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Decision 92-04-032 April 8, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Gabriel Valley Water Company (U337W) for Authority to Increase Rates Charged for Water Service in Its Fontana Water Company Division.	Application 91-08-034 (Filed August 20, 1991)

Timothy J. Ryan, Attorney at Law, for San Gabriel Valley Water Company, applicant.
Lawrence Q. Garcia, Attorney at Law, and Sazedur Rahman, for the Commission Advisory and Compliance Division.

INDEX

Subject	Page
OPINION	2
1. Summary of Decision	2
2. Background	2
3. Summary of Application	3
4. Procedural History	4
5. Joint Stipulation of Issues of Law or Fact	5
5.1 General Office Costs	13
5.2 Operations Costs	13
5.3 Rate Base Estimates	13
5.4 Audit Issues	14
5.5 Approval of Stipulation	15
5.6 Additional Filing Authorized	16
6. Contested Issues	16
7. Rate of Return	16
7.1 San Gabriel's Position	17
7.2 Position of DRA	19
7.3 Discussion	21
8. Balancing Account	23
9. Allocation of Salaries	24
10. Sale of Property	27
11. Intangible Plant Classification	31
12. Bilingual Notices	33
13. Comments on the ALJ Proposed Decision	34
Findings of Fact	35
Conclusions of Law	39
ORDER	40

OPINION

1. Summary of Decision

The Fontana Water Company Division (Fontana Division) of San Gabriel Valley Water Company (San Gabriel) is authorized to increase its rates by amounts designed to increase revenues by $929,200 or 6.76% for 1992; $857,400 or 5.84% for 1993; $416,300 or 2.68% for 1994; and $416,300 or 2.61% for 1995. Rates of return on rate base of 10.57% for 1992, 10.53% for 1993, 10.56% for 1994, and 10.59% for 1995 are found to be reasonable. The return on common equity (ROE) authorized by this decision is 11.50%.

2. Background

San Gabriel on August 20, 1991, filed an application to increase the rates it charges for water service in its Fontana Division for test years 1992 and 1993 and attrition years 1994 and 1995.[1] San Gabriel produces, distributes, and sells water through two divisions. The Fontana Division serves approximately 30,000 metered connections (about 100,000 persons) in the cities of Fontana, Rancho Cucamonga, and Rialto and adjacent unincorporated areas in San Bernardino County.[2] The Los Angeles County Division

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1 The filing is for a three-year, or 36-month, period beginning in mid-1992 and extending through mid-1995, pursuant to the Rate Case Plan for Class A Water Utility, Decision (D.) 90-08-045, Appendix A. San Gabriel is among the first Class A utilities with a July filing under the Rate Case Plan. The plan provides that for utilities with July filings, the calendar year following the year of filing is the first test year, and attrition filings are permitted for both the full calendar year following the second test year and for the following partial year.

2 Total metered connections for test year 1992 for the Fontana Division are 29,823, with 404 flat-rate private fire protection connections, or a total of 30,227 active connections, including fire protection. (Exhibit (Ex.) 8, Table C-1.)

serves approximately 45,000 metered connections in Los Angeles County.[3]

3. Summary of Application

In its application, San Gabriel sought authority to increase its Fontana Division rates by 28.2% (or $3,858,300) for the remainder of 1992; 5.7% (or $1,004,700) for 1993; 3.5% (or $649,000) for 1994, and 3.5% (or $670,000) for 1995. The requested rates were designed to produce a return on equity of 14% over the 1992-1995 period, corresponding to a 12.16% average return on rate base for the three-year period. At hearing, San Gabriel amended its application and reduced its requested return on equity to 13.15%, with a corresponding reduction in requested rates. The amendment was made in recognition of current economic trends and declining interest rates.

San Gabriel's witnesses state that increased rates are necessary to enable the company to pay higher costs of furnishing water to customers, to maintain financial integrity in order to attract capital funds, to service debt, to construct additional plant, and to provide a fair and reasonable return on equity. San Gabriel claims that its financial risks have been intensified by the drought and resulting sales fluctuations, by litigation with its supplier of water and the City of Fontana, and by a well-drilling program required to protect and augment water supplies.

San Gabriel received authority for its last Fontana Division general rate increase on June 5, 1985.[4] At that time the Commission authorized rates designed to increase division revenues by 9.67% in 1985; 6.62% in 1986, and 3.52% in 1987. The

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3 See, Re San Gabriel Valley Water Company (1989) 32 CPUC 2d 423 for the most recent general rate case decision for San Gabriel's Los Angeles County Division.

4 See, D.85-06-031 in Application 84-08-105.

authorized return on equity was 14.25%, and rate of return for the three years averaged 11.76%. San Gabriel elected not to seek a general rate increase for the years 1988-1991, but rates have been adjusted during that time by offset increases, most recently an 8.9% increase in April 1991 to offset purchased power costs and a 17.2% increase in July 1991 to offset purchased water costs.[5]

4. Procedural History

San Gabriel filed its Notice of Intent in this proceeding on July 5, 1991. Notice of the proposed rate increase was given to customers through publication and bill inserts.[6] The Commission's Water Utilities Branch (Branch) conducted an informal public meeting on October 17, 1991, in Fontana. About 18 customers attended. According to Branch, all objected to the size of the proposed rate increase and questioned its necessity.

Two public participation hearings in Fontana were conducted by the assigned administrative law judge (ALJ) on the afternoon and evening of December 16, 1991. Four persons, all owners of apartment buildings, made comments. They opposed any substantial rate increase at a time, they said, when the community is experiencing increased unemployment, decreased property values, and an apartment vacancy rate averaging 18%. San Gabriel President

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5 Since the last general rate increase in 1985, the following formal rate matters for the Fontana Division have been before the Commission: In 1985, Advice Letters 219, 223, and 224 (D.85-06-031), related to step increase adjustment, revised private fire service schedule, and revised construction and tank truck service; in 1987, Advice Letter 235 (D.87-09-026), gross-up of income tax on contributions; in 1988, Advice Letter 238 (D.88-01-061), Tax Reform Act surcredit; in 1990, Advice Letter 252 (Resolution W-3523), offset for increased purchased water costs; in 1991, Advice Letters 255 and 256, offsets for increased purchased power and increased purchased water.

6 The legal notice of application, affidavits of publication, and a billing insert notice are contained in the utility's Ex. 5.

Michael L. Whitehead responded to comments and answered questions at the public meetings. No complaints related to Fontana Division service were raised at any of the meetings.

Evidentiary hearings were held in Los Angeles and San Francisco on December 17, 18, and 20, 1991. The Commission heard from five witnesses for the company, and four witnesses for Branch, including one representing the Division of Ratepayer Advocates (DRA). Twenty-six exhibits were received, including a joint stipulation of the parties resolving their disputes on most expense and rate base items, and a joint comparison exhibit of the parties. San Gabriel's application was deemed submitted on January 17, 1992, after filing of concurrent and reply briefs.

5. Joint Stipulation of Issues of Law or Fact

San Gabriel and Branch entered into discussions of contested findings[7] soon after issuance of Branch's reports on the application.[8] At hearing, the parties announced that they had settled most of the differences between them related to costs, rate of return matters, and audit recommendations. On January 14, 1992, the parties filed a motion for approval and adoption of stipulation, along with the stipulation of settlement (Ex. 25) and a joint comparative exhibit (Ex. 26). The filing is made in compliance with Rules 51-51.10 of the Rules of Practice and

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7 The Rate Case Plan provides: "Following issuance of Branch's showing, parties are encouraged to initiate discussions to clarify their respective positions and identify opportunities for stipulations and settlements where appropriate." (D.90-08-045, App. A, p. 2.)

8 In November 1991, Branch issued a limited audit report (Ex. 7), a report on results of operations of the Fontana Division (Ex. 8), and a report on the division's general office (Ex. 9). At the same time, the Financial and Economic Analysis Branch of the DRA issued its report on cost of capital and rate of return (Ex. 6).

Procedure. As required by Rule 51.1(c), it includes an explanation of agreed matters and a showing of each party's original and settling positions.

Relevant portions of Joint Ex. 26, reproduced here as Tables 1 through 4, set forth stipulated estimates of operations (including the development of rate bases at present rates) for test years 1992 and 1993. The center columns of these tables ("Final Applicant Position" and "Final Staff Position") set forth final estimated results of San Gabriel and Branch. The column entitled "Differences" shows no disagreement between these final estimates. Tables 5 and 6 contain the adopted summary of earnings at present and authorized rates for 1992 and 1993.

Table 1

SAN GABRIEL VALLEY WATER COMPANY -
FONTANA WATER COMPANY DIVISION - A.91-08-034
JOINT COMPARATIVE EXHIBIT NO. 26
TEST YEARS 1992 & 1993

13-Jan-92

Item: AT PRESENT RATES:	Applicant's Estimates: Original Filing	Adjust-ment	Final Applicant Position	Differences	CPUC Staff Estimates: Final Staff Position	Adjust-ment	Original Filing
	$ in 000:				$ in 000s		
Operating Revenues	13886.1	359.0	14245.1	0	14245.1	0	14245.1
Operation Expenses							
Purchased Water	4619.6	-217.2	4402.4	0	4402.4	786.4	3616.0
Water Stock Assessment	36.3	0	36.3	0	36.3	0	36.3
Purchased Power	1217.0	19.2	1236.2	0	1236.2	0	1236.2
Purchased Chemicals	45.2	-10.1	35.1	0	35.1	0.8	34.3
Payroll	1261.3	-85.8	1175.5	0	1175.5	5.9	1169.6
Materials & Supplies	76.6	-16.3	60.3	0	60.3	16.2	44.1
Transportation	192.4	-19.8	172.6	0	172.6	3.7	168.9
Utilities	39.8	0	39.8	0	39.8	0	39.8
Other Oper. & Maint.	75.7	-39.4	36.3	0	36.3	13.0	23.3
Maintenance Expenses							
Payroll	366.1	4.5	370.6	0	370.6	0	370.6
Transportation	112.2	-11.5	100.7	0	100.7	2.1	98.6
Mat'ls & Supplies	153.8	-12.9	140.9	0	140.9	3.0	137.9
Contracted Maintenance	241.7	-30.8	210.9	0	210.9	0	210.9
General & Admin. Expenses							
Payroll	116.3	-18.7	97.6	0	97.6	0.4	97.2
Office Supplies & Other	28.8	-8.8	20.0	0	20.0	2.2	17.8
Property Insurance	10.4	0	10.4	0	10.4	0	10.4
Injuries & Damages	173.0	0	173.0	0	173.0	0	173.0
Empl. Pensions & Benefits	707.5	-55.6	651.9	0	651.9	124.6	527.3
Reg. Commission Exps.	174.4	-170.0	4.4	0	4.4	0	4.4
Misc. General Exps.	1442.5	-1042.5	400.0	0	400.0	-175.0	575.0
Maint. of General Plant	30.6	0	30.6	0	30.6	0	30.6
Rents	5.2	0	5.2	0	5.2	0	5.2
Admin. Exps Transferred	-212.5	0	-212.5	0	-212.5	0	-212.5
Bank Charge	0	44.0	44.0	0	44.0	0	44.0
General Office Expenses	1232.3	-54.8	1177.5	0	1177.5	6.8	1170.7
Payroll Tax	218.1	-34.6	183.5	0	183.5	0	183.5
Ad Valorem Tax	245.0	-10.1	234.9	0	234.9	0.1	234.8
Depreciation & Amortiz.	906.3	-0.2	906.1	0	906.1	1.0	905.1
Balancing Account	0	0	0		0	0	0
SUBTOTAL	13515.6	-1771.4	11744.2	0	11744.2	791.2	10953.0
Uncollectibles	64.0	-10.4	53.6	0	53.6	0	53.6
Franchise Taxes	164.6	-3.1	161.5	0	161.5	0	161.5
State Corp. Franch. Tax	0	77.1	77.1	0	77.1	-73.5	150.6
Federal Income Tax	0	439.1	439.1	0	439.1	-243.9	683.0
TOTAL OPERATING EXPENSES	13744.2	-1268.7	12475.5	0	12475.5	473.8	12001.7
NET OPERATING REVENUES	141.9	1627.7	1769.6	0	1769.6	-473.8	2243.4
RATE BASE, 1992	23688.6	-4651.8	19036.8	0	19036.8	64.5	18972.3
RATE OF RETURN	0.60	8.70	9.30	0	9.30	-2.52	11.82

Table 2

TEST YEAR 1993

Item: AT PRESENT RATES:	Applicant's Estimates: Original Filing	Adjustment	Final Applicant Position	Differences	CPUC Staff Estimates: Final Staff Position	Adjustment	Original Filing
	$ in 000:				$ in 000s		
Operating Revenues	14316.7	413.3	14730.0	0	14730.0	-185.5	14915.5
Operation Expenses							
Purchased Water	4750.2	-266.1	4484.1	0	4484.1	816.1	3668.0
Water Stock Assessment	36.3	0	36.3	0	36.3	0	36.3
Purchased Power	1372.9	182.4	1555.3	0	1555.3	-22.0	1577.3
Purchased Chemicals	47.9	-11.7	36.2	0	36.2	0.9	35.3
Payroll	1337.0	-121.5	1215.5	0	1215.5	6.2	1209.3
Materials & Supplies	82.3	-18.5	63.8	0	63.8	18.5	45.3
Transportation	204.4	-26.0	178.4	0	178.4	4.4	174.0
Utilities	42.2	0	42.2	0	42.2	0	42.2
Other Oper. & Maint.	83.3	-45.8	37.5	0	37.5	13.5	24.0
Maintenance Expenses							
Payroll	388.0	-4.8	383.2	0	383.2	0	383.2
Transportation	119.2	-15.1	104.1	0	104.1	2.6	101.5
Mat'ls & Supplies	163.1	-17.5	145.6	0	145.6	3.6	142.0
Contract Maintenance	256.1	-38.9	217.2	0	217.2	0	217.2
General & Admin. Expenses							
Payroll	123.3	-22.4	100.9	0	100.9	0.3	100.6
Office Supplies & Other	31.1	-8.1	23.0	0	23.0	4.7	18.3
Property Insurance	11.4	0	11.4	0	11.4	0	11.4
Injuries & Damages	187.9	0	187.9	0	187.9	0	187.9
Empl. Pens. & Benefits	768.7	-94.7	674.0	0	674.0	129.6	544.4
Reg. Commission Exps.	184.9	-179.4	5.5	0	5.5	0	5.5
Misc. General Exps.	1441.3	-1041.3	400.0	0	400.0	-175.0	575.0
Maint. of General Plant	32.4	0	32.4	0	32.4	0	32.4
Rents	5.5	0	5.5	0	5.5	0	5.5
Admin. Exps Transferred	-225.2	0	-225.2	0	-225.2	0	-225.2
Bank Charge	0	44.0	44.0	0	44.0	0	44.0
General Office Expense	1343.8	-76.2	1267.6	0	1267.6	8.7	1258.9
Payroll Tax	231.0	-41.4	189.6	0	189.6	0	189.6
Ad Valorem Tax	274.2	-18.2	256.0	0	256.0	0.6	255.4
Depreciation & Amort.	965.7	-16.9	948.8	0	948.8	2.8	946.0
Balancing Account	0	0	0		0	0	0
SUBTOTAL	14258.9	-1838.1	12420.8	0	12420.8	815.5	11605.3
Uncollectibles	66.0	-10.5	55.5	0	55.5	-0.7	56.2
Franchise Taxes	169.7	-2.7	167.0	0	167.0	-2.1	169.1
State Corp. Franch. Tax	0	66.4	66.4	0	66.4	-92.6	158.9
Federal Income Tax	0	389.7	389.7	0	389.7	-313.9	703.5
TOTAL OPERATING EXPENSES	14494.6	-1395.3	13099.3	0	13099.3	406.2	12693.1
NET OPERATING REVENUES	-177.9	1808.6	1630.7	0	1630.7	-591.7	2222.4
RATE BASE	23870.8	-3831.0	20039.8	0	20039.8	151.1	19888.7
RATE OF RETURN	-0.75	8.89	8.14	0	8.14	-3.03	11.17

Table 3

Item:	Applicant's Estimates Original Filing	Adjustment	Final Applicant Position	Differences	CPUC Staff Estimates: Final Staff Position	Adjust.	Original Filing
	$ in 000s				$ in 000s		
UTILITY PLANT, 1992:							
Plant in Service - BOY	47679.8	-788.6	46891.2		46891.2	0	46891.2
Additions							
Utility Funded	1616.0	245.2	1861.2		1861.2	82.7	1778.5
Advances	1000.0	-500.0	500.0		500.0	0	500.0
Contributions	725.0	-125.0	600.0		600.0	0	600.0
Total Additions	3341.0	-379.8	2961.2		2961.2	82.7	2878.5
Retirements	136.1	0	136.1		136.1	0	136.1
Transfers & Adjusts.	0	0	0		0	0	0
Net Additions	3204.9	-379.8	2825.1		2825.1	82.7	2742.4
Plant in Service - EOY	50884.7	-1168.4	49716.3		49716.3	82.7	49633.6
Aver. Utility Plant, 1992:	49282.3	-978.5	48303.8		48303.8	41.4	48262.4
AVERAGE DEPR. RATE BASE, 1992:							
Aver. Plant in Service:	49282.3	-978.5	48303.8		48303.8	41.4	48262.4
Depreciation Reserve	8542.6	13.6	8556.2		8556.2	0.5	8555.7
Net Plant	40739.7	-992.1	39747.6		39747.6	40.9	39706.7
Less:							
Advances	14940.7	-592.3	14348.4		14348.4	0	14348.4
Contributions	6330.3	-75.3	6255.0		6255.0	0	6255.0
Accum. Def. Tax Depr.	3095.6	-4.4	3091.2		3091.2	0	3091.2
ITC	666.6	0	666.6		666.6	0	666.6
Pub. Agency Reloc. Adj.	0	331.0	331.0		331.0	331.0	0
Subtotal	15706.5	-651.1	15055.4		15055.4	-290.1	15345.5
Plus:							
Materials & Supplies	429.5	-188.0	241.5		241.5	16.1	225.4
Min. Bank Balance	421.1	-411.1	10.0		10.0	10.0	0
Working Cash	573.7	-488.5	85.2		85.2	442.1	-356.9
Tax on Contributions	748.9	-11.5	737.4		737.4	0	737.4
Tax on Advances	1397.7	-91.7	1306.0		1306.0	0	1306.0
Other Adjustment	113.6	-113.6	0		0	-113.6	113.6
Deferred Debit- Legal	2629.9	-2629.9	0		0	0	0
Common Allocation - Net	1665.4	-64.1	1601.3		1601.3	0	1601.3
Average Rate Base, 1992	23686.3	-4649.5	19036.8		19036.8	64.5	18972.3

Table 4

Item:	Applicant's Estimates Original Filing	Adjust-ment	Final Applicant Position	Difference	CPUC Staff Estimates: Final Staff Position	Adjust-ment	Original Filing
	$ in 000:				$ in 000s		
UTILITY PLANT, 1993:							
Plant in Service - BOY	50884.7	-1168.4	49716.3		49716.3	82.7	49633.6
Additions							
Utility Funded	1558.6	-160.9	1397.7		1397.7	62.1	1335.6
Advances	1000.0	-500.0	500.0		500.0	0	500.0
Contributions	725.0	-125.0	600.0		600.0	0	600.0
Total Additions	3283.6	-785.9	2497.7		2497.7	62.1	2435.6
Retirements	141.7	0	141.7		141.7	0	141.7
Transfers & Adjusts.	0	0	0		0	0	0
Net Additions	3141.9	-785.9	2356.0		2356.0	62.1	2293.9
Plant in Service - EOY	54026.6	-1954.3	52072.3		52072.3	144.8	51927.5
Aver. Utility Plant, 1993:	52455.7	-1561.3	50894.4		50894.4	113.8	50780.6
AVERAGE DEPR. RATE BASE, 1993:							
Aver. Plant in Service:	52455.7	-1561.3	50894.4		50894.4	113.8	50780.6
Depreciation Reserve	9625.3	1.5	9626.8		9626.8	1.7	9625.1
Net Plant	42830.4	-1562.8	41267.6		41267.6	112.1	41155.5
Less:							
Advances	15380.2	-1151.9	14228.3		14228.3	0	14228.3
Contributions	6885.8	-200.3	6685.5		6685.5	0	6685.5
Accum. Def. Tax Depr.	3525.2	-16.8	3508.4		3508.4	0	3508.4
ITC	647.2	0	647.2		647.2	0	647.2
Pub. Agency Reloc. Adj.	0	331.0	331.0		331.0	331.0	0
Subtotal	16392.0	-524.8	15867.2		15867.2	-218.9	16086.1
Plus:							
Materials & Supplies	442.4	-187.9	254.5		254.5	17.4	237.1
Min. Bank Balance	457.8	-447.8	10.0		10.0	10.0	0
Working Cash	597.8	-542.4	55.4		55.4	447.3	-391.9
Tax on Contributions	861.4	-30.9	830.5		830.5	0	830.5
Tax on Advances	1472.9	-169.3	1303.6		1303.6	0	1303.6
Other Adjustment	113.6	-113.6	0		0	-113.6	113.6
Deferred Debit- Legal	1753.3	-1753.3	0		0	0	0
Common Allocation - Net	1777.2	-58.6	1718.6		1718.6	8.9	1709.7
Average Rate Base, 1993	23868.4	-3828.6	20039.8		20039.8	151.1	19888.7

TABLE 5

San Gabriel Valley Water Company

Fontana Water Company Division

Adopted Summary of Earnings
(Dollars in Thousands)
1992

	Adopted at Present Rates	Adopted at Authorized Rates
Operating Revenues	$13,746.7	$14,675.9
Expenses		
Purchased water	4402.4	4402.4
Purchased power	1236.2	1236.2
Water stock assessment	36.3	36.3
Payroll	1175.5	1175.5
Purchased chemicals	35.1	35.1
Other O & M	1132.1	1132.1
Other A & G	1180.6	1180.6
G.O. prorations	1177.5	1177.5
Bank charge	44.0	44.0
Taxes other than income	418.4	418.4
Uncollectibles	51.8	55.3
Franchise tax (local)	155.9	166.4
Depreciation	906.1	906.1
Sub Total	11951.9	11965.9
State Corp. Franch.	27.4	112.5
Federal Income Tax	274.1	585.3
Total operating expenses	12253.4	12663.7
Net operating revenues	1493.3	2012.2
Rate Base	19036.8	19036.8
Rate of Return	7.84%	10.57%

NOTE: The table reflects exclusion of surcharge revenues erroneously included in the stipulated operating revenues (Table 1).

TABLE 6

San Gabriel Valley Water Company

Fontana Water Company Division

Adopted Summary of Earnings
(Dollars in Thousands)
1993

	Adopted at Present Rates	Adopted at Authorized Rates
Operating Revenues	$14,214.4	$15,533.3
Expenses		
Purchased water	4484.1	4484.1
Purchased power	1555.3	1555.3
Water stock assessment	36.3	36.3
Payroll	1215.5	1215.5
Purchased chemicals	36.2	36.2
Other O & M	1172.0	1172.0
Other A & G	1215.4	1215.4
G.O. prorations	1267.6	1267.6
Bank charge	44.0	44.0
Taxes other than income	445.6	445.6
Uncollectibles	53.6	58.6
Franchise tax (local)	161.2	176.1
Depreciation	948.8	948.8
Sub Total	12635.6	12655.5
State Corp. Franch.	15.0	135.8
Federal Income Tax	218.9	631.7
Total operating expenses	12869.5	13423.0
Net operating revenues	1344.9	2110.3
Rate Base	20039.8	20039.8
Rate of Return	6.71%	10.53%

NOTE: The table reflects exclusion of surcharge revenues erroneously included in the stipulated operating revenues (Table 2)

While it is not necessary to discuss in detail all of the stipulated matters, a review of how the parties reached agreement on significant matters is appropriate. (See, Rule 51.1(e).)

5.1 General Office Costs

Differences in estimates of administrative expenses related to inflation factors. San Gabriel has agreed to apply Branch's revised nonlabor inflation factors of 2.26% in 1991, 2.62% in 1992, and 3.36% in 1993. In benefits costs, Branch agrees to permit inclusion of costs related to the utility's Good Friday holiday, and San Gabriel agrees to either designate a substitute holiday or give employees the option of another day off. Differences in estimates for depreciation are resolved with San Gabriel's agreement to use Branch estimates as the most current information available.

5.2 Operations Costs

Differences are resolved by San Gabriel's agreement to apply Branch's revised nonlabor inflation factors. In determining operating revenue, San Gabriel agrees to use Branch's projection of 308.5 hundred cubic feet annual consumption per residential customer for 1992 and 1993. San Gabriel also agrees to Branch's estimates of water production and purchased water for the test years, with purchased water cost based on recorded 1990 data, the most current documented information. With revisions in utility plant additions, payroll, revenue, and expenses, the parties' estimates of income and property taxes are in accord. Branch and San Gabriel agree that estimates of utility plant in service is revised to about 90% of San Gabriel's original estimate, based on the most current information available.

5.3 Rate Base Estimates

The parties' estimates of net plant are identical following agreement on utility plant in service and the resulting adjustments in depreciation reserve. In settling an audit recommendation with respect to gain on sale of properties to various government bodies, San Gabriel agrees to reduce Fontana Division rate base by $331,000. In two other audit matters, San Gabriel agrees to remove from rate base calculations some $400,000 in minimum bank balance requirements and some $1.7 million in legal fees. (The parties agree that legal expenses will be dealt with in a subsequent filing.) San Gabriel also agrees to adopt Branch's estimates on advances, contributions, and accumulated deferred tax because those estimates are based on the most current documented information.

5.4 Audit Issues

As part of the review of this application, the Commission's Auditing and Compliance Branch (Audit Branch) conducted a limited audit. Financial Examiner Nathaniel Cole made 19 recommendations. (Ex. 7.) While a number of these dealt with accounting practices and were quickly resolved with San Gabriel, other recommendations were more substantial. Three Audit Branch recommendations require consideration and decision by the Commission. Among other audit findings that have been successfully settled by the parties and made part of the stipulation are the following:

* San Gabriel agrees to reduce general and administrative expenses by $40,715 in 1992 and $42,099 in 1993 to eliminate claimed salary for a property manager position. The audit alleged that the position is now unfilled and, in any event, is a position not justified by the utility.

* San Gabriel agrees to apply $560,282 as a reduction of expense in its purchased water balancing account, thus reducing ratepayer costs. The audit alleged that this amount represented dividends on shares of Fontana Union Water Company held by San Gabriel and had been accounted for as other income, thus passing through to shareholders. The audit alleges that since shares in Fontana Union are included in San Gabriel's rate base, dividends on those shares should flow to ratepayers.

* Branch agrees to withdraw an audit recommendation to reduce water costs by $520,586 that the audit alleged was a water cost adjustment not found on the utility's books. San Gabriel showed that the entry relates to the Los Angeles County Division and is included in a balancing account.

* San Gabriel agrees to reduce to $10,000 the minimum bank balances included in rate base for 1992 and 1993. The audit alleged that inclusion of $421,100 for 1992 and $457,800 for 1993 was not appropriate under Commission Standard Practice U-16.

* Branch agrees with San Gabriel's proposal that within six months of implementation of a plan of reorganization approved by the United States Bankruptcy Court for the Central Division of California in litigation involving Fontana Union Water Company,[9] San Gabriel may file for additions to rate base to reflect any acquisition of Fontana Union facilities, and to capitalize incurred legal costs.

5.5 Approval of Stipulation

We have examined the original computations of San Gabriel and of Branch, and we conclude that the final estimates agreed to in Ex. 26 are reasonable in light of the whole record, consistent with the law, and in the public interest. The estimates are adopted for purposes of this decision, and the motion for approval and adoption of the stipulation is granted.

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9 Fontana Union, which is the primary source of water for the Fontana Division, filed for bankruptcy in March 1990. The bankruptcy proceeding (Case No. SB-9002535-MG in the Central Division court) is described in D.91-09-001 (Investigation 90-05-034).

5.6 Additional Filing Authorized

Pursuant to Ex. JS-3 of the stipulation, San Gabriel is authorized to make additional filings subsequent to this case to adjust rates to recognize acquisition of Fontana Union facilities, if any; to capitalize incurred legal costs; and to to make rate base adjustments for compliance with surface water treatment regulations of the California Department of Health Services. (Ex. 26, pages 21-22.)

6. Contested Issues

We turn now to the only remaining issues in this proceeding. These are:

1. Return on Equity. San Gabriel seeks a 13.15% return on common equity. Branch recommends 11.45% in a range of 11.25% to 11.75%. We adopt a rate of 11.50%.

2. Executive Salaries. Branch recommends an adjustment of salary allocations between San Gabriel and affiliated companies. We deny the request.

3. Transfer of Property. Branch recommends that San Gabriel be required to obtain prior approval for transfers of property to affiliates. We agree.

4. Intangible Plant. Branch recommends a change in the accounting entry for San Gabriel's shares of Fontana Union Water Company. We agree.

5. Notices in Spanish. Branch recommends that Fontana Division notices be printed both in English and Spanish. We deny the request.

7. Rate of Return

Rate of return is essentially a utility's cost of capital, with capital in this case defined as cost of debt and return on equity investment. Cost of debt generally can be determined, and San Gabriel here has agreed to accept as reasonable DRA's estimates of cost of short-term and long-term debt. ROE is a more difficult computation, since it is based largely on financial judgment. San Gabriel has revised its application to request a return on common equity of 13.15%. DRA recommends that the adopted ROE be within a range of 11.25% and 11.75%, and it recommends 11.45% as reasonable.

7.1 San Gabriel's Position

At the time of its application in mid-1991, San Gabriel estimated that borrowing costs would range between 10% and 11.5% from 1992 through 1995. This was based on an expectation that inflation would accelerate during the recovery from the recession and that this would push up interest rates. San Gabriel presents evidence purporting to show that risk premiums for water utilities historically have ranged from 250 to 466 basis points (that is, 2.5 to 4.66 percentage points) above borrowing levels. This analysis, San Gabriel argues, supports the company's original request for a 14% ROE.

In a supplementary report prepared in August 1991 (Ex. 3A), San Gabriel sets forth average yearly yields of 30-year Treasury bonds from 1981-1990. It then compares the relatively risk-free return available to bond investors with rates historically earned by other water companies and by San Gabriel. These risk premiums, it states, range from 338 to 378 basis points and represent the historical difference between relatively risk-free investments and the comparatively riskier investment in water companies. When combined with San Gabriel's borrowing costs for 1992-1995, these risk premiums produce an ROE of from 13.64% in 1992 to 15.14% in 1995, or an average of 14.39%.

Finally, San Gabriel presents testimony that its shareholders face significant business risks that must be taken into account in developing ROE. These risks include:

* San Gabriel is a closely held company with stock that is not publicly traded, and thus does not have access to equity capital

markets that larger publicly traded companies use to raise capital.

* San Gabriel faces risks related to the current drought and resulting sales fluctuations.

* San Gabriel faces high litigation costs and risks related to its water supplier, Fontana Union Water Company, which has filed for bankruptcy.

* San Gabriel must urgently respond to unexpected water supply and water quality requirements.

At hearing, San Gabriel's vice president and treasurer testified that, with the benefit of having observed a continuing decline in interest rates and lowered expectation of inflation, the parties now agree on costs of long-term and short-term debt. The parties agree that costs of long-term debt range from an average low of about 9.45% in 1993 to an average high of about 9.7% in 1995.[10]

With its adjustment in estimated cost of debt, San Gabriel also revised its requested ROE to 13.15%. Its ROE witness testified that a 13.15% ROE recognizes San Gabriel's traditionally efficient operations and ongoing risks in operations while at the same time providing an appropriate risk premium above interest rates on new long-term debt.

San Gabriel supports its 13.15% recommendation by adding Fontana Division financial results to the average results of a group of 12 other utilities selected by DRA to represent a "comparable group" for purposes of a discounted cash flow analysis.

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10 San Gabriel's witness adds, however, that the first faint sign of an upturn in interest rates appeared in December 1991 (a forecasted 4-basis point increase in 30-year Treasury bonds for 1994) and this causes him concern that rates may be turning.

Adding San Gabriel data to the group data and dividing by 13 produces a higher average ROE and, when summarized in a discounted cash flow model, produces an ROE of 13.15% upon averaging ROE for the comparable group, for the comparable group plus San Gabriel, and for San Gabriel alone. (Ex. 4, Table 1-D.)

7.2 Position of DRA

DRA recommends an 11.45% return on common equity, near the midpoint of an 11.25% to 11.75% range. The range is derived from the use of two financial models and an analysis of San Gabriel's financial and business risks.

The division uses a discounted cash flow (DCF) model, which measures an investor's expected return on equity. The DCF method was applied to a "comparative group" of 12 companies, each of which is traded on a major exchange, derives at least 70% of revenue from water sales, and is either regulated or has subsidiaries that are regulated. The DCF analysis produces an ROE range of 11.17%-11.71% using the most recent one-month average yield; 11.25%-11.78% using the most recent three-month average expected yield, and 11.32%-11.85% using the six-month dividend yield. Of these, DRA believes the range produced by the three-month dividend yield to be the most reasonable. (Ex. 6, p. IV-5.)

DRA then uses the risk premium (RP) model to verify its DCF results. The RP model measures a premium over the cost of long-term debt that investors are presumed to expect because their risk is greater than that of debt holders. DRA's witness testified that the RP model produces an ROE range of 11.09%-11.57% based on a 10-year average and an ROE range of 10.28%-10.57% based on a 5-year average.

The following shows the expected ROE ranges from the two models used by DRA for the comparable group. DRA contends that the results show a trend of declining ROE expectation by investors.

	Comparable Group
DCF Analysis (1-Month Dividend Yield)	11.17% - 11.71%
DCF Analysis (3-Month Dividend Yield)	11.25% - 11.78%
DCF Analysis (6-Month Dividend Yield)	11.32% - 11.85%
RP Analysis	
5-Year Average	10.28% - 10.57%
10-Year Average	11.09% - 11.57%

DRA states that other ROEs authorized by the Commission have been declining in recognition of lower investment returns. In the final quarter of 1991, an 11.65% ROE was authorized for Suburban Water Systems; 12% for California American Water Company; 11.75% for San Jose Water Company; and 12.1% for Del Este Water Company. (Ex. 6A.) The division notes that San Gabriel is the fifth largest of 14 Class A water companies in the state, with $28.9 million in gross revenue and 71,595 total service connections. Based on size, at least, DRA believes that San Gabriel has less risk--and therefore more investor confidence--than most other regulated water utilities.

Moreover, DRA presents evidence that generation of equity capital has never been a problem for San Gabriel. While not rated by Standard & Poor's credit rating service, San Gabriel's year-end 1990 interest coverage of 5.50x, funds flow interest coverage of 4.60x, funds from operations/total debt of 36%, and total debt ratio of 38% meet the benchmarks for an AA bond rating from Standard & Poor's. (Because of increased purchased water and power costs, net cash flow to capital expenditures in 1990 would warrant only an A rating.)

DRA states that San Gabriel's projected average year common equity ratios are 54.63% for 1992, 54.7% for 1993, 54.96% in 1994, and 55.22% in 1995, all somewhat higher than the common equity ratios of the comparable group. Since equity burdens ratepayers with higher costs than debt, DRA encourages a reversal of this upward trend and urges that the 1995 ratio be reduced to 55%. DRA presents evidence that 55% is within a reasonable range. We agree.

7.3 Discussion

A fair rate of return is measured by such factors as ability to attract capital, economic risk, quality of service provided, and cost of capital. Broad guidelines are set forth in two United States Supreme Court cases, Bluefield Water Works v. Public Service Commission (1923) 262 U.S. 679, and Federal Power Commission v. Hope Natural Gas (1944) 320 U.S. 591. These cases teach that a utility is entitled to a return "commensurate with returns on investments in other enterprises having corresponding risk" and "sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital." (320 U.S. at 603.)

DRA has presented a persuasive case that the range of ROE for the Fontana Division should reasonably be set within a range of 11.25% to 11.75%, based on current market conditions and the utility's current costs. San Gabriel attacks as noncomparable the 12 companies selected by DRA as a comparison group, but it then makes use of the same comparison group to justify its request for a 13.15% ROE. It does this by adding San Gabriel to the group and analyzing the financial averages that result. (Ex. 4.) That approach is flawed, however, without a corresponding showing that DRA's market analysis errs in using only companies listed on a national exchange. Such a showing of error has not been made. Moreover, while adding San Gabriel to the list raises the average expected return, it carries with it the problem of circularity, whereby past Commission decisions rather than market conditions could be the basis for future decisions. (See, Re California Water Service Company (1989) 31 CPUC 2d 403, p. 430.)

San Gabriel notes that DRA recommends a lower ROE than it did for Park Water Company (recommended 11.75%) even though Park's equity ratio at 60% is higher (and arguably, therefore, less risky) than San Gabriel's 55% ratio. The division's witness responds, however, that the Park recommendation was made in July 1991 when forecasted interest rates were 85 basis points higher. (Ex. 6A.)

For the most part, risk factors cited by San Gabriel to justify a higher ROE are the same risks faced by other water companies and are, therefore, accounted for in the financial analyses. Interim recovery has been permitted for the Fontana Division for its increased costs of purchased water and power. A memorandum account has been authorized to offset some lost sales caused by drought. (See, D.91-01-042.) Litigation expenses are to be the subject of a later filing. The company's chairman, president, and treasurer, each appearing as a witness, do not seriously challenge Branch's conclusion that San Gabriel's healthy financial performance, common equity ratio, and stable financial requirements will continue to assure lenders of the company's strong financial position.

Branch has found that service in the district is satisfactory and that customer complaints are handled promptly. The fact that no service complaints were raised during three public meetings is further evidence that the Fontana Division is providing satisfactory service to the public. While we recognize that San Gabriel's own interests are served in settling most cost, rate of return, and audit issues, we note that San Gabriel has for the most part reduced its own initial estimates and has committed itself to operate at the lower cost levels proposed by Branch. Additionally, we would be remiss if we did not take notice of our findings in D.91-09-001 that the Fontana Division has acted promptly in seeking to protect ratepayers during the bankruptcy proceedings of Fontana Mutual Water Company, the source of most of applicant's water supply, and has proceeded with a successful well-drilling program to establish new sources of water at lower cost. Although we have found that a loss of water supply is not imminent for the Fontana Division, the fact that the question was before us in late 1991 is evidence of a perceived risk that does not confront other water utilities. For these reasons, and in light of the record as a whole, we authorize San Gabriel's Fontana Division to earn an ROE of 11.50%, which is within the range recommended by DRA but slightly higher than DRA's recommendation.

8. Balancing Account

San Gabriel has submitted to Branch, pursuant to stipulation of settlement (Ex. 25), certain balancing account information. The only matter that is certain and that should be taken up at this time is the Chino Basin Master's assessment for water production during fiscal years 1989-1990 and 1990-1991. The undercollection in the purchased water balancing account for this assessment is:

Chino Basin water master's assessment for production during 1989/1990	$ 693,875.26
Chino Basin water master's assessment for production during 1990/91	2,134,288.44
Total	$2,828,163.70

The Commission's "Procedure for Maintaining Balancing Accounts for Water Utilities," dated May 31, 1983, provides that balancing account balances that exceed 2% of the water company's most recently adopted test year gross annual revenues will be disposed of in the GRC order. If the total balance is less than 5%, it should be amortized over one year. San Gabriel's balance at $2,828,163.70 is approximately 19.85% of the adopted 1992 present rate gross revenues of $14,245,100. The rates we adopt will amortize the balance over two years.

9. Allocation of Salaries

San Gabriel is a wholly owned subsidiary of Utility Investment Company (Utility Investment). Utility Investment also is the parent company of Arizona Water Company (Arizona Water), a public utility serving about 40,000 connections in Arizona. Utility Investment, in turn, is a wholly owned subsidiary of United Resources, Inc. (United Resources). United Resources also owns Rosemead Properties, Inc. (Rosemead Properties), a real estate investment company. San Gabriel's position in this corporate arrangement was authorized by the Commission in D.92806, dated March 17, 1981.

Utility Investment and United Resources are holding companies. They have no employees. Their assets are confined to cash and to the stock they own in San Gabriel, Arizona Water, and Rosemead Properties. Rosemead Properties similarly has no employees. Its assets are primarily three office buildings in Diamond Bar, California; Phoenix; and Salt Lake City. The building in Phoenix is leased to Arizona Water, while the other two buildings are administered by contract management firms.

R. H. Nicholson, Jr. is chairman of the board of San Gabriel and of Arizona Water. San Gabriel pays 86% of his salary. Arizona Water pays 14%. Nicholson also is the president and a director of the two holding companies and of Rosemead Properties. Michael L. Whitehead, president of San Gabriel, also serves on the board of directors of San Gabriel, Arizona Water, the two holding companies, and Rosemead Properties.

In conducting its review, the Audit Branch concluded that five San Gabriel employees--Nicholson, Whitehead, General Counsel/Secretary Timothy J. Ryan, Vice President and Treasurer J. Donald Taylor, and Tax Accountant Cecelia Chu--do at least some work for the other affiliated companies. In the absence of any measure of the work that they do for affiliates, the Audit Branch recommended that the weighted average of each company's percentage of total income and assets be used in an allocation of the salaries of these five individuals. The result would be that 43.43% of the salaries of these five persons would be authorized in rates for San Gabriel, with the remaining 56.57% allocated to the affiliated companies.

In opposing this recommendation, Nicholson testified that he has consistently spent about 14% of his time (or roughly two days a month) on matters involving the smaller Arizona Water, and that his salary allocation is based on review of that time. Whitehead testified that his only involvement with Arizona Water and the other companies is attending three to four director meetings each year. Taylor testified that he holds the title of treasurer in United Resources, Utility Investment, and Rosemead Properties, but that his work for them is minimal and generally involves financial transfers that also include San Gabriel. Taylor also testified that Ryan simply attends board meetings as secretary for the same three affiliates, but performs no duty for Arizona Water (which has its own general counsel). Chu did not testify, but Taylor described her as a tax accountant who consolidates the tax records for San Gabriel, the two holding companies, and Rosemead Properties and prepares consolidated financial and tax reports. Arizona Water has its own tax accountant.

Taylor further testified that San Gabriel bills Utility Investment each month for services rendered by San Gabriel's employees, and that it has done so since 1981. The amount billed, increasing 5% each year, is now at $640 per month ($7,680 annually) and is posted to San Gabriel's Account 812 to reduce operating expenses. Taylor testified that this amount is intended to and in fact does defray the costs of services rendered by San Gabriel employees to the two holding companies and to Rosemead Properties.

To support its recommendation, the Audit Branch would have us draw an inference of significant work for affiliates based on three audit findings. The findings, however, did not withstand examination at hearing.

First, the Audit Branch presented what it believed to be 44 notes issued in 1989 representing $60 million in loans from San Gabriel to its parent company, Utility Investment. (Ex. 17.) In fact, Taylor, San Gabriel's treasurer, showed that the documents represented a single note, with each preceding note cancelled, for an average outstanding loan of about $2 million in short-term surplus funds. Utility Investment loaned the funds on a short-term demand basis to Arizona Water. Taylor explained that he regularly invests surplus funds with Bank of America, in short-term commercial paper, or with affiliated companies, depending on the best interest rate at a given time. He testified that the inter-company loans offered the best payback at the time for the notes in question and that the transactions actually took him less time to arrange than the other forms of investment.

The Audit Branch also presented evidence of consolidated tax returns showing that Nicholson, chairman of San Gabriel, is reported to spend "all" of his time as chairman of Arizona Water. In fact, Nicholson testified, the company's tax consultants list him as chairman "all" of the time both for San Gabriel and Arizona Water, but, in a separate schedule, break out his compensation accurately as 86% from San Gabriel and 14% from Arizona Water.

Finally, the Audit Branch showed that Chu, an employee paid solely by San Gabriel, was in fact doing consolidated tax and financial statements for all of the affiliates except Arizona Water. Branch argued that this service, on the open market, is worth far more than the $7,680 annual reimbursement for all San Gabriel services. In its own documents, however, the Audit Branch shows that San Gabriel, when measured by income, is five to six times the size of these three nonoperating affiliates. Since the

Commission has approved San Gabriel's consolidated operation, it is difficult to see how San Gabriel's consolidated financial returns could be prepared without preparation and reference to affiliates' statements. Even if the labor involved were neatly divisible, there has been no showing that time spent on affiliate statements merits greater reimbursement than San Gabriel is charging.

Like the Audit Branch, we would have preferred to have time sheets, a representative time study, or other measurable standard to justify the $7,680 reimbursement to San Gabriel for time spent on affiliate matters that did not directly benefit San Gabriel ratepayers. Instead, we are presented with the sworn testimony of company executives that the reimbursement is equitable and accurate. Since there is simply no credible evidence contradicting this testimony, and since we are persuaded that much of the work involving affiliates inures to the benefit of San Gabriel ratepayers, we decline to order any change in executive salary allocation in this proceeding.

<u>10. Sale of Property</u>

In 1990, San Gabriel sold a parcel of land at book value to its affiliate, Rosemead Properties. The utility had decided that the property, the site of an abandoned reservoir, was not necessary or useful in utility service and that there was no market for sale of the property. (Ex. 14.) San Gabriel states that Public Utilities (PU) Code § 851 authorizes such sales of public utility property without Commission approval. That part of § 851 upon which San Gabriel relies states:

> "Nothing in this section shall prevent the sale, lease, encumbrance or other disposition by any public utility of property which is not necessary or useful in the performance of its duties to the public, and any disposition of property by a public utility shall be conclusively presumed to be of property which is not useful or necessary in the performance of its duties to the public, as to any purchaser, lessee or encumbrancer dealing with such property in good faith for value;

> provided, however, that nothing in this section shall apply to the interchange of equipment in the regular course of transportation between connecting common carriers."

Branch does not object to this sale, but it urges that San Gabriel be required in the future to notify Branch and obtain Commission approval for transfers and sales of assets to affiliated companies. Branch argues that the "not necessary or useful" language of § 851 presumes a good-faith purchase for value. When the purchaser is an affiliate, and the sale is made at book value, Branch contends that the presumption does not apply *ab initio*, and the utility should be required to demonstrate that the transaction has been made in good faith for value.

At hearing, San Gabriel's vice president of engineering described the circumstances of the sale. The parcel previously was part of the company's Los Angeles County Division system[11] and was the site of a reservoir built in 1913 by a predecessor company as part of an irrigation system. The reservoir became less useful when it was all but replaced by another reservoir built in 1935. Until 1987, San Gabriel used the old reservoir for standby storage of water.

In 1987, San Gabriel built a 3-million gallon reservoir that provided all the capacity that was needed for the irrigation system. The old reservoir was drained, and it and the parcel of land it occupied were retired and classified as nonoperating property. San Gabriel's witness testified that a brush fire in 1989 damaged the roof of the old reservoir, and the site became a potentially costly and dangerous problem for the utility. Cost of clearing the hillside site would have been substantial. For that

11 Los Angeles County Division rates are not at issue in this proceeding.

reason, the property was transferred from San Gabriel to Rosemead Properties and removed from Los Angeles County Division rate base.

Since Branch does not challenge this transfer, it has implicitly agreed that the property was not necessary or useful in utility operations. Therefore, San Gabriel argues, Commission approval is unnecessary. It notes our analysis in a recent case involving transfer of property a utility to an affiliated company:

> "We reject Branch's argument that a violation of PU Code § 851 has occurred. This section requires that a utility must obtain prior Commission authorization to transfer utility property which is used and useful. For property which is not used or useful, there is no such requirement." (D.90-10-037, October 12, 1990.)

However, we view Branch's position as broader than the single transaction here. In effect, Branch states that, while it has no quarrel with this transaction, the practice of San Gabriel in transferring rate base property to a realty affiliate (directors of which are the same as those of San Gabriel) should be reviewed to avoid any question of impropriety. While such review may not be required by § 851, the Commission has broad regulatory authority to direct such review in particular cases.[12]

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12 The Supreme Court of California noted recently that the Commission may look behind property transactions to be certain that a utility can continue to provide adequate service. In Camp Meeker Water System, Inc. v. Public Utilities Commission (1990) 51 Cal. 3d 845, the Court stated:

> "Further, a public utility may not dispose of any property necessary and useful in the performance of its duties without authorization by the commission. (§ 851.) While this section is most often applied to outright transfers of property, read together with the

(Footnote continues on next page)

Indeed, in D.90-10-037 and D.89-10-038, involving a rate case application by San Jose Water Company, the Commission established a procedure requiring three appraisals of utility property transferred from rate base so long as the utility was affiliated with a land development company. Earlier, in D.86-01-026, we required that Pacific Bell solicit competitive bids in disposing of real property which has been in rate base. In D.89-10-038, we commented:

> "[I]t is this Commission's policy to closely review all transactions between utilities and their affiliates. This issue has risen in prominence as California's utilities have diversified into other areas. The issue of transferring land from a utility to its corporate land development company has arisen before. When PacBell requested to transfer property from rate base to another Pacific Telesis affiliate in the business of real estate..., the Commission [established a competitive bidding requirement]. We believe this is a sound policy which should be continued to assure ratepayers are protected." (33 CPUC 2d at 328.)

While we are not asked to to establish similar bidding or appraisal requirements here, we are persuaded that San Gabriel should be required to notify Branch and seek Commission approval whenever it transfers property, formerly in rate base, to an affiliated company. The board of directors of San Gabriel serves

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(Footnote continued from previous page)

> above sections which authorize the commission to require that a utility ensure its ability to provide adequate service, it unquestionably permits the commission to prevent disposal of such property by indirection, as by failure to exercise or safeguard rights possessed by the utility." (51 Cal. 3d at 862 (citations omitted).)

also as the board of directors of Rosemead Properties. In the transaction examined here, San Gabriel directors voted to transfer property, then apparently donned their Rosemead hats and voted to accept the transfer. There is no suggestion that there is anything wrong with this, but the process obviously is not arm's length. A review of such transfers will protect ratepayers and, we believe, will benefit the utility by avoiding any appearance of self-dealing.

We note that our discussion of the transfer at issue here is limited to its unique circumstances and is not intended to limit the Commission's examination of any other property transfer or the treatment of gain or loss on sale of such transfer.

11. Intangible Plant Classification

Branch and San Gabriel agree that the utility's investment in shares of Fontana Union Water Company (Fontana Union) is properly included, and should remain, in rate base, since Fontana Union represents the utility's water supply. However, based on its audit, Branch recommends that San Gabriel be directed to reclassify the shares. Auditor Cole states:

> "This investment in this mutual water company should not be included in the Intangible Plant Account. This is an investment and not an intangible asset. The Uniform System of Accounts provides that such investment be accounted for in the Investment and Fund Accounts. Moreover, including this investment in intangible plant is not in conformity with Generally Accepted Accounting Principles (GAAP)." (Ex. 7, pages 17-18.)

San Gabriel argues that the Commission has expressly recognized the classification of this investment as intangible plant, and that this overrides the Uniform System of Accounts. The company's president testified that when San Gabriel acquired the Fontana Water Company in 1945, it also acquired the shares of stock of Fontana Union which represented the water supply for the utility. The Commission decision authorizing the acquisition

(D.38235, dated September 25, 1945) expressly recognized the classification of the investment as intangible plant, as did subsequent rate proceedings (including D.40718 dated September 16, 1947, and D.39943 dated February 4, 1947).

With the acquisition of Fontana Water Company, San Gabriel was refinanced, and a new first mortgage trust indenture was approved by the Commission for the issuance of bonds. Under that trust indenture, which is still in effect today, additions to the company's utility plant are the basis on which the company's bonds are issued.

In its brief, San Gabriel states that it "is alarmed that the Commission Staff is now asking the Commission to repudiate its more than 45-year recognition of San Gabriel's investment...as intangible plant." Branch in its reply counters that "[r]ather than a 45-year recognition, what in fact occurred was a 10-year recognition by the Commission and a 35-year non-compliance by San Gabriel with the Uniform System of Accounts." Branch goes on to state:

> "In 1955 the Commission adopted the USOA... [I]t was expected that water utilities would comply with the USOA. San Gabriel did not do so with regard to this account. The 1955 enactment rescinded the 1945 'recognition' of the intangible plant classification. In effect, San Gabriel requests that its noncompliance be approved retroactively and that it individually be excused from what the rest of the water industry regulated by the Commission is required to do." (Branch Reply Brief, pages 4-5.)

San Gabriel argues that removal of the investment from intangible plant will mean that the shares no longer will qualify as collateral for the issuance of first mortgage bonds. On the stand, however, San Gabriel's president acknowledged that the results of reclassification would not present a serious problem. In questioning by the ALJ, he testified as follows:

"Q. What is the worst case that you could envision if [this] change takes place?

"A. Possibly, taking the worst scenario, possibly the investment in the stocks would have to be withdrawn from the collateral of the bonds because it would no longer be considered plant, and only plant under the indenture can support the issuance of bonds. So in that case, [approximately $300,000] would have to be withdrawn from the collateral.

"Q. What effect would that have on your financial dealings?

"A. Oh, I don't...think that would have any material, present any material obstacle to future bond issues. I think probably as a practical matter it would be a problem of explaining to bond counsel why something that has been in place for 45 years is no longer that way. That's probably the problem." (Tr., pages 259-260.)

One reason that the Commission conducts audits during a utility rate case is to ensure compliance with the Uniform System of Accounts. As the name implies, the system is designed to set out facts, uniformly, in connection with construction, operation and financing of water utilities to enable the Commission to consider and weigh items set forth in these accounts.[13] We are presented here with no evidence of substantial hardship that merits an exemption from the recommendation of the Audit Branch. We will require that the Fontana Union shares be reclassified in conformance with the uniform system.

12. Bilingual Notices

Requirements for service of notice of rate increase applications are set forth in Rules 24 and 52 of the Rules of Practice and Procedure. San Gabriel has complied with the notice

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13 See, Preamble, Uniform System of Accounts.

requirements. (Ex. 5.) While Branch has no objection to the notice, it recommends that all future notices by Fontana Division be presented in English and Spanish. At hearing, Branch's witness stated:

> "One customer [at the informal public meeting on October 17, 1991] said that there are a lot of Spanish-speaking customers in the division. Quite a few of them would have come to the meeting if the notice was also printed in Spanish." (Ex. 8, Appendix A.)

San Gabriel opposes the recommendation on grounds that it would require additional cost without any showing of benefit. It notes, correctly, that the record is bereft of evidence that any Fontana customer--much less a sizeable number--is unable to read notices printed in English. Branch, apparently under the impression that the company would volunteer to print bilingual notices, submitted only the hearsay statement cited above in support of its recommendation.

The recommendation is denied. As San Gabriel notes, Branch may in future proceedings seek bilingual notice requirements pursuant to Rule 52.[14]

13. Comments on the ALJ Proposed Decision

In accordance with Public Utilities Code § 311 and Rule 77.1 of the Rules of Practice and Procedure, the draft decision prepared by the assigned ALJ was issued on February 25, 1992. Timely comments were filed by DRA and by San Gabriel.

Upon further analysis, we have changed the authorized ROE from 11.75% to 11.5%, which is slightly higher than the specific ROE rate recommended by the DRA.

14 Rule 52(3) provides: "In addition to the notice required by this rule, parties shall provide such notice of hearing as the presiding officer may designate."

DRA notes that its recommended 11.45% ROE is within its recommended range of 11.25% and 11.75% but is not the "midpoint" of that range, and we have changed the text of the decision to clarify that point. DRA also objects that there is no evidence of record to support a statement in dicta that San Gabriel's settlement has any effect on investor risk. We agree, and we have changed the text accordingly.

Both parties have identified certain mathematical changes that should be made in the appendices and in the text, and those changes have been made.

San Gabriel has suggested a number of changes intended to clarify the order. Some of those changes have been incorporated. Those that are not are rejected. San Gabriel also states that while the parties stipulated to projected common equity ratios for 1992, 1993, and 1994, they did not agree on the ratio for 1995. We have reviewed the record and, as to this matter, we adopt DRA's imputed 55% equity ratio for 1995, rather than the utility's projected 55.22%.

Findings of Fact

1. The Fontana Division is providing satisfactory water service, and the water furnished meets current state drinking water standards.

2. The Fontana Division has complied with our order in D.90-08-055 to submit a water management program, and the plan was approved as complete in D.91-10-042.

3. The Fontana Division serves approximately 30,000 metered connections in the cities of Fontana, Rancho Cucamonga, and Rialto, and adjacent unincorporated areas in San Bernardino County.

4. The Fontana Division results of operations for test years 1992 and 1993 at current and proposed rates are as shown in Tables 5 and 6 of this decision, to which the parties have stipulated.

5. The balancing account balance is approximately 19.85% of the 1992 adopted present rate annual revenues.

6. San Gabriel initially sought rates of return on rate base for its Fontana Division of 12.02% for the remainder of 1992; 12.04% for 1993; 12.19% for 1994; and 12.39% for 1995. The rates were designed to produce an ROE of 14% over the 1992-1995 period.

7. After the application was filed, San Gabriel reduced its requested ROE to 13.15% to recognize current economic trends and declining interest rates. It now seeks rates of return on rate base of 11.47% in 1992; 11.43% in 1993; 11.47% in 1994; and 11.51% in 1995.

8. The last Fontana Division general rate increase was granted on June 5, 1985. Authorized ROE at that time was 14.25%, with rate of return on rate base averaging 11.76% for the three years.

9. DRA recommends that the adopted ROE be within the range of 11.25% to 11.75%, and it further recommends that the adopted ROE be 11.45%.

10. DRA bases its recommendation on a discounted cash flow analysis of 12 companies, each of which is traded on a major stock exchange and derives at least 70% of its revenues from water sales.

11. Most risk factors cited by San Gabriel to justify a higher ROE are the same risks faced by other water companies and, therefore, accounted for in the DRA financial analyses.

12. San Gabriel is the fifth largest of 14 Class A water companies in the state, with $28.9 million in gross revenue and 71,595 total service connections.

13. The financial stability of a company may be measured by bond ratings. While not rated by Standard & Poor's, San Gabriel's financial data for year-end 1990 meet benchmarks for an AA bond rating in all but one category.

14. In an optimal capital structure, the costs of different methods of financing will be appropriately balanced in accordance with the company's financial risk.

15. Debt is generally less expensive than equity financing because interest payments on debt are usually cheaper than returns paid to company stockholders, and interest is tax deductible.

However, debt increases financial risk, and the more leveraged a company becomes, the more expensive marginal debt issues become.

16. The parties have stipulated that San Gabriel's projected average year common equity ratios are 54.63% for 1992, 54.7% for 1993, and 54.96% in 1994. San Gabriel projects an equity ratio of 55.22% in 1995, while DRA projects 55%.

17. The parties agree that costs of long-term debt will range from an average low of about 9.45% in 1993 to an average high of about 9.7% in 1995.

18. San Gabriel has acted promptly in seeking to protect ratepayers during the bankruptcy proceedings of Fontana Union Water Company, the source of most of applicant's water supply.

19. San Gabriel has acted prudently in implementing a well-drilling program to establish new sources of water at the lowest cost the utility can arrange.

20. The Commission in Investigation 90-05-034 considered the issue of whether San Gabriel's Fontana Division faced an emergency in obtaining an adequate supply of water to serve its customers. San Gabriel has complied with Ordering Paragraph 2 in D.91-09-001 by submitting in this proceeding a Supplementary Report on the Status of Issues in I.90-05-034.

21. An ROE of 11.75% is within the range recommended by DRA and gives recognition to the fact that the Fontana Division maintains good service standards, handles customer complaints promptly, and faces a higher risk than other water companies with respect to its source of water.

22. San Gabriel is a wholly owned subsidiary of Utility Investment, which also is the parent company of Arizona Water, a public utility serving about 40,000 connections in Arizona.

23. Utility Investment is a wholly owned subsidiary of United Resources, which also owns Rosemead Properties, a real estate investment company.

24. San Gabriel's position in the Utility Investment holdings was authorized by the Commission in D.92806, dated March 17, 1981.

25. Utility Investment and United Resources are holding companies, with no employees. Assets are confined to cash and to stock in San Gabriel, Arizona Water, and Rosemead Properties.

26. Rosemead Properties has no employees. Its assets are primarily three office buildings, one leased to Arizona Water and the other two operated by contract management firms.

27. R. H. Nicholson, Jr. is chairman of the board of San Gabriel and of Arizona Water.

28. Nicholson spends about 14% of his time, or about two days a month, engaged in matters involving Arizona Water, and that utility pays 14% of his salary. San Gabriel pays 86% of his salary.

29. Certain officers and employees of San Gabriel spend limited amounts of time doing work that involves Utility Investment, United Resources, and Rosemead Properties.

30. San Gabriel bills Utility Investment each month for services rendered by San Gabriel's employees, and it has done so since 1981.

31. San Gabriel bills Utility Investment $7,680 annually for work performed for United Investment, United Resources, and Rosemead Properties, and this amount is posted to San Gabriel's Account 812 to reduce operating expenses.

32. San Gabriel in 1989 had an average outstanding loan of about $2 million in short-term surplus funds to Utility Investment, and the interest rate on these loaned funds inured to the benefit of San Gabriel ratepayers.

33. While consolidated tax returns show that Nicholson spends "all" his time as chairman of Arizona Water, they also show "all" time as chairman of San Gabriel. A separate schedule shows that 86% of his compensation is paid by San Gabriel and 14% is paid by Arizona Water.

34. In 1990, San Gabriel sold a parcel of Los Angeles County Division land at book value to its affiliate, Rosemead Properties. The utility represented that the property, site of an abandoned and

fire-damaged reservoir, was not necessary or useful in utility service and that there was no market for sale of the property.

35. Sale of the reservoir property was approved by the board of directors of San Gabriel and by the board of directors of Rosemead. The same individuals serve on the board of both companies.

36. Under the Uniform System of Accounts, San Gabriel's ownership of shares of Fontana Union Water Company should be included in its Investment and Fund Accounts, rather than in its Intangible Plant Account.

37. The Commission approved classification of Fontana Union shares in intangible plant in 1945 in D.38235.

38. The Commission adopted the Uniform System of Accounts in 1955, and water utilities were advised at that time to maintain their records in accordance with the uniform system.

39. San Gabriel has complied with notice requirements of Rules 24 and 52 of the Rules of Practice and Procedure.

40. No party has sought, pursuant to Rule 52(3), to have notice requirements produced both in English and in Spanish.

<u>Conclusions of Law</u>

1. An ROE of 11.75% is reasonable and should be adopted.

2. The parties' agreed equity ratios of 54.63% for 1992, 54.7% for 1993, and 54.96% for 1994, and Branch's proposed equity ratio of 55% for 1995 are reasonable and should be adopted.

3. The parties' stipulated results of operations for test years 1992 and 1993 are reasonable in light of the whole record, consistent with law, and in the public interest, and should be adopted.

4. The parties' stipulations with respect to audit issues are reasonable and should be adopted.

5. San Gabriel should be authorized to file rates set forth in Appendices A and B.

6. San Gabriel should be authorized to make additional advice letter filings to adjust rates to recognize acquisition of Fontana Union facilities if that occurs, to capitalize incurred

legal costs, and to make rate base adjustments for compliance with surface water treatment regulations.

7. Branch's recommendation that salaries of certain San Gabriel executives and employees be allocated in a different manner to affiliated companies should be denied.

8. San Gabriel should be required to obtain Commission approval prior to transferring property in rate base to any affiliated company.

9. Disposition of the property transfer at issue in this case should not limit the Commission's examination of any other property transfer.

10. San Gabriel should be required to comply with the Uniform System of Accounts in recording ownership of shares of Fontana Union Water Company.

11. Branch's recommendation that the Fontana Division be required to produce bilingual notices should be denied.

12. The effective date of this order should be the date of signature, because revenue and expense projections were made for partial test year 1992 and test year 1993, and the Fontana Division requires additional revenue to meet these projections.

O R D E R

IT IS ORDERED that:

1. San Gabriel Valley Water Company (San Gabriel) and its Fontana Water Company Division (Fontana Division) are authorized to file the revised schedule attached to this order as Appendix A and to concurrently cancel its present schedules for such service. This filing shall comply with General Order (GO) Series 96. The effective date of the revised schedule shall 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, San Gabriel is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increase for 1993 included in Appendix B, or to file

a proportionate lesser increase in the event that its rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1992, exceeds the lesser of (a) the rate of return found reasonable for San Gabriel during the corresponding period in the then most recent rate decision or (b) 10.57%. This filing shall comply with GO 96. The requested step rates shall be reviewed by the 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 this decision. The effective date of the revised schedules shall be no earlier than January 1, 1993, or 30 days after filing, whichever is later. The revised schedules shall apply only to service rendered on or after their effective date.

3. On or after November 5, 1993, San Gabriel is authorized to file an advice letter, with appropriate workpapers, requesting the step rate increase for 1994 included in Appendix B, or to file a proportionate lesser increase in the event that its rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 1993, exceeds the lesser of (a) the rate of return found reasonable for San Gabriel during the corresponding period in the then most recent rate decision or (b) 10.53%. This filing shall comply with GO 96. The requested step rates shall be reviewed by the staff 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 this decision. The effective date of the revised schedules shall be no earlier than January 1, 1994, or 30 days after the filing of the step rate, whichever is later. The revised schedules shall apply only to service rendered on or after their effective date.

4. On or after November 5, 1994, San Gabriel is authorized to file an advice letter, with appropriate workpapers, requesting

the step rate increase for 1995 included in Appendix B, or to file a proportionate lesser increase in the event that its rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 1994, exceeds the lesser of (a) the rate of return found reasonable for San Gabriel during the corresponding period in the then most recent rate decision or (b) 10.56%. This filing shall comply with GO 96. The requested step rates shall be reviewed by the staff 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 this decision. The effective date of the revised schedules shall be no earlier than January 1, 1995, or 30 days after the filing of the step rate, whichever is later. The revised schedules shall apply only to service rendered on or after their effective date.

5. San Gabriel is authorized to make additional advice letter filings to adjust rates to recognize the acquisition of Fontana Union facilities if that occurs, and resulting changes in water production costs, to capitalize incurred legal costs, and to make rate base adjustments for compliance with surface water treatment regulations, as more specifically provided in the Stipulation for Settlement.

6. San Gabriel is directed to file by advice letter for Commission approval prior to selling, transferring, or otherwise conveying any property in rate base, to any affiliated company or entity. The propriety of such conveyance, along with treatment of gain or loss on sale, shall be considered separately for each such transaction.

7. San Gabriel is directed to account for its investment in shares of Fontana Union Water Company in accordance with requirements of the Uniform System of Accounts.

8. The Stipulation for Settlement and the Joint Stipulation (Exhibit JS-3) of Exhibits 25 and 26 of this proceeding are approved as reasonable.

9. The application is granted as set forth above.

This order is effective today.

Dated April 8, 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

APPENDIX A
Page 1

Schedule No. FO-1

Fontana Water Company

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Fontana, Rancho Cucamonga, Rialto, and vicinity, San Bernardino County.

RATES

	Per Meter Per Month	
Quantity Rates:		
For all water used, per 100 cu.ft.	0.938	(I)
Service Charges:		
For 5/8 x 3/4-inch meter	$ 6.50	(I)
For 3/4-inch meter	9.75	
For 1-inch meter	13.65	
For 1-1/2-inch meter	21.00	
For 2-inch meter	27.50	
For 3-inch meter	55.00	
For 4-inch meter	72.50	
For 6-inch meter	110.00	
For 8-inch meter	150.00	
For 10-inch meter	180.00	
For 12-inch meter	225.00	(I)

	Per Battery Per Month	
For Two 2-inch meters....................	$ 55.00	(I)
For Three 2-inch meters....................	82.50	
For Four 2-inch meters....................	110.00	
For Two 3-inch meters....................	110.00	
For Two 4-inch meters....................	144.00	
For One 8-inch meter, Two 2-inch meters....	204.00	
For Two 8-inch meters....................	300.00	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is added the quantity charge computed at the Quantity Rates.

(continued)

APPENDIX A
Page 2

Schedule No. FO-1

Fontana Water Company

GENERAL METERED SERVICE

(continued)

SPECIAL CONDITIONS:

1. A surcharge of $0.020 per Ccf is to be added to the quantity rates for a 36-month period after October 12, 1990 to amortize a portion of the undercollection in the purchased water balancing account.

2. A surcharge of $0.022 per Ccf is to be added to the quantity rates for a 12-month period from April 10, 1991 (A.L. 255, Res. W-3554) to amortize an undercollection in the purchased power balancing account. (T) (T)

3. A surcharge of $0.097 per Ccf is to be added to the quantity rates for a 24-month period from the effective date of this tariff schedule to amortize an undercollection in the purchased water balancing account due to Chino Basin Water master's assessment for water production during 1989-1990 and 1990-1991. (N) (N)

4. All bills are subject to the reimbursement fee set forth on Schedule No. AA-UF.

APPENDIX A
Page 3

Schedule No. FO-4

Fontana Water Company

PRIVATE FIRE SERVICE

APPLICABILITY

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

TERRITORY

Portions of Fontana, Rancho Cucamonga, Rialto and vicinity, San Bernardino County.

RATE

	Per Service Per Month	
For each inch of diameter of service connection..........	$3.63	(I)

SPECIAL CONDITIONS

The existing special conditions contained in Cal. P.U.C. Sheets Nos. 1086-W and 1087-W are also applicable.

APPENDIX A
Page 4

Schedule No. FO-9C

Fontana Water Company

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 Fontana, Rancho Cucamonga, Rialto and vicinity, San Bernardino County.

RATES

	Unit Rates	
For sidewalk construction, per 100 square feet...........	$ 0.33	(I)
For street curb construction, per 100 lineal feet........	0.66	
For trench settling, per lineal foot of section of trench 2 feet by 4 feet................................	0.024	
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....	4.61	
For compaction of fill, per cubic yard of fill material..	0.041	
For water delivered to tank wagon or truck, per 100 gallons..	0.107	(I)

MINIMUM CHARGE

For any service rendered under the schedule..............	$16.49	(I)

SPECIAL CONDITIONS

The existing special conditions contained in Revised Cal. P.U.C. Sheets Nos. 1232-W and 1098-W are also applicable.

Schedule No. FO-9CL

Fontana Water Company

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

Portions of Fontana, Rancho Cucamonga, Rialto and vicinity, San Bernardino County.

RATES

For each lot for the construction period............$5.62 (I)

SPECIAL CONDITIONS

The existing special conditions contained in Cal. P.U.C. Sheet No. 1031-W are also applicable.

(END OF APPENDIX A)

APPENDIX B
Page 1
San Gabriel Valley Water Company
Fontana Water Company Division

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. FO-1

	1993	1994	1995
Quantity Rates:			
For all water used, per 100 cu.ft.	0.002	0.022	0.015
Service Charges:			
For 5/8 x 3/4-inch meter	0.25	0.20	0.35
For 3/4-inch meter	0.35	0.30	0.55
For 1-inch meter	3.15	0.55	0.90
For 1-1/2-inch meter	3.00	1.00	2.00
For 2-inch meter	5.75	2.25	3.50
For 3-inch meter	8.20	5.80	8.00
For 4-inch meter	10.50	9.00	13.00
For 6-inch meter	20.00	17.00	23.00
For 8-inch meter	25.00	26.00	36.00
For 10-inch meter	30.00	36.00	49.00
For 12-inch meter	35.00	49.00	68.00
For Two 2-inch meters	10.00	6.00	7.0
For Three 2-inch meters	15.00	9.00	10.50
For Four 2-inch meters	20.00	12.00	14.00
For Two 3-inch meters	16.40	11.60	16.00
For Two 4-inch meters	22.00	18.00	26.00
For One 8-inch meter, Two 2-inch meters	36.00	32.00	103.00
For Two 8-inch meters	50.00	52.00	72.00

SCHEDULE NO. FO-4

For each of diameter of service connection	0.17	0.19	0.19

APPENDIX B
Page 2
San Gabriel Valley Water Company
Fontana Water Company Division

SCHEDULE - 9C

	1993	1994	1995
For sidewalk construction, per 100 square feet	$ 0.01	0.01	0.01
For street curb construction, per 100 lineal ft	$ 0.02	0.02	0.02
For trench settling, per lineal foot of section of trench 2 feet by 4 feet	$-0.004	0.001	0.001
For sprinkiling 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	$ 0.16	0.16	0.17
For compaction of fill, per cubic yard of fill material	$ 0.001	0.001	0.001
For water delivered to tank wagon or truck, per 100 gallons	$ 0.004	0.004	0.004
MINIMUM CHARGE			
For any service rendered under the schedule	$ 0.56	0.58	0.60

SCHEDULE - 9CL

	1993	1994	1995
Houses during construction	$ 0.19	0.20	0.20

(END OF APPENDIX B)

APPENDIX C
Page 1
San Gabriel Valley Water Company
Fontana Water Company Division

ADOPTED QUANTITIES

1. Net to Gross Multiplier: 1.7907

2. Federal Income Tax Rate: 34.0%

3. State Income Tax Rate: 9.3%

4. Local Tax Rate: 1.134%

5. Uncollectible Rate: 0.377%

6. Water Supply Quantities & Cost:

1992

Source:	Quantity Basis, Ac-Ft.	Unit Cost $	Total Cost of Assessment $000
Fontana Water Company's Wells	6,278	133.30	836.9
Lytle Creek Surface Water	2,670	93.62	250.0
Fontana Union, Other Wells	8,599	93.62	805.0
Fontana Union, Chino Basin	11,418	219.86	2510.4
Total	28,965		4402.4

1993

Source:	Quantity Basis, Ac-Ft.	Unit Cost $	Total Cost of Assessment $000
Fontana Water Company's Wells	9,417	133.30	1255.3
Lytle Creek Surface Water	2,418	93.62	226.4
Fontana Union, Other Wells	7,787	93.62	729.0
Fontana Union, Chino Basin	10,340	219.86	2273.4
Total	29,962		4484.1

APPENDIX C
Page 2
San Gabriel Valley Water Company
Fontana Water Company Division

ADOPTED QUANTITIES

7. Power Cost - SCE Rates Effective Jan. 1, 1991

	1992 Amounts	1992 Cost:	1993 Amounts:	1993 Cost:
A. SCE - Schedule PA-1/ 1725				
Power Requirement - KWH	4069807		3823028	
Customer Charge		$958		$958
Service Charge		$23,805		$23,805
Energy Charge		$372,749		$350,190
Energy Surcharge		$814		$765
Electric Expense		$398,326		$375,718
Composite Cost per KWH - $/KWH		0.09787		0.09828
B. SCE - Schedule PA-2/ 3500 Hp				
Power Requirement - KWH	6575392		9863087	
Customer Charge		$1,919		$1,919
Demand Charges				
Winter, KW	10105	$13,137	12175	$15,828
Summer, KW	14060	$114,589	17360	$141,484
1st 300KWH/KW:	5940866	$590,879	8911299	$886,318
Over 300:	634526	$32,063	951788	$48,094
Energy Surcharge		$1,315		$1,973
Electric Expense		$753,902		$1,095,616
Composite Cost per KWH - $/KWH		0.11466		0.11108
C. SCE - Schedule GS-2				
Power Requirement - KWH	759000		759000	
Customer Charge		$406		$406
Demand Charge	KW:		KW:	
Winter	1821	$5,372	1821	$5,372
Summer	912	$8,527	912	$8,527
1st 300KWH/ KW	748357	$66,574	748357	$66,574
Over 300:	10643	$536	10643	$536
Energy Surcharge		$152		$152
Electric Expense		$81,567		$81,567
Composite Cost per KWH - $/KWH		0.10747		0.10747
D. SCE - Schedule GSSP, TP				
Power Requirement - KWH		20450		20450
Composite Cost per KWH - $/KWH		0.11855		0.11855
Electric Expense		$2,424		$2,424
Effective Date - Jan. 1, 1991				
Total Purch. Power Expense, $000		1236.2		1555.3

APPENDIX C
Page 3

San Gabriel Valley Water Company
Fontana Water Company Division

ADOPTED QUANTITIES

8. Number of Services - Meter Size

	1992	1993
5/8 X 3/4 - Inch	24,428	25,161
3/4	21	21
1	4,078	4,201
1-1/2	510	525
2	564	583
3	7	7
4	0	0
6	15	16
8	17	18
10	6	6
2-2	69	71
3-2	20	20
4-2	7	7
2-3	1	1
2-4	1	1
1-8, 2-2s	1	1
Subtotal	29,745	30,639
2-In. Const. Services	78	80
Total	29,823	30,719

9. Metered Water Sales

	1992	1993
Range Ccf:		
0-3:	1,045,001	1,076,622
Over 3:	10,821,412	11,199,773
Subtotal	11,866,413	12,276,395
Construction	221,364	227,040
Total Sales	12,087,777	12,503,435

APPENDIX C
Page 4

San Gabriel Valley Water Company
Fontana Water Company Division

ADOPTED QUANTITIES

10. Number of Services

	No. of Services		Usage - KCcf		Avg Use-Ccf/Yr.	
Class:	1992	1993	1992	1993	1992	1993
Residential	29,182	30,058	9,002.6	9,272.9	308.5	308.5
Commercial - Metered	214	221	1,387.2	1,463.2	6,482	6,621
Industrial - Small	59	61	56.2	58.1	953	953
Industrial - Large	67	69	535.9	551.9	7,998	7,998
Public Authority - Small	128	132	83.2	85.8	650	650
Public Authority - Large	95	98	801.3	844.5	8,435	8,617
Construction	78	80	221.4	227.0	2,838	2,838
Subtotal	29,823	30,719	12087.8	12503.4		
Private Fire Protection	404	439	0	0	0	0
Total	30,227	31,158	12087.8	12503.4		
Water Loss - 4.2%			529.4	548.2		
Total Water Supply			12,617.2	13,051.6		

APPENDIX C
Page 5

San Gabriel Valley Water Company

Fontana Water Company Division

Income Tax Calculation

	1992	1993
	(Dollars in thousands)	
Operating Revenue (authorized rates)	$14,675.9	$15,533.3
Expenses		
Purchased water	4402.4	4484.1
Purchased power	1236.2	1555.3
Water stock assessment	36.3	36.3
Payroll	1175.5	1215.5
Purchased chemicals	35.1	36.2
Other O & M	1132.1	1172.0
Other A & G	1180.6	1215.4
G.O. prorations	1177.5	1267.6
Bank charge	44.0	44.0
Taxes other than income	418.4	445.6
Uncollectibles	55.3	58.6
Franchise tax (local)	166.4	176.1
Interest expense	880.2	814.6
Total Deduction	11940.0	12521.3
State Tax Depreciation	1526.4	1551.3
Net Taxable Income	1209.5	1460.7
State Corp. Franch. Tax 9.3%	112.5	135.8
Federal Tax Depreciation	987.2	1041.7
State Income Tax	27.4	112.5
Net Taxable Income	1721.3	1857.8
Fed. Income Tax Rate 34.00%		
Total Federal Income Tax	585.3	631.7
Total Income Tax	697.8	767.5

(END OF APPENDIX C)

APPENDIX D
Page 1

San Gabriel Valley Water Company

Fontana Water Company 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 1992.

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

Monthly Usage (Cubic Feet)	At Present Rates A.L 256-A	At 1992 Authorized Rates	Percent Increase
500	10.59	11.89	12.28%
1000	15.38	17.27	12.29%
2000	24.96	28.54	14.34%
2570 (aver. user)	30.42	34.37	12.98%
3000	34.54	38.81	12.36%
5000	53.70	60.35	12.38%
10000	101.60	114.2	12.40%

Bills do not include the PUC Fee of 1.5%.

(END OF APPENDIX D)