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Item 3
Agenda 9/7/89
A. 2790

Decision 89 09 048 SEP 7 1989

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Gabriel Valley Water Company (U-337-W) for authority to increase rates charged for water service in its Los Angeles County Division.	Application 89-01-004 (Filed January 4, 1989)

Mailed

SEP 8 1989

Michael Whitehead, Attorney at Law, for San Gabriel Valley Water Company, applicant.
Lawrence O. Garcia, Attorney at Law, and Mehdi Radpour, for the Commission Advisory and Compliance Division, Water Utilities Branch.

OPINION

Summary

By this opinion we authorize rates of return on San Gabriel Valley Water Company's (San Gabriel) Los Angeles County Division (LA Division) rate base for 1990, 1991, and 1992 of 10.97%, 11.01%, and 11.07%, respectively. The related return on common equity is 11.90%, 12.00%, and 12.10% for 1990, 1991, and 1992, respectively. The revenue requirements authorized by this opinion are:

Year	Amount of Increase	Percentage Increase
1990	$2,763,900	19.59%
1991	795,000	5.63
1992	744,500	4.21

Background

On January 4, 1989, San Gabriel filed an application to increase the rates it charges for water service in its Los Angeles

County Division. San Gabriel's last general rate proceeding was filed in February 1983 and a decision was issued in October 1983.

San Gabriel's stock is wholly-owned by Utility Investment Company. The capital stock of San Gabriel and Utility Investment Company are not listed on a national securities exchange.

San Gabriel, a California corporation, is engaged in the business of producing, distributing, and selling water through two separate divisions, the Fontana Water Company and the Los Angeles County Division (LA Division). The Fontana Water Company distributes and sells water in San Bernardino County to approximately 25,000 customers. The LA Division produces, distributes, and sells water in Los Angeles County to approximately 43,300 active services including private fire service.

Nature of Rate Relief Requested

San Gabriel requests approval to increase its LA Division rates for the years 1989 through 1992. It requests approval of rates which would produce a constant 14.00% return on common equity in each of the four years. The return on common equity last found reasonable for the LA Division was 14.50% in 1983.

According to San Gabriel, the rate increase is necessary because of a combination of circumstances, particularly the effect of substantial increases in major expense items for which rate relief cannot be obtained through the water utilities offset procedures, increases in rate base and plant investment, and increases in costs of long-term debt.

San Gabriel's proposed revenue increases are summarized as follows:

Year	Amount	Percent
1989	$2,976,500	20.5%
1990	776,500	4.4
1991	748,700	4.1
1992	539,600	2.8

Informal Meeting

As part of its investigation, the Commission Advisory and Compliance Division Water Utilities Branch (CACD) conducted an informal public meeting in South El Monte on February 15, 1989. Nine customers attended the meeting. In response to a customer's inquiry of pollution problems, a San Gabriel representative stated that San Gabriel has no serious water pollution problems.

Evidentiary Hearing

Evidentiary hearings were held in Los Angeles before Administrative Law Judge (ALJ) Galvin on May 8, 9, and 10, 1989.

Testimony on behalf of San Gabriel was presented by its Chairman of the Board, Robert Nicholson, Jr., its Vice President and Secretary, Raymond E. Heytens, its Vice President-Engineering, Frank A. LoGuidice, its Vice President and Treasurer, J. Donald Taylor, and its Vice President of Operations, Gerald J. Black.

CACD's testimony was presented by Project Manager Mehdi Radpour, Regulatory Analyst II Peter O'Donnell, Utilities Engineer Mohsen Kazemzadeh, and by the Division of Ratepayer Advocates (DRA) Regulatory Program Specialist I, Carol Siegal.

In addition, 1 item and 12 exhibits were received into evidence during the hearing. An additional exhibit, Exhibit 13, identified during the hearing as a San Gabriel and CACD joint comparison exhibit was received into evidence on May 30, 1989, Appendix F. This application was submitted upon the filing of concurrent briefs on June 5, 1989.

Results of Operations

San Gabriel's application requests that it be authorized increased rates for a 4 year period. It request increased rates for the remainder of 1989, test years 1990 and 1991, and attrition year 1992. Notice of the four-year rate request was given to its customers through public notices and bill inserts.

Test Years

Although DRA's rate of return witness testified to a 1989 capital structure, CACD did not present any results of operation or rate base estimates for 1989. CACD's reports were based on the two test years and one attrition year period, pursuant to the water utilities regulatory lag plan (RLP).

San Gabriel's prior rate decision authorized rates for test years 1983 and 1984, and attrition year 1985, consistent with the RLP. If San Gabriel followed the RLP it would have filed a rate application in 1985 for test years 1986, 1987, and attrition year 1988. However, because of relatively stable expenses and revenues experienced from its prior rate decision, and from timely offset rate relief, San Gabriel did not file another rate application until now. Although water utility rate applications are set for a three-year cycle, there is no requirement that a water utility must file every three years.

Heytens testified that earnings began slipping in late 1987 and that in 1988 San Gabriel decided that it would need to file for a general rate increase. San Gabriel recommends that if this decision is signed prior to January 1, 1990, San Gabriel should be allowed to implement 1990 authorized rates immediately in 1989.

All water utilities, including San Gabriel, were invited to comment on the RLP before the RLP was implemented in 1979. The purpose of the RLP was to remedy regulatory lag problems in the water utilities industry and to secure a just, speedy, and inexpensive determination of water utility rate proceedings. As adopted, the RLP applies to all Class A water utility rate proceedings and new advice letter general rate increase requests filed subsequent to April 1979.

Now, San Gabriel proposes to change the regulatory lag plan. This is not the proper proceeding to request such a change. If San Gabriel wants to change the plan, it should participate in

R.89-03-003, our rulemaking to consider revision of the water rate case plan. San Gabriel is well aware of the RLP and is in control of when it files its rate applications. It is also aware that rates are authorized on a calendar year basis. Although San Gabriel was aware of its erosion of earnings in late 1987, it did not tender its request for rate relief until December 1988.

Because this proceeding strictly adhered to the RLP time schedule, a decision will be issued prior to the start of San Gabriel's 1990 test year. Had San Gabriel filed for rate relief by April of 1988, it would have had rates in effect for a 1989 test year period.

In brief, San Gabriel asserts that it has clearly demonstrated a need for rate relief prior to test year 1990. However, its own witness, Heytens testified that he could not recommend 1989 revenue, expense, or rate base estimates because there is insufficient information on the record. We concur. Absent a showing of revenue, expense, and rate base estimates for 1989 there can be no finding that San Gabriel's current rates are not reasonable for 1989.

San Gabriel's request for rate relief prior to its test years should be denied because San Gabriel did not demonstrate that its 1989 rates are unreasonable and because such relief is not in accordance with the RLP.

Inflation Factors

Both San Gabriel's and CACD's labor and non-labor inflation factors used to derive test year expense estimates are outdated. San Gabriel's January 1988 filing used factors developed in the last quarter of 1988, and CACD's April 1989 report generally used factors developed in February 1989.

CACD's inflation factors frequently relied on by the Commission are derived from the Data Resources, Inc. (DRI) Publication, "Review of the U.S. Economy." The labor inflation factor is the Consumer Price Index for Urban Wage and Clerical

Workers (CPI-W). The non-labor factor is derived from the weighted average of ten producer price indices and CPI-W.

CACD's inflation factors are updated monthly. However, because of the interval between the completion of CACD's work in March for its April report and the May hearings, CACD was not able to use the most recent inflation factors for its test year estimates. At the hearing, CACD read into the record, without revising any test year estimates, inflation factors developed in May 1989.

The following tabulation compares inflation factors derived by San Gabriel with the factors CACD used in its test year estimates and CACD's most recent inflation factors.

	Labor		Non-Labor	
	1990	1991	1990	1991
San Gabriel	5.0%	5.0%	4.0%	4.0%
CACD	4.4	4.6	4.8	4.9
May 1989 Update	4.6	4.8	5.2	5.3

It is not uncommon for inflation factors to change between the time San Gabriel and CACD prepare their expense estimates and the time the evidentiary hearing takes place. By definition, an estimate is an approximate computation of probable cost. Therefore, the use of the most recent inflation factors will produce the most current estimate and will provide San Gabriel an opportunity to recover reasonable operating expenses.

In this proceeding, the May 1989 non-labor inflation factors are higher than the non-labor inflation factors used by San Gabriel and CACD to develop their respective estimates. Regardless of the direction that inflation may be heading, the May 1989 inflation factors are the most recent inflation factors in the record and should be used.

This is not the first proceeding that we have used factors that are more current than the factors used by utilities or other parties of record. DRI interest rate factors are consistently updated at the time financial attrition evidentiary hearings are held for gas and electric utilities, irrespective of whether the updated factors are higher or lower than the factors used by parties to the proceedings.

There are several important issues on which San Gabriel and CACD differ, as addressed in the remainder of this opinion. These principal issues are:

a. Transportation Expenses.

b. Employee Benefits & Lunchroom Supplies.

c. Legal Fees.

d. Tax Effect of Unbilled Revenues.

e. Interest Expense Deductible for Income Tax Purposes.

f. Plant in Service.

g. Working Cash.

h. Minimum Bank Balance.

i. Capital Structure and Return on Common Equity.

Tables 1 and 2, following on the next two pages, show the adopted results of operations at present rates and at authorized rates for test years 1990 and 1991, respectively.

TABLE 1

San Gabriel Valley Water Company
Los Angeles County Division

Adopted Results of Operations

Present Rates

Item	Test Year 1990 (Dollars in Thousands)	Test Year 1991 (Dollars in Thousands)
Operating Revenues	$14,108.8	$14,184.3
Operating Expenses		
Purchased Water & Assess.	3,890.7	3,921.0
Purchased Power	2,341.6	2,348.4
Payroll	1,892.3	1,983.2
Materials and Supplies	190.8	202.3
Other Operation & Maint.	564.6	595.5
Employees Pensions & Ben.	634.4	663.0
Admin. & General	184.1	189.1
General Office-Prorate	1,566.8	1,665.1
Minimum Bank Balance	44.0	44.0
Subtotal	$11,309.3	$11,611.6
Depreciation Expense	840.5	965.7
Taxes Other Than Income	542.0	577.4
Local Franchise Tax	115.9	115.9
State Corp. Franchise Tax	0.2	0.2
Federal Income Tax	59.1	0
Total Deductions	$12,867.0	$13,270.8
Net Operating Revenues	1,241.8	913.5
Rate Base	26,398.4	28,463.7
Rate of Return	4.70%	3.21%

TABLE 2

San Gabriel Valley Water Company
Los Angeles County Division

Adopted Results of Operations

Authorized Rates

Item	Test Year 1990	Test Year 1991
	(Dollars in Thousands)	
Operating Revenues	$16,872.7	$17,667.7
Operating Expenses:		
Operation & Maintenance	8,910.8	9,081.7
Administrative & General	836.7	871.2
General Office-Prorate	1,566.8	1,641.0
Subtotal	$11,314.3	$11,593.9
Depreciation Expenses	840.5	965.7
Taxes Other Than Income	542.0	577.4
Local Franchise Tax	137.9	144.4
State Corp. Franchise Tax	230.8	254.8
Federal Income Tax	911.3	997.7
Total Operating Expenses	$13,976.8	$14,533.9
Net Operating Revenues	2,895.8	3,133.8
Rate Base	26,398.4	28,463.7
Rate of Return	10.97%	11.01%

Operating Revenues

CACD's operating revenue estimate is $455,600 lower than San Gabriel's $14,564,400 estimate for test year 1990 and $457,800 lower than San Gabriel's $14,642,100 estimate for test year 1991, at present rates.

CACD and San Gabriel used the "Modified Bean Method" to obtain a weather-normalized estimate of consumption in the 1987 recorded year by analyzing various time spans. The Modified Bean Method is a regression analysis that uses time, precipitation and temperature as independent variables to predict normalized consumption. This normalized estimate is then used as the estimate for the two test years.

There are no areas of dispute between CACD and San Gabriel regarding the number of services or average consumption per service. Therefore, we will adopt the following number of services and average consumption estimates for test years 1990 and 1991:

Average Number of Services	1990	1991
Residential	42,429	42,711
Commercial	502	504
Industrial	162	166
Public Authorities	353	358
Irrigation Sales	33	33
Private Fire Protection	700	721
Total Average Number of Services	44,179	44,493

Average Consumption Per Service/CCF per year		
Residential	278.4	278.4
Commercial	4,982.0	4,982.0
Industrial - Large	16,868.0	16,868.0
Industrial - Small	858.0	858.0
Public Authority - Large	10,314.0	10,314.0
Public Authority - Small	420.0	420.0

The only difference in present revenue estimates between CACD and San Gabriel is due to San Gabriel's inclusion of a $0.026 per CCF surcharge derived from an undercollection in a balancing account scheduled to end April 13, 1989. As shown in the comparison exhibit, San Gabriel concurs with CACD that the surcharge should not be included in test year revenue estimates. We will adopt CACD's revenue estimates for test year 1990 and 1991.

Operation & Maintenance Expenses

The following tabulation shows the major operation and maintenance expense components and compares the difference in estimates between CACD and San Gabriel for test year 1990 at present rates:

Item	CACD	San Gabriel	San Gabriel Exceeds CACD Amount	San Gabriel Exceeds CACD Percent
	(Dollars in Thousands)			
Purchased Water & Assessments	$3,890.7	$3,890.7	$ 0	0.0%
Purchased Power	2,345.2	2,206.1	-139.1	-5.9
Payroll	1,863.4	1,902.9	39.5	2.1
Materials & Supplies	189.0	196.9	7.9	4.2
Transportation	281.7	342.6	60.9	21.6
Other Operation & Maintenance	276.9	295.6	18.7	6.8
Total Operation & Maintenance	8,846.9	8,834.8	-12.1	-0.1

Major operation and maintenance expense differences between CACD and San Gabriel are due to differences in labor and non-labor inflation factors and differences in methodology as applied by CACD and San Gabriel. Because the May 1, 1989 labor and non-labor inflation factors are being adopted in this opinion, there is no further need to address differences caused from inflation. The remaining methodology differences in the Purchased Power, Transportation and Other Operation & Maintenance Expense estimates are addressed below.

Purchased Power

The $139,100 difference in the purchased power estimate results from CACD using more recent gas and electric tariffs. CACD used tariffs with a 1989 effective date and San Gabriel used tariffs with a 1988 effective date. Subsequently, CACD reduced its purchased power estimates by $3,600 to correct a calculation error, as shown in the comparative exhibit. San Gabriel concurs with CACD's revised estimates. CACD's revised purchased power estimate of $2,341,600 and $2,348,400 for test years 1990 and 1991, respectively, should be adopted because it reflects the current costs of gas and electricity.

Transportation

By the joint comparison exhibit, CACD increased its transportation expense estimate from $281,700 to $288,200 to reflect the correction of a calculation error and to allow the recovery of transportation costs incurred by employees using utility vehicles to commute between work and home. This adjustment reduces the difference between CACD's and San Gabriel's transportation expense estimate from $60,900 to $52,400.

The remaining difference in transportation expenses result from CACD's executive commute expense adjustment and differences in the use of inflation factors previously addressed. Executive commute expense of $20,100 is classified by CACD's Kazemzadeh as the estimated cost incurred by executives who use utility vehicles to commute between home and work. No adjustment is proposed for executives or employees who use a utility vehicle to commute if they are required to respond to emergency calls.

San Gabriel's Taylor disagrees with CACD's proposed executive commute expense adjustment. Based on the analysis of various executive compensation surveys, Taylor concludes that vehicles are routinely provided to executives as part of their overall compensation package. According to Taylor, the use of a company vehicle is a major consideration of executives in deciding whether to work for a company, and that absent this benefit, executives will expect additional compensation. Further, San Gabriel asserts that these expenses should be allowed because of a longstanding Commission practice allowing such expenses.

Although San Gabriel believes that there is a longstanding practice allowing these expenses, it offered no support for its statement. The prior rate proceeding decision is silent on this issue. Such silence cannot be construed as an automatic acceptance of the practice or cost, especially in the absence of any indication that the issue was fully litigated in a prior proceeding. Even if an issue was previously addressed in a proceeding, changing times and conditions do occur and may require a new analysis.

San Gabriel's remaining argument that executives expect the use of a vehicle for commute purposes as a condition of employment is not persuasive. Although no salary figures or documentation were provided, it is difficult to believe that an executive will turn down a job because there is no vehicle available for commuting between home and work, particularly with the compensation San Gabriel provides to its executives. San Gabriel's 1987 General Order 77-J filing shows that six executives received salaries in the $61,000 to $116,000 range. Comparable figures for 1988 have not yet been filed.

Commuting between home and work is not a utility function. Therefore, ratepayers should not be required to compensate San Gabriel for such cost, unless a person is required to respond to emergency calls. CACD's transportation expense estimates, adjusted to reflect the May 1, 1989 labor and non-labor inflation factors should be adopted.

Other Operation & Maintenance

Other than differences from the use of inflation factors discussed above, there is a difference in methodology between San Gabriel and CACD in two categories of Other Operation & Maintenance Expense. These two categories are other expense and miscellaneous expense. The following tabulation compares CACD's 1990 test year estimate with San Gabriel's estimate by category.

	CACD	San Gabriel	San Gabriel Exceeds CACD
Other Expense	$ 88,600	$ 86,800	$(1,800)
Miscellaneous Exp.	1,700	18,000	16,300
Total	90,300	104,800	14,500

San Gabriel used different base years to develop its estimate, whereas CACD utilized one consistent method. San Gabriel's other expense estimate is based on its 1987 recorded cost adjusted for inflation and its miscellaneous expense estimate is based on an estimated 1988 cost adjusted for inflation. CACD's estimate is based on San Gabriel's 1986 through 1988 recorded expenses averaged on a per customer basis and adjusted for inflation.

San Gabriel used the most recent cost, or in the case of miscellaneous expense uses a $80,600 projected cost which is higher than the $71,200 most recent recorded cost. The application of these base amounts to inflation factors incorrectly assumes that these costs will continue to rise. According to San Gabriel's Exhibit 5, other expenses actually decreased from $84,600 in 1986 to $71,200 in 1987, and miscellaneous expense from $14,300 in 1986 to a minus $8,300 in 1987. San Gabriel did not provide a reason why this trend is changing.

CACD's method normalizes fluctuations within each account over a period of time and results in a reasonable level of expense for future periods. Therefore, CACD's other operation and maintenance expense estimates, adjusted to reflect the May 1, 1989 labor and non-labor inflation factors should be adopted.

Administrative & General Expenses

The following tabulation shows the major administrative and general expense components and compares the difference in the CACD and San Gabriel estimates for test year 1990 at present rates:

	CACD	San Gabriel	San Gabriel Exceeds Amount	San Gabriel Exceeds Percent
	(Dollars in Thousands)			
Payroll	$ 18.1	$ 27.9	9.8	54.1%
Rents	11.7	13.9	2.2	18.8
Property Insurance	19.6	21.6	2.0	10.2
Injury & Damages	281.9	279.3	-2.6	-0.9
Employees Pensions	626.8	662.4	35.6	5.7
Franchise Tax	115.3	119.4	4.1	3.6
Miscellaneous	1.5	176.5	175.0	100.0+
Admin. Expense Transferred	-145.9	-181.8	-35.9	24.6
General Office	1,552.7	1,592.1	39.4	2.5
Other Components	12.2	12.1	-0.1	0.0
Total Admin. & Gen.	2,493.9	2,723.4	229.5	9.2

Employee Pensions

Differences in employee pensions estimates result from CACD excluding San Gabriel's lunch room supplies and employee awards cost, and differences in the use of inflation rates previously addressed.

CACD excludes $10,145 of costs representing lunches, lunchroom supplies, and awards from its estimate of expenses in the employee pension category because CACD believes that the employees' salary is adequate compensation. It does not believe that ratepayers should be required to pay for employee lunches, lunchroom supplies, or awards. However, it does not object to such costs if they are borne by San Gabriel's stockholders.

Heytens clarified that the lunchroom supplies consist of coffee, sugar, cream, and cups. No meals, other than an annual awards dinner or lunch are provided to employees. At this annual awards meal employees with outstanding service and work performance are recognized with a small award, such as a pin or money clip, which bears the utility's logo.

On brief, San Gabriel argues that the provision of lunchroom supplies to its employees eliminates the need for employees to leave the workplace at lunch time and promotes efficiency. As to the awards, San Gabriel believes that employees should be recognized for outstanding service and that such recognition awards foster employee pride and morale. We concur. Absent nominal recognition awards and incidental lunchroom supplies, employees' morale may be adversely affected and result in higher operating cost to the ratepayer through increased employee turn-over rates and substandard service. CACD's employees lunchroom supplies and awards adjustment should not be adopted.

Miscellaneous

Miscellaneous expense consists of legal costs. CACD's miscellaneous expense estimate is $175,000 lower than San Gabriel's test year 1990 estimate. CACD's test year 1991 estimate is $195,000 lower than San Gabriel's. These differences result from CACD excluding legal fees, litigation costs, expert witness' fees, and court cost for utility anticipated lawsuits against polluters of San Gabriel's groundwater supply in the San Gabriel Valley Basin.

San Gabriel's witness, Black, offered testimony on the extent of water pollutants and on the clean-up process in the basin. According to Black, pollutants were discovered in basin well water in 1980. San Gabriel has reduced the number of its operating wells in the valley from 26 in 1980 to 19 in 1989 because of a high presence of volatile organic contaminants (VOC) in the well water. Water from wells that had a low presence of VOC was either blended with uncontaminated water or processed through an aeration system. Currently, San Gabriel has 23 active wells in the basin. The increase in active wells from 19 to 23 is the result of San Gabriel drilling four new wells at a greater depth than previously drilled.

Effective January 1, 1989, new water quality and drinking water standards were implemented by the State Department of Health Services. These new regulations revised the water quality and drinking water standards and classified all wells in the basin as susceptible to pollutants. Black represents that the pollutants move in plumes with the natural flow of water from the northeast to southwestern direction which will eventually pollute other wells.

Black testified that the Regional Quality Control Board (RQCB) conducts on-site investigations to identify polluters. Once polluters are identified, RQCB may require such polluters to clean up the on-site pollutants. San Gabriel believes that in certain cases, these polluters are responsible for long-term groundwater pollution that has traveled beyond the confines of the identified property. San Gabriel proposes to sue the entities identified as polluters to force a clean-up of the groundwater pollutants.

Although the upper San Gabriel Municipal Water District, the San Gabriel Municipal Valley Water District, Watermaster, and the upper San Gabriel Valley Water Association have agreed to participate in a concerted effort with federal, state, and local agencies to prevent additional pollutants and the spread of the plumes, no decision has been made on what is to be done.

San Gabriel believes that the polluters are responsible for the spreading of the pollutants and proposes to sue the identified polluters to clean up the groundwater pollutants.

CACD removed anticipated lawsuit costs from its estimates because it believes: (1) litigation should be coordinated with federal and state agencies involved in administering groundwater contamination laws and regulations, (2) ratepayers should not carry the sole burden of the lengthy litigation, and (3) there is no assurance that San Gabriel will actually incur such costs.

However, during the evidentiary hearing CACD agreed with San Gabriel that groundwater pollutant lawsuit costs should be recovered when and if such costs are actual incurred. Any recovery of damages through such litigation should be used to reduce the cost of the litigation. CACD changed its recommendation because it believes that San Gabriel's evidence explained the extent of water pollutants, demonstrated that polluters are being identified by a governmental agency, and that liability can be established.

Both CACD and San Gabriel recommend that the utility be allowed to seek recovery of litigation costs associated with groundwater pollutants through advice letter filings.

There is no dispute that groundwater pollution exists in the basin. Pollutants in the basin have been an issue in other water utilities' rate proceedings, such as in California-American Water Company's 1985 rate proceeding (D.86-03-011).

RQCB is taking the lead in identifying basin polluters and requiring such polluters to clean up onsite pollutants. However, of all the federal agencies, state agencies, local agencies, water districts, water utilities, and water associations, only San Gabriel proposes to seek recovery of costs associated with remedying the effects of such pollution in its basin water supply, San Gabriel's major source of water.

We share San Gabriel's concern for providing its customers pollutant free water; however, there are deficiencies in San Gabriel's and CACD's agreement to allow San Gabriel to recover its litigation costs through advice letter filings. Such a procedure gives San Gabriel blanket approval to recover all litigation costs solely from its ratepayers without presenting any showing on: (1) the impact on its ratepayers and its stockholders, (2) projected long-term litigation costs, (3) the cost to clean up pollutants, (4) expected judgments, and (5) the ability to collect judgments from such polluters.

This is a regional problem, which is shared and being addressed by all water districts, water utilities and water associations in the basin. We do not want to duplicate activities, especially if San Gabriel, as a member of these various districts and organizations, is required to provide financial support to these other agencies for similar clean up activities.

We will not authorize San Gabriel to seek recovery of pollution litigation costs through the advice letter filing procedure. However, San Gabriel may accumulate such litigation costs in a memorandum account during its test years and attrition year. If the memorandum account is used, San Gabriel shall file as part of its next general rate proceeding workpapers that show that San Gabriel conducted a cost benefit analysis prior to embarking on groundwater litigation, and benefits derived by its ratepayers and its stockholders from incurring such costs. San Gabriel should also provide a proposal to seek recovery of reasonable litigation costs from its ratepayers and from its stockholders.

San Gabriel and CACD also disagree on the level of normal outside legal expenses for test years 1990 and 1991. CACD subtracted San Gabriel's expected pollution litigation costs from San Gabriel's total estimated expenses. The resultant $1,500 and $1,600 in test year 1990 and 1991, respectively, represent normal legal expense estimates.

CACD reviewed San Gabriel's normal legal expenses and believes that they are reasonable expenditures. Although CACD had available 1988 recorded data, it discounted the 1988 $55,700 expense because it represents expenses incurred in a lawsuit to be concluded in 1989. Actual legal expenses for the years 1984 through 1986, excluding water pollution costs, are comparable to San Gabriel's test year estimates.

San Gabriel argues in its brief that normal legal expenses should be based on a three-year recorded average, adjusted for inflation. Accordingly, San Gabriel requests that it be allowed $21,400 in 1990 and $22,500 in 1991 for normal legal expense.

We remind San Gabriel that it has the burden of proof in a rate proceeding to demonstrate that its estimates are reasonable. In its brief, San Gabriel proposes for the first time to increase its test year 1990 and 1991 test year estimates by $19,900 and $20,900, respectively without explaining why the additional expenses are necessary. San Gabriel's revised legal expense estimates were not provided within the time period allowed under the water utilities' regulatory lag plan and were not justified on the record.

CACD's legal expense estimates for test years 1990 and 1991 are reasonable and should be adopted for the test years.

Taxes Other than Income

Payroll tax is a component of Taxes Other than Income. Minor differences exist between San Gabriel and CACD on their respective test year estimates for payroll taxes. For example, CACD's test year 1990 estimate is $178,000, that is, $3,000 lower than San Gabriel's $181,000 estimate. This differences results from CACD applying San Gabriel's tax rates to a lower payroll base.

On examination by the ALJ, San Gabriel testified that it applied a 7.51% FICA (Federal Insurance Contributions Act) tax rate to the first $46,800 of each individual employee's annual wages in 1989. However, the statutory tax rate is 7.51% of each employee's first $48,000 of annual salary. San Gabriel estimated future FICA tax rates and base salary levels as follows.

Year	Tax Rate	Individual Salary Base
1990	7.65%	$48,600
1991	7.75	50,400

San Gabriel did not explain why the FICA tax rate or individual salary base for test years 1990 and 1991 should be different than the statutory tax rate and individual salary base.

Estimates for purchased power and state and federal income tax expenses are based on established tariff and statutory rates without any inflation effect. San Gabriel's and CACD's FICA tax rates are inconsistent with the statutory tax rate and should not be adopted.

Unless we know that the FICA statutory rate will change, San Gabriel's FICA tax expense should be based on current statutory rates. We take official notice of Commerce Clearing House's 1989 Federal Tax Guide which identifies the 1989 statutory FICA rate as 7.51% of the first $48,000 of each employee's annual wages. For test years 1990 and 1991 the 7.51% is increased to 7.65% and is applied to the 1989 base salary of $48,000. CACD's and San Gabriel's FICA tax rates are inconsistent with the statutory FICA rates and should not be adopted. We will adopt the statutory FICA rates identified above for test years 1990 and 1991.

Income Tax Calculation

Income tax estimates differ between CACD and San Gabriel because of differences in estimated expenses, and differences in the methodology used to calculate interest expense deductions and 1987 unbilled revenue tax deductions.

Interest Expense Deduction

San Gabriel calculates its long-term debt interest deduction by multiplying San Gabriel's projected weighted cost of debt by its average test year rate base, less working cash. The resultant interest expense is reduced by the amount of interest required to be capitalized pursuant to the Tax Reform Act of 1986.

CACD's method is similar to San Gabriel's. However, CACD uses a weighted cost of debt derived from an imputed capital structure, instead of the projected weighted cost of debt derived from an actual projected capital structure. CACD's method will produce a higher interest deduction for tax purposes than San Gabriel's because it is based on an imputed debt ratio that is higher than the debt ratio that San Gabriel expects to actually experience in the test years.

San Gabriel asserts that its method should be used to calculate interest deductions because it will more accurately project its income tax expense. Although it may do that, it will not produce an income tax expense consistent with ratemaking plant additions, revenues and expenses, which are based on normalized projections. Further, adoption of such a method may nullify ratemaking adjustments and disallowances. Therefore, the interest deduction for tax calculation purposes should be based on the adopted weighted cost of debt, which is addressed in a subsequent part of this opinion, and applied to the adopted rate base.

Although CACD did not reduce its interest deduction by the amount of interest needed to be capitalized pursuant to the Tax Reform Act of 1986, CACD concurs with San Gabriel that such a procedure should be adopted in this proceeding. We concur.

<u>1987 Unbilled Revenue</u>

San Gabriel proposed to include in its 1990 test year tax expense an additional $16,800 of state income tax and an additional $61,300 of federal tax expense to compensate it for its 1990 tax impact of 1987 unbilled revenues.

At the evidentiary hearing, the ALJ, concerned that this issue has been litigated in Order Instituting Investigation (OII) 86-11-019, an investigation into the tax effects of the Tax Reform Act of 1986, and in a California Water Service Company and San Jose Water Company January 28, 1988 petition for modification of D.88-01-061 (Phase I Decision in the OII) requested arguments on whether this issue should be addressed in this proceeding.

San Gabriel asserted that it is providing a showing to justify recovery of its additional 1990 tax liability incurred from the Tax Reform Act of 1986. It argued that it is complying with

D.88-01-061's Finding of Fact No. 11 which provides utilities an opportunity to make a showing for revenue requirement adjustments due to the unbilled revenue.

CACD argued that the proposed recovery of taxes associated with unbilled revenues is not just or reasonable.

Upon consideration of the arguments, the ALJ denied parties an opportunity to provide testimony on the 1990 income tax effect of San Gabriel's 1987 unbilled revenues. Instead, parties were invited to address the ALJ's ruling in brief. San Gabriel was also invited to seek a modification of the OII's Phase I Decision, if it desired to pursue this issue further.

Subsequently, D.89-05-065 issued on May 26, 1989 addressed California Water Service Company's and San Jose Water Company's petition. In summary, the decision stated that the unbilled revenues phenomenon at issue affects only the recognition of revenues for Internal Revenue Service purposes. For every cubic foot of water projected to be taken in a test year, the utilities will recover the associated costs, return on equity, and income taxes.

We concur with the ALJ's ruling that the 1987 unbilled revenue tax impact was litigated in the OII and should not be addressed in this rate application. San Gabriel should review our discussion in D.89-05-065 prior to any further request for recovery of additional taxes incurred from 1987 unbilled revenues.

Utility Plant in Service

Differences between CACD's and San Gabriel's utility plant in service (plant) test year estimates are summarized as follows:

Test Year	CACD	San Gabriel	San Gabriel Exceeds CACD
	(Dollars in Thousands)		
1990	$49,669.0	$51,708.4	$2,039.4
1991	53,180.1	56,096.7	2,916.6

San Gabriel's test year estimates are based on its 1984 recorded budget, extrapolated at a 10% yearly increase. The resultant budget is used as a spending ceiling on average plant additions for test years 1990 and 1991. San Gabriel then estimates its yearly need for plant facilities by primary plant category. Once the needs are identified, estimated costs are assigned to each plant category.

There are two reasons for differences between San Gabriel's and CACD's plant estimates. The first reason is that CACD used 1988 recorded data, resulting in a 1988 plant difference of $1,154,000. The second reason is that CACD reduced San Gabriel's 1989, 1990, and 1991 estimates by 19.18%. This adjustment is the result of the average difference between San Gabriel's budgeted additions and actual additions for the years 1984 through 1988.

San Gabriel acknowledges that approximately 10% of its budget is reserved for contingencies to keep abreast of municipal projects and that its actual additions average approximately 83% of its budgeted estimate for the five-year period 1984 through 1988. However, it asserts that it has more projects to construct than there are budgeted funds available. If projects are not completed within a given calendar year San Gabriel will either carry them over to a subsequent year or substitute other projects.

Although there is no dispute on the reasonableness of San Gabriel's estimated plant additions, actual experience shows that San Gabriel's plant additions for the test years will only reach approximately 81% to 83% of budgeted plant additions. CACD's test year plant estimates based on recent recorded data and historical experience should be adopted.

Working Cash

Working cash is a rate base component used to compensate investors for funds used by the utility to pay operating expenses in advance of receipt of offsetting revenues from the utility's ratepayers and to maintain minimum bank balances. As a rate base component, San Gabriel is allowed to earn a fair return on the amount of working cash.

Major differences exist between CACD and San Gabriel on the need for a minimum bank balance and on the method used to compute the working cash allowance.

Minimum Bank Balance

San Gabriel includes a $317,000 minimum bank balance for test year 1990 and a $330,000 requirement for test year 1991 in its working cash requirement. CACD includes a $44,000 allowance for bank charges in operating expense and excludes the minimum bank balance from the working cash requirement.

CACD recommends that its operating expense treatment be adopted because it is the least cost to ratepayers. If the $317,000 minimum bank balance is included in working cash, ratepayers will be required to pay approximately $60,000, because of the gross multiplier effect on rate base items. However, if there is no minimum bank balance, San Gabriel will be liable for only $44,000 of bank charges.

San Gabriel asserts that if CACD's proposal is adopted, San Gabriel will still need a minimum bank balance to cover the average daily bank float for deposits which San Gabriel has not received credit from the bank. The daily minimum bank balance is estimated at $70,300 in test year 1990 and $74,100 in test year 1991.

San Gabriel has not demonstrated that it will be adversely affected if CACD's expense treatment is adopted. Further, we note that similar treatment was given to San Gabriel's minimum bank balance in its prior rate proceeding. Therefore, we will adopt CACD's proposal to allow $44,000 of operating expense in test years 1990 and 1991 for minimum bank charges. No minimum bank balance allowance should be included in working cash.

Working Cash Calculation

CACD's working cash estimate is $1,143,600 lower than San Gabriel's 1990 estimate and $1,207,320 lower than San Gabriel's 1991 estimate. The difference is attributable to two factors.

The first factor is the use of different estimated revenues and expenses. CACD's calculation was based on present rates and San Gabriel's calculations was based on proposed rates. CACD recommends that the working cash allowance should be calculated on rates authorized by this decision. We concur with CACD's proposal and will calculate working cash based on adopted rates. This will enable us to provide San Gabriel a working cash allowance based on ratemaking adjusted revenues and expenses and exclude costs tied to abnormalities of plant and expenses.

The second factor is the application of Standard Practice U-16, working cash standard practice, and in the use of different lead lag days. CACD used the cost method prescribed by U-16 and San Gabriel used the retail method. The retail method assumes that the profit is advanced by the investors to operate the utility. The U-16 cost method assumes that the profit is furnished by ratepayers.

CACD asserts that the U-16 cost method is the proper method to use because it has been accepted by the Commission in numerous decisions. This is substantiated on page 3-9 of U-16 which states that the cost method has been used consistently since 1930. San Gabriel's witness acknowledged that he does not understand the distinction between the two methods; however, he believes that his calculation is reasonable.

Although the U-16 is dated September 1968 no evidence was presented to demonstrate any deviation from the cost method since that date. Therefore, we will use the cost method and CACD's lag days developed in its study to adopted estimates in this proceeding.

San Gabriel also disputes the application of CACD's working cash allowance, based on present rates, because CACD calculated a negative working cash allowance for the test years. This issue was addressed and decided in San Gabriel's prior rate proceeding. San Gabriel did not present any new evidence; therefore, it will not be considered again. Consistent with the decision, the working cash allowance, whether a positive or negative, should be a component of San Gabriel's test years rate base.

Rate of Return

Rate of return is an expression of the capital costs of a utility stated as the total of the weighted cost of long-term debt and common equity. The determination of the cost of long-term debt is based on recorded embedded interest costs and projected debt financing at estimated future interest rates. The determination of the cost of common equity is much more difficult since it requires the consideration of many factors, such as business and financial risks, investor expectations, ratepayer interests, and economic conditions, and, as such, is based largely on informed judgment.

San Gabriel, currently authorized a 14.50% return on common equity for its Los Angeles County Division, requests a constant 14% for estimated years 1989, test years 1990 and 1991, and attrition year 1992. This constant return on common equity results in rates of return on rate base from 12.24% to 12.33%. Because we have already discussed and denied San Gabriel's request to provide rates for its estimated year 1989, we will not address the return on common equity for estimated year 1989.

DRA recommends a constant 12.00% return on common equity, the midpoint of its recommended range of 11.75% to 12.25%. This 12.00% rate of return on common equity will produce a 10.93% to 11.01% return on rate base for the three year period.

The following tabulation compares the elements of rate of return requested by San Gabriel and that recommended by DRA for test years 1990 and 1991, and attrition year 1992.

	San Gabriel			DRA		
	Capital Ratios	Cost Factors	Rate of Return	Capital Ratios	Cost Factors	Rate of Return
1990						
Long-Term Debt	39.09%	9.60%	3.75%	44.00%	9.57%	4.21%
Common Equity	60.91	14.00	8.53	56.00	12.00	6.72
Total	100.00%		12.28%	100.00%		10.93%
1991						
Long-term Debt	39.18%	9.74%	3.82%	45.00%	9.64%	4.34%
Common Equity	60.82	14.00	8.51	55.00	12.00	6.60
Total	100.00%		12.33%	100.00%		10.94%
1992						
Long-term Debt	39.30%	9.75%	3.83%	45.00%	9.80%	4.41%
Common Equity	60.70	14.00	8.50	55.00	12.00	6.60
Total	100.00%		12.33%	100.00%		11.01%

Capital Structure

San Gabriel's 60.91%, 60.82%, and 60.70% equity ratio for test years 1990 and 1991, and attrition year 1992, respectively, is based on projected earnings and earnings growth, anticipated financing, and projected dividend pay outs.

DRA's 56% equity ratio for test year 1990, and 55% for test year 1991 and attrition year 1992 is based on its projected balance of San Gabriel's business risks and financial risk.

Business risk is associated with the dependability of revenues based on the stability of the customer base and level of technological changes. DRA believes that water utilities, such as

San Gabriel, face more stable and reliable revenue streams than other types of utilities because water utilities use a renewable resource, face minimal threat of bypass, and are allowed to earn a return on construction work-in-progress.

Financial risk is associated with the proportional level of debt to capital. Financial risk increases as the level of debt increases. This is because as the level of debt increases, the utility's contractual fixed obligation to make interest payments increases and the cost of marginal debt issues increase.

Debt financing is less expensive than equity financing because interest payments on debt are generally less than returns paid to common stockholders and because interest payments are tax deductible while returns on common equity are not. The tax savings generated by interest expense directly benefits ratepayers through a proportional reduction of revenue requirement needs.

Siegal's Table 10 shows that San Gabriel's recorded equity ratio has steadily increased from 45.00% in 1983 to 61.19% in 1988. Siegal believes that San Gabriel's equity ratio should be reduced to prevent San Gabriel's ratepayers from paying for an unwarranted high level of equity capitalization. This reduction is based on an analysis of comparable companies. Comparability was based on three factors: (1) companies listed in C.A. Turner's Telephone and Utility Reports, (2) that realize at least 70% of revenues from water operations, and (3) whose stock is publicly traded. According to Siegal, her recommendation reasonably balances San Gabriel's debt and equity structure because it enables San Gabriel to competitively attract capital in the market place and provide service to ratepayers with less equity capital than it currently maintains. San Gabriel's 1988 common equity ratio of 61.19% is approximately 18 percentage points higher than the 43.00% average common equity ratio of Siegal's group of comparable utilities for the same year.

San Gabriel counters that it needs to maintain higher equity ratios to protect itself from earnings fluctuations and to invest in necessary utility plant additions required to mitigate groundwater basin contamination effects. Nicholson testified that the accumulation of its high equity ratio occurred because of the cumulative effect of higher rates of return previously authorized and tax law changes related to normalization of investment tax credits and accelerated tax depreciation.

Although San Gabriel does not have a specific equity goal, it attempts to keep its equity ratio between a high of 60.00% and a low of 45.00%. Nicholson concedes that San Gabriel's equity ratio is heading downward. This is because it expects to spend more money in the next few years to clean up water pollution. However, San Gabriel still projects its equity ratio at 60.00%, the high end of its equity range.

As discussed previously, the higher the equity ratio, the lower the financial risk. If we adopt San Gabriel's high equity ratio, a commensurate downward adjustment to its return on equity is in order because of this reduced risk. San Gabriel's test year projections show that the equity ratio will remain at the high end of its equity ratio range. As San Gabriel indicates, however, its equity ratio should begin to decrease when it invests funds to correct water pollution. Present ratepayers should not be required to subsidize San Gabriel's future ratepayers through higher rates in the interim due to its currently high equity ratio.

Based on all the evidence, we will adopt a ratemaking equity ratio which will balance ratepayers' and stockholders' interest. San Gabriel cannot be expected to bring its equity ratio down to a reasonable level overnight. Therefore, the equity ratio should be reduced in a gradual manner. We will adopt a 60.00% equity ratio for test year 1990, a 58.00% equity ratio for test year 1991, and a 55.00% equity ratio for attrition year 1992. In adopting these declining equity ratios for the test years and attrition year, recognition should be given to the increased financial risk through a higher return on common equity over the period.

Cost of Long-Term Debt

The effective cost of long-term debt is the ratio of the annual charges for the debt outstanding to the net proceeds of the debt outstanding. There is no significant difference between San Gabriel's 9.60% to 9.75% cost of debt and DRA's 9.57% to 9.80% for the test years 1990 and 1991, and attrition year 1992. Although the parties used different methods, both San Gabriel and DRA used a 10.50% debt rate for $6,500,000 of new debt to be issued in 1991.

The only difference between San Gabriel's and DRA's cost of long-term debt is in the method used to calculate the embedded cost of long-term debt. DRA used the simple arithmetic average of San Gabriel's beginning and ending year effective interest rates. San Gabriel used a weighted average method.

Although the weighted average method is a more precise method, it is dependent on the specific timing of retirements, sinking funds, and new issues during the year. If any of these factors deviate from the projected timing, the embedded cost of long-term debt may change substantially compared to the simple average method used by DRA. The simple average method is reasonable and should be used to develop the embedded cost of long-term debt. DRA's 9.57%, 9.64% and 9.80% cost of long-term debt should be adopted for the 1990 and 1991 test years, and the 1992 attrition year, respectively.

Cost of Equity

San Gabriel's requested 14.00% return on equity for the test years and attrition year is based on a 3.50% risk premium above the 10.50% rate for new "A" rated bonds.

DRA recommends a 12.00% return on equity, the mid point of its 11.75% to 12.25% range, derived from the use of two financial models and informed qualitative judgment. DRA's recommended return will provide San Gabriel a pretax interest coverage of 3.67 times to 3.54 times for test years 1990 and 1991, which is within Standard & Poor's benchmarks for an "AA" rated water utility.

DRA used the discounted cash flow model (DCF) which measures an investor's expected return on equity. Because San Gabriel's stock is not publicly traded, the DCF method was applied to a group of comparable utilities. Three factors, previously addressed, were used to obtain 12 comparable utilities.

The DCF analysis suggests a 12.24% return using the most recent three-month average expected yield and a 12.19% return using the most recent six-month expected yield for the comparable group of utilities.

DRA then used the risk premium model (RPM) to verify its DCF results. The RPM measures the additional compensation that investors in common equity capital expect over investors in bonds because of increased risk. The RPM model suggests a 11.33% to 12.16% return on common equity.

DRA balanced the results of its DCF and RPM models with San Gabriel's past earnings performance which led to a build up of equity and reduced financial risk.

San Gabriel's brief testimony to justify its 14.00% requested return on equity is not convincing. On the other hand, DRA's detailed analysis, using DCF and RPM, which are normally used in rate of return proceedings, and its analysis of San Gabriel's debt coverage and equity build up convinces us that DRA's rate of return range presents a reasonable range of return on equity for San Gabriel. Consistent with the adoption of an increasing imputed debt structure, San Gabriel's authorized return on equity should increase in the test years and attrition year to compensate its shareholders for increased risk. Based on the consideration of all the evidence, we will adopt a 11.90% return on common equity for test year 1990, a 12.00% return on common equity for test year 1991, and a 12.10% return on common equity for attrition year 1992.

Adopted Capital Structure

The following tabulation summarizes San Gabriel's adopted capitalization ratios, cost factors, weighted costs and authorized rates of return for test years 1990 and 1991, and attrition year 1992.

	Capital Ratio	Cost Factor	Weighted Cost
Test Year 1990			
Long-term Debt	40.00%	9.57%	3.83%
Common Equity	60.00	11.90	7.14
Total	100.00%		10.97%
Test Year 1991			
Long-term Debt	42.00	9.64	4.05
Common Equity	58.00	12.00	6.96
Total	100.00%		11.01%
Attrition Year 1992			
Long-term Debt	45.00	9.80	4.41
Common Equity	55.00	12.10	6.66
Total	100.00%		11.07%

Balancing Account

San Gabriel maintains a balancing account to accumulate increased costs, such as purchased water and power. The increased costs, or undercollection, is recovered from San Gabriel's customers through a billing surcharge.

CACD recommends that San Gabriel's billing surcharge continue if the current undercollected balance is under 2.0 % of gross annual revenues and that the undercollection be amortized over a three-year period if the balance is over 2.0 %.

Subsequent to the evidentiary proceeding, San Gabriel provided an update of its balancing account undercollection. San Gabriel's April 30, 1989 undercollection of $525,440 was reduced to $485,458 at May 31, 1989. This $39,982 decrease, expected to continue, is partially attributable to a 3.3% increase in surcharge rates authorized by Resolution No. W-3438, dated April 12, 1989.

Because San Gabriel's undercollection balance is decreasing on a monthly basis and because rates in this application will not be effective until January 1, 1990, San Gabriel should continue its current balancing account surcharge rate. However, when the undercollection balance reaches $50,000 or less, San Gabriel should file an advice letter with CACD setting forth a proposal to terminate its surcharge collection.

Rate Design

There are no disputed rate design issues. CACD concurs with San Gabriel's proposal to apply as much of the revenue increase as necessary to the service charge to bring up service charge revenues from 40% to 50% as long as no group of customers receives an increase greater than twice the system percentage increase. CACD also concurs with San Gabriel's proposal to eliminate the first block (300 cf) of the schedule LA-I, San Gabriel's General Metered Service Tariff.

San Gabriel proposes to discontinue its tariff schedule applicable to LA Division's Vallecito Zone II tariff area and to provide general metered service throughout the division pursuant to its tariff schedule LA-I. The Vallecito rate differential pertains to only a small part of that system. The application represents that there is no need to maintain a separate rate schedule because the system is fully integrated into the LA Division for operating and ratemaking purposes.

San Gabriel's rate design proposal is in compliance with D.86-05-064 which authorized water utilities to recover up to 50%

of their fixed costs through the service charge and to limit the number of commodity blocks to three. We will adopt San Gabriel's rate design proposal as long as no group of customers receives an increase greater than twice the system percentage increase.

CACD's Radpour performed an analysis of San Gabriel's tariffs which disclosed that San Gabriel was providing utility service to customers who receive service through two or more meters in parallel rates not identified in a utility tariff. CACD recommends that San Gabriel be required to file a tariff to provide customers service through a battery of meters.

On May 10, 1989, San Gabriel filed an advice letter with a proposed tariff to render service through a battery of meters. Notice of the filing appeared on the Commission's Daily Calendar of May 12, 1989. Because San Gabriel complied with CACD's recommendation and because it has no impact on rates, this issue is moot and need not be addressed further.

<u>Attrition</u>

The rates for 1992 are calculated using an operational and financial attrition allowance. The operational attrition allowance is used to compensate San Gabriel for the decline in the rate of return between test periods caused by expense and rate base increases not offset by increased productivity and/or operating revenues. The financial attrition allowance is used to compensate San Gabriel for the deterioration in the realized rate of return to common equity caused by a change in the utility's cost of money between test periods.

San Gabriel's operational attrition rate for the 1992 year is 1.49%, and the financial attrition allowance is 0.06%. The gross revenue requirement derived from the operational and financial attrition is $744,500.

Section 311 Comments

On August 7, 1989, the ALJ's proposed decision on this matter was filed with the Docket Office and mailed to all parties of record pursuant to Rule 77 of the Commission's Rules of Practice and Procedure.

Both CACD and San Gabriel filed comments on the ALJ's proposed decision. Comments pertaining to nonsubstantive changes were adopted and included in the appropriate place of this decision.

A substantive comment regarding our denial to increase rates in 1989 was raised by San Gabriel. San Gabriel correctly cites testimony showing that it present rate base, revenue, and expense estimates for 1989. However, the record does not substantiate the need to increase rates in 1989 or the need to deviate from the Regulatory Lag Plan (RLP) for water utilities.

Even if San Gabriel substantiated the need to deviate from the regulatory lag plan, there is no basis to adopt a rate base, revenue, and expense estimates for 1989. San Gabriel's own witness, in response to the ALJ's inquiry of what rate base, revenue, and expense estimates should be used for the 1989 year, testified "Well, if I was the ALJ and I had the record in front of me, I couldn't do it either on 1989 because I don't have adequate information to do it."[1] We shall not deviate from the RLP for water utilities.

Findings of Fact

1. The adopted estimates of operating revenues, operating expenses, rate base, and rate of return for test years 1990 and 1991 shown on Tables 1 and 2 are reasonable.

2. A 10.97% rate of return on the $26,398,400 adopted rate base for test year 1990 is reasonable.

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1 Reporters Transcript, page 94, lines 17 through 19.

3. A 11.01% rate of return on the $28,463,700 adopted rate base for test year 1991 is reasonable.

4. A 11.07% return on rate base for attrition year 1992 is reasonable.

5. Customers' participation at the public meeting shows that San Gabriel's level of service is adequate.

6. Notice of the four-year rate request was provided.

7. CACD did not present any results of operations or rate base estimates for 1989.

8. This is San Gabriel's first rate application since 1983.

9. The RLP does not require a water utility to file a rate application every three years.

10. San Gabriel's earnings began slipping in late 1987; however, it did not tender its Notice of Intent to file a rate application until December 1988.

11. San Gabriel wants to implement 1990 authorized rates in 1989.

12. San Gabriel had ample opportunity to comment on the RLP before it was implemented in 1979.

13. San Gabriel concurs that 1989 revenue, expense, and rate base estimates cannot be developed from the record.

14. San Gabriel's and CACD's labor and non-labor inflation factors are outdated.

15. The May 1989 inflation factors are the best known inflation factors in the record.

16. There is no dispute on the number of services or average consumption per service.

17. San Gabriel concurs with CACD's revenue estimates.

18. San Gabriel concurs with CACD's revised purchased power estimate of $2,341,600 and $2,348,400 for test years 1990 and 1991, respectively.

19. Commuting between home and work is not a utility function.

20. CACD's method to estimate other expenses and miscellaneous expenses normalizes fluctuations within each account over a period of time.

21. The provision of incidental lunchroom supplies to San Gabriel's employees eliminates the need for employees to leave the workplace at lunch time and promotes efficiency.

22. The upper San Gabriel Municipal Water District, the San Gabriel Municipal Valley Water District, Watermaster, and the San Gabriel Valley Water Association have agreed to participate in a concerted effort with federal, state, and local agencies to prevent additional pollutants and the spread of the plumes.

23. CACD and San Gabriel recommend that pollution litigation costs be recoverable through an advice letter filing.

24. Pollutants in the basin have been an issue in other water utilities' rate proceedings.

25. San Gabriel revised its estimates for normal legal expenses subsequent to its testimony and without justification.

26. San Gabriel's and CACD's FICA tax rates are inconsistent with the statutory tax rate.

27. San Gabriel's long-term interest deduction for tax purposes will not produce an income tax expense commensurate with ratemaking plant additions, revenues, and expenses.

28. The 1987 unbilled revenue tax impact was litigated in OII 86-11-019.

29. San Gabriel's test years plant in service estimates are based on its 1984 recorded budget, extrapolated at a 10% yearly increase.

30. CACD's plant in service estimates are based on recorded 1988 data and actual experience factors based on a comparison of budgeted and recorded plant additions.

31. San Gabriel includes a minimum bank balance in its working cash calculation requiring ratepayers to pay approximately $60,000 to maintain the minimum balance.

32. San Gabriel is only liable for $44,000 of bank charges if it doesn't maintain a minimum bank balance.

33. San Gabriel's equity ratios are based on projected earnings and earnings growth, anticipated financing, and projected dividend pay outs.

34. DRA's equity ratios are based on its projected balance of San Gabriel's business risks and financial risks.

35. Debt financing is less expensive than equity financing.

36. San Gabriel's recorded equity ratio has steadily increased from 45.00% in 1983 to 61.19% in 1988.

37. San Gabriel's 1988 common equity ratio of 61.19% is approximately 18 percentage points higher than the 43.00% average common equity ratio of DRA's group of comparable utilities for the same year.

38. San Gabriel attempts to maintain an equity ratio between a high of 60.00% to a low of 45.00%.

39. San Gabriel's equity ratio is heading downward.

40. There is no significant difference between San Gabriel's and DRA's cost of debt factors.

41. DRA's detailed analysis on the cost of equity produces a reasonable range of return on common equity for San Gabriel.

42. San Gabriel's balancing account surcharge was authorized by Resolution No. W-3438 on April 12, 1989.

43. San Gabriel's rate design proposal is in compliance with D.86-05-064.

Conclusions of Law

1. The May 1989 labor and non-labor inflation factors should be adopted.

2. San Gabriel's estimates on the number of services and average consumption estimates for the test years should be adopted.

3. CACD's revenue estimates for the test years should be adopted.

4. Ratepayers should not be required to compensate San Gabriel for executive commute expenses.

5. CACD's estimates for other operating expense and maintenance expense should be adopted.

6. CACD's employee lunchroom supplies and awards reduction should not be adopted.

7. Proposed pollution litigation costs should not be recovered through the advice letter filing procedure.

8. CACD's legal expense estimates should be adopted.

9. Statutory FICA rates should be used for test years 1990 and 1991.

10. Interest deductions for tax calculation purposes should be based on the adopted weighted cost of debt.

11. The 1987 unbilled revenue tax impact should not be adopted in this proceeding.

12. CACD's test year plant estimates should be adopted.

13. A minimum bank balance should not be included in the working cash calculation.

14. San Gabriel's equity ratio should be reduced in a gradual manner.

15. San Gabriel's return on equity should be increased in each test year and attrition year to compensate it for the additional risk it will incur from the yearly reduction in the common equity ratio.

16. San Gabriel's rate design proposal should be adopted as long as no group of customers receives an increase greater than twice the system percentage increase.

17. The increase in rates and charges authorized in Appendixes A and B are just and reasonable, and the present rates and charges insofar as they differ from those prescribed are for the future unjust and unreasonable.

18. San Gabriel's request for rate relief prior to its test years should be denied.

19. CACD's working cash allowance method should be used and the working cash allowance should be based on rates authorized by this decision.

20. The application should be granted to the extent provided by the following order.

O R D E R

IT IS ORDERED that:

1. San Gabriel Valley Water Company (San Gabriel) is authorized to file the revised schedules for its Los Angeles County Division (LA Division) attached to this order as Appendix A. This filing shall comply with General Order (GO) Series 96. The effective date of the revised schedules shall be January 1, 1990. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 5, 1990, San Gabriel is authorized to file an advice letter, with appropriate workpapers, requesting step rate increases for 1991 included in Appendix B, for the second year's step rate increase, adjusted to reflect the rates in effect and normal ratemaking adjustments for the 12 months ending September 30, 1990, exceeds the later of (a) the rate of return found reasonable by the Commission for San Gabriel during the corresponding period in the then most recent rate decision, or (b) 11.01%. This filing shall comply with GO Series 96. The requested rates shall be reviewed by Commission Advisory and Compliance Division (CACD) to determine their conformity with this order and shall go into effect upon CACD's determination of conformity. CACD shall inform the Commission if it finds that the proposed step rates are not in accord with the decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1991, or 40 days after the filing of the step rate, whichever is later. The

revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 5, 1991, San Gabriel is authorized to file an advice letter, with appropriate workpapers, requesting step rate increases for 1992 included in Appendix B, for the third year's step rate increase, adjusted to reflect the rates in effect and normal ratemaking adjustments for the 12 months ending September 30, 1991, exceeds the later of (a) the rate of return found reasonable by the Commission for San Gabriel during the corresponding period in the then most recent rate decision, or (b) 11.07%. This filing shall comply with GO Series 96. The requested rates shall be reviewed by CACD to determine their conformity with this order and shall go into effect upon CACD's determination of conformity. CACD shall inform the Commission if it finds that the proposed step rates are not in accord with the decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1992, or 40 days after the filing of the step rate, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

4. San Gabriel's request to implement 1990 authorized rates in 1989 is denied.

5. San Gabriel may accumulate pollution litigation costs in a deferred debit account during its test years and attrition year. If the deferred debit account is used, San Gabriel shall file, as part of its next general rate proceeding, workpapers that show that a cost benefit analysis was conducted prior to embarking on such litigation, and benefits derived by its ratepayers and its stockholders from incurring such costs. It shall also provide a proposal to seek recovery of reasonable litigation costs from its ratepayers and from its stockholders.

6. San Gabriel shall continue to use the balancing account surcharge rate currently in effect. When its undercollected balance reaches $50,000 or less, San Gabriel shall file an advice letter with the Commission Advisory and Compliance Division Director setting forth a proposal to terminate its surcharge rate.

This order is effective today.

Dated SEP 7 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

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

Wesley Franklin

WESLEY FRANKLIN, Acting Executive Director

San Gabriel Valley Water Company
Los Angeles County Division
Schedule LA-1
Los Angeles County Tariff Area

General Metered Service

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Arcadia, Baldwin Park, El Monte, City of Industry, Irwindale, La Puente, Montebello, Monterey Park, Pico Rivera, Rosemead, San Gabriel, Santa Fe Springs, South El Monte, West Covina, Whittier and vicinity, Los Angeles County.

RATES

Service Charges:

	Per Meter Per Month	
For 5/8 x 3/4-inch meter	$ 5.95	(I)
For 3/4-inch meter	7.45	
For 1-inch meter	10.00	
For 1-1/2-inch meter	19.80	
For 2-inch meter	31.60	
For 3-inch meter	56.00	
For 4-inch meter	81.00	
For 6-inch meter	136.00	
For 8-inch meter	201.00	
For 10-inch meter	248.00	
For 12-inch meter	304.00	
For 14-inch meter	360.00	(I)

	Per Battery Per Month	
For Two 2-inch meters	$ 51.81	(I)
For Three 2-inch meters	67.60	
For Four 2-inch meters	81.00	
For Two 3-inch meters	87.67	
For Three 3-inch meters	113.90	
For Two 4-inch meters	126.56	
For Three 4-inch meters	166.17	
For One 8-inch meter, One 2-inch meter	206.79	(I)

Quantity Rates:

First 20,000 cu. ft., per 100 cu. ft.	$ .721	(I)
Over 20,000 cu. ft., per 100 cu. ft.	$ .703	(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. All rates are subject to the reimbursed fee set forth on Schedule No. AA-UF.

SPECIAL CONDITION

1. Due to the under collection in the balance account, an amount of $0.044 per CCF is to be added to the quantity rates as shown above ending April 11, 1990.

Schedule No. LA-3L
Los Angeles County Division

LIMITED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service limited to existing irrigation customers at January 1, 1975, who annually utilize this service.

TERRITORY

Portions of the community of Hacienda Heights and vicinity, Los Angeles County.

RATES

Quantity Rates:	Per Service Connection Zone I	Per Service Connection Zone II	
First 1,800 cu. ft. or less	$12.00	$13.50	(I)
Over 1,800 cu. ft., per 100 cu. ft.	.649	.728	(I)
Minimum Charge:			
For each irrigation delivery scheduled	12.00	13.50	(I)

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

SPECIAL CONDITIONS

1. Due to the under collection in the balance account, an amount of $0.044 per CCF is to be added to the quantity rates as shown above, ending April 11, 1990.

Schedule No: LA-4
Los Angeles County Division

PRIVATE FIRE SERVICE

APPLICABILITY

Applicable to water service furnished to private fire systems and to private fire hydrants.

TERRITORY

Portions of Arcadia, Baldwin Park, El Monte, City of Industry, Irwindale, La Puente, Montebello, Monterey Park, Pico Rivera, Rosemead, San Gabriel, Santa Fe Springs, south El Monte, West Covina, Whittier and vicinity, Los Angeles County.

RATE

	Per Service Per Month	
For each inch of diameter of service connection . . .	$ 4.90	(I)

Schedule No. LA-9C
Los Angeles County Division

CONSTRUCTION AND TANK TRUCK SERVICE

APPLICABILITY

Applicable to temporary water service furnished for construction purposes and for water delivered to tank trucks from fire hydrants or other outlets.

TERRITORY

Portions of Arcadia, Baldwin Park, El Monte, City of Industry, Irwindale, La Puente, Montebello, Monterey Park, Pico Rivera, Rosemad, San Gabriel, Santa Fe Springs, South El Monte, West Covina, Whittier and vicinity, Los Angeles County.

RATES

	Unit Rates	
For sidewalk construction, per 100 square feet	$ .24	(I)
For street curb construction, per 100 lineal feet	.48	
For trench settling, per lineal foot of section of trench 2 feet by 4 feet	.018	
For sprinkling subgrade of street and roadway construction in application of oil or any form of patented oil paving or surfacing, or for rolling and settling subgrade, per 3,000 square feet of roadway	3.35	
For compaction of fill, per cubic yard of fill material. .	.030	
For water delivered to tank wagon or truck, per 100 gallons	.077	

MINIMUM CHARGE:

	Per Month	
For any service rendered under this schedule.............	$ 12.00	(I)

Schedule No. LA-9CL
Los Angeles County Division

SERVICE TO TRACT HOUSES DURING CONSTRUCTION

APPLICABILITY

Applicable to water service for house construction where houses are being constructed as part of a real estate development.

TERRITORY

Los Angeles County Division, Los Angeles County

RATES

For each lot for the construction period . . . . $ 4.80 (I)

SPECIAL CONDITIONS

1. This service is available only to real estate developers or builders who make application prior to installation of mains and services and who undertake the construction of houses as part of the development. At its option the utility may provide the service if application is made after mains and services have been installed.

2. Water service under this tariff schedule is only to be used for house construction. It does not include water use for landscaping or other tract improvement work.

3. When each house passes final inspection water service under this schedule will be terminated.

(END OF APPENDIX A)

San Gabriel Valley Water Company
Los Angeles County Division

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

Schedule IA-1 General Metered Service
Service Charges:

		Effective Dates 1-1-91	Effective Dates 1-1-92
		Per Meter	Per Month
For 5/8 x 3/4-inch meter	$	0.30	0.25
For 3/4-inch meter	$	0.35	0.30
For 1-inch meter	$	0.50	0.45
For 1-1/2-inch meter	$	1.00	0.90
For 2-inch meter	$	1.60	1.40
For 3-inch meter	$	3.00	3.00
For 4-inch meter	$	4.00	4.00
For 6-inch meter	$	7.00	6.00
For 8-inch meter	$	10.00	9.00
For 10-inch meter	$	12.00	11.00
For 12-inch meter	$	15.00	13.00
For 14-inch meter	$	18.00	16.00
For Two 2-inch meters	$	2.76	2.73
For Three 2-inch meters	$	3.46	3.46
For Four 2-inch meters	$	4.00	4.00
For Two 3-inch meters	$	4.36	4.24
For Three 3-inch meters	$	5.79	5.20
For Two 4-inch meters	$	5.49	5.66
For Three 4-inch meters	$	8.39	7.39
For One 8-inch meter, One 2-inch meter	$	10.25	9.25

Quantity Rates:

First 20,000 cu. ft., per 100 cu. ft.	$	.028	.031
Over 20,000 cu. ft., per 100 cu. ft.		.027	.032

San Gabriel Valley Water Company
Los Angeles County Division

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

Schedule IA-3L Limited Irrigation Service	Effective Dates 1-1-91	1-1-92
	Per Meter	Per Month
Zone I Minimum Charge		
For each irrigation delivery scheduled. . . .	$ 0.60	0.60
Quantity Rates		
First 1,800 cu. ft. or less	0.60	0.60
Over 1,800 cu. ft., per 100 cu. ft.	0.032	0.029
Zone II Minimum Charge		
For each irrigation delivery scheduled . . .	0.70	0.60
Quantity Rates		
First 1,800 cu. ft. or less.	0.70	0.60
Over 1,800 cu. ft., per 100 cu. ft	0.036	0.033
Schedule IA-4		
For each inch of diameter of service	0.25	0.20
Schedule IA-9C		
Rates		
For sidewalk construction, per 100 sq. ft. .	0.01	0.01
For street curb construction, per 100 lineal feet.	0.02	0.02
For trench settling, per lineal foot of section of trench 2 feet by 4 feet	0.001	0.001
For sprinkling subgrade of street and roadway construction in application of oil or any form of patented oil paving or surfacing, or for rolling and settling subgrade, per 3,000 sq. ft. of roadway . .	0.17	0.17
For compaction of fill, per cubic yard of fill material.	0.001	0.001
For water delivered to tank wagon or truck, per 100 gallons.	0.004	0.003
Minimum Charge:		
For any service rendered under this schedule	0.60	0.50
Schedule IA-9CL		
For each lot for the construction period . .	0.25	0.20

APPENDIX C
Page 1

San Gabriel Valley Water Company
Los Angeles County Division

ADOPTED QUANTITIES

1. Net to Gross Multiplier: 1.6874%

2. Federal Income Tax Rate: 34%

3. State Income Tax Rate: 9.3%

4. Local Tax Rate: 0.8171%

5. Uncollectible Rate: 0.1819%

6. Water Supply Cost

		Quantity Basis AF	Unit Cost ($)	Total Cost of Assessment (Thousands)
			1990	
A-1	CBMWD - Purchased Water	981.12	232.30 1/	227.9
B-1	Central Basin - Replenishment	5,248.51	61.00 2/	320.2
	- Leased Water Rights	2,691.51	87.71 2/	234.3
	- Watermaster Assessment	-	-	1.8 2/
C-1	Make-up Obligation Assessment	18,308.80	3.00 2/	54.9
D-1	USGS Basin Replacement Water Assessment	17,860.79	158.00 2/	2,822.0
E-1	USGS Basin Leased Water Rights	1,000.00	139.20 2/	139.2
F-1	USGS Basin Watermaster Assessment	36,169.59	2.50 2/	90.4 ✓
	Total (Sum of A-1, B-1 and F-1)	42,399.22	-	3,890.7
	Year Safe Yield - 175,000 A. F.			
			1991	
A-2	CBMWD - Purchased Water	985.47	232.30 1/	228.9
B-2	Central Basin - Replenishment	5,271.85	61.00 2/	321.6
	- Leased Water Rights	2,694.85	87.71 2/	236.4
	- Watermaster Assessment	-	-	1.8 2/
C-2	Make-up Obligation Assessment	18,308.80	3.0 2/	54.9
D-2	USGS Replacement Assessment	18,021.58	158.0 2/	2,847.4
E-2	USGS Basin Leased Water Right	1,000.00	139.2 2/	139.2
F-2	USGS Basin Watermaster Assessment	36,330.38	2.50 2/	90.83
	Total (sum of A-2, B-2 and F-2)	42,587.70	-	3,921.0
	Year Safe Yield - 175,000 A. F.			

1/ Effective Date: July 1, 1986

2/ Effective Date: July 1, 1988

APPENDIX C
Page 2

San Gabriel Valley Water Company
Los Angeles County Division

7. Power Cost	1990	1991
A. SCE -Schedule PA-2		
Power Requirement - KWH	12,278,677	12,333,260
Composit Cost per KWH - $/KWH	0.096881	0.096674
Electrical Expense - $	1,189,565	1,192,300
Effective: February 1, 1989		
B. SCE - Schedule TOU-8		
Power Requirement - KWH	6,744,532	6,774,514
Composite Cost per KWH -$/KWH	0.098135	0.098170
Electric Expense - $	661,874	665,052
Effective: February 1, 1989		
C. SCE - Schedule TOU-PA		
Power Requirement - KWH	1,144,004	1,149,089
Composite Cost per KWH - $/KWH	0.116034	0.115970
Electric Expense - $	132,743	133,260
Effective: February 1, 1989		
D. SCE Schedule GS-2		
Power Requirement - KWH	1,748,091	1,755,862
Composite Cost per KWH - $/KWH	0.077636	0.077467
Electric Expense - $	135,714	136,021
Effective Rate: February 1, 1989		
E. SCE Schedule PA-1		
Power Requirement - KWH	212,425	213,371
Composite Rate per KWH -$/KWH	0.094337	0.094312
Electric Expense - $	20,040	20,123
Effective Rate: February 1, 1989		
F. SoCal Gas Schedule GN-10		
Natural Gas Requirement - Therm	412,500	412,500
Composite Cost per Therm - $/Therm	0.488718	0.488718
Natural Gas Expense - $	201,612	201,612
Effective: January 1, 1989		

APPENDIX C
Page 3

San Gabriel Valley Water Company
Los Angeles County Division

ADOPTED QUANTITIES

8. Number of Services - Meter Size

		1990	1991
LA-1	5/8 x 3/4	34,136	34,366
	3/4	3,169	3,191
	1	4,021	4,046
	1 1/2	921	928
	2	979	986
	3	15	15
	4	10	10
	6	7	7
	8	11	11
	10	3	3
	12	-	-
	14	1	1
	2-2	129	130
	3-2	28	28
	4-2	6	6
	2-3	1	1
	3-3	1	1
	2-4	4	4
	3-4	3	3
	1-8, 1-2	1	1
TOTAL		43,446	43,739

9. Metered Water Sales

Range Ccf	1990	1991
0 - 200	11,505,700	11,584,600
Over 200	6,042,100	6,041,200
TOTAL	17,547,800	17,625,800

APPENDIX C
Page 4

San Gabriel Valley Water Company
Los Angeles County Division

ADOPTED QUANTITIES

10. No. of Services:

	No. of Services		Usage - KCcf		Avg. Use - Ccf/Yr.	
	1990	1991	1990	1991	1990	1991
Residential	42,429	42,711	11,813.9	11,892.5	278.4	278.4
Commercial - Metered	502	504	2,501.0	2,510.9	4,982.0	4,982.0
Industrial - Large	90	89	1,518.1	1,501.3	16,868.0	16,868.0
Industrial - Small	72	77	61.8	66.0	858.0	858.0
Public Authority - Large	150	150	1,547.1	1,547.1	10,314.0	10,314.0
Public Authority - Small	203	208	85.3	87.4	420.0	420.0
Metered Irrigation Sales	33	33	20.6	20.6	624.2	624.2
Subtotal	43,479	43,772	17,547.8	17,625.8		
Private Fire Protection	700	721				
Total	44,179	44,493				
[illegible]ter Loss - 4.99%			921.3	925.4		
[illegible]al Water Supply			18,469.1	18,551.2		
Purchased Water			427.3	429.2		
Pumped Water			18,041.8	18,122.0		

San Gabriel Valley Water Company
Los Angeles County Division

Utility Plant, Depreciation Reserve and Rate Base

	1990	1991
	(Thousands of Dollars)	
UTILITY PLANT		
Plant BOY	47,989.9	51,348.0
Utility Add.	2,762.3	3,054.3
Advances	323.3	323.3
Contributions	464.7	464.7
Total Additions	3,550.3	3,842.3
Retirement	192.2	178.2
Plant EOY	51,348.0	55,012.2
Weighting Factor	50.0%	50.0%
Weighted Average Plant	49,669.0	53,180.1
DEPRECIATION RESERVE		
Reserve BOY	12,980.7	13,902.6
Amortization Reserve	0.1	0.0
Clearing	68.0	74.5
Contribution	205.5	228.8
Depreciation Expense	840.5	965.7
Total Accrual	1,114.1	1,269.0
Retirement	192.2	178.2
Reserve EOY	13,902.6	14,993.4
Weighting Factor	50.0%	50.0%
Weighted Average Deprec. Reserve	13,441.7	14,448.0
RATE BASE		
Weighted Average Utility Plant	49,669.0	53,180.1
Material and Supplies	243.4	248.3
Working Cash Allowance	-533.3	-527.5
Depreciation Reserve	-13,441.7	-14,448.0
Adv. Construction	-3,321.1	-3,428.5
Contribution	-6,933.4	-7,173.2
Gross Up for Adv. and Contribution	582.7	665.7
General Office Common Plant	2,291.9	2,383.3
Deferred Tax Reserve	-1,759.1	-2,048.3
Deferred ITC	-400.0	-388.2
Average Rate Base	26,398.4	28,463.7

San Gabriel Valley Water Company
Los Angeles County Division

Income Tax Calculations

	1990	1991
	(Thousands of Dollars)	
Total Revenues	$ 16,872.7	$ 17,667.7
Purchased Water	3,890.7	3.921.0
Purchased Power	2,341.6	2,348.4
Payroll	1,892.3	1,983.2
OM Other	729.8	772.1
AG Other	818.5	852.1
General Office Allocation	1,566.8	1,641.0
Payroll Tax	178.9	186.1
Ad Valorem Taxes	363.1	391.3
Uncollectibles 0.001819	30.7	32.1
Local Franchise 0.008171	137.9	144.4
Subtotal	11,950.3	12,271.7
Interest	979.7	1,107.2
Total Deductions	12,930.0	13,378.9
State Tax Deprec.	1,460.6	1,548.7
State Tax 9.3	230.8	254.8
Federal Tax Deprec.	1,031.6	1,099.6
Federal Tax 34%	911.3	997.7
Total Federal Taxes	911.3	997.7

Net/Gross 1.6874

(End of APPENDIX C)

APPENDIX D

Los Angeles County Division

Comparison of typical bills for commercial metered customers of various usage level and average usage level at present and authorized rates for the year 1990.

General Metered Service (5/8 x 3/4) Inch Meters

Monthly Usage (Cubic Feet)	At Present Rates	At Authorized Rates	Percent Increase
500	$ 7.04	$ 9.56	35.7%
1,000	10.27	13.16	28.1
2,000	16.73	20.37	21.8
2,320 (Avg.)	18.80	22.68	20.6
3,000	23.19	27.58	18.9
5,000	36.11	42.00	16.3
10,000	68.41	78.05	14.1

(END OF APPENDIX D)

APPENDIX E
San Gabriel Water Company
Los Angeles County Division

description	<---------Decision---------> 1990 Lag Day	Amt.	$ Day	<----Decision---> 1991 Amt.	$ Day
Operating Revenue	25.0	16872.7	421817.5	17667.7	441692.5
OPERATING EXPENSES					
Purchase water					
C.B.Replenishment					
Lease Right					
W/M Assessment					
Make up Obligation					
U.S.G. Replacement					
Leased Wtr.					
W/M Assessm					
PUCHASED WATER	74.5	3890.7	289857.2	3921.0	292114.5
Purchased Power	32.1	2341.6	75165.4	2348.4	75383.6
Payroll	12.0	1892.3	22707.6	1983.2	23798.4
Uncollectible	0.0	30.7	0.0	32.1	0.0
Franchise Fee	269.0	137.9	37086.2	144.4	38833.6
Other Expenses					
Insurance					
Holiday					
Health Insurance					
SED-IRA Pension					
Regulatory Expense					
DMV					
Misc.	28.5	1520.6	43338.3	1589.3	45295.0
Depreciation	0.0	840.5	0.0	965.7	0.0
Ad Val. Tax	39.2	363.1	14233.5	391.3	15339.0
FICA					
FUTA					
SUI					
Total Payroll Tax	20.5	178.9	3667.5	186.1	3815.1
FIT	37.9	84.3	3195.0	0.0	0.0
CCFT	37.9	0.2	7.6	0.2	7.6
Deferred FIT	0.0	0.0	0.0		
" I.T.C.	0.0	0.0	0.0		
PUC fee	60.0	253.1	15183.4	265.0	15900.9
Total Div. Expence		11533.9	504443.5	11826.7	510487.7
Allocated Payroll	12.0	668.7	8024.6	700.9	8410.3
Other Ex	21.0	794.0	16673.1	830.3	17435.3
Depr.	0.0	104.3	0.0	109.4	0.0
Total G.O.		1567.0	24697.7	1640.5	25845.6
Total Expense		13100.9	529141.2	13467.2	536333.3
$Day Expenses			40.4		39.8
$Day Revenue			25.0		25.0
			-15.4		-14.8
Working Cash -Lead-Lag			-552.4		-547.0
Working Cash- Oper.			19.1		19.5
Total Working Cash			-533.3		-527.5

(END OF APPENDIX E)

APPENDIX F

EXHIBIT NO. 13

APPLICATION NO. 89-01-004

Exhibit	13
CPUC Proceeding	A 89-01-004
Sponsor / Witness	JOINT
Date Ident. 5/10/89	Recd. 5/30/89
Michael J. Galvin Administrative Law Judge	

CALIFORNIA PUBLIC UTILITIES COMMISSION

Development of Summary of Earnings
Comparison Between Staff & Utility

BY

Commission Staff & Utility

For

San Gabriel Valley Water Company

TEST YEARS 1990 AND 1991

San Francisco, California
May 30, 1989

APPENDIX F

Appln. No. 89-01-004 San Gabriel Valley Water Company

Test year 1990	Util. estimate				Staff estimate				
	Original Exh.5	Adjust and Correct	Final Applicant Position	Utility Exceeds Staff	Final Staff Position	Adjust and Correct	Original (Exh. 9)	Basis of Difference	
PRESENT RATES									
Operating revenues	14,564.4	(455.6)	14,108.8		14,108.8		14,108.8	(1)	A
O&M expenses									
Purchased water& Asse	3,890.7		3,890.7		3,890.7		3,890.7		A
Purchased power	2,206.1	135.5	2,341.6	0.0	2,341.6	(3.6)	2,345.2	(2)	A
Chemicals	11.1		11.1	1.7	9.4		9.4		C
Payroll(Total)	1,930.8	0.0	1,930.8	49.3	1,881.5		1,881.5	(3)	C
Contracted Maint.	102.1		102.1	(2.3)	104.4		104.4	(4)	C
Material & Supply	196.9		196.9	7.9	189.0		189.0		C
Transportation	342.6		342.6	54.4	288.2	6.5	281.7	(5)	D
Utility & Rent	48.5		48.5	1.4	47.1		47.1		C
Others	104.8		104.8	14.5	90.3		90.3		D
A&G Expenses									
Rent	13.9	0.0	13.9	2.2	11.7		11.7		C
Property Ins.	21.6		21.6	2.0	19.6		19.6		C
Injuries and damages	279.3		279.3	(2.6)	281.9		281.9		C
Employee's pensions	662.4		662.4	35.6	626.8		626.8		D
Misc.(Legal Exp.)	176.5	0.0	176.5	175.0	1.5		1.5		D
Admin transferred	(181.8)	0.0	(181.8)	(35.9)	(145.9)		(145.9)	(6)	D
Payroll tax	181.0	0.0	181.0	3.0	178.0		178.0		C
Ad valorem tax	377.4		377.4	14.3	363.1		363.1		C
Depreciation	933.5		933.5	93.0	840.5		840.5	(7)	D
Gen. Off. Aloca.	1,592.1		1,592.1	39.4	1,552.7		1,552.7		D
Office Supl & Main. G	7.7	0.0	7.7	(0.1)	7.8	0.0	7.8		C
Regulatory Exp.	4.4		4.4	0.0	4.4		4.4		A
Bank Charges.	0.0	0.0	0.0	(44.0)	44.0	44.0	0.0	(8)	
Sub Total	12,901.6	135.5	13,037.1	408.8	12,628.3	46.9	12,581.4		
Business/Franch tax	119.4	(3.7)	115.7	(0.2)	115.9		115.3		B
Uncollectibles	29.1	(0.9)	28.2	2.4	25.8		25.7		B
State income tax	17.0	0.0	17.0	16.8	0.2		0.2		D
Federal income tax	163.0	0.0	163.0	131.9	31.1		31.1		D
Total oper expenses	13,230.1	130.9	13,361.0	559.7	12,801.3	46.9	12,753.7		
Net oper revenues	1,334.3		747.8	(559.7)	1,307.5		1,355.1		
Rate Base	29,161.2	0.0	29,161.2	2,744.0	26,417.2	28.7	26,388.5	(9)	D
Rate of Return	4.58%		2.56%	-2.39%	4.95%		5.14%		
PROPOSED RATES									
Operating revenues	18,338.3		18,338.3	0.0	18,338.3		18,338.3		
Operating expenses									
Subtotal	12,901.6		13,037.1	408.8	12,628.3	46.9	12,581.4		
Uncollectibles	36.6		36.6	3.2	33.4		33.4		B
Business/Franch tax	150.4		150.4	0.6	149.8		149.8		B
State income tax	349.7	0.0	349.7	(8.3)	358.0	0.0	358.0		D
Federal income tax	1,319.9	0.0	1,319.9	(13.2)	1,333.1	0.0	1,333.1		D
Total oper expenses	14,758.2		14,893.7	391.1	14,502.6	46.9	14,455.7		
Net oper revenues	3,580.1		3,444.6	(391.1)	3,835.7	(46.9)	3,882.6		
Rate Base	29,161.2	0.0	29,161.2	2,744.0	26,417.2	28.7	26,388.5		
Rate of Return	12.28%		11.81%	-2.71%	14.52%		14.71%		

APPENDIX F

Appln. No. 89-01-004 San Gabriel Valley Water Company

Test year 1991	Util. estimate				Staff estimate				
	Original Exh.5	Adjust and Correct	Final Applicant Position	Utility Exceeds Staff	Final Staff Position	Adjust and Correct	Original (Exh. 9)	Basis of Difference	
PRESENT RATES									
Operating revenues	14,642.1	(457.8)	14,184.3		14,184.3		14,184.3	(1)	A
O&M expenses									
Purchased water& Asse	3,921.0		3,921.0		3,921.0		3,921.0		A
Purchased power	2,212.0	136.4	2,348.4	0.0	2,348.4	(3.6)	2,352.0	(2)	A
Chemicals	11.5		11.5	1.6	9.9		9.9		C
Payroll(Total)	2,027.0	0.0	2,027.0	59.0	1,968.0		1,968.0	(3)	C
Contracted Maint.	106.4		106.4	(3.5)	109.9		109.9	(4)	C
Material & Supply	204.9		204.9	5.3	199.6		199.6		C
Transportation	374.4		374.4	70.7	303.7	6.9	296.8	(5)	D
Utility & Rent	50.4		50.4	1.0	49.4		49.4		C
Others	109.4		109.4	14.2	95.2		95.2		D
A&G Expenses									
Rent	13.9	0.0	13.9	1.6	12.3		12.3		C
Property Ins.	23.8		23.8	3.3	20.5		20.5		C
Injuries and damages	293.4		293.4	(2.2)	295.6		295.6		C
Employee's pensions	693.6		693.6	39.9	653.7		653.7		D
Misc.(Legal Exp.)	196.6	0.0	196.6	195.0	1.6		1.6		D
Admin transferred	(196.8)	0.0	(196.8)	(38.9)	(157.9)		(157.9)	(6)	D
Payroll tax	191.5	0.0	191.5	3.7	187.8		187.8		C
Ad valorem tax	419.3		419.3	28.0	391.3		391.3		C
Depreciation	1,019.6		1,019.6	53.9	965.7		965.7	(7)	D
Gen. Off. Alocs.	1,665.1		1,665.1	41.7	1,623.4		1,623.4		D
Office Supl & Main. G	8.0	0.0	8.0	(0.2)	8.2	0.0	8.2		C
Regulatory Exp.	4.4		4.4	0.0	4.4		4.4		A
Bank Charges	0.0		0.0	(44.0)	44.0	44.0	0.0	(8)	
Sub Total	13,349.4	136.4	13,485.8	430.1	13,055.7	47.3	13,008.4		
Business/Franch tax	120.1	(3.8)	116.3	0.4	115.9		115.9		B
Uncollectibles	29.3	(0.9)	28.4	2.6	25.8		25.8		B
State income tax	0.2	0.0	0.2	0.0	0.2		0.2		D
Federal income tax	0.0	0.0	0.0	0.0	0.0		0.0		D
Total oper expenses	13,499.0	131.7	13,630.7	433.1	13,197.6	47.3	13,150.3		
Net oper revenues	1,143.1		553.6	(433.1)	986.7		1,034.0		
Rate Base	31,924.2	0.0	31,924.2	3,440.0	28,484.2	48.1	28,436.1	(9)	D
Rate of Return	3.58%		1.73%	-1.73%	3.46%		3.64%		
PROPOSED RATES									
Operating revenues	19,195.0		19,195.0	0.0	19,195.0		19,195.0		
Operating expenses									
Subtotal	13,349.4		13,485.8	430.1	13,055.7	47.3	13,008.4		
Uncollectibles	38.4		38.4	3.5	34.9		34.9		B
Business/Franch tax	157.4		157.4	0.6	156.8		156.8		B
State income tax	356.8	0.0	356.8	(32.0)	388.8	0.0	388.8		D
Federal income tax	1,356.8	0.0	1,356.8	(85.0)	1,441.8	0.0	1,441.8		D
Total oper expenses	15,258.8		15,395.2	317.2	15,078.0	47.3	15,030.7		
Net oper revenues	3,936.2		3,799.8	(317.2)	4,117.0	(47.3)	4,164.3		
Rate Base	31,924.2	0.0	31,924.2	3,440.0	28,484.2	48.1	28,436.1		
Rate of Return	12.33%		11.90%	-2.55%	14.45%		14.64%		

APPENDIX F

APPLICATION NO. 89-01-004

SAN GABRIEL VALLEY WATER COMPANY
(Dollars in 1,000)

Explanation on Differences

(1) To eliminate undercollection surcharge.

1990	455.6
1991	457.8

(2) Using latest Power rate.

1990	135.5
1991	136.4

Adjustment for error in using power rates.

1990	3.6
1991	3.6

		1989	1990	1991
(3) Use of labor inflation factors.	Staff	4.5%	4.4%	4.6%
	Util.	5.0	5.0	5.0
(4) Use of non-labor inflation factors.	Staff	5.2%	4.8%	4.9%
	Util.	4.0	4.0	4.0

(5) Staff reduced transportation for those employees who take company cars home(54.4 and 70.7 for test year) and staff adjusted its estimate on the record (6.5 for 1990 and 6.9 for 1991) to take out the effect of the Fontana Division which were included by error.

(6&7) The differences are due to differences in utility plant estimates.

(8) Staff recommended $44,000 as bank charges in lieu of the minimum bank balance in rate base

(9) Differences are due to staff having actual record of end-of-the-year plant in 1988. Also, see attached revised Tables L-1 and L-2.

Note: State and Federal income taxes should be recalculated after authorised revenues, expenses, rate bases and rates of return are determined.

Utility's Statement

A = SGV and Staff agree.
B = SGV accepts Staff,s figures.
C = SGV is willing to accept staff's figure if it is adjusted to reflect the applicable staff labor & non-labor inflation factors as of the date of the hearing.
D = SGV and Staff disagree.

Application A.89-01-004 APPENDIX F

Revised for working cash & Deferred Tax Reserve

TABLE L-1

ech 9

San Gabriel Water - Los Angeles District

AVERAGE DEPRECIATED RATE BASE (000's of $)

TEST YEAR 1990

Item	Staff	Utility	Utility exceeds Staff Amount	Utility exceeds Staff %
Customer advances - BOY	$3,266.2	$3,419.6		
Cust. adv. (this year)	323.3	400.0	76.7	23.7%
Less : Cust. refunds (this	203.4	203.4	0.0	0.0%
Less : Trnsf to contrib. (t	10.0	10.0	0.0	0.0%
Net Cust. Adv. (this year)	109.9	186.6	76.7	69.8%
Weighting factor	50.00%	50.00%		
Wtd. avg. Net Cust. Adv.	54.9	93.3	38.4	69.8%
Wtd. Avg. Cust. Advances	3321.1	3512.9	191.8	5.8%
Contributions - BOY	6810.1	7030.7	220.6	3.2%
Additions (this year)	464.7	575.0	110.3	23.7%
Add : Trnsfr from Cust. Adv	10.0	10.0	0.0	0.0%
Less : Depreciation (this y	228.2	228.2	0.0	0.0%
Net contributions (this yea	246.5	356.8	110.3	44.7%
Weighting factor	50.00%	50.00%		
Wtd. avg. net contributions	123.3	178.4	55.1	44.7%
Wtd. Avg. Contributions	6933.4	7209.1	275.7	4.0%
	0.0	0.0	0.0	0.0%
Deferred Tax Reserve	1,758.3 ~~1783.8~~	1783.8	0.0	0.0%
Deferred ITC	400.0	400.0	0.0	0.0%
Rate Base Deductions	~~12438.3~~ 12412.8	12905.8	467.5	3.8%
			0.0	0.0%
Common Utility Allocation	2291.5	2378.2	86.7	3.8%
Wtd. avg. plant in service	49669.0	51708.4	2039.4	4.1%
Add : Working capital				
Materials & supplies	243.4	243.4	0.0	0.0%
Gross Up for Adv. and Con.	582.7	648.4	65.7	11.3%
Working Cash-Operational	19.1	336.1	1143.6 { 317.0	1659.7%
Working Cash- Lead Lag	-534.0 ~~-537.2~~	292.6	~~829.9~~ [illegible]	-154.5%
Total working capital	311.2 ~~308.0~~	1520.5	1212.5	393.7%
Add : Common Utility All.	2291.5	2378.2	86.7	3.8%
Less : Wtd. avg. depr. rsrv	13441.7	13540.1	98.4	0.7%
Less : Rate Base Deductions	~~12438.3~~ 12,41[illegible]	12905.8	467.5	3.8%
Avg. depreciated rate base	~~26388.5~~ 26417.2	29161.2	2772.7	10.5%

Application A.89-01-004 APPENDIX F

Revised for working cash / Deferred Tax Reserve

exh 9

TABLE L-2

San Gabriel Water - Los Angeles District

AVERAGE DEPRECIATED RATE BASE (000's of $)

TEST YEAR 1991

Item	Staff	Utility	Utility exceeds Staff Amount	%
Customer advances - BOY	$3,376.1	$3,606.2		
Cust. adv. (this year)	323.3	400.0	76.7	23.7%
Less : Cust. refunds (this	208.4	208.4	0.0	0.0%
Less : Trnsf to contrib. (t	10.0	10.0	0.0	0.0%
Net Cust. Adv. (this year)	104.9	181.6	76.7	73.2%
Weighting factor	50.00%	50.00%		
Wtd. avg. Net Cust. Adv.	52.4	90.8	38.4	73.2%
Wtd. Avg. Cust. Advances	3428.5	3697.0	268.5	7.8%
Contributions - BOY	7056.6	7387.5	330.9	4.7%
Additions (this year)	464.7	575.0	110.3	23.7%
Add : Trnsfr from Cust. Adv	10.0	10.0	0.0	0.0%
Less : Depreciation (this y	241.6	241.6	0.0	0.0%
Net contributions (this yea	233.1	343.4	110.3	47.3%
Weighting factor	50.00%	50.00%		
Wtd. avg. net contributions	116.6	171.7	55.1	47.3%
Wtd. Avg. Contributions	7173.2	7559.2	386.0	5.4%
	0.0	0.0	0.0	0.0%
Deferred Tax Reserve	2,097.4 ~~2093.3~~	2093.3	0.0	0.0%
Deferred ITC	388.2	388.2	0.0	0.0%
Rate Base Deductions	~~13083.2~~ 13037.3	13737.7	654.5	5.0%
			0.0	0.0%
Common Utility Allocation	2380.3	2504.6	124.3	5.2%
Wtd. avg. plant in service	53180.1	56096.7	2916.6	5.5%
Add : Working capital				
Materials & supplies	248.3	248.3	0.0	0.0%
Gross Up for Adv. and Con.	665.7	753.3	87.6	13.2%
Working Cash-Operational	19.5	352.5	1207.3 { 333.0	1707.7%
Working Cash-Lead Lag	-524.4 ~~-526.6~~	349.9	~~876.5~~ [illegible]	-166.4%
Total working capital	409.1 ~~406.9~~	1704.0	1297.1	318.8%
Add : Common Utility All.	2380.3	2504.6	124.3	5.2%
Less : Wtd. avg. depr. rsrv	14448.0	14643.4	195.4	1.4%
Less : Rate Base Deductions	13037.3 ~~13083.2~~	13737.7	654.5	5.0%
Avg. depreciated rate base	~~28436.1~~ 28484.2	31924.2	3488.1	12.3%

(END OF APPENDIX F)

ALJ/MFG/btr

Item 3
Agenda 9/7/89

Decision PROPOSED DECISION OF ALJ GALVIN (Mailed 8/7/89)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Gabriel Valley Water Company (U-337-W) for authority to increase rates charged for water service in its Los Angeles County Division.	Application 89-01-004 (Filed January 4, 1989)

Michael Whitehead, Attorney at Law, for San Gabriel Valley Water Company, applicant.
Lawrence O. Garcia, Attorney at Law, and Mehdi Radpour, for the Commission Advisory and Compliance Division, Water Utilities Branch.

OPINION

Summary

By this opinion we authorize rates of return on San Gabriel Valley Water Company's (San Gabriel) Los Angeles County Division (LA Division) rate base for 1990, 1991, and 1992 of 10.97%, 11.01%, and 11.07%, respectively. The related return on common equity is 11.90%, 12.00%, And 12.10% for 1990, 1991, and 1992, respectively. The revenue requirements authorized by this opinion are:

Year	Amount of Increase	Percentage Increase
1990	$2,763,900	19.59%
1991	795,000	5.63
1992	744,500	4.21

Background

On January 4, 1989, San Gabriel filed an application to increase the rates it charges for water service in its Los Angeles

County Division. San Gabriel's last general rate proceeding was filed in February 1983 and a decision was issued in October 1983.

San Gabriel's stock is wholly-owned by Utility Investment Company. The capital stock of San Gabriel and Utility Investment Company are not listed on a national securities exchange.

San Gabriel, a California corporation, is engaged in the business of producing, distributing, and selling water through two separate divisions, the Fontana Water Company and the Los Angeles County Division (LA Division). The Fontana Water Company distributes and sells water in San Bernardino County to approximately 68,400 customers. The LA Division produces, distributes, and sells water in Los Angeles County to approximately 43,400 active services including private fire service.

Nature of Rate Relief Requested

San Gabriel requests approval to increase its LA Division rates for the years 1989 through 1992. It requests approval of rates which would produce a constant 14.00% return on common equity in each of the four years. The return on common equity last found reasonable for the LA Division was 14.50% in 1983.

According to San Gabriel, the rate increase is necessary because of a combination of circumstances, particularly the effect of substantial increases in major expense items for which rate relief cannot be obtained through the water utilities offset procedures, increases in rate base and plant investment, and increases in costs of long-term debt.

San Gabriel's proposed revenue increases are summarized as follows:

Year	Amount	Percent
1989	$2,976,500	20.5%
1990	776,500	4.4
1991	748,700	4.1
1992	539,600	2.8

San Gabriel, face more stable and reliable revenue streams than other types of utilities because water utilities use a renewable resource, face minimal threat of bypass, and are allowed to earn a return on construction work-in-progress.

Financial risk is associated with the proportional level of debt to capital. Financial risk increases as the level of debt increases. This is because as the level of debt increases, the utility's contractual fixed obligation to make interest payments increases and the cost of marginal debt issues increase.

Debt financing is less expensive than equity financing because interest payments on debt are generally less than returns paid to common stockholders and because interest payments are tax deductible while returns on common equity are not. The tax savings generated by interest expense directly benefits ratepayers through a proportional reduction of revenue requirement needs.

Siegal's Table 10 shows that San Gabriel's recorded equity ratio has steadily increased from 45.00% in 1983 to 61.19% in 1988. Siegal believes that San Gabriel's equity ratio should be reduced to prevent San Gabriel's ratepayers from paying for an unwarranted high level of equity capitalization. This reduction is based on an analysis of comparable companies. Comparability was based on three factors: (1) listed in C.A. Turner's Telephone and Utility Reports, (2) that realize at least 70% of revenues from water operations, and (3) whose stock is publicly traded. According to Siegal, her recommendation reasonably balances San Gabriel's debt and equity structure because it enables San Gabriel to competitively attract capital in the market place and provide service to ratepayers with less equity capital than it currently maintains. San Gabriel's 1988 common equity ratio of 61.19% is approximately 18 percentage points higher than the 43.00% average common equity ratio of Siegal's group of comparable utilities for the same year.

Subsequent to the evidentiary proceeding, San Gabriel provided an update of its balancing account undercollection. San Gabriel's April 30, 1989 undercollection of $525,440 was reduced to $485,458 at May 31, 1989. This $39,982 decrease, expected to continue, is partially attributable to a 3.3% increase in surcharge rates authorized by Resolution No. W-3438, dated April 12, 1989.

Because San Gabriel's undercollection balance is decreasing on a monthly basis and because rates in this application will not be effective until January 1, 1990, San Gabriel should continue its current balancing account surcharge rate. However, when the undercollection balance reaches $50,000 or less, San Gabriel should file an advice letter with CACD setting forth a proposal to terminate its balancing account.

Rate Design

There are no disputed rate design issues. CACD concurs with San Gabriel's proposal to apply as much of the revenue increase as necessary to the service charge to bring up service charge revenues from 40% to 50% as long as no group of customers receives an increase greater than twice the system percentage increase. CACD also concurs with San Gabriel's proposal to eliminate the first block (300 cf) of the schedule LA-I, San Gabriel's General Metered Service Tariff.

San Gabriel proposes to discontinue its tariff schedule applicable to LA Division's Vallecito Zone II tariff area and to provide general metered service throughout the division pursuant to its tariff schedule LA-I. The Vallecito rate differential pertains to only a small part of that system. The application represents that there is no need to maintain a separate rate schedule because the system is fully integrated into the LA Division for operating and ratemaking purposes.

San Gabriel's rate design proposal is in compliance with D.86-05-064 which authorized water utilities to recover up to 50%

Findings of Fact

1. The adopted estimates of operating revenues, operating expenses, rate base, and rate of return for test years 1990 and 1991 shown on Tables 1 and 2 are reasonable.

2. A 10.97% rate of return on the $26,398,400 adopted rate base for test year 1990 is reasonable.

3. A 11.01% rate of return on the $28,463,700 adopted rate base for test year 1991 is reasonable.

4. A 11.07% return on rate base for attrition year 1992 is reasonable.

5. Customers' participation at the public meeting shows that San Gabriel's level of service is adequate.

6. Notice of the four-year rate request was provided.

7. CACD did not present any results of operations or rate base estimates for 1989.

8. This is San Gabriel's first rate application since 1983.

9. The RLP does not require a water utility to file a rate application every three years.

10. San Gabriel's earnings began slipping in late 1987; however, it did not tender its Notice of Intent to file a rate application until December 1988.

11. San Gabriel wants to implement 1990 authorized rates in 1989.

12. San Gabriel had ample opportunity to comment on the RLP before it was implemented in 1979.

13. San Gabriel concurs that 1989 revenue, expense, and rate base estimates cannot be developed from the record.

14. San Gabriel's and CACD's labor and non-labor inflation factors are outdated.

15. The May 1989 inflation factors are the best known inflation factors in the record.

16. There is no dispute on the number of services or average consumption per service.

17. San Gabriel concurs with CACD's revenue estimates.

18. San Gabriel concurs with CACD's revised purchased power estimate of $2,341,600 and $2,348,400 for test years 1990 and 1991, respectively.

19. Commuting between home and work is not a utility function.

20. CACD's method to estimate other expenses and miscellaneous expenses normalizes fluctuations within each account over a period of time.

21. The provision of incidental lunchroom supplies to San Gabriel's employees eliminates the need for employees to leave the workplace at lunch time and promotes efficiency.

22. The upper San Gabriel Municipal Water District, the San Gabriel Municipal Valley Water District, Watermaster, and the San Gabriel Valley Water Association have agreed to participate in a concerted effort with federal, state, and local agencies to prevent additional pollutants and the spread of the plumes.

23. CACD and San Gabriel recommend that pollution litigation costs be recoverable through an advice letter filing.

24. Pollutants in the basin have been an issue in other water utilities' rate proceedings.

25. San Gabriel revised its estimates for normal legal expenses subsequent to its testimony and without justification.

26. San Gabriel's and CACD's FICA tax rates are inconsistent with the statutory tax rate.

27. San Gabriel's long-term interest deduction for tax purposes will not produce an income tax expense commensurate with ratemaking plant additions, revenues, and expenses.

28. The 1987 unbilled revenue tax impact was litigated in OII 86-11-019.

29. San Gabriel's test years plant in service estimates are based on its 1984 recorded budget, extrapolated at a 10% yearly increase.

30. CACD's plant in service estimates are based on recorded 1988 data and actual experience factors based on a comparison of budgeted and recorded plant additions.

31. San Gabriel includes a minimum bank balance in its working cash calculation requiring ratepayers to pay approximately $60,000 to maintain the minimum balance.

32. San Gabriel is only liable for $44,000 of bank charges if it doesn't maintain a minimum bank balance.

33. San Gabriel's equity ratios are based on projected earnings and earnings growth, anticipated financing, and projected dividend pay outs.

34. DRA's equity ratios are based on its projected balance of San Gabriel's business risks and financial risks.

35. Debt financing is less expensive than equity financing.

36. San Gabriel's recorded equity ratio has steadily increased from 45.00% in 1983 to 61.19% in 1988.

37. San Gabriel's 1988 common equity ratio of 61.19% is approximately 18 percentage points higher than the 43.00% average common equity ratio of DRA's group of comparable utilities for the same year.

38. San Gabriel attempts to maintain an equity ratio between a high of 60.00% to a low of 45.00%.

39. San Gabriel's equity ratio is heading downward.

40. There is no significant difference between San Gabriel's and DRA's cost of debt factors.

41. DRA's detailed analysis on the cost of equity produces a reasonable range of return on common equity for San Gabriel.

42. San Gabriel's balancing account surcharge was authorized by Resolution No. W-3438 on April 12, 1989.

43. San Gabriel's rate design proposal is in compliance with D.86-05-064.

<u>Conclusions of Law</u>

1. The May 1989 labor and non-labor inflation factors should be adopted.

2. San Gabriel's estimates on the number of services and average consumption estimates for the test years should be adopted.

3. CACD's revenue estimates for the test years should be adopted.

4. Ratepayers should not be required to compensate San Gabriel for executive commute expenses.

5. CACD's estimates for other operating expense and maintenance expense should be adopted.

6. CACD's employee lunchroom supplies and awards reduction should not be adopted.

7. Proposed pollution litigation costs should not be recovered through the advice letter filing procedure.

8. CACD's legal expense estimates should be adopted.

9. Statutory FICA rates should be used for test years 1990 and 1991.

10. Interest deductions for tax calculation purposes should be based on the adopted weighted cost of debt.

11. The 1987 unbilled revenue tax impact should not be adopted in this proceeding.

12. CACD's test year plant estimates should be adopted.

13. A minimum bank balance should not be included in the working cash calculation.

14. San Gabriel's equity ratio should be reduced in a gradual manner.

15. San Gabriel's return on equity should be increased in each test year and attrition year to compensate it for the additional risk it will incur from the yearly reduction in the common equity ratio.

16. San Gabriel's rate design proposal should be adopted as long as no group of customers receives an increase greater than twice the system percentage increase.

17. The increase in rates and charges authorized in Appendixes A and B are just and reasonable, and the present rates and charges insofar as they differ from those prescribed are for the future unjust and unreasonable.

18. San Gabriel's request for rate relief prior to its test years should be denied because it did not demonstrate that its 1989 rates are unreasonable and because such requested relief is not in accordance with the RLP.

19. CACD's working cash allowance method should be used and the working cash allowance should be based on rates authorized by this decision.

20. The application should be granted to the extent provided by the following order.

O R D E R

IT IS ORDERED that:

1. San Gabriel Valley Water Company (San Gabriel) is authorized to file the revised schedules for its Los Angeles County Division (LA Division) attached to this order as Appendix A. This filing shall comply with General Order (GO) Series 96. The effective date of the revised schedules shall be January 1, 1990. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 5, 1990, San Gabriel is authorized to file an advice letter, with appropriate workpapers, requesting step rate increases for 1991 included in Appendix B, for the second year's step rate increase, adjusted to reflect the rates in effect and normal ratemaking adjustments for the 12 months ending September 30, 1990, exceeds the later of (a) the rate of return

found reasonable by the Commission for San Gabriel during the corresponding period in the then most recent rate decision, or (b) 11.01%. This filing shall comply with GO Series 96. The requested rates shall be reviewed by Commission Advisory and Compliance Division (CACD) to determine their conformity with this order and shall go into effect upon CACD's determination of conformity. CACD shall inform the Commission if it finds that the proposed step rates are not in accord with the decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1991, or 40 days after the filing of the step rate, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 5, 1991, San Gabriel is authorized to file an advice letter, with appropriate workpapers, requesting step rate increases for 1992 included in Appendix B, for the third year's step rate increase, adjusted to reflect the rates in effect and normal ratemaking adjustments for the 12 months ending September 30, 1991, exceeds the later of (a) the rate of return found reasonable by the Commission for San Gabriel during the corresponding period in the then most recent rate decision, or (b) 11.07%. This filing shall comply with GO Series 96. The requested rates shall be reviewed by CACD to determine their conformity with this order and shall go into effect upon CACD's determination of conformity. CACD shall inform the Commission if it finds that the proposed step rates are not in accord with the decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1992, or 40 days after the filing of the step rate, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

4. San Gabriel's request to implement 1990 authorized rates in 1989 is denied.

5. San Gabriel may accumulate pollution litigation costs in a deferred debit account during its test years and attrition year. If the deferred debit account is used, San Gabriel shall file, as part of its next general rate proceeding, workpapers that show that a cost benefit analysis was conducted prior to embarking on such litigation, and benefits derived by its ratepayers and its stockholders from incurring such costs. It shall also provide a proposal to seek recovery of reasonable litigation costs from its ratepayers and from its stockholders.

6. San Gabriel shall continue to use the balancing account surcharge rate currently in effect. When its undercollected balance reaches $50,000 or less, San Gabriel shall file an advice letter with the Commission Advisory and Compliance Division Director setting forth a proposal to terminate its balancing account.

This order is effective today.

Dated ____________________, at San Francisco, California.

San Gabriel Valley Water Company
Los Angeles County Division

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

Schedule IA-3L General Metered Service	Effective Dates 1-1-91	1-1-92
	Per Meter	Per Month
Zone I Minimum Charge		
For each irrigation delivery scheduled. . . .	$ 0.60	0.60
Quantity Rates		
First 1,800 cu. ft. or less	0.60	0.60
Over 1,800 cu. ft., per 100 cu. ft.	0.032	0.029
Zone II Minimum Charge		
For each irrigation delivery scheduled . . .	0.70	0.60
Quantity Rates		
First 1,800 cu. ft. or less.	0.70	0.60
Over 1,800 cu. ft., per 100 cu. ft	0.036	0.033
Schedule IA-4		
For each inch of diameter of service	0.25	0.20
Schedule IA-9C		
Rates		
For sidewalk construction, per 100 sq. ft. .	0.01	0.01
For street curb construction, per 100 lineal feet.	0.02	0.02
For trench settling, per lineal foot of section of trench 2 feet by 4 feet	0.001	0.001
For sprinkling subgrade of street and roadway construction in application of oil or any form of patented oil paving or surfacing, or for rolling and settling subgrade, per 3,000 sq. ft. of roadway . .	0.17	0.17
For compaction of fill, per cubic yard of fill material.	0.001	0.001
For water delivered to tank wagon or truck, per 100 gallons.	0.004	0.003
Minimum Charge:		
For any service rendered under this schedule	0.60	0.50
Schedule IA-9CL		
For each lot for the construction period . .	0.25	0.20

(END OF APPENDIX B)

San Gabriel Valley Water Company
Los Angeles County Division

ADOPTED QUANTITIES

1. Net to Gross Multiplier: 1.6874%
2. Federal Income Tax Rate: 34%
3. State Income Tax Rate: 9.3%
4. Local Tax Rate: 0.8171%
5. Uncollectible Rate: 0.1819%
6. Water Supply Cost

		Quantity Basis AF	Unit Cost ($)	Total Cost of Assessment (Thousands)
	1990			
A-1	CBMWD - Purchased Water	981.12	232.30 1/	227.9
B-1	Central Basin - Replenishment	5,248.51	61.00 2/	320.2
	- Leased Water Rights	2,691.51	87.71 2/	234.3
	- Watermaster Assessment	-	-	1.8 2/
C-1	Make-up Obligation Assessment	18,308.80	3.00 2/	54.9
D-1	USGS Basin Replacement Water Assessment	17,860.79	158.00 2/	2,822.0
E-1	USGS Basin Leased Water Rights	1,000.00	139.20 2/	139.2
F-1	USGS Basin Watermaster Assessment	36,330.38	2.50 2/	90.4
	Total (Sum of A-1, B-1 and F-1)	42,399.22	-	3,890.7
	Year Safe Yield - 175,000 A. F.			
	1991			
A-2	CBMWD - Purchased Water	985.47	232.30 1/	228.9
B-2	Central Basin - Replenishment	5,271.85	61.00 2/	321.6
	- Leased Water Rights	2,694.85	87.71 2/	236.4
	- Watermaster Assessment	-	-	1.8 2/
C-2	Make-up Obligation Assessment	18,308.80	3.0 2/	54.9
D-2	USGS Replacement Assessment	18,021.58	158.0 2/	2,847.4
E-2	USGS Basin Leased Water Right	1,000.00	139.2 2/	139.2
F-2	USGS Basin Watermaster Assessment	36,330.38	2.50 2/	90.83
	Total (sum of A-2, B-2 and F-2)	42,587.70	-	3,921.0
	Year Safe Yield - 175,000 A. F.			

1/ Effective Date: July 1, 1986
2/ Effective Date: July 1, 1988

APPENDIX C
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San Gabriel Valley Water Company
Los Angeles County Division

ADOPTED QUANTITIES

8. Number of Services - Meter Size

	1990	1991
5/8 x 3/4	34,136	34,366
3/4	3,169	3,191
1	4,021	4,046
1 1/2	921	928
2	979	986
3	15	15
4	10	10
6	7	7
8	11	11
10	3	3
12	-	-
14	1	1
2-2	129	130
3-2	28	28
4-2	6	6
2-3	1	1
3-3	1	1
2-4	4	4
3-4	3	3
1-8, 1-2	1	1
TOTAL	43,446	43,739

9. Metered Water Sales

Range Ccf		
0 - 200	11,505,700	11,584,600
Over 200	6,042,100	6,041,200
TOTAL	17,547,800	17,625,800

San Gabriel Valley Water Company
Los Angeles County Division

Utility Plant, Depreciation Reserve and Rate Base

	1990	1991
	(Thousands of Dollars)	
UTILITY PLANT		
Plant BOY	47,989.9	51,348.0
Utility Add.	2,762.3	3,054.3
Advances	323.3	323.3
Contributions	464.7	464.7
Total Additions	3,550.3	3,842.3
Retirement	192.2	178.2
Plant EOY	51,348.0	55,012.2
Weighting Factor	50.0%	50.0%
Weighted Average Plant	49,669.0	53,180.1
DEPRECIATION RESERVE		
Reserve BOY	12,980.7	13,902.6
Amortization Reserve	0.1	0.0
Clearing	68.0	74.5
Contribution	205.5	228.8
Depreciation Expense	840.5	965.7
Total Accrual	1,114.1	1,269.0
Retirement	192.2	178.2
Reserve EOY	13,902.6	14,993.4
Weighting Factor	50.0%	50.0%
Weighted Average Deprec. Reserve	13,441.7	14,448.0
RATE BASE		
Weighted Average Utility Plant	49,667.0	53,180.1
Material and Supplies	243.4	248.3
Working Cash Allowance	-533.3	-527.5
Depreciation Reserve	-13,441.7	-14,448.0
Adv. Construction	-3,321.1	-3,428.5
Contribution	-6,933.4	-7,173.2
Gross/Up for Adv. and Contribution	582.7	665.7
General Office Common Plant	2,291.9	2,383.3
Deferred Tax Reserve	-1,958.3	-2,047.4
Deferred ITC	-400.0	-388.2
Average Rate Base	26,399.2	28,464.6