either the applicant (and ultimately its ratepayers) or taxpayers should pay to relitigate this issue other than the fact that Staff has changed its mind about the prior stipulation. In the absence of any

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4. Vehicles

Applicant wishes to use an eight-year life for vehicles in Account 373, claiming that peculiar local conditions[5] wear out its vehicles quickly. Staff, apparently relying on general knowledge rather than any particular expertise, claims that modern vehicles have longer service lives. Its witness apparently has never examined the vehicles which applicant wishes to replace. Nor has it attempted to consider the experience or practices of other fleet managers. This is another instance where we need more support for a Staff opinion. We have adopted the utility position.

D. Income Tax

The tables which follow illustrate the difference between Staff and applicant estimates of the income tax applicant will pay.

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5 Among these were the need for extensive rural and off-road travel. Applicant also runs vehicle engines to provide job site lighting.

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TABLE III

SANTA PAULA WATER WORKS, LTD.
1988
INCOME TAX
($000)

Item	Utility		Staff		Adopted		Authorized
	Present	Proposed	Present	Proposed	Present	Authorized	@ TRA-86
Total Revenues	$1,668.7	$2,123.7	$1,668.7	$2,123.7	$1,668.7	$2,073.2	$2,046.4
Expenses							
Operations & Maintenance	802.5	803.5	788.5	789.5	797.0	797.9	797.8
Administrative & General	607.9	607.9	598.0	627.1	627.1	627.1	627.1
Ad Valorem Taxes	42.5	42.5	40.2	40.2	42.5	42.5	42.5
Payroll Taxes	37.2	37.2	36.0	36.0	36.0	36.0	36.0
Refund Overcollection	0.0	(65.2)	0.0	(65.2)	0.0	0.0	0.0
Unbilled Rev. Adj.	0.0	0.0	0.0	0.0	0.0	0.0	(16.0)
Subtotal	1,490.1	1,425.9	1,462.7	1,422.2	1,502.6	1,503.5	1,487.4
Deductions							
CA Tax Depreciation	202.4	202.4	186.4	186.4	202.4	202.4	201.0
Interest	25.3	25.3	92.6	92.6	102.1	102.1	102.4
CA Taxable Income	(49.1)	470.1	(73.0)	422.5	(138.4)	265.2	255.6
CCFT	(4.7)	45.1	(7.0)	40.6	(13.3)	25.5	23.8
Deductions							
Fed. Tax Depreciation	187.7	187.7	172.0	172.0	187.7	187.7	186.3
Interest	25.3	25.3	92.6	92.6	102.1	102.1	102.4
FIT Taxable Income	(29.7)	439.7	(51.6)	396.3	(110.4)	254.5	246.5
FIT (Before Adjustment)	(13.7)	202.3	(23.7)	182.3	(50.8)	117.1	84.1
Prorated Adjustment	-	-	-	-			
Investment Tax Credit	(11.8)	(11.8)	(11.3)	(11.3)	(11.8)	(11.8)	(7.6)
Net Federal Income tax	($25.5)	$190.5	($35.0)	$171.0	($62.6)	$105.3	$76.5

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Expenses							
Operations & Maintenance	802.5	803.5	788.5	789.5	793.9	794.8	794.7
Administrative & General	607.9	607.9	598.0	598.0	603.4	603.4	603.4
Ad Valorem Taxes	42.5	42.5	40.2	40.2	42.5	42.5	42.5
Payroll Taxes	37.2	37.2	36.0	36.0	36.0	36.0	36.0
Refund Overcollection	0.0	(65.2)	0.0	(65.2)	0.0	0.0	0.0
Unbilled Rev. Adj.	0.0	0.0	0.0	0.0	0.0	0.0	(16.0)
Subtotal	1,490.1	1,425.9	1,462.7	1,398.5	1,475.8	1,476.7	1,460.6
Deductions							
CA Tax Depreciation	202.4	202.4	186.4	186.4	202.4	202.4	201.0
Interest	25.3	25.3	92.6	92.6	101.8	101.8	102.1
CA Taxable Income	(49.1)	470.1	(73.0)	446.5	(111.3)	310.9	293.8
CCFT	(4.7)	45.1	(7.0)	42.9	(10.7)	29.8	27.3
Deductions							
Fed. Tax Depreciation	187.7	187.7	172.0	172.0	187.7	187.7	186.3
Interest	25.3	25.3	92.6	92.6	101.8	101.8	102.1
FIT Taxable Income	(29.7)	439.7	(51.6)	418.0	(85.9)	295.8	281.2
FIT (Before Adjustment)	(13.7)	202.3	(23.7)	192.3	(39.5)	136.0	96.0
Prorated Adjustment	-	-	-	-			
Investment Tax Credit	(11.8)	(11.8)	(11.3)	(11.3)	(11.8)	(11.8)	(7.6)
Net Federal Income tax	($25.5)	$190.5	($35.0)	$181.0	($51.3)	$124.2	$88.3

TABLE IV

SANTA PAULA WATER WORKS, LTD.
1989
INCOME TAX
($000)

Item	Utility		Staff		Adopted		Authorized
	Present	Proposed	Present	Proposed	Present	Authorized	@ TRA-86
Total Revenues	$1,691.2	$2,299.3	$1,691.2	$2,299.3	$1,691.2	$2,167.9	$2,147.6
Expenses							
Operations & Maintenance	834.1	835.3	820.0	821.2	823.0	823.9	823.9
Administrative & General	640.4	640.4	630.7	655.4	660.8	660.8	660.8
Ad Valorem Taxes	47.4	47.4	41.5	41.5	47.4	47.4	47.4
Payroll Taxes	37.8	37.8	36.7	36.7	36.7	36.7	36.7
Refund Overcollection	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unbilled Rev. Adj.	0.0	0.0	0.0	0.0	0.0	0.0	(16.0)
Subtotal	1,559.7	1,560.9	1,528.9	1,554.8	1,567.9	1,568.8	1,552.8
Deductions							
CA Tax Depreciation	213.2	213.2	187.7	187.7	213.2	213.2	213.4
Interest	18.9	18.9	91.8	91.8	105.1	105.1	107.0
CA Taxable Income	(100.6)	506.3	(117.2)	465.0	(195.0)	280.7	274.3
CCFT	(9.7)	48.6	(11.3)	44.6	(18.7)	27.0	25.5
Deductions							
Fed. Tax Depreciation	202.9	202.9	178.0	178.2	202.9	202.9	203.3
Interest	18.9	18.9	91.8	91.8	105.1	105.1	107.0
FIT Taxable Income	(80.6)	468.0	(96.4)	429.8	(166.0)	264.1	259.0
FIT (Before Adjustment)	(37.1)	215.3	(44.3)	197.7	(76.3)	121.5	88.4
Prorated Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment Tax Credit	(13.7)	(13.7)	(12.1)	(12.1)	(13.7)	(13.7)	(7.4)
Net Federal Income tax	($50.8)	$201.6	($56.4)	$185.6	($90.0)	$107.8	$81.0

TABLE IV

SANTA PAULA WATER WORKS, LTD.
1989
INCOME TAX
($000)

Item	Utility		Staff		Adopted		Authorized
	Present	Proposed	Present	Proposed	Present	Authorized	@ TRA-86
Total Revenues	$1,691.2	$2,299.3	$1,691.2	$2,299.3	$1,691.2	$2,187.3	$2,159.5
Expenses							
Operations & Maintenance	834.1	835.3	820.0	821.2	820.0	820.9	820.9
Administrative & General	640.4	640.4	630.7	660.7	636.1	636.1	636.1
Ad Valorem Taxes	47.4	47.4	41.5	41.5	47.4	47.4	47.4
Payroll Taxes	37.8	37.8	36.7	36.7	36.7	36.7	36.7
Refund Overcollection	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unbilled Rev. Adj.	0.0	0.0	0.0	0.0	0.0	0.0	(16.0)
Subtotal	1,559.7	1,560.9	1,528.9	1,530.1	1,540.2	1,541.1	1,525.1
Deductions							
CA Tax Depreciation	213.2	213.2	187.7	187.7	213.2	213.2	213.4
Interest	18.9	18.9	91.8	91.8	104.8	104.8	106.7
CA Taxable Income	(100.6)	506.3	(117.2)	489.7	(167.0)	328.2	314.3
CCFT	(9.7)	48.6	(11.3)	47.0	(16.0)	31.5	29.2
Deductions							
Fed. Tax Depreciation	202.9	202.9	178.0	178.2	202.9	202.9	203.3
Interest	18.9	18.9	91.8	91.8	104.8	104.8	106.7
FIT Taxable Income	(80.6)	468.0	(96.4)	452.2	(140.7)	306.9	295.1
FIT (Before Adjustment)	(37.1)	215.3	(44.3)	208.0	(64.7)	141.2	100.7
Prorated Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment Tax Credit	(13.7)	(13.7)	(12.1)	(12.1)	(13.7)	(13.7)	(7.4)
Net Federal Income tax	($50.8)	$201.6	($56.4)	$195.9	($78.4)	$127.5	$93.3

1. ITC Adjustment

Both Staff and applicant have revised their estimates to be consistent with revised plant estimates. The difference shown in the tax table is due solely to the remaining difference between Staff's and applicant's plant estimates.

2. Federal Tax Depreciation

The tax table shows a difference between staff and utility in tax depreciation; the difference is due solely to the various disputes over plant, resolved elsewhere.

3. Interest Deduction

Staff's estimate was calculated by treating Park's advances to applicant as if they were debt; the constructive interest rate developed for the cost of capital was applied to the amount of this "debt." This is consistent with the approach used by both rate of return experts.

Applicant criticizes this approach. It points out that the advances from Park would not produce a deduction on the consolidated return Park files on behalf of the corporate family. The only deduction on that return will be for the actual interest paid on Park's outside borrowings. Applicant's estimate is based on an allocated portion of that deduction. The ratio is based on net plant investment.

	Applicant 1/	Staff 1/	Difference 1/	Adopted
		$(000)		
1988	$25.3	$92.6	$67.3	$92.6
1989	18.9	91.8	72.9	91.8

1/ The above amounts are the amount of deduction.

Staff claims that its methodology was approved in the Central Basin decision, supra. Applicant challenges the applicability of that decision. It claims that "the issue in that case was not which methodology to use, but rather the two different

interest deductions calculated by two different Staff witnesses." That analysis is not supported by the text of the decision.

Adopting applicant's reasoning would produce an allowance that would cover its actual tax bill. The process of allocating the actual deduction from the consolidated return, if applied in establishing rates for all Park subsidiaries and operating divisions, would allow the total enterprise enough to cover its actual tax bill.

On the other hand it does not address another problem--that the consolidated tax bill is too high. As detailed in the discussion of rate of return below, Park has chosen a rate structure with a very small proportion of debt. This debt/equity ratio is smaller than the ratio which, according to both experts, would be the goal for a well-managed independent utility. As a result its deduction for interest is much smaller, and its taxes much greater, than would be the case with more conventional rate structure. We can find no reason why the customers should subsidize an election by applicant's owner to have a capital structure which is mostly equity.

We have therefore adopted the Staff position.

E. Rate Base

1. Plant

The differences in Plant in Service were discussed above. It should be noted that any difference in plant added in any test year will only have half the normal effect; we have employed the traditional presumption that all additions are made in the middle of the year.

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Adopting applicant's reasoning would produce an allowance that would cover its actual tax bill. The process of allocating the actual deduction from the consolidated return, if applied in establishing rates for all Park subsidiaries and operating divisions, would allow the total enterprise enough to cover its actual tax bill.

Applicant's approach would be an innovation. This Commission has long followed a practice of calculating income taxes using the revenues and expenses allowed for ratemaking purposes. Applicant has not given us adequate reason to deviate from this practice.

Since staff's position is consistent with long-standing practice, applicant's proposal is rejected.

E. Rate Base

1. Plant

The differences in Plant in Service were discussed above. It should be noted that any difference in plant added in any test year will only have half the normal effect; we have employed the traditional presumption that all additions are made in the middle of the year.

TABLE V

SANTA PAULA WATER WORKS, LTD.
1988
RATE BASE
($000)

Items	Utility	Staff	Adopted	Authorized @ TRA-86
Average Balances				
Plant in Service	$6,939.0	$6,714.8	$6,940.8	$6,940.8
Work in Progress	0.0	0.0	0.0	0.0
Materials & Supplies	37.4	31.1	37.4	37.4
Working Cash	29.7	(47.6)	29.9	27.5
Method 5 Adj.	-	-	-	4.7
Cap. Int. Adj.	-	-	-	1.8
Subtotal	7,006.1	6,698.3	7,008.1	7,012.2
Less:				
Depreciation Reserve	1,798.2	1,803.4	1,798.9	1,798.9
Advances	2,050.5	2,061.6	2,050.5	2,050.5
Contributions	175.5	175.5	175.5	175.5
Unamortized ITC	0.0	0.0	0.0	0.0
Deferred Income Tax	394.7	389.5	394.7	365.6
Subtotal	4,418.9	4,429.9	4,419.6	4,390.5
Net District Rate Base	2,587.3	2,268.4	2,588.5	2,621.7
Main Office Allocation	142.4	134.0	142.4	145.9
Total Rate Base	$2,729.7	$2,402.4	$2,730.9	$2,767.6

TABLE V

SANTA PAULA WATER WORKS, LTD.
1988
RATE BASE
($000)

Items	Utility	Staff	Adopted	Authorized @ TRA-86
Average Balances				
Plant in Service	$6,939.0	$6,714.8	$6,940.8	$6,940.8
Work in Progress	0.0	0.0	0.0	0.0
Materials & Supplies	37.4	31.1	37.4	37.4
Working Cash	29.7	(47.6)	21.6	24.7
Method 5 Adj.	-	-	-	4.7
Cap. Int. Adj.	-	-	-	1.8
Subtotal	7,006.1	6,698.3	6,999.8	7,009.4
Less:				
Depreciation Reserve	1,798.2	1,803.4	1,798.9	1,798.9
Advances	2,050.5	2,061.6	2,050.5	2,050.5
Contributions	175.5	175.5	175.5	175.5
Unamortized ITC	0.0	0.0	0.0	0.0
Deferred Income Tax	394.7	389.5	394.7	365.6
Subtotal	4,418.9	4,429.9	4,419.6	4,390.5
Net District Rate Base	2,587.3	2,268.4	2,580.2	2,618.9
Main Office Allocation	142.4	134.0	134.0	137.4
Total Rate Base	$2,729.7	$2,402.4	$2,714.2	$2,756.3

TABLE VI

SANTA PAULA WATER WORKS, LTD.
1989
RATE BASE
($000)

Item	Utility	Staff	Adopted	Authorized @ TRA-86
Average Balances				
Plant in Service	$7,639.2	$7,036.6	$7,643.0	$7,643.0
Work in Progress	0.0	0.0	0.0	0.0
Materials & Supplies	41.2	32.5	41.2	41.2
Working Cash	35.7	(45.1)	24.9	27.8
Method 5 Adj.	-	-	-	9.8
Cap. Int. Adj.	-	-	-	3.0
Subtotal	7,716.1	7,024.0	7,709.1	7,724.8
Less:				
Depreciation Reserve	1,937.0	1,951.4	1,938.8	1,938.8
Advances	2,403.6	2,133.7	2,403.6	2,403.6
Contributions	194.8	194.8	194.8	194.8
Unamortized ITC	0.0	0.0	0.0	0.0
Deferred Income Tax	494.9	479.3	494.9	429.0
Subtotal	5,030.4	4,759.3	5,032.1	4,966.2
Net District Rate Base	2,685.7	2,264.8	2,677.0	2,758.6
Main Office Allocation	128.2	119.8	119.8	124.0
Total Rate Base	$2,813.9	$2,384.6	$2,796.8	$2,882.6

TABLE VI

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1989
RATE BASE
($000)

Item	Utility	Staff	Adopted	Authorized @ TRA-86
Average Balances				
Plant in Service	$7,639.2	$7,036.6	$7,643.0	$7,643.0
Work in Progress	0.0	0.0	0.0	0.0
Materials & Supplies	41.2	32.5	41.2	41.2
Working Cash	35.7	(45.1)	35.1	30.5
Method 5 Adj.		-	-	9.8
Cap. Int. Adj.	-	-	-	3.0
Subtotal	7,716.1	7,024.0	7,719.5	7,727.5
Less:				
Depreciation Reserve	1,937.0	1,951.4	1,938.8	1,938.8
Advances	2,403.6	2,133.7	2,403.6	2,403.6
Contributions	194.8	194.8	194.8	194.8
Unamortized ITC	0.0	0.0	0.0	0.0
Deferred Income Tax	494.9	479.3	494.9	429.0
Subtotal	5,030.4	4,759.3	5,032.1	4,966.2
Net District Rate Base	2,685.7	2,264.8	2,687.1	2,761.3
Main Office Allocation	128.2	119.8	128.3	132.5
Total Rate Base	$2,813.9	$2,384.6	$2,815.4	$2,893.8

2. Advances

Applicant's estimate is based on its prediction of projects to be finished in the test years. Staff relied on a trend developed from historical data. We will not adopt the Staff figure. It would require a prediction that the housing market during the test and attrition years can be predicted from the results of past period. It may be possible for a qualified expert in the local housing market to make such a prediction. However, the Staff witness did not purport to have such expertise. We will consequently adopt the utility figure which is based on an item-by-item survey of proposed real estate developments.

Staff recommended that we disregard the impact of any real estate development which has not entered into a signed contract with the utility. That might be an adequate test if we were concerned only with near term effects. However it is likely to produce a distorted picture of the conditions to be expected toward the end of the test and attrition periods.

3. Materials and Supplies

Staff's figure is based on the 1986 recorded figure, adjusted for non-labor escalation and customer growth. Applicant also relied on a trend; it derived a ratio between plant and this account for the years 1982-86, and extrapolated this figure into the test years.

Applicant's figure seems slightly preferable, since it relied on a longer sample period; it will be adopted.

4. Main Office Rate Base

The Staff brief explains the issue as follows:

> "SPWW and Staff are apart because the company desires to calculate the depreciation reserve to reflect the effective date of Park's Central Basin Decision No. 87-09-071 rather than to calculate it from the beginning of test year 1987 which was used in that Decision. Staff disagrees.

> "Rates, resulting from a general rate increase request, are calculated according to the beginning of each test year. The cure for what the utility perceives as a problem is to file a rate application at a time so that a decision can be issued coincident with the beginning test year. The Notices of Intention to File General Rate Increase Application for Park's Central Basin and for Uehling Water Company were tendered for filing August 26, 1986. The actual applications were filed November 13, 1986. The test years used were 1987, 1988, 1989. Tardiness in filing for a 1987 test year is the reason that the Decision was issued in latter 1987."

The staff argument focuses entirely on the beginning of the period between NOI (Notice of Intent) and the first day of the test period, claiming that the utility is at fault for filing too late. The date of filing is of course entirely under the utility's control.

However, staff has failed to look at the other end of the period, the beginning of the test year. Under the Commission's Regulatory Lag Plan for water utilities (Resolution M-4705) staff has virtually unappealable power to prevent a rate increase request from being converted from NOI to application if dissatisfied with the test years selected by an applicant.

Staff should have recognized that the Central Basin/Uehling matter could not processed before the start of the proposed test period. However it did not exercise its power to demand a fiscal 1987, or even a calendar 1988 test year. Instead, it allowed the matter to be converted to an application, apparently without criticizing either the filing date or the choice of test years.

There were thus two potential "cures" for the problem, one within the applicant's control and the second, within the staff's control. Either party had the power to lengthen the period between filing and the beginning of the test year.

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Applicant's proposal is an ingenious method to ameliorate one type of problem caused by our regulatory lag plan for water companies. We believe however that the time for patchwork solutions in long past. Resolution M-4705 was adopted in 1979 on an experimental basis. Water utilities including applicant should have long ago moved to replace this experimental plan with a permanent one incorporating the lessons learned in nine years of experience.

We have rejected applicant's proposed adjustment. We will instead use an as-recorded figure as recommended by staff.

5. Depreciation Reserve

The differences here are caused by differing estimates of plant and depreciation rates.

6. Deferred Tax Reserve

The differences here are caused by differing estimates of plant and depreciation rates.

7. Working Cash

a. Deferred Credits for Consultant's Fees

Staff criticizes applicant's inclusion of deferred fees in its working cash estimate. It asserts that a utility should not include such item in the working cash computation

We cannot quarrel with staff's conclusion that there was not enough time to process the Central Basin matter before the test period begin. We cannot however, adopt its conclusion that Park, and hence applicant, was solely responsible for this fact. Consequently we cannot adopt its argument that this issue should be resolved on an as-recorded, rather than a constructive, basis.

Applicant's proposal, on the other hand, appears to be a reasonable attempt to ameliorate one minor aspect of the regulatory lag problem, and should be adopted.

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The differences here are caused by differing estimates of plant and depreciation rates.

6. Deferred Tax Reserve

The differences here are caused by differing estimates of plant and depreciation rates.

7. Working Cash

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Staff criticizes applicant's inclusion of deferred fees in its working cash estimate. It asserts that a utility should not include such item in the working cash computation "because the ratepayer is already reimbursing applicant for the amount of unamortized costs as an expense item."

This statement is not an acceptable explanation of the rule Staff has invoked; it would apply to any other expense which is included in working cash.

Staff relies on the holdings of D.82-11-018 in A.82-03-65, Azusa Valley Wtr., and D.82-09-061 in A.82-01-06, Del Este Water. Both of these decisions in turn rely on a purported tradition. The "tradition" started in So. Cal Gas, D.92497 in A.59316, where the issue concerned amortized costs from an abandoned project. It appears that the real reason for refusing to allow carrying costs was an attempt to split the burden of a failed project between shareholders and ratepayers. Moreover, the

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We have therefore concluded that applicant's regulatory costs should be treated like any other cost in allowing working cash capitalization. Since there is an immediate payment with a deferred recovery from ratepayers, the lag should be recognized.

b. Vacation and Sick Leave Accrual

Standard Practice U-16 states that "these amounts represent monies accrued through operating expenses which the utility has available until payments to employees for vacation and sick leave are made." Staff relied on this statement as justification for including such accruals in working cash. It neglected, however, to show that this applicant does have a funded accrual for such costs. Applicant claims that it is not accruing

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c. Replenishment Cost

Staff assumed that there would be an additional three days of float on applicant's payments for replenishing the underground basin from which its wells draw. Applicant argues that the bill must be considered paid when due. That does not necessarily mean that there is no float, even if the check is actually received on the due date. We have adopted the Staff position.

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d. Purchased Power

Applicant claims that it batches its bills to save postage and processing costs. These savings are presumably reflected in the operating cost estimates. Staff points to another utility which is able to delay paying its power bills, thereby conserving its capital. Applicant should have compared the benefit of capital reduction savings with the alleged postage and processing savings. It did not. We have therefore adopted the Staff position.

e. Goods and Services

Staff used the estimate developed in D.87-09-071. It does not appear that the choice between Staff's and Park's position was made on the merits. Instead, the decision stated that Park had not met its burden of proof. That being the case, a Park affiliate should be free to make another attempt to meet that burden of proof in its own rate case. However, applicant claims that the regulatory expense of making an appropriate study would outweigh the benefit.

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We encourage Park to make at least an abbreviated study which could be applied in rate cases for all divisions and subsidiaries. In the meantime we will accept the Staff estimate.

8. Reservoir Financing

Staff contended that the Cherry Hill and Case tank projects should have been funded 100% by advances. Staff's theory is that the need for these projects is attributable to projects for which main extension advances have already been collected. It bases its conclusion that these projects were not needed for existing customers on the fact that neither the Health Department nor the Local Fire Department had requested that capacity be added.

Staff based this contention on its interpretation of Tariff Rule 15, which governs main extensions. As the name implies, the Rule deals with financing for mains to serve new tracts, as well as other classes of real estate developments.

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Staff based this contention on its interpretation of Tariff Rule 15, which governs main extensions. As the name implies, the Rule deals with financing for mains to serve new tracts, as well as other classes of real estate developments. Under the Rule, the normal method of financing in-tract facilities is by advances under main extension contracts. The contracts provide for refunds.

Rule 15(C)(1)(b) provides that the utility "may" also demand an advance for the cost of out-of tract plant, if at least 50% of the plant is "required" to serve the tract. Under Rule 15(C)(1)(d), the utility "may" demand a contribution rather than an advance if "in the opinion of the utility" the extension is economically not feasible or "if it appears to the utility" that other customers will be burdened.

We have therefore concluded that there is no mandatory provision for financing out-of-tract facilities. The utility has wide discretion to decide how to finance such facilities. Only the Commission has any power to override a utility's discretion. We are not persuaded to do so in this case. We will adopt the utility decision.

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F. City of Santa Paula's Position

The City argued that applicant's local employees have the skills and enough time to perform all needed utility functions without any assistance from the central office. The City did not make a study to support its recommendation that all payments for central office services be disallowed.

Our Staff investigated the relationship between Park and applicant. It recommended a disallowance of some of applicant's payroll, which we have adopted. It recommended a disallowance of part of Park's claimed regulatory expense, which we have rejected.

There was also a stipulation between Staff and applicant concerning main office services. The utility adopted the staff figures. For 1988, the Staff allowance for data processing and other main office services was slightly over $115,000, roughly $10,000 less than applicant. The 1989 figures were comparable.

The Commission is, of course, not bound by the stipulation; it could adopt a larger disallowance if there were

F. City of Santa Paula's Position

The City argued that applicant's local employees have the skills and enough time to perform all needed utility functions without any assistance from the central office. The City did not make a study to support its recommendation that all payments for central office services be disallowed.

Our Staff investigated the relationship between Park and applicant. It recommended a disallowance of some of applicant's payroll, which we have adopted. It recommended a disallowance of part of Park's claimed regulatory expense, which we have rejected.

There was also a stipulation between Staff and applicant concerning main office services. The utility adopted the staff figures. For 1988, the Staff allowance for data processing and other main office services was slightly over $115,000, roughly $10,000 less than applicant. The 1989 figures were comparable.

The Commission is, of course, not bound by the stipulation; it could adopt a larger disallowance if there were evidence to support findings of inefficiency or waste. However, there is none.

We note that City was informed of the stipulation, and has not objected. We will therefore assume that it is satisfied to accept the stipulated adjustment, plus whatever level of adjustment in the other categories is justified by the record.

We have consequently determined that the City's recommendation to disallow all main office expense is not supported by evidence.

G. Rate of Return

1. Staff Position

a. Financial Attrition

Rather than advocating a different rate of return for each of the three years studied to offset financial attrition, Staff recommended a constant rate of return for the anticipated three-year life of this rate order. (During the course of the proceeding, applicant adopted this approach.) Staff's finance

evidence to support findings of inefficiency or waste. However, there is none.

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G. Rate of Return

1. Staff Position

a. Financial Attrition

Rather than advocating a different rate of return for each of the three years studied to offset financial attrition, Staff recommended a constant rate of return for the anticipated three-year life of this rate order. (During the course of the proceeding, applicant adopted this approach.) Staff's finance witness contended that this would minimize rate shock. He also recommended a constant cost of debt to be assigned to the monies advanced by the parent. (Applicant also adopted this approach.) He recommended a range of return on rate base between 9.78% and 9.98% for test years 1988 and 1989 and attrition year 1990. This would accommodate an interest rate of 10.5% on funds advanced by Park to applicant, plus a return on equity between 12.00% and 12.50%, and the 5% contractual dividend on preferred stock.

b. Capital Structure

Park, applicant's parent, owns 99.1% of applicant's common stock and 98.5% of the preferred stock. Applicant's non-equity capital consists of advances from Park. The Staff's expert recommended that we adopt the constructive capital structure proposed by applicant, 35% debt, 24% preferred stock, and 41% common equity; he would, however, use a constant 40% equity ratio for all three years of the rate period. The Staff expert stated

witness contended that this would minimize rate shock. He also recommended a constant cost of debt to be assigned to the monies advanced by the parent. (Applicant also adopted this approach.) He recommended a range of return on rate base between 9.78% and 9.98% for test years 1988 and 1989 and attrition year 1990. This would accommodate an interest rate of 10.5% on funds advanced by Park to applicant, plus a return on equity between 12.00% and 12.50%, and the 5% contractual dividend on preferred stock.

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c. Cost of "Debt" and Preferred Stock

The Staff expert noted that the dividend on preferred stock was fixed by contract at 5% of the value of the stock. He recommended that this actual cost be used. To supply a cost for applicant's debt, he imputed interest at the prevailing cost of single "A" utility bond yield, which he projects at 10.5% through 1990. (This contrasts with the figure in the utility proposal which would vary with anticipated costs of "Baa" debt; this is the "interest" rate provided for in a contract between applicant and Park.)

d. Cost of Common Equity

The Staff expert explained that his goal was to allow a fair return on common equity, by definition one which would enable applicant to attract capital and maintain its credit. A

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d. Cost of Common Equity

The Staff expert explained that his goal was to allow a fair return on common equity, by definition one which would enable applicant to attract capital and maintain its credit. A fair return on equity should also compare with the rates of return on equity earned by similarly situated enterprises. For comparison purposes, the Staff's expert relied on a group of regulated water utilities. Three of them were California utilities, California Water Service, San Jose Water Co., and Southern California Water Co.; nine were in other jurisdictions. He noted that bond rating agencies and the Commission have traditionally considered water companies to be less risky than other types of regulated utilities.

e. Discounted Cash Flow

The Staff expert based his allowance for equity in part, on a Discounted Cash Flow (DCF) analysis. The DCF model compares utility stocks, using the total of anticipated dividends plus anticipated growth in the value of stock. He notes that DCF methodology is a standard method of analyzing returns for most regulatory commissions. He arrived at a current 12-month average expected dividend yield of 5.68% and the 6-month yield of 5.88%.

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f. Risk Premium

The Staff also relied on a Risk Premium (RP) analysis. This model recognizes that a common stock investor will want a higher rate from an equity investment in a privately owned utility than from private or government debt. The method produces a premium which is added to the expected return on debt securities to produce a required rate of return on equity. During the hearing, the Staff witness changed his estimate of required return on equity under analysis from 11.27%, 11.01%, and 11.64% for 1988, 1989, and 1990 to 12.42%, 12.16%, and 12.79%; another comparison was changed from 11.18%, 12.24%, and 13.85% to 12.98%, 13.39%, and

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g. Quality of Service

Staff contends the quality of service is not relevant to determination of rate of return on equity. According to Staff, return on equity should be determined solely by finding the appropriate cost of capital.

We note this argument overlooks Public Utilities Code § 456, under which the Commission can reward a utility for economies, efficiencies, and improvements. Nor would it be consistent with the Commission's practice of reducing return on equity for poor service.

However, because of the methodology we have used to fix return on equity, applicant's return on equity has been established without rating applicant's service.

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However, because of the methodology we have used to fix return on equity, applicant's return on equity has been established without rating applicant's service.

2. Applicant's Position

As of the time of submission, applicant had adopted a slightly modified return on equity request, designed to achieve an average 13% return on equity throughout the life of the rates to be established in this proceeding. The corresponding rate of return on rate base was 10.18%, which falls between its original requested return on rate base for test years 1988 and 1989. To support its request for a 13% return on equity, applicant challenges the tradition that water utilities are less risky than other classes of utility. It contends that new environmental regulations, dwindling supplies and inability to raise needed capital have increased water utilities' risks. It also argues that the Commission should give additional returns for good service. It argues that it would be entitled to such a premium on return because of what it claims to be exemplary service.

2. Applicant's Position

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a. Material Errors in Staff RP Analysis

Applicant relies heavily on the errors and alleged inconsistencies in the Staff report. It asserts that once the original errors in the RP analysis were corrected upward, it was illogical not to increase the recommended rate of return. It argues that applying the Staff's RP methodology to the revised figures will automatically require an increase in the recommended return on equity to a range of 12.27% to 13.41%.

b. Comparison with California Utilities; DCF Analysis

Applicant argues that the data relied on in the Staff in its DCF analysis are skewed to under-emphasize California utilities. It notes that the Staff recommendation is significantly less than the amount awarded any of the three California water utilities, even though they are less highly leveraged. It asserts that its parent, with 77% equity, was recently awarded a rate of return intended to produce a 12% rate on equity. Applicant proposes that we exclude the out-of-state utilities from our DCF analysis, thus justifying a return on equity of 13.1%.

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c. Quality of Service

Applicant relies on the following items to support a finding that it renders good service:

- Eleven of its field personnel hold valid Department of Health Services certificates;
- All of Parks' divisions use hand-held meter reader/calculators;
- Park has followed the recommendations of a management audit conducted by Arthur Young;
- Park has followed a strategy which reduced its insurance premiums;
- Park was asked by the Commission to take over the Mission Hills system;

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- Park was asked by the Commission to take over the Mission Hills system;
- Park has started a water quality assurance program.

d. Comparison with Return Allowed Park and Co-Subsidiary

Applicant notes that a recent Commission decision (the Park/Uehling decision, supra, awarded both Park and another Park subsidiary the same rate of return on rate base, 11.51%, to achieve a return on equity of 12%.

3. Adopted Rate of Return

Uehling customers are now paying rates which include a rate of return identical to that allowed the parent company, under the Central Basin/Uehling decision, supra. In addition, we note that it is normal for water utility subsidiaries of water utility parents to be awarded the parent's rate of return. We would expect the rate experts to have strong reasons for not simply following our normal practice in this case.

However, neither of them has suggested any circumstance (aside from the age of underlying data) which would justify compelling Santa Paula customers to pay a different price than

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3. Adopted Rate of Return

The proposed decision recommended a 10.18% rate of return on total investment. The decision did not rely on the capital structure used by both rate witnesses; rather it imputed Park's structure. The decision also imputed the rate of return, 11.51%, authorized in the Central Basin decision, supra. Since however, applicant's ultimate request had been for a 10.18% rate of return. The decision would have reduced the allowed return to that level.

Both parties objected to this analysis. Staff recommended that we rely on the rate structure used by both staff and applicant witnesses. It also recommended that we follow the staff witness' recommendation and adopt a much lower rate of return on equity. Applicant on the other hand recommended that we adopt the full 11.51% rate of return on all investment.

It is common to impute the parent's allowed rate of return where the subsidiary has so little real independence especially in financing matters. Nevertheless, it appears that there was an agreement not to follow this practice.

We have found that a 13% rate of return on equity, using the agreed rate structure, is reasonable.

Even though the overall rate of return significantly less than the return authorized in Central Basin, it is not unreasonably low; this is the amount recommended by applicant's witness.

On the other hand, we believe it is not too high even though it exceeds the staff-recommended range. A 13% rate of

Uehling customers for the capital which Park supplies to both. In fact, both have conceded that it would be proper to treat this utility as a 100% equity company. While that is not an unequivocal recommendation to impute the equity owner's (i.e. Park's) authorized return on equity, it certainly is not a contrary recommendation.

It is far more realistic to consider the economic health and risk factors for Park than it is to build an elaborate hypothetical structure to study what Santa Paula might have been if it were still an independent company. Any potential investor in any of the Park subsidiaries would be vitally interested in Park's capital structure and comparative earnings.

In this case, the 1988 rate of return established by the Central Basin/Uehling decision is recent enough to be directly adopted at least on a prima facie basis. If either Staff or applicant had thought it necessary to update the data used in developing the Central Basin rate of return, they would have done so in the comment period.

We have therefore decided to impute the 11.51% rate of return from the Central Basin case to Santa Paula. However, there is one adjustment to be made. Since applicant did not request and therefore did not justify a return of rate base of more than 10.18%, the imputed rate of return on rate base should be reduced to that level from 11.51%.

Because of this adjustment, Santa Paula customers will pay roughly 1.3% less for Park's investment in this system than it earns from other systems. This translates into a savings for ratepayers of roughly $65,000 before taxes. The rates for 1989 and 1990 will be designed to maintain this rate of return unless there is an intervening decision authorizing a greater return for Park.

return on equity compares very well with the amounts allowed other major California water utilities. In addition, if the corrected, rather than original data is used, the staff RP analysis appears to support a 13% funding rather than the recommended range.

Finally, adopting a rate within the staff range would produce a very great disparity between Santa Paula earnings and those allowed in the Central Basis decision. The staff presentation did not address this question.

The proposed decision attempted to adopt an integrated approach to both the interest deduction and the capital structure/rate of return issue, one which expressly considered Park's unusual capital structure. We have not disapproved this approach; in fact we recommend a similar approach for any future case involving rates for Park or a subsidiary.

The following table compares the witnesses' recommendation of the proposed decision and adopted results.

Staff Recommendation

	Capital Ratios	Cost Factor	Weighted Cost
Long-term Debt	36.00%	10.50%	3.78%
Preferred Stock	24.00	5.00	1.20%
Equity	40.00	12.25 *	4.90%
Total			9.88%

Applicant's Recommendation

	Capital Ratios	Cost Factor	Weighted Cost
Long-term Debt	36.00%	10.50%	3.78%
Preferred Stock	24.00	5.00	1.20%
Equity	40.00	13.00	5.20%
Total			10.18%

Central/Uehling

	Capital Ratios	Cost Factor	Weighted Cost
Long-term Debt	20.35%	9.60%	1.95%
Equity	79.65%	12.00%	9.56%
Total			11.51%

* Midpoint of Staff recommended range.

Adopted

	Capital Ratios	Cost Factor	Weighted Cost
Long-term Debt	20.35%	9.60%	1.95%
Equity	79.65%	10.33%	8.23%
Total			10.18%

The adopted figures produce a revenue requirement roughly $15,000 higher that those recommended by the Staff witness.

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Total			11.51%

ALJ Proposed Decision

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Equity	79.65%	10.33%	8.23%
Total			10.18%

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H. Rate Design

There was no controversy concerning rate design other than the irrigation rate question discussed below. The spread adopted is based on current Commission policy as expressed in

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There was no controversy concerning rate design other than the irrigation rate question discussed below. The spread adopted is based on current Commission policy as expressed in D.86-05-054 in I.84-11-041. It eliminates multiple blocks. Service charges have been fixed at a level high enough to offset a significant fraction of applicant's fixed costs.

I. Irrigation Rates

Applicant provides irrigation service, relying primarily on water from Santa Paula Creek. Most of the customers are located so that they can use water pumped from applicant's wells when the creek is low. Two of the customers, however, can only use gravity-fed creek water; they use their own pumps and pay for their own electricity to lift water from the creek to field level. When the creek is low they must curtail their use while the others can continue to use water pumped by the utility from wells.

The currently applied rate structure allows a rate differential between customer classes. Both of the gravity customers are satisfied with this rate differential, because they feel that they should not be required to pay for the electrical costs attributable to the other irrigation customers.

To save labor costs required to implement the differential rate, applicant wishes to substitute a new rate format with a single rate for both pumped and gravity consumption. The two gravity customers have protested this change. One, Steven Smith, appeared and testified as a public witness. He also called and examined a utility official. Ms. Wigley participated by making a statement on behalf of the other gravity water user.

During the course of the questioning, it became apparent that the question might require consideration of numerous contracts between irrigation customers and the utility as well as the statutory prohibition against discriminatory rates. It appeared that none of the parties was prepared to make a presentation on all

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The currently applied rate structure is a rate which varies with electrical usage. Both of the gravity customers feel that they should not be required to pay for the electrical costs attributable to the other irrigation customers.

To save labor costs required to implement the differential rate, applicant wishes to substitute a new rate format with a single rate for both pumped and gravity consumption. The two gravity customers have protested this change. One, Steven Smith, appeared and testified as a public witness. He also called and examined a utility official. Ms. Wigley participated by making a statement on behalf of the other gravity water user.

During the course of the questioning, it became apparent that the question might require consideration of numerous contracts between irrigation customers and the utility as well as the statutory prohibition against discriminatory rates. It appeared that none of the parties was prepared to make a presentation on all of the matters potentially at issue during the time alloted for this rate case. The proposed report recommended that this proceeding be reopened to deal with this issue.

Applicant's comments note that the two protesting irrigation customers have filed a separate complaint. (C.88-09-086, Smith, Wigley, et al. v Santa Paula Waterworks.) Because of this filing, it is no longer necessary to issue this

of the matters potentially at issue during the time alloted for this rate case.

With the consent and participation of the interested parties and Staff, special terms of submission were arrived at. The utility was allowed to submit its case for a single-level higher irrigation rate without a complete record on the matters raised by the protesting irrigation customers. Any irrigation rate established by this decision would be collected from them subject to refund. They were to have the right to continue to litigate (or to use the Commission's informal complaint procedure) to seek a prospective change which would recognize the alleged "uniqueness" of gravity only service. Because of the refund provision, they could also seek a return of part or all of the increase resulting from this decision.

Findings of Fact

1. Applicant can achieve and maintain an 8% Unaccounted-for-Water loss, if it continues its meter replacement program. There is insufficient evidence to support a finding that applicant can reduce its loss to 7%. There is insufficient evidence to support a finding that it can maintain the 8% level without a program to achieve meter accuracy.

2. Because of dissolved minerals, applicant's meters will run slow after a comparatively short service life. Most of the past excessive water "loss" was due to slow meters.

3. Staff has not shown that utility decisions to replace rather than repair large meters are imprudent. It is becoming difficult to locate replacement parts, and rebuilding is labor-intensive.

4. During the test and attrition years, applicant's premium for Worker's Compensation Insurance will increase to the industry average, because of claims in 1985 and 1986.

5. Any disallowance from regulatory commission expense should be subtracted from the estimated full cost, not from a

decision on an interim basis. The proposed decision is modified insofar a necessary to make this a final decision. However, it is not intended that this change preclude complainants from seeking any type of relief they might have sought in this proceeding.

Findings of Fact

1. Applicant can achieve and maintain an 7% Unaccounted-for-Water loss, if it continues its meter replacement program. There is insufficient evidence to support a finding that it can maintain the 7% level without a program to achieve meter accuracy.

2. Because of dissolved minerals, applicant's meters will run slow after a comparatively short service life. Most of the past excessive water "loss" was due to slow meters.

3. During the test and attrition years, applicant's premium for Worker's Compensation Insurance will increase to the industry average, because of claims in 1985 and 1986.

4. Any disallowance from regulatory commission expense should be subtracted from the estimated full cost, not from a capped figure which represents the utility's prediction of the maximum amount of actual expense the Commission would allow.

5. Staff's estimate of $125 per hour as the going market rate for attorney services is not the proper measure for legal and regulatory expense.

6. Staff did not demonstrate the Park management was imprudent for disbanding its staff of experienced regulatory experts.

7. Applicant's payroll costs are higher than other comparable utilities, and to that extent, unreasonable.

8. Applicant has not adequately justified its request for an additional allowance for payroll to implement Rule 11.

9. Applicant had adequate grounds to believe that poly-u tanks coatings would not have to be recoated for at least 40 years, a much longer period than other coatings, and that the savings on recoating would, in the long run, offset the higher initial cost.

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10. Applicant had adequate grounds to believe that poly-u tanks coatings would not have to be recoated for at least 40 years, a much longer period than other coatings, and that the savings on recoating would, in the long run, offset the higher initial cost.

11. Applying a poly-u coating does not release any solvent into the atmosphere.

12. Recoating the inside of a tank requires additional effort and expense to avoid releasing abrasive and airborne debris into the environment. It is desirable for economic and/or environmental reasons to select a coating which will need replacement infrequently. Poly-u coating will require recoating less frequently than coal tar or epoxy coatings.

13. Poly-u coatings will extend the life of the tanks.

14. There is some degree of risk that the poly-u coating will have a shorter than predicted life when used to coat water tanks. Proper ratemaking treatment should provide an adequate means of sharing this risk between shareholders and customers.

15. The economic benefits of the poly-u will primarily benefit future customers who will be spared the cost of recoating. Proper ratemaking treatment should impose much of the added cost of poly-u on benefited customers.

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15. Proper ratemaking treatment should encourage utilities to innovate prudently.

16. Neither Staff nor applicant has recommended proper ratemaking treatment for tank coating. Staff's proposed adjustments of the costs of recoating the tank should be disallowed.

17. Both Staff and applicant agree that a new pump and associated mains are needed and should be allowed as advances.

18. Both Staff and applicant agree that the Staff estimates for services is reasonable.

19. To be consistent with the useful lives we have adopted, vehicles purchased in 1980 should be found due for replacement, in the absence of proof that any specific vehicles are in unusually good condition or have unusually low mileage.

20. Applicant will spend more for replacing hydrant heads than in past years. The acceleration is in response to a

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21. Applicant will spend more for replacing hydrant heads than in past years. The acceleration is in response to a recommendation of fire officials. The recommendation is not unreasonable.

22. Applicant's 2- and 4-inch mains should be replaced. It should give priority to those small mains which provide inadequate pressure for fire protection or which generate customer service complaints.

23. Applicant's decision to purchase a camcorder was prudent.

24. Applicant has not proven that it needs to spend more than $2,000 for a new computer.

25. Staff's methodology for estimating retirements is more theoretical and complex than applicant's; absent a showing that it is more likely to produce realistic predictions of utility behavior or that management is likely to make imprudent retirements, it should not be adopted.

26. Wells should be depreciated over a 30-year life.

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22. Applicant's decision to purchase a camcorder was prudent.

23. Applicant has not proven that it needs to spend more than $2,000 for a new computer.

24. Staff's methodology for estimating retirements is more theoretical and complex than applicant's; absent a showing that it is more likely to produce realistic predictions of utility behavior or that management is likely to make imprudent retirements, it should not be adopted.

25. Wells should be depreciated over a 30-year life.

26. Staff has not introduced any evidence to cast doubt on the reasonableness of the 20-year life for water treatment equipment adopted in D.84-11-115.

27. Staff has not introduced any evidence to cast doubt on the reasonableness of the 6-year life for computer equipment adopted in D.87-09-071.

28. Staff has not adequately rebutted the utility's experience-based position that its vehicles should be depreciated over an 8-year span.

29. Applicant has not justified a deviation from established ratemaking practice in calculating interest for income taxes.

30. The Staff witness did not claim the expertise to predict local housing markets.

31. Ignoring planned developments for the sole reason that developers have not yet been asked to execute main extension agreements will distort the estimate of expected advances.

32. Applicant's estimate of Material and Supplies is based on a longer period than staff's single year and should be adopted.

27. Staff has not introduced any evidence to cast doubt on the reasonableness of the 20-year life for water treatment equipment adopted in D.84-11-115.

28. Staff has not introduced any evidence to cast doubt on the reasonableness of the 6-year life for computer equipment adopted in D.87-09-071.

29. Staff has not adequately rebutted the utility's experience-based position that its vehicles should be depreciated over an 8-year span.

30. Park has an unusually low proportion of debt in its capital structure. For customers, this is an expensive way to furnish capital, since the utility cannot deduct the cost of equity from its income taxes. It is reasonable to shift avoidable tax expense to stockholders, by adopting the Staff method of estimating interest deduction.

31. The Staff witness did not claim the expertise to predict local housing markets.

32. Ignoring planned developments for the sole reason that developers have not yet been asked to execute main extension agreements will distort the estimate of expected advances.

33. Applicant's estimate of Material and Supplies is based on a longer period than staff's single year and should be adopted.

34. It is reasonable to recalculate the depreciation reserve for main office rate base to reflect the fact that the effective date of D.87-09-071 was delayed until well into the test period.

35. Staff has not shown that applicant accrues sums for vacation and sick leave before they are taken.

36. Applicant has not shown that there is no additional float on checks for replenishment after the payment is due.

37. Applicant has not made an adequate study to support its treatment of working cash for goods and services.

38. When deciding to batch bills for payment to achieve operating cost savings, applicant has failed to compare those

33. It is not reasonable to recalculate the depreciation reserve for main office rate base to reflect the fact that the effective date of D.87-09-071 was delayed until well into the test period.

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35. Applicant has not shown that there is no additional float on checks for replenishment after the payment is due.

36. Applicant has not made an adequate study to support its treatment of working cash for goods and services.

37. When deciding to batch bills for payment to achieve operating cost savings, applicant has failed to compare those savings with other savings which could be achieved by delaying payments until the date due.

38. There should be a constant rate of return on rate base for the anticipated life of this rate order.

39. Central office expenses should not be disallowed.

40. A rate of return on equity of 13.0% is reasonable, using the capital structure of 36% long-term debt, 24% low-dividend preferred stock, and 40% equity.

41. Applicant's rate structure should eliminate rate blocks and lifeline; the service charge should be high enough to offset a substantial portion of the fixed cost.

42. The same level of rates should be applied to all irrigation customers subject to the outcome of the complaint of two gravity-only customers.

43. Park controlled the litigation in the Central Basin/Uehling proceeding; Park controls Santa Paula's conduct of litigation in this proceeding.

44. Park's financial interest in rate of return in this matter is comparable to its interest in Central Basin/Uehling.

savings with other savings which could be achieved by delaying payments until the date due.

39. There should be a constant rate of return on rate base for the anticipated life of this rate order.

40. Central office expenses should not be disallowed.

41. All but a tiny fraction of applicant's common and preferred stock is owned by Park; applicant has no debt other than advances from Park.

42. Park can be expected to obtain and furnish applicant with any additional capital needed.

43. Park's equity-to-debt ratio is approximately 80%.

44. Neither the Staff nor applicant has provided any reason why Santa Paula consumers should pay a proportionately different return for capital furnished by Park than paid by Uehling or Central Basin customers.

45. The rate of return found reasonable in D.87-09-071 for Park and Uehling and the actual capital structure of Park may reasonably be adopted for applicant.

46. Since applicant did not request a rate of return of more than 10.18% on rate base its rate of return should be limited to that rate.

47. Applicant's rate structure should eliminate rate blocks and lifeline; the service charge should be high enough to offset a substantial portion of the fixed cost.

48. The same level of rates should be applied to all irrigation customers. The increase for two gravity-only customers should be on an interim, refundable basis, pending resolution of discrimination issues.

49. Park controlled the litigation in the Central Basin/Uehling proceeding; Park controls Santa Paula's conduct of litigation in this proceeding.

50. Park's financial interest in rate of return in this matter is comparable to its interest in Central Basin/Uehling.

Conclusions of Law

1. Applicant's main extension rule does not prohibit it from financing any out-of-tract facility, such as the tanks, with investor funds.

2. A Standard Practice is not a rule or regulation. A utility may recommend and justify a different solution to a problem.

3. Standard Practices are guidelines; they do not bar Staff from adopting a different treatment if it finds an a typical situation which justifies an exception.

4. Unless a utility is not required to pay fees accountable as regulatory commission expense before the time when amortization of such fees produces revenues to cover the payments, such items should be considered in working cash.

5. Standard Practice U-16 does not require that vacation and sick leave be dealt with in working cash unless the utility in fact accrues enough payroll to fund such payments before the employees take the time off.

6. A utility is not required to forego use of a new technology that is predicted to reduce costs solely because it cannot find three bidders for competitive bidding.

7. The increases in rates and charges authorized by this decision are justified, and are just and reasonable.

8. The standard way to calculate income taxes for California ratemaking is to use the allowed expenses, including interest on debt.

9. To limit regulatory lag, applicant should be able to make justified increases effective immediately. This decision should therefore be effective when signed.

Conclusions of Law

1. Applicant's main extension rule does not prohibit it from financing any out-of-tract facility, such as the tanks, with investor funds.

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6. A utility is not required to forego use of a new technology that is predicted to reduce costs solely because it cannot find three bidders for competitive bidding.

7. The increases in rates and charges authorized by this decision are justified, and are just and reasonable except as provided in Finding 48.

8. To limit regulatory lag, applicant should be able to make justified increases effective immediately. This decision should therefore be effective when signed.

INTERIM ORDER

IT IS ORDERED that:

1. Applicant Santa Paula Water Works, Ltd. is authorized to file on or after the effective date of this order the revised rate

O R D E R

IT IS ORDERED that:

1. Applicant Santa Paula Water Works, Ltd. is authorized to file on or after the effective date of this order the revised rate schedules for 1988 shown in Appendix A. This filing shall comply with General Order 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 5, 1988, applicant is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1989 shown in Appendix A attached to this order, or to file a lesser increase in the event that its rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1988, exceeds the later of (a) the rate of return on rate base found reasonable by the Commission for Park Water Company for the corresponding period in the then most recent rate decision, or (b) 10.18%. This filing shall comply with General Order 96-A. The requested step rates shall be reviewed by the Staff to determine their conformity with this order and shall go into effect upon the Staff's determination of conformity. Staff shall inform the Commission, with notice to applicant, if it concludes that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1989, or 40 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 5, 1989, applicant is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1990 shown in Appendix A attached to this order, or to file a lesser increase in the event that its rate of return on rate base, adjusted to reflect the rates

schedules for 1988 shown in Appendix A. This filing shall comply with General Order 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 5, 1988, applicant is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1989 shown in Appendix A attached to this order, or to file a lesser increase in the event that its rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1988, exceeds the later of (a) the rate of return on rate base found reasonable by the Commission for Park Water Company for the corresponding period in the then most recent rate decision, or (b) 10.18%. This filing shall comply with General Order 96-A. The requested step rates shall be reviewed by the Staff to determine their conformity with this order and shall go into effect upon the Staff's determination of conformity. Staff shall inform the Commission, with notice to applicant, if it concludes that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1989, or 40 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 5, 1989, applicant is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1990 shown in Appendix A attached to this order, or to file a lesser increase in the event that its rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1989, exceeds the later of (a) the rate of return on rate base found reasonable by the Commission for Park Water Company for the corresponding period in the then most recent rate decision, or (b) 10.18%. This filing shall comply with

then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1989, exceeds the later of (a) the rate of return on rate base found reasonable by the Commission for Park Water Company for the corresponding period in the then most recent rate decision, or (b) 10.18%. This filing shall comply with General Order 96-A. The requested step rates shall be reviewed by the Staff to determine their conformity with this order and shall go into effect upon the Staff's determination of conformity. Staff shall inform the Commission, with notice to applicant, if it concludes that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1990, or 40 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

This order is effective today.

Dated _____, at San Francisco, California.

General Order 96-A. The requested step rates shall be reviewed by the Staff to determine their conformity with this order and shall go into effect upon the Staff's determination of conformity. Staff shall inform the Commission, with notice to applicant, if it concludes that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1990, or 40 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

4. Insofar as there is an increase over existing rates for irrigation customers who are not connected to applicant's system for providing pumped irrigation water, such increase shall be an interim rate subject to refund. If the questions of refund and final rate level for such customers are settled by negotiation, applicant shall file an advice letter notifying the Commission of the terms of the settlement and asking for approval of any needed changes in tariff. If further hearing is required, to determine either the future level of rates or questions of refund, the party

seeking a hearing may proceed by motion in this proceeding. If no motion is filed within one year from today, the irrigation rates will become final and not subject to refund.

This order is effective today.

Dated _____, at San Francisco, California.

SANTA PAULA WATER WORKS, LTD.

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all general metered water service.

TERRITORY

Santa Paula and vicinity, Ventura County.

RATES

	Per Meter Per Month	
Quantity Rate:		
All water delivered per 100 cu.ft.	$0.651	(C) (I)
Service Charges:		
For 5/8 x 3/4-inch meter	$ 7.30	(I)
For 3/4-inch meter	8.00	
For 1-inch meter	10.85	
For 1-1/2-inch meter	14.60	
For 2-inch meter	19.70	
For 3-inch meter	36.50	
For 4-inch meter	49.60	
For 6-inch meter	82.50	
For 8-inch meter	122.50	(I)

The Service Charge is a readiness-to-serve-charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates, for water used during the month.

Note: To the above quantity rate should be subtracted a surcharge of $0.033 per Ccf for the amortization of $65,200 overcollection in the balancing account. The surcharge is for a 12-month period starting with the effective date of this tariff. (N)

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SANTA PAULA WATER WORKS, LTD.

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all general metered water service.

TERRITORY

Santa Paula and vicinity, Ventura County.

RATES

	Per Meter Per Month	
Quantity Rate:		
All water delivered per 100 cu.ft.	$0.656	(C) (I)
Service Charges:		
For 5/8 x 3/4-inch meter	$ 7.30	(I)
For 3/4-inch meter	8.00	
For 1-inch meter	10.85	
For 1-1/2-inch meter	14.60	
For 2-inch meter	19.70	
For 3-inch meter	36.50	
For 4-inch meter	49.60	
For 6-inch meter	82.50	
For 8-inch meter	122.50	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates, for water used during the month.

Note: From the above quantity rate a surcharge of $0.033 per Ccf should be subtracted for amortization of $65,200 overcollection in the balancing account. The surcharge is for a 12-month period starting with the effective date of this tariff. (N)

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Page 2

SANTA PAULA WATER WORKS, LTD.

Schedule No. 1

GENERAL METERED SERVICE

AUTHORIZED STEP INCREASES

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

	Rates to be Effective 1-1-89	1-1-90
Quantity Rate:		
For all water delivered Per 100 cu.ft.	$ 0.0	$0.0
Service Charge:		
For 5/8 x 3/4-inch meter	$ 0.70	$0.30
For 3/4-inch meter	0.80	0.35
For 1-inch meter	1.25	0.60
For 1-1/2-inch meter	1.40	0.70
For 2-inch meter	2.05	0.75
For 3-inch meter	3.50	1.50
For 4-inch meter	4.90	2.00
For 6-inch meter	8.50	2.80
For 8-inch meter	11.90	5.60

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Page 2

SANTA PAULA WATER WORKS, LTD.

Schedule No. 1

GENERAL METERED SERVICE

AUTHORIZED STEP INCREASES

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

	Rates to be Effective 1-1-89	1-1-90
Quantity Rate:		
For all water delivered Per 100 cu.ft.	$ 0.0	$0.0
Service Charge:		
For 5/8 x 3/4-inch meter	$ 0.75	$0.15
For 3/4-inch meter	0.90	0.20
For 1-inch meter	1.15	0.30
For 1-1/2-inch meter	1.45	0.35
For 2-inch meter	1.70	0.75
For 3-inch meter	3.60	0.90
For 4-inch meter	4.90	1.50
For 6-inch meter	8.00	2.50
For 8-inch meter	12.00	3.00

SANTA PAULA WATER WORKS, LTD.

Schedule No. 3ML

LIMITED MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service furnished on a limited basis.

TERRITORY

Santa Paula and vicinity, Ventura County.

RATES

Quantity Rate:

For all water delivered, per 100 cu.ft.	$0.175	(C)

Special Conditions

1. Service under this schedule is limited to the lands being rendered irrigation service as of February 15, 1954.

2. Requests for each irrigation water delivery shall be made to the utility not less than 48 hours in advance of the time said delivery is desired.

SANTA PAULA WATER WORKS, LTD.

Schedule No. 3ML

LIMITED MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service furnished on a limited basis.

TERRITORY

Santa Paula and vicinity, Ventura County.

RATES

Quantity Rate:

For all water delivered, per 100 cu.ft.	$0.175	(C)

Special Conditions

1. Service under this schedule is limited to the lands being rendered irrigation service as of February 15, 1954.

2. Requests for each irrigation water delivery shall be made to the utility not less than 48 hours in advance of the time said delivery is desired.

SANTA PAULA WATER WORKS, LTD.

Schedule No. 3ML

LIMITED MEASURED IRRIGATION SERVICE

AUTHORIZED STEP INCREASES

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

	Rates to be Effective 1-1-89	1-1-90
Quantity Rate:		
For all water delivered per 100 cu.ft.	$0.010	$0.010

SANTA PAULA WATER WORKS, LTD.

Schedule No. 3ML

LIMITED MEASURED IRRIGATION SERVICE

AUTHORIZED STEP INCREASES

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

	Rates to be Effective 1-1-89	1-1-90
Quantity Rate:		
For all water delivered per 100 cu.ft.	$0.010	$0.010

SANTA PAULA WATER WORKS, LTD.

Schedule No. 5

FIRE SPRINKLER SERVICE

APPLICABILITY

Applicable to all fire sprinkler service.

TERRITORY

Santa Paula and vicinity, Ventura County.

RATES

Size of Service:	Per Service Per Month	
4-inch	$ 9.45	(I)
6-inch	14.15	|
8-inch	18.90	(I)

Special Conditions:

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

2. The minimum diameter for fire sprinkler service will be 4 inches and the maximum diameter will not be more than the diameter of the main to which the service is connected.

3. The customer's installation must be such as to effectively separate the fire sprinkler system from that of the customer's regular water service. As a part of the sprinkler service installation there shall be a detector check or other similar device acceptable to the Company which will indicate the use of water. Any unauthorized use will be charged for at the regular established rate for General Metered Service, and/or may be grounds for the Company's discontinuing the fire sprinkler service without liability to the Company.

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

SANTA PAULA WATER WORKS, LTD.

Schedule No. 5

FIRE SPRINKLER SERVICE

APPLICABILITY

Applicable to all fire sprinkler service.

TERRITORY

Santa Paula and vicinity, Ventura County.

RATES

Size of Service:	Per Service Per Month	
4-inch	$ 9.45	(I)
6-inch	14.15	|
8-inch	18.90	(I)

Special Conditions:

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

2. The minimum diameter for fire sprinkler service will be 4 inches and the maximum diameter will not be more than the diameter of the main to which the service is connected.

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SANTA PAULA WATER WORKS, LTD.

Schedule No. 5

FIRE SPRINKLER SERVICE

AUTHORIZED STEP INCREASES

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

Size of Service:	Rates to be Effective 1-1-89	1-1-90
4-inch	$0.80	$0.50
6-inch	$1.20	$0.80
8-inch	$1.55	$1.05

(End of Appendix A)

SANTA PAULA WATER WORKS, LTD.

Schedule No. 5

FIRE SPRINKLER SERVICE

AUTHORIZED STEP INCREASES

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

Size of Service:	Rates to be Effective 1-1-89	1-1-90
4-inch	$0.80	$0.50
6-inch	$1.20	$0.80
8-inch	$1.55	$1.05

(End of Appendix A)

SANTA PAULA WATER WORKS, LTD.

ADOPTED QUANTITIES

Net-to-Gross Multiplier	-	1.677
Uncollectibles Date	-	0.21%
Franchise Tax Rate	-	0
Federal Tax Rate	-	34.12%
State Tax Rate	-	9.3%

1. WATER CONSUMPTION (A.F.)	1988	1989	1990
Water Sales (Dom)	4,481.0	4,545.0	4,608.8
Water Loss	389.6	395.3	400.8
Well Water (Irr.)	518.8	518.8	518.8
Water Production	5,389.4	5,459.1	5,528.4
Surface Water	1,050.5	1,050.5	1,050.5
Replenishment Cost (Eff. 7-1-1987)	$30,261	$30,678	$31,095

2. PURCHASED POWER (KWh)			
GS-1 (Eff. 2-1-1988)	9,233	9,364	9,494
PA-1 (Eff. 1-1-1988, 585 HP)	1,171,397	1,183,542	1,195,579
PA-2 (Eff. 1-1-1988, 590 KW)	2,412,685	2,444,630	2,457,983
Pumping Cost	$306,094	$309,430	$310,420

3. Water Consumption/Cust. By Class

Commercial	-	278.55	Ccf
Public Authority	-	1,542	Ccf
Temp. Service	-	500	Ccf
Resale	-	12,000	Ccf
Irrigation	-	22,482	Ccf

SANTA PAULA WATER WORKS, LTD.

ADOPTED QUANTITIES

Net-to-Gross Multiplier	-	1.677
Uncollectibles Rate	-	0.21%
Franchise Tax Rate	-	0
Federal Tax Rate	-	34.12%
State Tax Rate	-	9.3%

1. WATER CONSUMPTION (A.F.)	1988	1989	1990
Water Sales (Dom)	4,481.0	4,545.0	4,608.8
Water Loss	373.5	378.3	383.1
Well Water (Irr.)	518.8	518.8	518.8
Water Production	5,373.3	5,442.1	5,510.7
Surface Water	1,050.5	1,050.5	1,050.5
Replenishment Cost (Eff. 7-1-1987)	$29,947	$30,359	$30,772

2. PURCHASED POWER (KWh)			
GS-1 (Eff. 2-1-1988)	9,190	9,320	9,449
PA-1 (Eff. 1-1-1988, 585 HP)	1,165,985	1,177,849	1,189,870
PA-2 (Eff. 1-1-1988, 590 KW)	2,401,538	2,433,077	2,446,245
Pumping Cost	$300,731	$303,972	$305,889

3. Water Consumption/Cust. By Class

Commercial	-	278.55	Ccf
Public Authority	-	1,542	Ccf
Temp. Service	-	500	Ccf
Resale	-	12,000	Ccf
Irrigation	-	22,482	Ccf

SANTA PAULA WATER WORKS, LTD.

ADOPTED QUANTITIES

4. Adopted Consumption by Block Size (Ccf)

Range	Ccf	1988	1989	1990
Block 1	0 - 3	233,244	236,844	240,444
Block 2	Over 3	1,718,652	1,742,907	1,767,162
Total		1,951,896	1,979,751	2,007,606
Gravity Flow (Irrigation)		281,025	281,025	281,025
Pumped Water (Irrigation)		281,025	281,025	281,025

5. Adopted Average Service by Meter Size

Commercial Metered			
5/8" x 3/4"	5,385	5,469	5,553
3/4	0	0	0
1"	758	771	784
1 1/2"	155	155	155
2"	139	142	145
3"	26	26	26
4"	14	14	14
6"	2	2	2
8"	0	0	0
Total	6,479	6,579	6,579
Irrigation	25	25	25
Private Fire			
4"	6	6	6
6"	13	13	13
8"	7	7	7
Total	6,530	6,630	6,730

(End Of Appendix B)

SANTA PAULA WATER WORKS, LTD.

ADOPTED QUANTITIES

4. Adopted Consumption by Block Size (Ccf)

Range	Ccf	1988	1989	1990
Block 1	0 - 3	233,244	236,844	240,444
Block 2	Over 3	1,718,652	1,742,907	1,767,162
Total		1,951,896	1,979,751	2,007,606
Gravity Flow (Irrigation)		281,025	281,025	281,025
Pumped Water (Irrigation)		281,025	281,025	281,025

5. Adopted Average Service by Meter Size

Commercial Metered			
5/8" x 3/4"	5,385	5,469	5,553
3/4	0	0	0
1"	758	771	784
1 1/2"	155	155	155
2"	139	142	145
3"	26	26	26
4"	14	14	14
6"	2	2	2
8"	0	0	0
Total	6,479	6,579	6,679
Irrigation	25	25	25
Private Fire			
4"	6	6	6
6"	13	13	13
8"	7	7	7
Total	6,530	6,630	6,730

(End Of Appendix B)

APPENDIX C

SANTA PAULA WATER WORKS, LTD.

COMPARISON OF MONTHLY CUSTOMER BILLS AT PRESENT AND ADOPTED GENERAL METERED RATES FOR A 5/8 x 3/4-INCH METER

Usage Ccf	Present Rates	Adopted Rates	Amount Increase	Percent Increase
		1988		
0	$ 5.00	$ 7.30	$ 2.30	46.0
3	6.24	9.25	3.01	48.3
10	10.31	13.81	3.50	33.9
20	16.13	20.32	4.19	26.0
25	19.04	23.58	4.53	23.8
25.1 Avg.	19.10	23.64	4.54	23.8
50	33.59	39.85	6.26	18.6
100	62.69	72.40	9.71	15.5
		1989		
0	$ 7.30	$ 8.00	$ 0.70	8.8
3	9.25	9.95	0.70	7.0
10	13.81	14.51	0.70	4.8
20	20.32	21.02	0.70	3.3
25	23.58	24.28	0.70	2.9
25.1 Avg.	23.64	24.34	0.70	2.9
50	39.85	40.55	0.70	1.7
100	72.40	73.10	0.70	1.0
		1990		
0	$ 8.00	$ 8.30	$ 0.30	3.6
3	9.95	10.25	0.30	2.9
10	14.51	14.81	0.30	2.0
20	21.02	21.32	0.30	1.4
25	24.28	24.58	0.30	1.2
25.1 Avg.	24.34	24.64	0.30	1.2
50	40.55	40.85	0.30	0.7
100	73.10	73.40	0.30	0.4

(End of Appendix C)

APPENDIX C

SANTA PAULA WATER WORKS, LTD.

COMPARISON OF MONTHLY CUSTOMER BILLS

AT PRESENT AND ADOPTED GENERAL

METERED RATES FOR A 5/8 x 3/4-INCH METER

Usage Ccf	Present Rates	Adopted Rates	Amount Increase	Percent Increase
		1988		
0	$ 5.00	$ 7.30	$ 2.30	46.0
3	6.24	9.27	3.03	48.5
10	10.31	13.86	3.55	34.4
20	16.13	20.42	4.29	26.6
25	19.04	23.70	4.66	24.5
25.1 Avg.	19.10	23.77	4.66	24.4
50	33.59	40.10	6.51	19.4
100	62.69	72.90	10.21	16.3
		1989		
0	$ 7.30	$ 8.05	$ 0.75	10.3
3	9.27	10.02	0.75	8.1
10	13.86	14.61	0.75	5.4
20	20.42	21.17	0.75	3.7
25	23.70	24.45	0.75	3.2
25.1 Avg.	23.77	24.52	0.75	3.2
50	40.10	40.85	0.75	1.9
100	72.90	73.65	0.75	1.0
		1990		
0	$ 8.05	$ 8.20	$ 0.15	1.9
3	10.02	10.17	0.15	1.5
10	14.61	14.76	0.15	1.0
20	21.17	21.32	0.15	0.7
25	24.45	24.60	0.15	0.6
25.1 Avg.	24.52	24.67	0.15	0.6
50	40.85	40.00	0.15	0.4
100	73.65	73.80	0.15	0.2

(End of Appendix C)