

Mailed

MAR 13 1992

Decision 92-03-037 March 11, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of Suburban Water Systems (U 339-W)
for an order authorizing it to
increase its rates for water service
in its San Jose District.

ORIGINAL

Application 91-07-001
(Filed July 1, 1991)

Steeffel, Levitt & Weiss, by Lenard G. Weiss, Attorney at Law, for Suburban Water Systems, applicant.
Maxine Leichter, for Sierra Club - Angeles Chapter, interested party.
Lawrence Q. Garcia, Attorney at Law, for the Division of Ratepayer Advocates.
Daniel Paige, for the Commission Advisory and Compliance Division.

O P I N I O N

Summary

Suburban Water Systems filed its application for an order authorizing it to increase its rates for water service in its San Jose District by \$3,102,000 (29.6%) over present rates for test year 1992, \$655,000 (4.8%) over 1992 proposed rates for 1993, and \$694,000 (4.8%) over 1993 proposed rates for 1994. The requested rate of return on equity is 12.75% for test years 1992 and 1993. The requested rate of return on rate base is 10.33%.

This decision authorizes Suburban Water Systems to increase rates in its San Jose District by \$2,480,100 (23.1%) over present rates for 1992, \$432,500 (3.3%) over 1992 proposed rates for 1993, and \$343,600 (2.5%) over 1993 proposed rates for 1994. The authorized rate of return on equity is 11.65% for test years 1992 and 1993. The authorized rate of return on rate base is 9.78%.

In reaching this decision, the Commission accepts and adopts a Stipulation for Settlement of all disputed issues which was jointly prepared and presented by Suburban Water Systems and the Commission staff (Staff) represented by the Commission Advisory and Compliance Division.

Procedure

Suburban Water Systems, a Class A water utility, tendered a Notice of Intention to File General Rate Increase Application on May 20, 1991 in accordance with the Commission's Revised Rate Case Plan (Decision (D.) 90-08-045, August 8, 1990.) The notice was filed on the same date.

A public participation hearing (PPH) was held in West Covina on August 14, 1991. Sixty-two customers attended the hearing, most objecting to the magnitude of the sought rate increase. Additionally, eight letters of protest were received from customers not able to attend the PPH, but wishing to express opposition to Suburban Water Systems' general rate increase application.

A duly noticed evidentiary hearing was held before Administrative Law Judge Orville I. Wright in Los Angeles on October 24, 1991, at which time Staff and Suburban Water Systems offered a Stipulation for Settlement of the many reasonableness issues between these two parties.

Also filing an appearance and testifying at the October 24, 1991 hearing was Maxine Leichter, for the Sierra Club - Angeles Chapter, interested party. Leichter's testimony, both oral and in prepared form, was the subject of a Motion to Strike filed by Suburban Water Systems. Further, Leichter had no knowledge of the proffered Stipulation for Settlement.

With respect to the Motion to Strike, Leichter was given 15 days to mail a response. On November 5, 1991 Leichter mailed her rebuttal. On November 20, 1991 Suburban Water Systems filed a reply to Leichter's rebuttal, and, on November 29, 1991 Leichter

filed a further document in opposition to Suburban Water Systems' Motion to Strike.

With respect to the Stipulation for Settlement, Suburban Water Systems mailed a copy to Leichter on October 24, 1991. In accordance with Rule 51.4, Rules of Practice and Procedure, Leichter had 30 days from the date of mailing of the stipulation to file comments, and no comments were filed.

In order that the record may include the response, rebuttal, and surrebuttal between Leichter and Suburban Water Systems following Suburban Water Systems' Motion to Strike, we accept these documents as briefs of the parties.

This matter was submitted on November 12, 1991.

Historical Background

Suburban Water Systems, a California corporation, was originally formed on April 15, 1907 as the San Jose Hills Water Company intending to function as a mutual water company providing water service for agricultural use. San Jose Hills Water Company was incorporated under the laws of the State of California on June 27, 1944 as a public utility water company. By early 1947, San Jose Hills Water Company was supplying water to 11 customers. By year end 1947, the company had acquired or joined forces with several other nearby water companies, including Firestone, Sunkist, Leibacher, Garvey Mutual, Ashmun Mutual, and Rivera, and was providing water service to approximately 500 customers.

In 1953, Whittier Water Company was purchased by San Jose Hills Water Company. The name was officially changed to Suburban Water Systems on October 23, 1953. As of that date, service was being provided in the areas of La Puente, Whittier, La Mirada, Santa Fe Springs, and Pico Rivera. In 1968, its facilities in the cities of Santa Fe Springs and Pico Rivera were sold under threat of condemnation to the City of Santa Fe Springs. On September 23, 1976, Suburban Water Systems was purchased by Southwest Water Company and its name was changed to Southwest Suburban Water.

Southwest Water Company was a public utility water company operating in the areas of Santa Fe Springs, La Mirada, La Sierra, and Etiwanda. In 1968, services and facilities in Santa Fe Springs were condemned and sold to the City of Santa Fe Springs. In 1974, its La Sierra District was sold to the City of Riverside under a condemnation proceeding. Following its purchase of Suburban Water Systems, Southwest Water Company transferred its La Mirada and Etiwanda system to Southwest Suburban Water, thus, consolidating all California utility operations into one operating company and transforming Southwest Water Company into a holding company.

In 1977, Southwest Suburban Water sold its Etiwanda District to the Cucamonga County Water District under threat of condemnation. On August 17, 1982, its name was again officially changed to Suburban Water Systems. In 1986, Suburban Water Systems sold facilities and transferred 97 customers in La Habra to the City of La Habra.

In its history, Suburban Water Systems under this name and others has served many cities in the Southern California area. Today, it serves approximately 64,000 customers in its San Jose, Whittier, and La Mirada Districts. Communities served are Glendora, Covina, West Covina, La Puente, Valinda, Industry, Hacienda Heights, Whittier, La Mirada, La Habra, and Buena Park as well as unincorporated Los Angeles and Orange County areas. Since the late 1960's, Suburban Water Systems has grown little beyond its saturated areas of certification. Additional growth has come through extensions into new subdivisions along the periphery of the company's widespread service area, or through redevelopment in existing service areas from single to multi-user services. Future expansion of the service areas on a large scale is improbable.

The district for which this rate application pertains is the San Jose District; essentially the successor of the San Jose Hills Water Company. The San Jose District serves approximately

33,000 customers in the cities of Glendora, Covina, West Covina, La Puente, Valinda, Industry, Hacienda Heights, and unincorporated Los Angeles County.

Stipulation for Settlement

Staff and Suburban Water Systems, desiring to avoid the expense, inconvenience, and uncertainty attendant to litigation of issues in dispute between them, have agreed upon a settlement, the results of which were presented in exhibit form and introduced into evidence at the evidentiary hearing on October 24, 1991.

The Stipulation for Settlement was entered into between the parties, circulated to the interested party not joining in the agreement, and submitted for Commission approval pursuant to Rules of Practice and Procedure 51 through 51.10. No comments have been received.

A comparison exhibit included in the Stipulation for Settlement follows as Table 1, consisting of four pages. We find that the Stipulation for Settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

SUBURBAN WATER SYSTEMS
SAN JOSE DISTRICT
SUMMARY OF EARNINGS COMPARISON

TEST YEAR 1992 AT PROPOSED RATES

Line No.	Description	Applicant	Staff	Stipulation
1.	Operating Revenues	13,812,118	14,583,900	13,441,649
	PARENT COMPANY OPERATING EXPENSES			
2.	Payroll and Benefits	976,647	903,770	905,647
3.	Office Rent and Expenses	278,425	133,720	133,720
4.	Other	821,694	808,192	804,908
5.	PARENT COMPANY OPERATING EXPENSES	2,076,766	1,845,682	1,844,275
6.	Allocation % of Parent Company	64.8%	64.8%	64.8%
7.	ALLOCATION TO MAIN OFFICE	1,345,744	1,196,002	1,195,090
	MAIN OFFICE OPERATING EXPENSES			
8.	Payroll	2,112,779	1,973,732	2,028,655
9.	Health Insurance	942,858	870,000	870,000
10.	Other Employee Benefits	275,151	178,765	124,536
11.	Pension Expense	263,000	187,860	187,860
12.	Property Damage and Liability Insurance	852,815	688,468	757,628
13.	Office Supplies and Other Expenses	340,365	337,504	459,779
14.	Other Expenses	383,835	380,608	366,403
15.	SUBTOTAL	5,170,803	4,616,937	4,794,861
16.	Allocation from Parent Company	1,345,744	1,196,002	1,195,090
17.	MAIN OFFICE OPERATING EXPENSES	6,516,547	5,812,939	5,989,951
18.	Allocation % of Main Office	51.1%	51.1%	51.1%
19.	ALLOCATION OF MAIN OFFICE TO DISTRICT	3,329,956	2,970,412	3,060,865
	DISTRICT OPERATING EXPENSES			
20.	Payroll	1,060,280	946,565	1,025,041
21.	Assessments on Production	2,349,954	2,332,500	2,415,483
22.	Purchased Water	654,565	762,900	770,988
23.	Purchased Power	1,478,624	1,216,800	1,665,027
24.	Postage	106,087	98,051	106,222
25.	Uncollectibles	70,977	76,033	69,041
26.	Franchise Expense	194,623	206,579	189,316
27.	Regulatory Commission Expense	12,000	10,000	8,000
28.	New Position Expenses	9,750	0	0
29.	Additional Meter Expense	0	0	20,000
30.	Other Expenses	535,703	477,360	519,548
31.	SUBTOTAL O&M AND A&G EXPENSES	6,472,563	6,126,788	6,788,666
32.	Depreciation Expense	1,096,835	1,051,800	1,067,990
33.	Payroll Taxes	158,591	137,700	152,952
34.	Ad Valorem Taxes	223,572	217,600	219,828
35.	Deferred Income Tax Expense	136,703	149,800	140,662
36.	Income Tax Payable	656,629	1,245,300	511,455
37.	DISTRICT OPERATING EXPENSES	8,744,893	8,928,988	8,881,553
38.	Allocation from Main Office	3,329,956	2,970,412	3,060,865
39.	TOTAL OPERATING EXPENSES	12,074,849	11,899,400	11,942,418
40.	NET OPERATING INCOME	1,737,269	2,684,500	1,499,231
41.	RATE BASE	16,817,695	14,938,000	15,329,558
42.	RETURN ON RATE BASE, PERCENT	10.33%	17.97%	9.7%

SUBURBAN WATER SYSTEMS
SAN JOSE DISTRICT
SUMMARY OF EARNINGS COMPARISON

TEST YEAR 1993 AT PROPOSED RATES

Line No.	Description	Applicant	Staff	Stipulation
1.	Operating Revenues	14,557,172	15,364,500	13,874,709
	PARENT COMPANY OPERATING EXPENSES			
2.	Payroll and Benefits	1,023,496	936,118	936,996
3.	Office Rent and Expenses	281,491	139,200	139,200
4.	Other	855,173	840,983	833,240
5.	PARENT COMPANY OPERATING EXPENSES	2,160,160	1,916,301	1,909,436
6.	Allocation % of Parent Company	63.9%	63.9%	63.9%
7.	ALLOCATION TO MAIN OFFICE	1,380,342	1,224,516	1,220,130
	MAIN OFFICE OPERATING EXPENSES			
8.	Payroll	2,316,311	2,044,391	2,140,141
9.	Health Insurance	1,149,874	991,800	991,800
10.	Other Employee Benefits	305,176	185,165	131,929
11.	Pension Expense	325,000	194,585	194,585
12.	Property Damage and Liability Insurance	1,033,600	688,468	757,628
13.	Office Supplies and Other Expenses	355,341	351,159	470,078
14.	Other Expenses	407,353	402,559	381,642
15.	SUBTOTAL	5,892,655	4,858,127	5,067,803
16.	Allocation from Parent Company	1,380,342	1,224,516	1,220,130
17.	MAIN OFFICE OPERATING EXPENSES	7,272,997	6,082,643	6,287,933
18.	Allocation % of Main Office	51.1%	51.1%	51.1%
19.	ALLOCATION OF MAIN OFFICE TO DISTRICT	3,716,502	3,108,231	3,213,134
	DISTRICT OPERATING EXPENSES			
20.	Payroll	1,189,785	988,396	1,090,460
21.	Assessments on Production	2,373,831	2,607,700	2,378,663
22.	Purchased Water	671,970	847,600	861,290
23.	Purchased Power	1,488,499	1,288,600	1,675,389
24.	Postage	106,625	98,544	106,756
25.	Uncollectibles	74,865	80,166	71,300
26.	Franchise Expense	205,286	217,810	195,510
27.	Regulatory Commission Expense	12,000	10,000	8,000
28.	New Position Expenses	9,600	0	0
29.	Additional Meter Expense	0	0	20,000
30.	Other Expenses	570,245	484,453	539,146
31.	SUBTOTAL O&M AND A&G EXPENSES	6,702,706	6,623,269	6,946,514
32.	Depreciation Expense	1,146,861	1,094,400	1,115,287
33.	Payroll Taxes	175,675	141,500	161,955
34.	Ad Valorem Taxes	229,559	222,900	225,109
35.	Deferred Income Tax Expense	107,188	129,800	121,988
36.	Income Tax Payable	722,248	1,317,700	566,758
37.	DISTRICT OPERATING EXPENSES	9,084,237	9,529,569	9,137,611
38.	Allocation from Main Office	3,716,502	3,108,231	3,213,134
39.	TOTAL OPERATING EXPENSES	12,800,739	12,637,800	12,350,745
40.	NET OPERATING INCOME	1,756,433	2,726,700	1,523,964
41.	RATE BASE	17,003,238	14,947,420	15,582,461
42.	RETURN ON RATE BASE, PERCENT	10.33%	18.24%	9.78%

TABLE 1

SUBURBAN WATER SYSTEMS
SAN JOSE DISTRICT
RATE BASE COMPARISON

TEST YEAR 1992 AT PROPOSED RATES

Line No.	Description	Applicant	Staff	Stipulation
1.	MAIN OFFICE RATE BASE Utility Plant	3,165,695	3,165,695	2,964,116
2.	LESS DEDUCTIONS FROM RATE BASE			
3.	Reserve for Depreciation	1,115,322	1,115,322	892,156
4.	Pension Reserve	542,305	480,740	438,735
5.	Accumulated Deferred Federal Income Taxes, Pension Reserve	(201,500)	(201,500)	(166,286)
6.	Other	586,984	586,984	586,984
7.	SUBTOTAL DEDUCTIONS	2,043,111	1,981,546	1,751,589
8.	MAIN OFFICE RATE BASE	1,122,584	1,184,149	1,212,527
9.	Allocation Percent to San Jose District	51.1%	51.1%	51.1%
10.	ALLOCATION OF MAIN OFFICE RATE BASE TO SAN JOSE DISTRICT	573,640	605,100	619,601
SAN JOSE DISTRICT RATE BASE				
11.	Utility Plant	32,469,308	31,920,300	32,273,978
12.	Materials and Supplies	190,978	125,000	124,000
13.	Working Cash	231,009	(1,104,600)	(1,065,706)
14.	SUBTOTAL	32,891,295	30,940,700	31,332,829
15.	LESS DEDUCTIONS FROM RATE BASE			
16.	Reserve for Depreciation	11,272,184	11,232,900	11,257,396
17.	Advances for Construction	1,594,795	1,594,800	1,594,795
18.	Contributions in Aid of Construction	1,828,518	1,828,500	1,828,518
19.	Accumulated Deferred Federal Income Taxes	1,113,131	1,113,000	1,103,551
20.	Unamortized Investment Tax Credits	797,328	797,300	797,328
21.	Unamortized Deferred Revenue, Taxable CIAC	41,284	41,300	41,284
22.	SUBTOTAL DEDUCTIONS	16,647,240	16,607,800	16,622,872
23.	DISTRICT RATE BASE	16,244,055	14,332,900	14,709,957
24.	Allocation from Main Office	573,640	605,100	619,601
25.	TOTAL RATE BASE	16,817,695	14,938,000	15,329,558

SUBURBAN WATER SYSTEMS
SAN JOSE DISTRICT
RATE BASE COMPARISON

TABLE 1

10/23/91
Page 4 of 4

TEST YEAR 1993 AT PROPOSED RATES

Line No.	Description	Applicant	Staff	Stipulation
1.	MAIN OFFICE RATE BASE Utility Plant	3,220,553	3,220,553	3,008,078
2.	LESS DEDUCTIONS FROM RATE BASE			
3.	Reserve for Depreciation	1,549,987	1,549,987	1,285,121
4.	Pension Reserve	816,305	688,516	609,958
5.	Accumulated Deferred Federal Income Taxes, Pension Reserve	(294,660)	(294,660)	(224,502)
6.	Other	488,412	488,412	488,412
7.	SUBTOTAL DEDUCTIONS	2,560,044	2,432,255	2,158,989
8.	MAIN OFFICE RATE BASE	660,509	788,298	849,089
9.	Allocation Percent to San Jose District	51.1%	51.1%	51.1%
10.	ALLOCATION OF MAIN OFFICE RATE BASE TO SAN JOSE DISTRICT	337,520	402,820	433,884
SAN JOSE DISTRICT RATE BASE				
11.	Utility Plant	34,029,343	33,443,100	33,813,975
12.	Materials and Supplies	199,572	130,000	128,942
13.	Working Cash	244,535	(1,281,600)	(1,031,940)
14.	SUBTOTAL	34,473,450	32,291,500	32,910,977
15.	LESS DEDUCTIONS FROM RATE BASE			
16.	Reserve for Depreciation	12,086,144	12,025,300	12,058,869
17.	Advances for Construction	1,945,033	1,945,000	1,945,033
18.	Contributions in Aid of Construction	1,827,062	1,827,100	1,827,062
19.	Accumulated Deferred Federal Income Taxes	1,129,416	1,129,400	1,111,359
20.	Unamortized Investment Tax Credits	769,905	769,900	769,905
21.	Unamortized Deferred Revenue, Taxable CIAC	50,172	50,200	50,172
22.	SUBTOTAL DEDUCTIONS	17,807,732	17,746,900	17,762,400
23.	DISTRICT RATE BASE	16,665,718	14,544,600	15,148,577
24.	Allocation from Main Office	337,520	402,820	433,884
25.	TOTAL RATE BASE	17,003,238	14,947,420	15,582,461

(END OF TABLE 1)

Attrition Allowance

An attrition allowance is needed when increases in revenue and productivity to offset increases in expenses (including the effect of cost of capital) are insufficient, thereby causing a decline in the rate of return for the following year. Since the Commission expects water utilities to file for a general rate increase not more than once in a three-year period according to the rate case processing plan, an attrition allowance to compensate for possible revenue shortfall in the year following the latest test year is, usually, allowed by the Commission.

Attrition consists of two parts: financial and operational. Financial attrition occurs when there is a change in the utility's cost of money. Operational attrition is the result of changes in operating categories: revenues, expenses, and rate base.

The adopted operational attrition part for 1994 agreed to by the Company and Staff is the rate increase of 2.58% required in Test Year 1993 over Test Year 1992 adopted rates to produce the adopted rate of return in Test Year 1993.

With adopted capitalization ratios, cost of debt and return on equity being the same for 1994 as adopted for Test Year 1993, financial attrition for 1994 is zero.

Adopted total attrition for 1994 is therefore equal to operational attrition which provides for a 2.58% rate increase in 1994 over Test Year 1993 adopted rates.

Rate Design

The Commission issued D.86-05-064, on May 28, 1986, as a result of Investigation 84-11-041, Order Instituting Investigation (Rulemaking) into Water Rate Design Policy, filed November 21, 1984. The order specifically addresses the following aspects of rate design:

- a. Service charges as a percentage of fixed costs.

- b. Number of commodity blocks.
- c. Phasing-out lifeline.
- d. Seasonal rates.
- e. Addressing of water conservation in rate applications.

Commission policy requires that service charges be set to recover up to 50% of fixed costs. The recovery of up to 50% of fixed cost should be done, if it is possible to do so, without burdening any class of customers with an increase significantly more than the average overall percentage increase.

The utility's present and proposed rates are composed of a meter service charge and a single commodity block in compliance with D.86-05-064. Staff and Suburban Water Systems recommend that the service charge should be increased not to exceed either 50% of the fixed costs or the system percentage increase, whichever is lower. The parties also recommend increasing rates for different meter-sized customers proportionally in accordance with the rate design policy memo dated January 18, 1991 issued by the Water Utilities Branch.

These rate design recommendations are adopted in this decision.

Customer Service and Conservation

Staff reports that the Commission's Consumer Affairs Branch received 15 informal complaints in 1990, all of which were satisfactorily resolved.

A field inspection of the utility's facilities conducted in July 1991 found plant and service to be generally satisfactory.

The State Department of Health Services most recently inspected Suburban Water Systems in January 1991; a short list of deficiencies was presented to the utility, and corrective action was taken.

The utility's conservation effort is to discourage the wasteful use of water and promote the use of water-saving devices. The utility makes available, without cost to the customer, water-saving kits. Furthermore, the utility includes in its regular bill mailing inserts and slogans to promote water conservation. Water conservation pamphlets are available in the utility's lobby where many customers pay their bills in person.

Suburban Water Systems in Application 91-03-003 submitted a Water Management Program applicable to the San Jose District as ordered by the Commission in D.90-08-055. This program was certified as complete by the Water Utilities Branch as listed in Appendix A of D.91-10-042 dated October 23, 1991.

We find that Suburban Water Systems is providing satisfactory water service to its customers, is taking reasonable measures to meet applicable federal and state water quality standards, and is making appropriate efforts to improve water conservation.

Leichter's Testimony

Leichter appeared at the PPH on August 14, 1991 on her own behalf to present a statement in opposition to the Commission's approval of the full amount of assessments made by an entity known as Watermaster.

Watermaster is described by Suburban Water Systems, in an attachment to its application, as follows:

"The source of the district's groundwater production, the Main San Gabriel Basin, was adjudicated in the Los Angeles County Superior Court action known as 'Upper San Gabriel Valley Municipal Water District vs. City of Alhambra, et al, No. 924128,' and a Stipulated Judgment was entered in this case on January 4, 1973. This basin had been in overdraft for many years. The court-appointed watermaster manages local supplies and spreading of imported water in the basin to assure adequate supplies for all producers. Production from company wells is subject to assessments levied by the watermaster to cover expenses incurred in the

program of administering and replenishing the water supply in this basin."

Leichter's opposition to the level of Watermaster charges for ratemaking purposes was endorsed by the Sierra Club - Angeles Chapter, and she prepared testimony and presented evidence at the evidentiary hearing in Los Angeles on October 24, 1991.

Leichter testified, in part, as follows:

"I have for the past one and one-half years been advocating on behalf of the Sierra Club for the cleanup of the San Gabriel Valley Superfund (groundwater contamination) Site. In connection with this I have made an extensive study of Watermaster, and the operation of the Main San Gabriel Groundwater Basin.

"The Sierra Club Angeles Chapter is requesting that the Commission disallow from the rate base of Suburban Water Systems, that portion of the assessments levied by the Main San Gabriel Basin Watermaster that are being spent for lobbying and other unnecessary expenses. These expenditures include, but are not necessarily limited to, expenditures for legislative advocacy, payments to a Suburban employees [sic] and a retiree of Suburban Water Systems, reimbursed expenses to these individuals, and payments for public relations activities.

"Watermaster policy is made by its nine member board. Three of these board members are appointed by the municipal water districts. The other six are elected by a vote of the water rights holders which is weighted by amount of water rights held, (see Upper San Gabriel Valley Municipal Water District vs. City of Alhambra, 1973). Suburban Water Systems is the largest single holder of water rights in the Main San Gabriel Groundwater Basin (see Main San Gabriel Watermaster Annual Report 1989-90) and therefore has the largest single block of votes for directors of Watermaster.

"We contend that the above factors indicate that Suburban has a substantial voice in determining Watermaster policy, the nature and size of

Watermaster expenses and the assessments necessary to repay these expenses. As will be seen by the evidence which is attached, these expenses are being made with the approval and concurrence of the representatives of Suburban. Therefore these expenses are not non-discretionary and should be evaluated as if they were expenses made by Suburban."

Leichter seeks to have the Commission, for ratemaking purposes only, assume jurisdiction over Watermaster assessments made to Suburban Water Systems and to all other private utilities served by Watermaster. Leichter argues that the Commission should apply the same standard of reasonableness to Watermaster assessments as it does to other costs incurred by Suburban Water Systems.

Suburban Water Systems filed a Motion to Strike Leichter's testimony together with the Declaration of Daniel M. Conway which stated, in part, as follows:

"Suburban owns 12-1/2% or one-eighth of the water entitlement of the Watermaster. However, Suburban is only one of nine votes on the Watermaster. Suburban does not control the votes of the other eight members of the Watermaster."

Suburban Water Systems' testimony that it does not control Watermaster is not contradicted in the record and seems decisive against Leichter's position. Leichter does not dispute that the great majority of Watermaster expenditures are reasonable and necessary to the supply of water to Suburban Water Systems. Thus, before we examine every element of Watermaster's costs making up its assessment to Suburban Water Systems, we must first know that Suburban Water Systems has sufficient control of these elements to be accountable for them.

As our policy is to encourage public participation in our proceedings, we will deny the Motion to Strike. However, there is

sufficient evidence in the record to find Watermaster charges to Suburban Water Systems to be reasonable.

Comments

Pursuant to the Commission's Rules of Practice and Procedure, the proposed decision of the assigned administrative law judge for this proceeding was filed with the Commission and mailed to the parties on January 27, 1992.

Nonsubstantive comments were filed by Suburban Water Systems and approved by Staff. Applicant's suggested revisions are adopted by the Commission.

Findings of Fact

1. Suburban Water Systems is providing satisfactory water service to its customers in its San Jose District, taking reasonable measures to meet applicable federal and state water quality standards, and is making appropriate efforts to improve water conservation.

2. Suburban Water Systems' rate base and results of operation for test years 1992 and 1993 at proposed rates, as stipulated to by Staff and itself, as shown in Table 1 of this decision, are reasonable in light of the whole record, consistent with law, and in the public interest.

3. The revenue requirement for attrition year 1994 should be calculated by use of the stipulated attrition allowance which provides for a 2.58% rate increase to become effective January 1, 1994.

4. Rate of return on rate base of 9.78% is reasonable.

5. Rate of return on common equity of 11.65% is reasonable.

6. Rate design recommendations of Staff and Suburban Water Systems are reasonable.

7. The increased rates and charges authorized by this decision are justified and reasonable; present rates and charges insofar as they differ from those prescribed herein are for the future unjust and unreasonable.

8. The effective date of this order should be the date of signature as the authorized rates were designed to take effect at the beginning of calendar year 1992.

9. Suburban Water Systems' motion to strike the testimony of Leichter should be denied.

10. There is insufficient evidence in the record to find Watermaster charges to Suburban Water Systems to be unreasonable.

Conclusion of Law

The application should be granted to the extent provided by the following order, the adopted rates and charges being just, reasonable, and nondiscriminatory.

O R D E R

IT IS ORDERED that:

1. Suburban Water Systems, San Jose District, is authorized to file the revised schedules attached as Appendix A. This filing shall comply with General Order 96-A. The effective date of the revised schedules shall be 5 days after the date of filing. The revised schedules shall apply to service rendered on or after the effective date.

2. On or after November 5, 1992 and 1993, Suburban Water Systems should be authorized to file an advice letter, with appropriate supporting workpapers, requesting step rate increases for 1993 and 1994 attached as Appendix B or to file a lesser increase in the event that the rate of return on rate base adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1992 and 1993, exceed the later of (a) the rate of return found reasonable by the Commission for Suburban Water Systems for the corresponding period in the then most recent rate decision, or (b) the rate of return found reasonable in this case. This filing should comply with General Order 96-A. The requested step rates should be reviewed by

the Staff to determine their conformity with this order and should go into effect upon the Staff's determination of conformity. The Staff should inform the Commission if it finds that the proposed rates are not in accord with this decision, and the Commission should then modify the increase. The effective date of the revised tariff schedules for 1993 and 1994 should be no earlier than January 1, 1993 and January 1, 1994, respectively, or 40 days after filing, whichever is later. The revised schedules should apply to service rendered on and after their effective date.

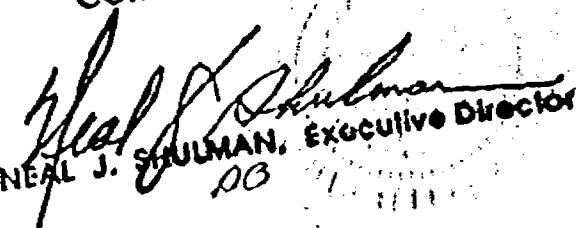
3. Suburban Water Systems' motion to strike the testimony of Maxine Leichter is denied.

This order is effective today.

Dated March 11, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

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


NEAL J. SHULMAN, Executive Director
DB

SUBURBAN WATER SYSTEMS
San Jose District

Schedule SJ-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

Per Meter
Per Month

Quantity Rates:

For all water, per 100 cu. ft.:

Tariff Area No. 1	\$ 0.834	(I)
Tariff Area No. 2	0.914	†
Tariff Area No. 3	0.982	(I)

Service Charge:

For 5/8 x 3/4-inch meter.....	5.15	(R)
For 3/4-inch meter.....	7.70	(R)
For 1-inch meter.....	12.85	(I)
For 1-1/2-inch meter.....	25.70	†
For 2-inch meter.....	41.15	†
For 3-inch meter.....	77.00	†
For 4-inch meter.....	128.50	†
For 6-inch meter.....	257.00	†
For 8-inch meter.....	411.00	(I)

The Service Charge is a readiness-to-serve charge (T)
which is applicable to all metered service and to †
which is added the monthly charge computed at the †
Quantity Rate. (T)

SPECIAL CONDITIONS

1. The boundaries of the Tariff Areas in which the above (T)
rates apply are delineated on the Service Area Map for †
the San Jose Hills District as filed in these tariff †
schedules. (T)
- (D)
2. All bills are subject to the reimbursement fee set (N)
forth on Schedule No. UF. (N)

(Continued)

SUBURBAN WATER SYSTEMS

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

All tariff areas.

RATES

	<u>District</u>			(T)
	<u>San Jose</u>	<u>Whittier</u>	<u>La Mirada</u>	
For each inch of diameter of service connection, per month	\$ 8.35 (I)	\$ 6.95	\$ 5.69	

SPECIAL CONDITIONS

1. The facilities for service to a privately owned fire protection system shall be installed by the Utility or under the Utility's direction. Cost for the entire installation, excluding the connection at the main, shall be paid for by the applicant. Such payment shall not be subject to refund.
2. The expense of maintaining the private fire protection facilities on the applicant's premises (including the vault, meter and backflow device) shall be paid for by the applicant.
3. All facilities paid for by the applicant shall be the sole property of the applicant. The Utility and its duly authorized agents shall have the right to ingress to, and egress from the premises for all purposes relating to said facilities.
4. The minimum diameter for the service pipe to fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
5. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a main extension from the nearest existing main of adequate capacity shall be installed by the Utility. The cost of such main extension attributable to the fire protection requirement shall be paid to the Utility as a contribution in aid of construction. (L)

(Continued)

SUBURBAN WATER SYSTEMS

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE
(Continued)SPECIAL CONDITIONS (Continued)

6. Service hereunder is to private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction. All facilities are to be installed according to the Utility's specifications and maintained to the Utility's satisfaction. The Utility may require the installation of a backflow prevention device and a standard detector type meter approved by the Insurance Service Office for protection against theft, leakage, or waste of water.
7. No structure shall be built over the service pipe serving fire protection facilities and the customer shall maintain and safeguard the area occupied by the service pipe from traffic and other hazardous conditions. The customer will be responsible for any damage to the service facilities.
8. Subject to the approval of the Utility, any change in the location or construction of the service for the fire protection facilities requested by public authority or the customer will be made by the Utility following payment to the Utility of the entire cost of such change.
9. Any unauthorized use of water through the service to fire protection facilities will be charged for at the applicable tariff rates and may be grounds for discontinuance of service by the Utility to the privately owned fire protection system without liability to the Utility.
10. The Utility will supply to the privately owned fire protection system only such water at such pressure as may be available from time to time in the operation of Utility's system.
11. All bills are subject to the reimbursement fee set forth on Schedule No. UP. (N)
(N)

(Continued)

SUBURBAN WATER SYSTEMS

Schedule No. 4A

FIRE HYDRANT SERVICE ON PRIVATE PROPERTY

APPLICABILITY

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

TERRITORY

Throughout all tariff areas.

RATES

RATES

	<u>District</u>			(T)
	<u>San José</u>	<u>Whittier</u>	<u>La Mirada</u>	
For each 4-inch fire hydrant with a single 2-1/2-inch outlet, per month	\$ 6.15 (I)	\$ 5.26	\$ 4.75	(T)
For each 6-inch riser hydrant with steamer head, per month	8.50 (I)	7.35	6.61	(T)
For each 6-inch standard fire hydrant, per month ..	12.30 (I)	10.52	9.34	(T)

SPECIAL CONDITIONS

1. The fire hydrant will be installed by the Utility or under the Utility's direction at the cost of the applicant. The cost will not be subject to refund.
2. The fire hydrant shall be used for fire fighting purposes and fire drills only. Water use for fire drills will be limited to 15 minutes per week.
3. The replacement, enlargement, or relocation of any hydrant made at the request of the customer shall be paid for by the customer.
4. All facilities paid for by the applicant shall be the sole property of the applicant. The Utility and its duly authorized agents shall have the right to ingress to, and egress from the premises for all purposes relating to said facilities.
5. The repair and maintenance of the hydrants will be the responsibility of the applicant.
6. Any unauthorized use of water will be charged therefor under the General Metered Service schedule for the particular tariff area, and/or may be grounds for the utility to discontinue the service without liability to the utility.

(Continued)

SUBURBAN WATER SYSTEMS

Schedule No. 4A

FIRE HYDRANT SERVICE ON PRIVATE PROPERTY (Continued)SPECIAL CONDITIONS (Continued)

7. There shall be no cross-connection between the fire hydrant service and any other source of supply without the specific approval of the utility. This specific approval will require at the customer's expense, a special double check valve installation or other device acceptable to the Utility. Any unauthorized cross-connection may be grounds for immediate disconnection of the fire hydrant service without liability to the Utility.
8. The Utility will supply to the hydrant only such water at such pressure as may be available from time to time in the operation of Utility's system.
9. All bills are subject to the reimbursement fee set forth on Schedule No. UP. (N)
(N)

(Continued)

APPENDIX A
(Page 6)

SUBURBAN WATER SYSTEMS

Schedule No. TRA-1

TAX REFORM ACT OF 1986
REFUND SURCREDIT

APPLICABILITY

This surcredit applies to customers' total water bills rendered under all tariff rate schedules authorized by the Commission, with the exception of surcharge for the repayment of Safe Drinking Water Bond Act loans and the PUC reimbursement fee surcharge.

TERRITORY

Throughout all tariff areas.

RATES

The surcredits set forth below shall be applied to customers' bills for the districts indicated:

	(D)
Whittier.....	1.955%
La Mirada.....	2.420%

Note: The Tax Reform Act of 1986 Refund Surcredit schedule submitted herewith is for the purpose of reflecting the rate reduction necessary to keep our rates in line with the current tax rates and is developed using the estimated 1988 estimated revenue of the Act. This schedule applies to all bills rendered on or after January 1, 1989, is made pursuant to Resolution No. W-3424, and will be in effect until the next general or attrition rate adjustment is approved for each of the above districts.

(End of Appendix A)

SUBURBAN WATER SYSTEMS
San Jose District

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

SCHEDULE NO. SJ-1, GENERAL METERED SERVICE:

Quantity Rate:

For all water delivered, per 100 cu. ft.:

	Per Meter per Month	
	Effective Dates	
	1-1-93	1-1-94
Tariff Area No. 1	\$ 0.020	\$ 0.020
Tariff Area No. 2	0.022	0.022
Tariff Area No. 3	0.023	0.024

Service Charge:

For 5/8 x 3/4-inch meter.....	\$ 0.10	\$ 0.15
For 3/4-inch meter.....	0.25	0.25
For 1-inch meter.....	0.35	0.40
For 1-1/2-inch meter.....	0.70	0.80
For 2-inch meter.....	1.15	1.20
For 3-inch meter.....	2.00	2.00
For 4-inch meter.....	3.50	4.00
For 6-inch meter.....	8.00	8.00
For 8-inch meter.....	13.00	13.00

SCHEDULE NO. 4, PRIVATE FIRE PROTECTION SERVICE:

Rates per Month:

For each inch of diameter of service connection.....	\$ 0.25	\$ 0.20
--	---------	---------

SCHEDULE NO. 4A, FIRE HYDRANT SERVICE ON PRIVATE PROPERTY:

Rates per Hydrant per Month:

4" riser type fire hydrant with single 2-1/2" outlet	\$ 0.15	\$ 0.20
6" riser type fire hydrant with steamer head.....	0.25	0.20
6" standard type fire hydrant.....	0.30	0.35

* * *

(End of Appendix B)

APPENDIX C
(Page 1)SUBURBAN WATER SYSTEMS
San José District

ADOPTED QUANTITIES

FEDERAL TAX RATE:	34.0%
STATE TAX RATE:	9.3%
FRANCHISE TAX RATE:	1.44%
UNCOLLECTIBLES RATE:	0.53%
POSTAGE RATE:	\$0.242

SERVICES and METERED SALES

NUMBER OF SERVICES

	Average Number of Services	Average Usage Ccf/Year	Usage (KCcf)
Test Year 1992:			
Residential	32,598	251	8,182.1
Business	625	3,238	2,023.8
Industrial	15	5,351	80.3
Public Authorities	92	4,712	433.5
Metered Flooding	11	1,036	11.4
Governmental Agencies	1	13,255	13.3
Total Metered	33,342		10,744.4
Private Fire Protection Service	225		
Fire Hydrant Service on Private Property	112		
Total Flat Rate	337		
Total Average Services	33,679		
Unaccounted for Water @ 6.4% of Production			734.7
Total Water Supply (KCcf)			11,479.1
Test Year 1993:			
Residential	32,760	251	8,222.8
Business	633	3,238	2,049.7
Industrial	15	5,351	80.3
Public Authorities	92	4,712	433.5
Metered Flooding	11	1,036	11.4
Governmental Agencies	1	13,255	13.3
Total Metered	33,512		10,811.0
Private Fire Protection Service	225		
Fire Hydrant Service on Private Property	114		
Total Flat Rate	339		
Total Average Services	33,851		
Unaccounted for Water @ 6.4% of Production			739.2
Total Water Supply (KCcf)			11,550.2

(Continued)

SUBURBAN WATER SYSTEMS
San Jose District

ADOPTED QUANTITIES

SERVICES and METERED SALES (continued)

AVERAGE SERVICES BY METER SIZE:

	<u>Meter Size</u>	<u>Average Number of Services</u>
Test Year 1992:	5/8 x 3/4	2,070
	3/4	25,976
	1	4,264
	1-1/2	409
	2	438
	3	129
	4	49
	6	5
	8	2
		Total
Test Year 1993:	5/8 x 3/4	2,070
	3/4	25,976
	1	4,419
	1-1/2	418
	2	443
	3	129
	4	50
	6	5
	8	2
		Total

METERED WATER SALES, Ccf:

	<u>Zone 1 Usage</u>	<u>Zone 2 Usage</u>	<u>Zone 3 Usage</u>	<u>Total Usage</u>
Test Year 1992	6,550,263	4,156,226	37,776	10,744,265
Test Year 1993	6,589,563	4,183,305	37,963	10,810,831

(Continued)

SUBURBAN WATER SYSTEMS
San José District

ADOPTED QUANTITIES

VOLUME RELATED

PURCHASED POWER	Test Years	
	1992	1993
Water Production, Acre Feet	26,351	26,515
Electric		
kWh / Acre Foot	609.87	609.87
Cost / kWh	\$0.0874	\$0.0874
Southern California Edison Rates (Effective January 1, 1991)		
kWh Cost (\$000)	\$1,404.6	\$1,413.3
Gas		
Therms / Acre Foot	15.97	15.97
Cost / Therm	\$0.6189	\$0.6189
Southern California Gas Rates (Effective January 1, 1991)		
Therm Cost (\$000)	\$260.4	\$262.1
Total Purchased Power Cost (\$000)	\$1,665.0	\$1,675.4
PUMPED WATER		
Main San Gabriel Basin		
Quantity		
Make Up (Owned Rights):		
Safe Yield, Acre Feet	140,000	140,000
Owned Rights (.1257888), AF.	17,610	17,610
Percent to San José District	72%	72%
Total Make Up (Owned Rights), AF.	12,679	12,679
Lease Rights, Acre Feet	4,315	4,315
Replacement (Excess), Acre Feet	5,898	5,733
Total Pumped Water, Acre Feet	22,892	22,727
Rates		
Make Up (Owned Rights):		
Make Up, Per Acre Foot	\$1.50	\$1.50
Administrative Fee, Per AF.	\$16.30	\$16.30
Total Make Up, Per Acre Foot	\$17.80	\$17.80
Lease Rights:		
Lease, Per Acre Foot	\$184.67	\$184.67
Make Up, Per Acre Foot	\$1.50	\$1.50
Administrative Fee, Per AF.	\$16.30	\$16.30
Total Lease, Per Acre Foot	\$202.47	\$202.47
Replacement (Excess):		
Replacement, Per Acre Foot	\$206.85	\$206.85
Administrative Fee, Per AF.	\$16.30	\$16.30
Total Replacement, Per Acre Foot	\$223.15	\$223.15
Cost		
Make Up (Owned Rights)	\$225.7	\$225.7
Lease Rights	\$873.7	\$873.7
Replacement (Excess)	\$1,316.1	\$1,279.3
Total Pumped Water Costs (\$000)	\$2,415.5	\$2,378.7

(Continued)

SUBURBAN WATER SYSTEMS
San José District

ADOPTED QUANTITIES

VOLUME RELATED (continued)

PURCHASED WATER	Test Years	
	1992	1993
Quantity		
Covina Irrigating		
Owned, Acre Feet	847	847
Lease, Acre Feet	464	464
Lease Pool, Acre Feet	0	0
Excess Pool, Acre Feet	0	0
Total Covina Irrigating, Acre Feet	1,311	1,311
Other		
Glendora, Acre Feet	761	781
Rowland, Acre Feet	0	0
MWD (City of West Covina), AF.	1,387	1,696
Total Purchased Water	3,459	3,788
Rates		
Covina Irrigating Owned:		
Share Assessment, Per Share	\$40.00	\$40.00
Acre Feet Per Share	0.689	0.689
Assessment, Per Acre Foot	\$58.06	\$58.06
Volume Charge, Per Acre Foot	\$40.00	\$40.00
Total Covina Irrigating Owned, Per AF.	\$98.06	\$98.06
Covina Irrigating Lease:		
Lease, Per Share	\$112.00	\$112.00
Acre Feet Per Share	0.689	0.689
Lease, Per Acre Foot	\$162.55	\$162.55
Volume Charge, Per Acre Foot	\$40.00	\$40.00
Total Covina Irrigating Lease, Per AF.	\$202.55	\$202.55
Covina Irrigating Lease Pool, Per AF.	\$205.48	\$205.48
Covina Irrigating Excess Pool, Per AF.	\$246.85	\$246.85
Glendora, Per Acre Foot	\$281.00	\$281.00
Rowland, Per Acre Foot	\$360.69	\$360.69
MWD (City of West Covina), Per AF.	\$274.05	\$274.05
Cost		
Covina Irrigating Owned	\$83.1	\$83.1
Covina Irrigating Lease	\$94.0	\$94.0
Covina Irrigating Lease Pool	\$0.0	\$0.0
Covina Irrigating Excess Pool	\$0.0	\$0.0
Total Covina Irrigating	\$177.1	\$177.1
Glendora, Per Acre Foot	\$213.8	\$219.5
Rowland, Per Acre Foot	\$0.0	\$0.0
MWD (City of West Covina), Per AF.	\$380.1	\$464.8
Total Purchased Water Cost (\$000)	\$771.0	\$861.4

(Continued)

SUBURBAN WATER SYSTEMS
San José District

ADOPTED QUANTITIES

DEPRECIATION RATES

<u>PUC</u> <u>Account</u> <u>Number</u>	<u>Description</u>	<u>Dépreciation Rate, Percent</u>
315	Wells	2.810
317	Other Source of Supply Plant	4.534
321	Pumping Plant Structures and Improvements	2.447
324	Pumping Equipment	4.800
325	Other Pumping Plant	3.898
331	Water Treatment Plant Structures and Improvements	2.604
332	Water Treatment Equipment	4.007
342	Reservoirs and Tanks	1.689
343	Transmission and Distribution Mains	2.080
344	Fire Mains	2.344
345	Services	4.268
346	Meters	9.489
348	Hydrants	3.179
371	General Plant Structures and Improvements	2.365
372	Office Furniture and Equipment	17.566
376	Communication Equipment	8.686
378	Tools, Shop and Garage Equipment	17.476
	COMPOSITE RATE	3.032
MAIN OFFICE:		
371	General Plant Structures and Improvements	17.432
372	Office Furniture and Equipment	14.879
373	Transportation Equipment	0.000
374	Stores Equipment	9.832
375	Laboratory Equipment	8.330
376	Communication Equipment	10.180
377	Power Operated Equipment	13.977
378	Tools, Shop and Garage Equipment	6.210
379	Other General Plant	4.324
380	Automobiles	37.029
	COMPOSITE RATE	14.897

(Continued)

SUBURBAN WATER SYSTEMS
San José District

ADOPTED QUANTITIES

TAXES

AD VALOREM TAXES

	1992 <u>TEST YEAR</u>	1993 <u>TEST YEAR</u>
Ad Valorem Taxes	\$219,800	\$225,100
effective Tax Rate, Average for Calendar	1.17%	1.15%
Assessed Value, Average for Calendar Year:		
San Jose District	\$17,669,100	\$18,517,400
Common Allocation	\$2,201,100	\$2,072,000

INCOME TAX CALCULATION

CALIFORNIA CORPORATION FRANCHISE TAX		
Total Water Service Revenues	\$13,215,982	\$13,648,350
Other Revenues	225,667	226,359
Total Operating Revenues	\$13,441,649	\$13,874,709

DEDUCTIONS:

O & M and A & G Expenses	\$9,849,406	\$10,159,648
Tax Depreciation, State	1,505,524	1,433,361
Taxes Other than Income	372,780	387,064
Interest Expense	531,936	540,711
Subtotal, Deductions	\$12,259,646	\$12,520,784
Taxable Income, CCFT	\$1,182,003	\$1,353,925
CCFT Rate	9.30%	9.30%
CCFT	\$109,926	\$125,915

FEDERAL INCOME TAX

Taxable Income, CCFT	\$1,182,003	\$1,353,925
Plus Tax Depreciation, State	1,505,524	1,433,361
Less Tax Depreciation, Federal	1,492,262	1,459,757
Less Additional Allowable Pension Expense	(95,996)	(78,993)
Less CCFT	109,926	109,926
Taxable Income, Federal	\$1,181,335	\$1,296,596
Federal Tax Rate	34.00%	34.00%
Federal Tax Payable	\$401,654	\$440,843
Plus Deferred Federal Income Taxes	140,662	121,988
Federal Income Tax Expense	\$542,316	\$562,831
TOTAL INCOME TAX EXPENSE	\$652,242	\$688,746

SUMMARY

Total Income Taxes Payable	\$511,580	\$566,758
Total Deferred Income Tax Expense	140,662	121,988
TOTAL INCOME TAX EXPENSE	\$652,242	\$688,746

(End of Appendix C)