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Decision 82 09 069 SEP 22 1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN GABRIEL VALLEY WATER COMPANY, for Authority to Increase Rates Charged for Water Service in its Fontana Water Company Division.	Application 82-01-22 (Filed January 14, 1982)

Brobeck, Phleger & Harrison, by Robert N. Lowry, Attorney at Law, and Michael Whitehead, Attorney at Law, for applicant.
Jean Daze Ratelle, Attorney at Law, for the City of Fontana, protestant.
Sazedur Rahman and Linda Gori, for the Commission staff.

OPINION

Summary

This decision authorizes applicant, San Gabriel Valley Water Company, Fontana Division (Fontana), an increase in revenues as follows:

	Amount of Increase	Percentage Increase
1982	$732,700	21.93%
1983	415,300	10.19
1984	168,800	3.76

These amounts are intended to allow Fontana the opportunity to earn 14.75% return on common equity. They will be realized by increasing the return on rate base to 10.76% in 1982, with further increases to 11.44% in 1983 and 11.81% in 1984, to offset anticipated financial and operational attrition. These latter step increases will be subject to staff review to assure the increases are not excessive.

The increases are necessary to permit Fontana to retain its present level of service, to continue with service improvements (mandated by the State Department of Health and otherwise), to meet its financial obligations, and to provide a reasonable return to its investors.

In 1982 $581,200 additional revenue is required because of the 1981 Economic Recovery Tax Act (ERTA). We note that 41.4% of the increase in rates authorized for 1982 in this decision is due to the effects of ERTA.

Introduction

Fontana seeks authority to increase its rates through 1984 for general metered and private fire protection services by the following amounts.

	Amount of Increase	Percentage Increase
1982	$1,100,800	33.4%
1983	717,300	16.3
1984	298,700	5.8

Fontana states that these amounts will allow it the opportunity to earn a requested 17% return on equity. The figures include results of the Economic Recovery Tax Act of 1981 (ERTA).[1/] Fontana claims that its revenues must be increased to enable it to meet expenses of furnishing water service, to maintain its financial integrity, to obtain and/or retain at reasonable costs capital funds necessary for refunding obligations and acquisition and construction of necessary additional plant facilities, and to provide a just and reasonable return on its present investment. Fontana adds that this need is due to substantial increases in major expense items, increases in rate base and plant investment, and increases in cost of capital.

The last general rate proceeding for Fontana resulted in a 7.83% increase granted by Decision (D.) 88271 on December 20, 1977. Other increases and decreases were granted by advice letter in 1978, 1979, 1980, and 1981, resulting in a total increase in rates of approximately 37%.

An informal public meeting concerning this current matter was held in Fontana on the evening of March 15, 1982. Prior notices of the meeting were sent as bill inserts to all customers. Approximately 18 customers attended. There was one service complaint. It had to do with a deposit dispute of several years ago. There were no complaints of current service problems.

1/ ERTA is a federally mandated provision which causes an increase in income tax expense for ratemaking purposes due to elimination of the full flow through to ratepayers of the benefits from accelerated depreciation and investment tax credit on utility plant additions placed in service after December 31, 1980.

The formal hearing was held before Administrative Law Judge Colgan on May 17 and 18, 1982. It was submitted on May 18 pending receipt of written post-hearing statements to be postmarked not later than June 11, 1982.

Although the Commission prefers to hold its hearings in the affected communities and received many requests to do so in this case, the formal hearing was held in Los Angeles rather than Fontana. This was necessary because of the severe budget constraints on state government generally and specifically on the travel funds available to the Commission in May 1982. One person, Jean Ratelle, appeared at the Los Angeles hearing to relate the opposition of the mayor and city council of Fontana to the Los Angeles hearing location and to the amount of the requested increase. Mr. Ratelle also stated that the Fontana city attorney would file a statement with the Commission regarding these issues. We did not receive such a statement.

Background

The San Gabriel Valley Water Company (SGVWC) is a corporation, owned by Utility Investment Company, which produces, distributes, and sells water in Los Angeles County and distributes and sells water in San Bernardino County to approximately 60,000 total customers. SGVWC is divided into two divisions for operational purposes. The Fontana Division has approximately 18,200 customers, including private fire protection services.

Fontana's Showing

Fontana presented the testimony of three witnesses in support of its application. They were the president, the vice president-secretary, and the vice president-general manager of SGVWC.

The president and vice president-secretary addressed all the issues concerning finance. The vice president-general manager addressed the programs of water conservation and vehicle fuel and energy conservation practiced by Fontana.

Operating Expenses

Table 1 compares the estimated results of operations for test years 1982 and 1983 (including ERTA effects) as ultimately propounded by staff and by Fontana, and Table 2 shows the results of operations as adopted. An explanation of disputed figures follows.

Payroll

In preparing Chapter 3 of Exhibit 7, Results of Operations of the Fontana Division, staff used a wage escalation factor for 1982 of 9.5% despite staff's knowledge that Fontana had, in fact, granted a 10% wage increase on January 1, 1982. However, in preparing Exhibit 8, Results of Operations for General Office Operation, staff acknowledged the 10% wage increase and used it too. In the calculation of 1983 wage escalation factor Fontana used 10% again; staff used 8.5% in Exhibit 7 and 6.4% in Exhibit 8.

TABLE 1

San Gabriel Valley Water Company
Fontana Division

COMPARISON OF STAFF AND UTILITY
ESTIMATED RESULTS OF OPERATIONS

Item	Test Year 1982		Test Year 1983	
	Staff	Utility	Staff	Utility
	(Dollars in Thousands)			
Present Rates				
Operating Revenues	$3,369.3	$3,305.8	$3,496.7	$3,462.4
Operating Expenses:				
Purchased Water	768.1	757.7	796.8	792.1
Purchased Power	192.6	146.4	192.6	146.4
Purchased Chemicals	32.4	32.4	36.3	36.3
Payroll	451.7	463.5	504.1	513.1
Other O&M Expenses	197.3	219.2	222.6	246.5
A&G Expenses	112.7	115.8	142.4	148.5
G.O. Allocation	449.3	457.3	481.0	498.4
Depreciation Expense	262.8	270.6	294.8	310.0
Taxes Other Than Income	125.7	127.3	136.1	137.4
Subtotal	2,592.6	2,590.2	2,806.7	2,828.7
Uncollectibles	21.1	26.8	21.9	28.1
Local Franchise Tax	45.5	44.6	47.2	46.7
CCFT	17.7	12.3	-1.3	-2.8
FIT Before ITC	107.6	88.0	43.0	47.1
ITC	0	0	0	0
FIT	107.6	88.0	43.0	47.1
Total Oper. Expenses	2,784.5	2,761.9	2,917.5	2,947.8
Net Operating Revenues	584.8	543.9	579.2	514.6
Rate Base	8,525.4	8,707.7	9,277.6	9,756.5
Rate of Return	6.86%	6.25%	6.24%	5.27%
Proposed Rates				
Operating Revenues	$4,473.4	$4,408.5	$5,156.8	$5,145.1
Operating Expenses	2,592.6	2,590.2	2,806.7	2,828.7
Uncollectibles	28.0	35.8	32.3	41.8
Local Franchise	60.4	59.5	69.6	69.5
CCFT	121.6	116.3	156.2	155.3
FIT Before ITC	557.6	541.5	725.3	731.6
ITC	0	0	0	0
FIT	557.6	541.5	725.3	731.6
Total Oper. Expenses	3,360.2	3,343.3	3,790.1	3,826.9
Net Operating Revenues	1,113.2	1,065.2	1,366.7	1,318.2
Rate Base	8,525.4	8,707.7	9,277.6	9,256.5
Rate of Return	13.06%	12.23%	14.73%	13.51%

TABLE 2

San Gabriel Valley Water Company
Fontana Division

ADOPTED RESULTS OF OPERATIONS

Item	Test Year 1982	Test Year 1983
	(Dollars in Thousands)	
Present Rates		
Operating Revenues	$3,341.8	$3,468.4
Operating Expenses:		
Purchased Water	768.1	796.8
Purchased Power a/	162.8	162.8
Purchased Chemicals	32.4	36.3
Payroll	463.5	495.2
Other O&M Expenses	197.3	222.6
A&G Expenses	108.1	142.4
G.O. Allocations	449.3	481.0
Depreciation Expenses	264.1	297.6
Taxes Other Than Income	127.3	136.1
Subtotal	2,572.9	2,770.8
Uncollectibles	21.5	22.3
Local Franchise Tax	45.1	46.8
CCFT	16.2	-1.3
FIT Before ITC	101.6	44.1
ITC	0	0
FIT	101.6	44.1
Total Operating Exp.	2,757.3	2,882.7
Net Operating Revenues	584.5	585.7
Rate Base	8,690.3	9,392.0
Rate of Return	6.73%	6.24%
Proposed Rates		
Operating Revenues	4,074.5	4,489.8
Operating Expenses	2,572.9	2,770.8
Uncollectibles	26.2	28.8
Local Franchise	55.0	60.6
CCFT	85.1	94.8
FIT Before ITC	400.2	460.4
ITC	0	0
FIT	400.2	460.4
Total Operating Exp.	3,139.4	3,415.4
Net Operating Revenues	935.1	1,074.4
Rate Base	8,690.3	9,392.0
Rate of Return	10.76%	11.44%

a/ Southern California Edison Company electric rates effective May 4, 1982.

The discrepancy from one staff document to another is apparently due to the fact that the documents were prepared by different persons in different locations at different times. Exhibit 7 attempts to comply with the Revenue Requirements Division's (RRD) January 6, 1982 memorandum of wage rate escalation estimates for 1981 through 1984, while Exhibit 8 attempts to comply with RRD's updated memorandum of April 29, 1982.

We believe it was reasonable for Fontana to grant a 10% wage increase effective January 1, 1982 based on the available inflation data and we will reflect it in our adopted results of operations. The data relied upon by staff were not available at the time Fontana authorized the increase. What was available was a 13% inflation factor for 1981, as shown on both Exhibits 11 and 12.

We will not, however, adopt the proposed 10% wage inflation figure for 1983. Staff's most recent calculations estimate it to be 6.4%. We believe that figure is reasonable Thus, the inflation figures used by staff in Exhibit 8 will be adopted for calculating the wage expense component of the attrition allowance.

These inflation figures, of course, must also be applied to other payroll-related expenses such as employees' pensions and benefit expenses and payroll taxes.

S5 ~~Obviously~~ we adopt the 1982 staff payroll figure since it uses 1981 recorded rather than estimated data used by Fontana.

Nonlabor

Neither Fontana nor staff presented much testimony to explain the various inflation rates they used for the nonlabor operations estimates. Staff used the figures of 8% for 1982[2] and 8.6% for 1983 (the latter figure is set forth in Exhibit 12). Fontana used 10% for both years for some expenses, 13% on certain ones where it was deemed appropriate, 15.8% for transportation expense, and lower than appropriate postage figures. Fontana's figures were all furnished to staff. None were below 10% according to testimony of the vice president-secretary, Raymond Heytens.

Since Fontana was aware of the discrepancy and offered no evidence to rebut the testimony of staff witnesses who testified that their inflation figures were based upon the data described in Exhibits 11 and 12, we conclude that staff's figures are more reasonable and we will adopt the inflation rate of 8% for 1982 and 8.6% for 1983 for any nonlabor inflation figures where the parties did not reach agreement on different and appropriate figures, in which case those will be adopted.

2/ Although the only evidence presented on this point is staff Exhibit 8, on general office expenses, RRD's memorandum of April 29, 1982 (Exhibit 12) suggests that 4.1% is correct. Staff testimony in Exhibit 7, paragraph 3.8, seems to imply that the 8% figure was derived from the predecessor RRD memorandum of July 17, 1981.

Uncollectibles

Staff and Fontana differ on the appropriate percentage rate which should be used in estimating uncollectible accounts. Staff used an average of the last five years. Fontana used the 1980 figure, pointing out that uncollectibles have shown an upward trend over the last five years, which is not fairly reflected in staff's figure. Testimony showed that the closing of the Kaiser Steel plant in Fontana in 1981 preceded a very large increase in uncollectibles. Staff testimony also made it clear that the five years they averaged are not reliable indicators of the future. Therefore, we believe the slightly higher figure used by Fontana is more reasonable and we will adopt it.

Estimated Average Residential Consumption

The figures of Fontana and staff differ significantly with respect to the estimated average water consumption for the test years. This occurs even though both used the same method for calculating the amount. Each took 30 years worth of temperature and precipitation data for the Fontana area and derived a "normalized precipitation" and a "normalized temperature" figure which was then used in conjunction with either 10 years or 7 years worth of recorded Fontana water consumption data. The convention used for arriving at these figures is called the "Committee Method", which is a derivation of the "Modified Bean Method" for obtaining uniform data for prediction purposes. The reason the figures differ is that staff deleted the 1977 recorded consumption figures from its calculation to avoid distortion due to the 1977 drought and its related conservation effect. We think this is the more reasonable approach when the data being used are for so short a period as 10 or fewer years, so we will adopt the staff-recommended normalized consumption figure of 291.3 Ccf per residential metered service rather than Fontana's figure of 276.1 Ccf.

This resolves several other discrepancies between staff and Fontana, such as purchased water and power expense estimates.

Utility Plant

For 1982, Fontana budgeted $243,400 more than it actually used to build a reservoir. However, it kept that amount of money in the budget and moved up or added certain additional projects described in Exhibit 13, item 7. Staff disallowed all but $8,700. Staff demonstrated no basis for its action except to say that even without the amount, staff's 1982 plant addition estimate is still about $500,000 greater than the 1978-1981 average addition.

The testimony of Ivan Holmberg, vice president-general manager indicates that all the proposed additions are a part of the 7-year improvement project Fontana embarked upon at the instigation of the State Department of Health. It is commendable that Fontana is engaging in these projects; however, we do not wish to burden the ratepayers with unnecessarily high rates to speed a 7-year project to completion. Therefore, we will allow Fontana to include one-half its savings or $126,700 for whichever of these projects it deems most immediately necessary. The rest of the savings will be disallowed as staff recommends. Thus we will adopt a figure for additions to plant of $2,121,000 for 1982.

Fontana's 1983 projected additions budget includes a reservoir at $699,800 which is no longer being built. Fontana, again, proposed using that amount to construct the 1984 and 1985 projects on its improvement program schedule. Staff claims in Exhibit 7 that only the 1984 projects should be allowed. They amount to $257,500. For the same reasons stated above, we believe that is a reasonable approach and we adopt it.

Application of these adopted rates should alleviate some of the discrepancies between staff and Fontana regarding rate base.

Cost of Capital and Rate of Return

Fontana claims that the interest rates on its future debt financing will be at least 17%. Staff's witness, research analyst Gori, concludes that they will be lower. She stated that the trend in short-term interest rates is going down and that long-term rates tend to follow. She further stated that her estimates of the costs of financing are based on trends in interest rates, yields on recent issues of Class A privately placed bonds and interest rate forecasts published by Data Resources, Inc. She assumed an interest rate of 15.5% for 1982 interim financing, a coupon rate of 14.5% for 1983 long-term bond issue, and 14.0% for 1984 interim financing.

Fontana argues that the interest rate for its privately placed bonds can be estimated by adding 1.97% to the average rate of Class AA utility bonds. Gori stated that 0.5% is the appropriate addition. We find Gori's testimony on both these issues more convincing because it is based not on one example as is Fontana's, but on a historical pattern and accumulated data.

Fontana is requesting a step increase rate of return on rate base through 1984 (adjusted to adopt staff's capital structure and average-year methodology) in the following amounts:

1982	11.93%
1983	12.71%
1984	13.27%

This, it is calculated, will give Fontana the opportunity to earn a 17% return on equity.

This application will, if staff's recommendation is followed, require staff to review Fontana's earnings to determine the extent by which the 1984 step increase is justified in order to safeguard against excessively high rates.

The staff recommended a range for return on common equity of 15.0% to 15.5%. After review of all recommendations in this proceeding and considering the levels approved in other recent proceedings involving comparable water companies, we determine that the reasonable return on rate base is 10.76% in 1982, 11.44% in 1983, and 11.81% in 1984. This rate of return gives Fontana the opportunity to earn 14.75% on common stock equity. We will also follow staff's suggestion that a need assessment be made in late 1983 to determine whether the 1984 financial attrition factor should be reduced from 0.37% to reflect any change in the need for the planned $1.2 million interim financing.

We believe the 17% return on equity requested by Fontana is unnecessarily high in relation to the risk associated with the investment. The record does not support Fontana's expressed concern that investors will not find the return on equity to which they are entitled to be competitive and will, therefore, not leave a substantial portion of their investments in place. Therefore, we conclude that the proper balance is struck between the interests of investors and ratepayers by adopting the staff's rate of return figures.

Rate Design

There are no substantive disputes between Fontana and staff regarding rate design. We find Fontana's rate design concept appropriate when applied to the figures we adopt by this decision. Thus we will permit the reduction in lifeline quantities from 400 cubic feet per month to 300 cubic feet, and the raising of service charges to collect the following percentage of general metered revenue:

25.6% in 1982
26.5% in 1983
28.7% in 1984

This increased service charge revenue should be spread in proportion to current service charges according to meter size. Further, the proposed lifeline differential of at least 25% should be maintained.

We will also approve the private fire protection service charge increase from $2.50 per inch diameter of service to $3.

Interest Expense for Income Tax Calculation

Another operating expense on which Fontana and staff differ is the proper treatment of interest expense on long-term and short-term debts for 1982 and 1983. Fontana used existing and estimated future interest rates applied to actual periods of time present and anticipated debts would be outstanding whereas staff used a weighted cost of debt multiplied by the weighted average rate base less working cash. We find that staff's method is more accurate and we will adopt its use in conjunction with interest figures adopted elsewhere in this decision.

Income Tax Treatment Under ERTA

The final disputed operating expense is the appropriate way to calculate income tax depreciation and investment tax credit under ERTA. The disagreement has only to do with the calculations for 1982. Staff treated these 1982 figures as they would for a full 12-month year. Fontana, assuming this order would not be effective before August 15, 1982, and recognizing that ERTA benefits cannot accrue until this order becomes effective, applied a proration factor of 37.5% to income tax deferrals for 1982 and then deducted one-half that amount from rate base. Staff merely deducted one-half the whole amount for 1982. (This is described as the "midyear convention".) Since this amount also appears in the 1983 ERTA calculations, it also affects the 1983 figures.

We agree that the August 15, 1982 date is much closer to actual fact than the January 1, 1982 assumption used by staff. So we will adopt Fontana's method. We do not think that this conflicts with staff's procedural memorandum on ERTA application to Class A water utilities (Exhibit 10).

Findings of Fact

1. Water quality and service in SGVWC's Fontana Division are satisfactory.

2. Capital ratios, cost factors, weighted costs, and after-tax interest coverage, shown in Table 3, which follows, fairly portray estimated debt and equity costs SGVWC will experience during the 1982-1984 period.

TABLE 3

San Gabriel Valley Water Company
Fontana Division

Component	Capitalization Ratios (a)	Cost (b)	Weighted Cost (c)
	Average Year 1982		
Long-term Debt	53.00%	7.76%	4.11%
Preferred Stock	3.00	5.39	0.16
Common Equity	44.00	14.75	6.49
Total	100.00%		10.76%
			2.62X a/
	Average Year 1983		
Long-term Debt	53.00%	9.03%	4.79%
Preferred Stock	3.00	5.39	0.16
Common Equity	44.00	14.75	6.49
Total	100.00%		11.44%
			2.39X a/
	Average Year 1984		
Long-term Debt	53.00%	9.73%	5.16%
Preferred Stock	3.00	5.39	0.16
Common Equity	44.00	14.75	6.49
	100.00%		11.81%
			2.29X a/

a/ Implicit after-tax interest coverage.

3. A constant rate of return of 14.75% on common stock equity will afford SGVWC an opportunity to earn returns on rate base of 10.76% in 1982, 11.44% in 1983, and 11.81% in 1984.

4. The estimates in Table 2 of operating revenues, operating expenses, and rate base for test years 1982 and 1983, together with an estimated decline in rate of return of 0.37% for financial attrition in 1984 (based on staff's estimates and including ERTA effects), reasonably indicate the probable results of SGVWC's future Fontana Division operations.

5. The information shown in Table 2 includes the impact of ERTA on net revenues and rate base as required by our decision in Order Instituting Investigation (OII) 24 (D.93848).

6. The compilation of adopted quantities is contained in Appendix C to this decision.

7. The compilation of adopted tax calculation is contained in Appendix D to this decision.

8. Current service charges provide 25% of Fontana's revenue requirements. Increased service charges as listed in Appendix A, and a rate design which retains at least 25% differential between lifeline and system average increases are reasonable.

9. SGVWC's proposal to increase the present private fire protection service charge is reasonable.

10. Revenue increases of $732,700 or 21.93% for 1982, $415,300 or 10.19% for 1983, and $168,800 or 3.76% for 1984 are reasonable based upon adopted results of operations for SGVWC's Fontana Division.

Conclusions of Law

1. The rates shown in Appendix A are just, reasonable, and nondiscriminatory and should be adopted.

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

3. Because of the immediate need for additional revenue the order should be effective today.

O R D E R

IT IS ORDERED that:

1. Applicant San Gabriel Valley Water Company (SGVWC) is authorized to file for its Fontana Division the revised rate schedules, effective today, in Appendix A. The filing shall comply with General Order (GO) 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 15, 1982, SGVWC is authorized to file an advice letter, with appropriate work papers requesting the 1983 step rate increases attached to this order as Appendix B, or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix B in the event that the Fontana Division 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, 1982, exceeds the lower of (a) the rate of return found reasonable by the

Commission for SGVWC during the corresponding period in the then most recent rate decision, or (b) 10.76%. Such filing shall comply with GO 96-A. The requested step rates shall be reviewed by staff to determine their conformity with this order and shall go into effect upon staff's determination of conformity. But staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedule shall be no earlier than January 1, 1983, or 30 days after the filing of the step rates, whichever is later.

3. On or after November 15, 1983 SGVWC is authorized to file an advice letter, with appropriate work papers, requesting the 1984 step rate increases attached to this order as Appendix B, or to file a lesser increase which includes a uniform cents per 100 cubic feet of water adjustment from Appendix B in the event that the Fontana District 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, 1983, exceeds the lower of (a) the rate of return found reasonable by the Commission for SGVWC during the corresponding period in the then most recent rate decision, or (b) 11.44%. Such filing shall comply with GO 96-A. The requested step rates shall be reviewed by staff to determine their conformity with this order and shall go into effect upon staff's determination of conformity. But staff shall inform the Commission if it finds that the proposed step rates are not in accord with this decision, and the Commission may then modify the increase.

The effective date of the revised schedule shall be no earlier than January 1, 1984, or 30 days after the filing of the step rates, whichever is later.

4. Within 45 days SGVWC shall mail to all its customers within the Fontana Division a bill insert notice as shown in Appendix E.

This order is effective today.

Dated SEP 22 1982, at San Francisco, California.

I dissent. Return on equity of 14.25% is adequate in my view.

/s/ RICHARD D. GRAVELLE
Commissioner

JOHN E. BRYSON
President
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
COMMISSIONERS

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

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director

APPENDIX A
Page 1

San Gabriel Valley Water Company
Fontana Division

Schedule No. FO-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all general metered water service.

TERRITORY

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

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter	$ 4.23	(I)
For 3/4-inch meter	5.07	
For 1-inch meter	7.45	
For 1½-inch meter	9.70	
For 2-inch meter	12.11	
For 3-inch meter	24.93	
For 4-inch meter	32.78	
For 6-inch meter	52.19	
For 8-inch meter	79.31	
For 10-inch meter	97.35	
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft.	$0.340	
For all over 300 cu.ft., per 100 cu.ft.	0.454	(I)

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

APPENDIX A
Page 2

San Gabriel Valley Water Company
Fontana Division

Schedule No. FD-4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for private fire protection purposes.

TERRITORY

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

RATE

	Per Service Per Month
For each inch of diameter of fire protection service	$3.00

(END OF APPENDIX A)

APPENDIX B

San Gabriel Valley Water Company
Fontana 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.

	Effective Dates 1-1-83	1-1-84
Service Charges:		
For 5/8 x 3/4-inch meter	$ 0.42	$ 0.23
For 3/4-inch meter	0.47	0.25
For 1-inch meter	0.70	0.37
For 1½-inch meter	0.91	0.48
For 2-inch meter	2.22	0.65
For 3-inch meter	2.32	1.23
For 4-inch meter	3.04	1.62
For 6-inch meter	4.84	2.57
For 8-inch meter	7.37	3.91
For 10-inch meter	9.00	4.79
Quantity Rates:		
For the first 300 cu.ft., per 100 cu.ft.	$ 0.013	$ 0.012
For all over 300 cu.ft., per 100 cu.ft.	0.023	0.017

(END OF APPENDIX B)

APPENDIX C
Page 1

San Gabriel Valley Water Company
Fontana Division

ADOPTED QUANTITIES

	1982	1983
1. Water Production - KCcf		
Purchased and Wells	7,051	7,323
2. Purchased Water Expenses (FontanaUnion Water Company July 1, 1978)		
Normalized Purchases	7,051 KCcf	7,323 KCcf
	9,792 MIH	10,170 MIH
$ per MIH	7½¢	7½¢
Water Costs	$734,400	$762,800
Water Assessment	33,700	34,000
Total Costs	$768,100	$796,800
3. Purchased Power		
Pressure Booster (Southern California Edison Company, Schedule PA-1; May 4, 1982)		
Power Requirement - kWh	899,340	899,340
Composite Cost per kWh	6.628¢	6.628¢
Power Costs	$68,970	$68,970
Filter Plants (SCE Schedule PA-2)		
Power Requirement kWh	1,356,200	1,356,200
Composite Cost per kWh	5.691¢	5.691¢
Energy Charge	$77,181	$77,181
Demand Charge	$12,800	$12,800
Other (SCE Schedule PA-1)	$980	$980
(SCE Schedule GS-1)	$3,030	$3,030
Total Power Expenses	$162,960	$162,960
4. Ad Valorem Tax	$89,390	$95,800
Tax Rate	1.2672%	1.2672%

APPENDIX C
Page 2

San Gabriel Valley Water Company
Fontana Division

ADOPTED QUANTITIES

5. Number of Services - Meter Size:

	1982	1983
5/8 x 3/4	16,965	17,626
3/4	20	21
1	1,088	1,131
1½	200	209
2"	156	163
6	11	12
2 - 2"	33	33
3 - 2"	7	7
4 - 2"	3	3
6 - 2"	1	1
2-2" /2 - 4"	1	1
1-8" /2 - 2"	1	1
	18,486	19,208

6. Metered Wates Sales (Usage Ccf)

Range Ccf	1982	1983
0 - 3	642,442	667,528
Over 3	6,128,158	6,366,072
Total	6,770,600	7,033,600

APPENDIX C
Page 3

San Gabriel Valley Water Company
Fontana Division

ADOPTED QUANTITIES

7. Number of Services

Number of Services	No. of Services 1982	No. of Services 1983	Usage - KCcf 1982	Usage - KCcf 1983	Avg. Usage-Ccf/Yr. 1982	Avg. Usage-Ccf/Yr. 1983
Residential	18,195	18,905	5,299.7	5,506.6	291.3	291.3
Commercial	115	124	473.0	510.0	4,113.0	4,113.0
Industrial	80	82	486.1	496.8	6,077.0	6,058.0
Public Authority	96	97	511.8	520.2	5,331.0	5,363.0
Other			44.9	44.9		
Subtotal	18,486	19,208	6,815.5	7,078.5		
Private Fire Protection	98	105				
Public Fire Protection	1,908	2,108				
Total	20,492	21,421				
Water Loss 3.34%			235.5	244.6		
			7,051.0	7,323.1		

8. Revenue

Revenue	1982	1983
Metered	$3,317,000	$3,445,700
Private Fire Protection	19,300	21,000
Misc.	33,000	30,000
Total	$3,369,300	$3,496,700

(END OF APPENDIX C)

APPENDIX D

San Gabriel Valley Water Company
Fontana Division

INCOME TAX CALCULATION

	1982	1983
	(Dollars in Thousands)	
Operating Revenues	$4,074.5	$4,489.8
O & M Expenses:		
Purchased Water	768.1	796.8
Purchased Power	162.8	162.8
Payroll	463.5	495.2
Other	337.8	401.3
Uncollectibles @ .642%	26.2	28.8
Local Franchise @ 1.35%	55.0	60.6
Payroll Taxes	37.9	40.3
Ad Valorem Taxes	89.4	95.8
General Office Allocation	426.8	455.1
Interest	342.3	429.9
Total Deductions	2,709.8	2,966.5
State Tax Depreciation	478.2	535.6
Net Taxable Income	886.6	987.6
State Corp. Franchise Tax @ 9.6%	85.1	94.8
Federal Tax Depreciation	397.9	415.7
State Income Tax	85.1	94.8
Net Taxable Income	881.7	1,012.7
Federal Income Tax @ 46%	405.6	465.8
Less Graduated Tax Adj.	-5.4	-5.4
Total Federal Income Tax	400.2	460.4

Net-to-Gross Multiplier: 2.09

(END OF APPENDIX D)

APPENDIX E

Bill Insert for San Gabriel Valley Water
Company's Fontana Division

NOTICE

$581,200 of the recent rate increase granted to San Gabriel Valley Water Company for its Fontana Division was made necessary by changes in tax laws proposed by the President and passed by Congress last year. This was the Economic Recovery Tax Act of 1981. Among its provisions was a requirement that utility ratepayers be charged for certain corporate taxes even though the utility does not have to pay them. This results from the way utilities may treat tax savings from depreciation on their plant and equipment. The savings can no longer be credited to the ratepayer, but must be left with the company and its shareholders.

For a more detailed explanation of this tax change, send a stamped self-addressed envelope to:

Consumer Affairs Branch
Public Utilities Commission
350 McAllister Street
San Francisco, CA 94102

(END OF APPENDIX E)

These amounts are intended to allow Fontana the opportunity to earn 14.75% return on common equity. They will be realized by increasing the return on rate base to 10.76% in 1982, with further increases to 11.44% in 1983 and 11.81% in 1984, to offset anticipated financial and operational attrition. These latter step increases will be subject to staff review to assure the increases are not excessive.

The increases are necessary to permit Fontana to retain its present level of service, to continue with service improvements (mandated by the State Department of Health and otherwise), to meet its financial obligations, and to provide a reasonable return to its investors.

In 1982, $581,000 additional revenue is required because of the 1981 Economic Recovery Tax Act (ERTA). We note that 41.4% of the increase in rates authorized for 1982 in this decision is due to the effects of ERTA.

Introduction

Fontana seeks authority to increase its rates through 1984 for general metered and private fire protection services by the following amounts:

	Amount of Increase	Percentage Increase
1982	$1,100,800	33.4%
1983	717,300	16.3
1984	298,700	5.8

TABLE 2

San Gabriel Valley Water Company
Fontana Division

ADOPTED RESULTS OF OPERATIONS

Item	Test Year 1982	Test Year 1983
	(Dollars in Thousands)	
Present Rates		
Operating Revenues	$3,341.8	$3,468.4
Operating Expenses:		
Purchased Water	768.1	796.8
Purchased Power a/	162.8	162.8
Purchased Chemicals	32.4	36.3
Payroll	463.5	495.2
Other O&M Expenses	197.3	222.6
A&G Expenses	108.1	142.4
G.O. Allocations	449.3	481.0
Depreciation Expenses	264.1	297.6
Taxes Other Than Income	127.3	136.1
Subtotal	2,572.9	2,770.8
Uncollectibles	21.5	22.3
Local Franchise Tax	45.1	46.8
CCFT	16.2	-1.3
FIT Before ITC	101.6	44.1
ITC	0	0
FIT	101.6	44.1
Total Operating Exp.	2,757.3	2,882.7
Net Operating Revenues	584.5	585.7
Rate Base	8,690.3	9,392.0
Rate of Return	6.73%	6.24%
Proposed Rates		
Operating Revenues	4,114.4	4,533.0
Operating Expenses	2,572.9	2,770.8
Uncollectibles	26.4	29.1
Local Franchise	55.5	61.2
CCFT	88.9	98.8
FIT Before ITC	416.5	478.0
ITC	0	0
FIT	416.5	478.0
Total Operating Exp.	3,160.2	3,437.9
Net Operating Revenues	954.2	1,095.1
Rate Base	8,690.3	9,392.0
Rate of Return	10.98%	11.66%

a/ Southern California Edison Company electric rates effective May 4, 1982.

APPENDIX E

Bill Insert for San Gabriel Valley Water
Company's Fontana Division

N O T I C E

$581,000 of the recent rate increase granted to San Gabriel Valley Water Company for its Fontana Division was made necessary by changes in tax laws proposed by the President and passed by Congress last year. This was the Economic Recovery Tax Act of 1981. Among its provisions was a requirement that utility ratepayers be charged for certain corporate taxes even though the utility does not have to pay them. This results from the way utilities may treat tax savings from depreciation on their plant and equipment. The savings can no longer be credited to the ratepayer, but must be left with the company and its shareholders.

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(END OF APPENDIX E)