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Decision 92-09-079 September 16, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of Southern California Water Company (U 133 W) pursuant to PU Code 454 to increase rates as a result of a contract with Three Valleys Municipal Water District for a perpetual, exclusive right to water in its Pomona Valley District from a new 8 MG reservoir & pipeline at the Miramar Treatment Plant site.	Application 92-01-047 (Filed January 21, 1992)

<u>Patricia A. Schmiege</u>, Attorney at Law, for applicant.
<u>Diana L. Lee</u>, Attorney at Law, for the Water Branch of the Commission.

O P I N I O N

Southern California Water Company (applicant or SCWC) seeks to increase rates and to include in rate base the cost of a contract with Three Valleys Municipal Water District (TVMWD). This contract provides SCWC a perpetual right to use new TVMWD storage facilities for peak flow requirements in applicant's Pomona Valley District. The estimated capital cost is $2,135,002. SCWC requests authority to increase rates for water service in its Pomona Valley District upon completion of the project with TVMWD. The annualized increase requested is $235,395 or 3.6% in 1992 over present rates.

At SCWC's proposed rates, the effect on the average monthly commercial (residential) customer's bill for 1992 is an increase of $1.71. SCWC proposes that the increased revenue requirement be applied solely to the commodity charge portion of rates.

The Pomona Valley District is one integrated water system serving almost all of the city of Claremont, some adjacent unincorporated areas in Los Angeles County and a very small section in San Bernardino County in the cities of Montclair and Upland. The service area is primarily residential with small segments of industrial and commercial use. Of the 10,236 customers as of July 31, 1991, approximately 96% were in the commercial classification which consists of residential and business customers.

The sources of water supply for the Pomona Valley District are 25 company-owned wells, water purchased from Pomona College, and water purchased from the Metropolitan Water District (MWD) through the facilities of the TVMWD. TVMWD is a municipal water district organized and operating pursuant to Section 71,000 et seq., of the California Water Code. TVMWD delivers imported water to supplement local groundwater supplies. The district distributes imported water supplies to retail utilities within the Pomona, Walnut, and East San Gabriel Valleys. SCWC is a member of the Miramar Operations Committee and is subject to the terms and conditions of the Agreement for Construction, Operation and Maintenance of Miramar Water Treatment, Water Transmission, and Hydroelectric Generating Facilities, dated October 5, 1984 (known as the "Miramar Agreement").

Applicant currently meets its peak hour demands by peaking off of TVMWD's existing water treatment facilities. The fluctuation in flows creates a burden on the operations of the Miramar Plant especially affecting the level of the existing eight million gallon reservoir and fluctuations in TVMWD's flows from MWD. This system of operating is in conflict with MWD's Water Service Regulations, Section 4504(a) and (b) Rates of Flow. SCWC has been informed by TVMWD that unless it can conform its system to operate within the required rates of flow, TVMWD will be forced to levy fines against SCWC.

The new TVMWD project consists of construction of an eight million gallon reservoir at the TVMWD Miramar Treatment Plant site in Claremont. Also included is the enlargement of approximately 2,000 feet of existing 18" inch pipeline, a bypass modification at the Williams Hydroelectric station, and modification of the existing meter connected to the Pomona-Walnut-Rowland joint pipeline. Construction began in December 1991 and facilities should be placed in service by July 1992.

Other member agencies within TVMWD voiced concerns that there were no benefits afforded to them by allowing a new reservoir (which would provide SCWC with a perpetual right to peak) to be built on TVMWD property. Following many months of negotiations, and because the revenue requirements of the total investment proposed herein were so favorable compared to storage constructed elsewhere, and in order to resolve concerns expressed by the other member agencies, SCWC agreed to a contract on April 26, 1991 which incorporated the cost of a pipeline project to allow higher quantities of supplemental Miramar treatment plant water to flow to all member agencies. SCWC will pay the construction cost of the project which will become part of the Miramar facilities and will be operated and administered according to the terms of the Miramar Agreement.

The Claremont City Council voted to endorse the construction of the reservoir at their regular meeting held September 25, 1990.

SCWC believes that the benefits provided by this project are significant and that it is in the public interest for construction to begin as quickly as possible. Upon placing this project in service, SCWC's Pomona Valley ratepayers will receive immediate benefits in the form of increased fire flow, increased capacity during periods of peak demand, and greater levels of service reliability during emergency shutdowns of TVMWD's treatment plant.

The Claremont system has the following storage requirements:

Emergency Storage	10.7 MG
Peaking Storage 0.33 x M.D.D.	8.0 MG
Fire Flow Storage 5,000 gpm x 5 hr.	1.5 MG
	20.2 MG

The Claremont system currently has 6.26 MG of storage. Reservoirs previously proposed for construction in 1991, 1992, and 1993 will provide an additional 4.18 MG of storage. The Miramar reservoir proposed in this application will provide 8.0 MG of storage. This will increase the total storage to 18.44 MG which is 91% of the total storage requirement.

With the proposed additional storage, SCWC will be able to provide an adequate supply to the system during MWD shutdowns of the Miramar treatment plant, natural disasters, or system failures. The Rialto Feeder supplies water to the Miramar treatment plant and is subject to periodic shutdowns. With the Miramar plant out of service, water supplies to the system are limited to wells and an interconnection with West End Consolidated Water Company. The total capacity from these sources is approximately 9,000 gpm. The current maximum day demand in the system is approximately 16,400 gpm. During a Miramar plant shutdown, the demand exceeds the supply by 7,400 gpm. Storage must be used to supply this difference. It is not uncommon for the shutdown to last 24 hours. This produces a storage requirement of 10.7 MG (7,400 gpm x 24 hr. = 10.7 MG).

SCWC is currently meeting its peak hourly demand of 27,800 gpm by peaking off TVMWD, in violation of their operating requirements. The total system peak day demand is approximately 25 million gallons which would require 8 MG of storage (25 MG x 0.33 = 8 MG). The contract negotiated by SCWC with TVMWD gives SCWC a perpetual, exclusive right to peak on the new Miramar water treatment plant storage facility. This right in perpetuity to peak off the TVMWD reservoir will also eliminate any violation SCWC is experiencing under the current Miramar Agreement, and will ensure that SCWC will be able to avoid future fines.

Fire protection in Claremont is provided by the Los Angeles County Fire Department. The County's fire flow requirements are described in LACFD's Regulation 8. The highest required flow is 5,000 gpm for five hours. This amount of flow is required in several areas within the Claremont system, including the Claremont Colleges, and an industrial park along Arrow Highway. The 1.5 MG of storage is required to provide 5,000 gpm over a five-hour period and is in addition to the other storage requirements.

SCWC will be able to meet increased fire flow storage requirements off TVMWD's system as well as SCWC's storage throughout the system. The increased storage capacity would provide more reliable fire protection capabilities by increasing the duration of fire flows when needed. The increased fire flow provides increased benefits for Pomona Valley ratepayers.

Hydraulically, the most ideal location for the reservoir project is immediately adjacent to the existing 8 MG reservoir at the Miramar Plant site. The Miramar Plant site allows gravity distribution to the system, eliminating the need for booster stations which benefits the ratepayers through lower cost of service.

SCWC engineers evaluated two alternatives to the proposed TVMWD reservoir and pipeline project and determined that the capital and operating costs of the proposed 8 MG reservoir and pipeline were far less than constructing a comparable volume of storage and boosters elsewhere. Because the project is the least cost alternative to solve the Pomona Valley water storage deficiencies, it is the most beneficial alternative to the SCWC's Pomona Valley ratepayers.

A summary of the revenue requirements of the proposed project compared to the alternatives is set forth below:

Cost Alternatives - Comparison
($ in Thousands)

Description	Proposed Project	Alternatives 1	Alternatives 2
Project Costs	$2,135.0	$3,503.6	$3,291.7
Revenue Requirement	235.4	727.2	648.5

The Water Branch of the Commission (staff) prepared a report on applicant's request. The report reviewed the application and supporting documents and found the request reasonable, with some exceptions. The staff recommended that $203,334 in contingency costs be disallowed as applicant had not shown need. Applicant agreed to this disallowance.

Public hearing on the application took place in Claremont before Administrative Law Judge Robert Barnett. At the hearing, customers of SCWC testified that the proposed financing could be improved and that any increase in rates be allocated to the commodity charge rather than the service charge. In response to the customers' concerns, SCWC revised its financing so that TVMWD would finance the total project cost ($2,135,000), to be repaid over 20 years at 8.5% interest. The estimated annual payment, including principal and interest, is $225,608. The investment related revenue requirement of the project under this new financing is estimated at $235,395 for the first year. (This compares to SCWC's original request of a $480,500 increase in revenue to recover costs if SCWC had financed the project through more conventional sources.) The staff questioned SCWC about the inclusion in its revenue requirement of $8,327 for the first year for payment of ad valorem taxes by SCWC, given the fact that TVMWD, a municipal entity not subject to ad valorem taxes, will actually own the storage facilities. SCWC provided proof that it must pay taxes on similar facilities owned by TVMWD in which SCWC retains a proprietary interest. Staff therefore accepted the projected tax payment in SCWC's revenue requirement, contingent on actual proof of payment by SCWC. Under the new financing, a typical customer would have a $1.71 increase in his monthly bill. SCWC has agreed to place the entire increase on the commodity portion of rates and staff supports this. SCWC has proposed to treat its repayments to TVMWD as purchased water costs, subject to balancing account treatment, and staff has not opposed this.

The remaining controversy concerns the use of penalty money collected as part of the company's mandatory rationing program to partially fund the new storage facilities. Many customers advocate this use of the money. In the Pomona Valley District, a total of $565,042 of excess usage penalties was collected from March through December, 1991. Net revenue losses in this district amounted to $221,531. D.91-10-042 permits water companies to use the penalty funds to offset net revenue losses, thereby leaving $343,511 in the account to be returned to the customers. If the penalty money is applied to the customers' bills, the average rate reduction per customer in Claremont would be about $2.50 per month or a total of $30 for the first year only. SCWC was required in 1991 to pay income taxes of $137,878 on the $343,511 that was collected from customers last year. Those taxes have not been reflected in rates. However, as SCWC returns the penalty funds to its customers, there will be an equal and opposite reduction of $137,878 to income taxes.

Should the Commission order the penalty funds to be applied to the costs of the project, SCWC proposes to make a down payment to TVMWD of the net-of-tax amount of $205,633 ($343,511 less taxes at 40.138%). TVMWD would fund the remaining $1,929,369 in costs. At 8.5% interest and a 20-year term, a typical customer would experience an increase of $1.55 in his monthly bill (rather than $1.71).

Other customers suggested that TVMWD be financed over a five-year period rather than 20 years. This would increase the average bill in excess of $3.70 per month and would result in present customers subsidizing future customers.

Both applicant and staff oppose using the penalty money to reduce payments of the project. We agree. To use the penalty money would not only cause the ratepayers to lose $137,878 in income taxes, but also would have current ratepayers paying for benefits for future ratepayers. In a more formal, and less understandable phrase, it would create intertemporal inequity.

This decision was issued as a Proposed Decision to which the staff and SCWC provided comments. Those comments were of a technical nature and the suggestions of both parties have been incorporated into this decision.

<u>Findings of Fact</u>

1. Applicant currently meets its peak hour demand by peaking off TVMWD's existing water treatment facilities. This system of operating is in conflict with the Metropolitan Water District's water service regulations.

2. TVMWD has agreed to provide applicant with a perpetual right to use new TVMWD storage facilities for peak flow requirements in applicant's Pomona Valley District.

3. The estimated capital cost of these facilities is $2,135,000.

4. TVMWD has agreed to finance the total project cost to be repaid over 20 years at 8.5% interest. The estimated annual payment, including principal and interest, is $225,608.

5.a. The investment related revenue requirement of the project under this financing is estimated at $235,395 for the first year.

5.b. The revenue requirement includes payment of ad valorem taxes in the amount of $8,327 for the first year. Inclusion of this amount is conditional on proof of actual payment of such taxes.

6. Under this financing, a typical customer would have a $1.71 increase in his monthly bill.

7. Applicant is in need of this project to meet the water needs of its customers in the Pomona Valley District.

8. The contract with TVMWD and the cost incurred by applicant in regard to this contract are reasonable and prudent.

9. The rates proposed to finance this project should be placed on the commodity portion of the rates and such rates are just and reasonable. The rates are set forth in Appendix A.

10. The proposed rates shall be placed into effect at the time the new storage facilities are placed in service.

11. The payments to TVMWD hereunder should be treated as purchased water costs, subject to balancing account treatment.

Conclusion of Law

The Commission concludes that the application should be granted as set forth in this opinion.

O R D E R

IT IS ORDERED that:

1. Southern California Water Company may place in rates the revenues set forth in Appendix A after the time the facilities to be built pursuant to its contract with the Three Valleys Municipal Water District are placed in service.

2. Applicant shall file revised rate schedules in accordance with Appendix A and in compliance with General Order 96-A. The revised schedules shall apply only to service rendered on or after their effective date, which shall be as set forth in Ordering Paragraph 1.

3. Applicant shall treat its payments to TVMWD hereunder as purchased water costs, subject to balancing account treatment.

This order is effective today.

Dated September 16, 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

NEAL J. SHULMAN, Executive Director

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APPENDIX A

Description	Units Ccf	Current Rates	Adopted Revenue (K $'s)	Revised Rates	Proposed Revenue (K $'s)	Proposed Increase (K $'s)
PV-1,all Ccf	3,852,200	$1.147	$4,419.6	$1.202	$4,630.3	$210.7
PVC-1,all Ccf	277,400	1.274	353.4	1.329	368.7	15.3
PV-7ML,all Ccf	179,799	1.007	181.0	1.062	190.9	9.9
	4,309,399		$4,954.0		$5,189.9	$235.9
Service Charge Revenues			$1,660.4		$1,660.4	$ 0.0
Total Revenues for PV-1, PVC-1 and PV-7ML			$6,614.4		$6,850.3	$235.9

Total Increase	=	$235.9
Percent Increase	=	3.6%
Monthly Increase - Typical Customer	=	$ 1.71

(END OF APPENDIX A)