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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 Los Angeles County Division.	Application 83-02-36 (Filed February 17, 1983)

Michael L. Whitehead, Attorney at Law, for applicant.
Brian T. Cragg, Attorney at Law, for the Commission staff.

O P I N I O N

Summary

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

	Amount of Increase	Percentage Increase
1983	$921,700[a/]	9.13%
1984	344,000[b/]	3.23

a/ Amount shown is with respect to 1983 revenues at present rates and includes 1½% User Fee.

b/ Amount shown is with respect to 1983 authorized revenues.

These increases reflect a rate of return on rate base of 11.05% in 1983 and 11.17% in 1984 which correspond to a return on common equity of 14.50%. The increases are necessary to permit SGVWC to retain its level of service, to meet its expenses, and to provide a reasonable rate of return to its investors.

In its application, SGVWC sought authority to increase its rates for water service in three annual steps to produce annual revenue increases of $1,817,800 or 19% in 1983, and by

additional amounts of $669,000 or 5.9% in 1984 and $733,800 or 6.1% in 1985. The proposed 1983 increase would have been in addition to the increase granted SGVWC effective January 1, 1983 to offset the higher federal income tax expense resulting from normalization under the federal Economic Recoverty Tax Act of 1981.

Background

SGVWC, a California corporation, is engaged in the business of producing, distributing, and selling water in Los Angeles County and distributing and selling water in San Bernardino County to approximately 60,000 customers. The Los Angeles County Division is one of two divisions operated separately by SGVWC. This division had over 41,900 active services, including private fire protection service, as of October 31, 1982. The last general rate increase for the Los Angeles County Division was granted in November 1979.

Informal Meeting

An informal public meeting concerning this application was held in South El Monte on March 31, 1983. The meeting was attended by 12 customers. Two customers complained of current service problems. One customer, living in Hacienda Heights, which is at a higher elevation than other SGVWC service areas, stated that his water pressure was only 13 pounds per square inch; the other complained that the water was smelly, unhealthy, and sandy. Two other customers, who are retired senior citizens, stated that the rate increase was hurting them and others who must live on a fixed social security income which does not keep pace with the requested rate increases. Another customer complained that her bills kept rising although her current water use was considerably less than the previous year's consumption.

In 1982, 452 customer inquiries were filed with SGVWC as compared to 653 filed in 1981. Of the 452 inquiries, 306 were about billing, 77 were about high or low water pressure, and 24 were about the taste, odor, or color of the water. All were resolved satisfactorily. On March 26, 1983 staff conducted a field inspection of SGVWC's facilities and found that the plant in service was generally satisfactory.

Public Hearing

Following notice, which was published, mailed to customers, and posted in accordance with the Commission's Rules of Practice and Procedure, a public hearing on the application was held before Administrative Law Judge (ALJ) William A. Turkish in Los Angeles on June 15, 16, and 17, 1983. One customer attended the hearing who opposed the granting of a rate increase to SGVWC and objected to the wage scale of SGVWC employees and the salaries of its top officers for being so high.

Testimony on behalf of SGVWC was presented by its chairman of the board, Robert H. Nicholson, Jr., by its president and chief operating officer, Ivan G. Holmberg, and by its vice president and secretary, Raymond Heytens. Assistant utilities engineer Bas Panchadsaram, associate utilities engineer Thomas Fann, senior utilities engineer Willem R. Van Lier, and financial examiner III Christopher J. Blunt presented evidence on behalf of the Commission staff. In addition, 15 documents were received into evidence. The matter was submitted upon the filing of concurrent briefs on July 14, 1983.

Results of Operations

Table 1, following on the next two pages, shows the adopted results of operations at present rates and at authorized rates for test years 1983 and 1984.

Although many differences between SGVWC and staff appear in their respective reports on the results of operations, SGVWC acknowledged at the outset of the hearings that the differences result from staff's use of more recent available recorded information while SGVWC relied on estimates for the year 1982 in preparing its reports.

The principal areas of dispute in the results of operations estimates are in the following areas:

1. Differences in expenses as a result of differences in inflation factors for labor and nonlabor estimates.
2. Differences in working cash estimates.
3. Differences in allowance of minimum bank balances.
4. Staff's use of a negative working cash allowance and staff's disallowance of minimum bank balances from rate base.
5. Differences in estimates of interest rate and cost of issuance of future long-term debt.
6. Differences in rate of return recommendations.

Because of SGVWC's acknowledgment of staff's access to later recorded information and acceptance of staff's estimates of the remainder of those differences, which SGVWC characterizes as minor in nature, this opinion will focus on the major areas of disagreement and only briefly discuss, if at all, other areas of the results of operation.

TABLE 1

SAN GABRIEL VALLEY WATER COMPANY
Los Angeles County Division

ADOPTED RESULTS OF OPERATIONS
Present Rates

Item	Test Year 1983	Test Year 1984
	(Dollars in Thousands)	
Operating Revenues	$ 9,718.9	$ 9,765.7
Operating Expenses:		
Purchased Water	1,844.9	1,882.6
Purchased Power	1,635.1	1,639.8
Payroll	1,287.2	1,338.7
Materials and Supplies	163.2	173.2
Other Operation and Maint. Exp.	377.4	398.5
Employees' Pensions & Benefits	416.0	432.7
Admin. & General and Misc.		
General Office Exp., prorated	1,045.6	1,087.0
Comp. Minimum Bank Balance	13.8	14.6
Subtotal	6,968.3	7,151.2
Depreciation Expense	584.6	608.3
Taxes Other Than Income	373.9	400.6
State Corp. Franchise Tax	75.3	53.2
Local Franchise Tax	82.4	82.8
Federal Income Tax	376.8	297.6
Total Deductions	8,461.3	8,593.7
Net Operating Revenues	1,257.6	1,172.0
Rate Base	15,347.0	15,681.0
Rate of Return	8.19%	7.47%

TABLE 1

SAN GABRIEL VALLEY WATER COMPANY
Los Angeles County Division

ADOPTED RESULTS OF OPERATIONS
Authorized Rates

Item	Test Year 1983	Test Year 1984
	(Dollars in Thousands)	
Operating Revenues	$10,640.6	$10,984.6
Operating Expenses:		
Operation & Maintenance	5,306.2	5,431.8
Administration & General	722.9	746.9
General Office - Prorated	1,045.6	1,087.0
Subtotal	7,074.7	7,265.7
Depreciation Expenses	584.6	608.3
Taxes Other Than Income	373.9	400.6
State Corp. Franchise Tax	161.4	167.2
Federal Income Tax	750.1	791.3
Total Operating Expenses	8,944.7	9,233.1
Net Operating Revenues	1,695.9	1,751.5
Rate Base	15,347.0	15,681.0
Rate of Return	11.05%	11.17%

Operating Revenues

Staff's estimate of operating revenues is $8,600 greater than that of SGVWC for test year 1983 and $16,400 greater than that of SGVWC for test year 1984 at present rates. This is due to differences in estimates of consumption of metered commercial users.

Both staff and SGVWC used the "Modified Bean Method" to determine the normalized consumption in the commercial metered class for test years 1983 and 1984 and both used the "Committee Method" procedure to obtain a weather-normalized estimate of the last recorded year by analyzing various time spans. The normalized estimate for the last recorded year is then used as the normalized estimate for the test years. By using this procedure, both staff and SGVWC estimated 1983 and 1984 normalized consumption of 253.0 hundred cubic feet (Ccf) per service for the residential metered users based on recorded data from 1969 through 1981. Staff likewise accepted SGVWC's estimates of consumption of Vallecito, industrial, and public authority customers. The difference in consumption estimates for commercial customers where staff's estimates exceed SGVWC's estimates by 94 Ccf per customer for 1983 and by 188 Ccf for 1984 is due to staff access to 1982 recorded data while SGVWC's figures were based on declining sales in 1982 and 1983 and on rates which do not reflect present rates. SGVWC accepts staff's higher estimates of commercial customer consumption which result in the differences in revenue estimates.

Differences in estimates of average services for test years 1983 and 1984 are likewise due to staff's access to 1982 recorded data which were not available to SGVWC when it prepared its estimates. SGVWC accepts staff estimates of average services and we adopt staff estimates on operating revenues since they were based on later recorded data.

Operating Expenses

Operation and Maintenance (O&M) Expenses

O&M expenses comprise those operating expenses classified as source of supply expenses, pumping expenses, water treatment expenses, transmission and distribution expenses, and customer account expenses.

The following tabulation reflects the major components comprising direct O&M expenses and compares the estimates of SGVWC and staff for test year 1983 at present rates:

Item	Staff (a)	SGVWC (b)	SGVWC Exceeds Staff: Amount (c)	Percent (d)
	(Dollars in Thousands)			
Purchased Water	$1,844.9	$1,778.9	$ (66.0)	(3.6)
Purchased Power	1,635.1	1,506.5	(128.6)	(7.8)
Material & Supply	163.2	184.1	20.9	12.8
Payroll	1,283.3	1,334.7	51.4	4.0
Uncollectibles	24.3	24.3	0.0	0.0
Other	353.1	391.3	38.2	10.8
Total O&M Expenses	5,303.9	5,219.8	(84.1)	(1.6)

(Red Figure)

Major differences between staff estimates and SGVWC estimates in O&M and in Administrative and General (A&G) expense are the result of different labor and nonlabor inflation factors and differences in methodology as applied by staff and SGVWC. The difference in A&G expenses is shown in the following tabulation after which a discussion of the major differences of both O&M and A&G expense estimates will follow.

Administrative and General Expenses
Test Year 1983

Present Rates

Item	Staff (a)	SGVWC (b)	SGVWC Exceeds Staff: Amount (c)	SGVWC Exceeds Staff: Percent (d)
	(Dollars in Thousands)			
Payroll	$ 3.9	$ 6.6	$ 2.7	69.2
Injuries and Damages	80.9	83.2	2.3	2.8
Employees' Pensions & Benefits	416.0	446.8	30.8	7.4
Regulatory Comm. Exp.	155.7	155.3	(0.4)	(0.0
Misc. General Expenses	10.3	8.5	(1.8)	(17.5)
Admin. Exp. & Trans. (Credit)	(61.8)	(59.9)	1.9	(3.1)
Comp. Min. Bank Balance	13.8	0.0	(13.8)	(100.0)
Local Franchise Tax	82.4	82.3	(0.1)	(0.1)
Total A&G Exp.	701.2	721.3	20.1	2.9

(Red Figure)

Purchased Water and
Purchased Power (O&M)

Staff's estimates of purchased water expense exceed SGVWC's by $66,000 in 1983 and by $93,700 in 1984. Likewise, staff's purchased power estimates exceed those of SGVWC's by $127,400 in 1983 and by $129,100 in 1984. These differences result from staff's use of the latest available costs of purchased water and SGVWC's increased operating safe-yield from 200,000 to 230,000 acre-feet (AF) which allows for more pumping. Staff's higher purchased power estimates result from staff's lower energy consumption

estimates (which are consistent with its lower water consumption estimates) of 480 kilowatt-hours (kWh) per AF as opposed to SGVWC's use of 503.3 kWh per AF. In addition, staff used the latest available (higher) power rates to calculate energy costs. SGVWC accepts staff's estimates of power, quantity, and unit costs, but does take issue with staff's estimates of the amount of power required to pump a specified quantity of water. Staff's estimate, according to the staff witness who developed it, was an attempt to develop an estimate which would reflect SGVWC's operations in the test years.

The staff witness testified that he attempted to develop an estimate which would reflect SGVWC's operations in the test years. Initially he examined the three-year average of recorded power consumption between 1980 and 1982. Because the resulting figure (495 kWh/AF) was higher than the recorded experience of recent years, the witness also examined the five-year average from 1978 through 1982 and determined that the resulting figure (469 kWh/AF) was too low. After reviewing and analyzing reasons for the variations in power consumption, staff determined that an average of the three-year and five-year averages produced a more reasonable estimate for power consumption during the test years than using either the most recent three-year average or the most recent five-year average.

SGVWC's power consumption estimates are apparently based solely on the 1981 recorded year consumption of 502 kWh/AF. However, SGVWC presented no testimony to support its estimated power consumption--its witness merely testified that SGVWC did not agree with the staff estimates. According to staff, SGVWC used its highest recorded power consumption of recent years.

We believe this not only gives a distorted basis upon which to develop a reasonable estimate but varies with the test year concept of using an average year consumption for ratemaking purposes. Use of the year showing the highest power consumption as a basis for estimated test year consumption also is at odds with the Commission's program of pump efficiency testing to encourage improvement in pump efficiency. Because SGVWC presented no testimony in support of its estimated power consumption, we believe staff's estimate is the more reasonable and will be adopted.

Payroll (O&M and A&G)

A major area of dispute is the difference in payroll estimates for the test years which results from the application of different inflationary factors by staff and SGVWC. Staff's O&M payroll expense estimates are lower than SGVWC's by $51,400 for 1983 and by $144,000 for 1984, and is lower than SGVWC's A&G payroll by $2,700 for 1983 and $3,200 for 1984. At the time of preparing its application, SGVWC had last granted a 10% salary increase to its employees effective January 1982 and also assumed similar 10% salary increases for test years 1983 and 1984. SGVWC's witness, however, acknowledged that the actual salary increase granted to SGVWC employees on January 1, 1983 was only 6.4%, which was the labor escalation factor adopted by the Commission for 1983 in connection with SGVWC's Fontana Division rate case. In its estimates for 1984 SGVWC again used a 10% escalation factor for labor costs, but testified that the amount of salary increase to be effective January 1, 1984 was still to be determined and that their forecasted cost of living increase for 1983 rose 5%.

Process

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SGVWC feels the 10% factor should be used for 1984 so that its employees could regain purchasing power lost over the past years because of the rise in the Consumer Price Index (CPI). SGVWC fears a turnover of employees if a wage increase of lesser amount than 10% is granted in January 1984. SGVWC's president introduced and explained Exhibit 4 which shows a graphical comparison between the CPI and employee salary adjustments between 1973 and 1983 plus a profile of the cumulative lag in the salary adjustments versus the CPI during that same period. He explained that SGVWC attempted to achieve a balanced salary adjustment policy and that a 10% salary adjustment in January 1984 would bring employees "even" with the average increase in the cost of living over the past 10 years.

Staff used the actual 6.4% increase granted by SGVWC in its projections for 1983 and the Commission's Revenue Requirements Division Economics Section's recommended 4% factor for 1984. The 4% wage escalation forecast for 1984 which appears in staff Exhibit 11 is primarily based on information from Data Resources, Inc. (DRI), a reputable economics consulting firm. According to staff witnesses, the DRI forecasts are widely used and relied upon by many large utilities in California. According to a staff witness, staff compares the DRI forecasts with other forecasts to determine reasonableness. We adopted the 6.4% wage escalation factor based on the Economics Section's forecast in SGVWC's recent Fontana Division rate case.

Our current ratemaking procedures applicable to SGVWC require us to set rates to cover a reasonable level of costs and a fair return for investors in a future test year and two subsequent attrition years. Arriving at reasonable cost levels requires judgement about cost trends.

In this ratesetting process, the Commission's obligation to ratepayers to maintain reasonable utility rates and high quality service is fundamental. This obligation, however, cannot be met or sustained if a utility is placed at a competitive disadvantage in skilled labor markets by allowances for forecasted wage adjustments that limit wages and salary increases to cost-of-living escalators while denying employees the opportunity to participate in productivity advances in the utility or in the economy. Our basic policy in this respect is to give maximum latitude to utility management to establish or negotiate wage and salary adjustments which are consistent with efficient management of operations, including access to skilled labor markets and the maintenance of a qualified utility workforce.

In this proceeding, we find that the staff's estimate represents a more reasonable wage escalation forecast for all employees and one based on more reliable forecast data than SGVWC's labor cost estimates. The company has not provided persuasive evidence that its proposed labor escalation rates represent labor cost levels that are necessary for maintaining a qualified workforce. They maintain that a 10% increase is required to allow SGVWC wages to catch up with the rise in the CPI over the past few years. They do not show how wage levels in other utilities or in other unregulated markets have fared vis-a-vis the CPI. They do not show why the CPI is the proper benchmark for wage levels nor how productivity gains are reflected if such a benchmark is used.

We will adopt staff's labor escalation rate as a more reasonable reflection of required labor costs for ratesetting purposes. Adoption of the staff's estimate, however, is by no means meant to be a ceiling that precludes or limits SGVWC from addressing its skill requirements in the context of actually establishing or negotiating wage adjustments. The adopted results of operation do not operate as an absolute limit on wage adjustments. Actual wages may be higher or lower than our adopted escalation factors imply. For example, even if a revenue requirement is set using an inflation index for wages, real wage gains could accrue out of unexpected reductions in other cost categories or productivity gains by the company as a whole. Management retains the responsibility for setting actual wages.

Nonlabor Factors

SGVWC's witness testified that projected increases in nonlabor expense items in Exhibits 1 and 2 were based on an evaluation of each expense category and estimates of the anticipated increases in such expenses for 1983 and 1984. He cited examples of several increased expenses such as a recent 32.2% increase in health insurance coverage, a 23.8% increase in 1982 in its commercial office operation expenses, and a further increase of 16.4%, on an annualized basis, so far in 1983. SGVWC used an 11% increase in estimating its gas and oil expense for 1983, but had actually experienced increases well in excess of 11% so far in 1983. SGVWC believes that although it furnished staff with work papers and studies in support of its expense projections, staff chose to ignore that data and chose instead the inflation factors contained in a staff memorandum dated April 15, 1983 (Exhibit 11).

The staff witness acknowledged that the inflation factors developed by the Economics Section were followed and that a single nonlabor escalation factor was used instead of estimating the escalations for a large number of separate categories. This single composite factor includes projections of escalation in several key expense categories and reflects the actual experience of utilities in California. The witness testified that for several categories, such as rent and insurance, SGVWC's estimates were actually used.

The staff project manager testified that the Economics Section develops a set of inflation factors applicable to A&G and O&M expenses for energy utilities each month and distributes these each month to staff analysts to assist them in rate cases.

The Economics Section experts continuously review labor and nonlabor escalation forecasts from a number of sources and other pertinent variables affecting inflation forecasts. This Commission has frequently relied on the forecasts developed by the Economics Section. The Economics Section's memorandum was the basis for the 6.4% wage inflation figure adopted for SGVWC's Fontana Division in Decision 82-09-069. We note that monthly updated Economics Section inflation factors show even lower recommended inflation factors than those available at the time of the hearing. However, since they were not available during the hearing, we will consider the staff escalation rates which were introduced into evidence.

Because of the problems discussed above regarding SGVWC's projections, the lack of sufficient justification for its forecasts presented during these proceedings and because we have found the forecasts of DRI and staff to be reliable indicators, we will adopt staff's escalation rates.

Working Capital

A major area of disagreement between staff and SGVWC is in the development of working cash allowance and minimum bank balances. The disagreement results from the difference in methodology used by the parties and from the results of revenue-expense lead-lag days studies conducted by the parties.

Working Cash Allowance

SGVWC's estimates for working cash allowance exceed staff's estimates by $1,536,600 and $1,549,200 for test years 1983 and 1984, respectively. The major difference between the parties results from staff using the detailed basis provided in the Commission's Standard Practice U-16, Determination of Working Cash Allowance (Exhibit 10), in developing its estimates

while SGVWC developed its working capital requirement through its own devised empirical method of estimating the working cash allowance which takes into account SGVWC's actual experience and includes components which are recognized in Standard Practice U-16.

SGVWC initially calculated its overall working capital needs by applying to its test year operating expenses the same ratio as was developed by a comparison of the working cash allowed to operating expenses adopted in its Fontana Division general rate case. SGVWC then verified the appropriateness of its working capital amount by performing a working cash study using the simplified basis methodology provided in Standard Practice U-16. According to SGVWC's witness, the resultant working cash allowance was a positive amount. SGVWC takes issue with staff's working cash allowance figure because it is a negative figure which not only eliminates working cash altogether but, in addition, imposes a penalty upon the company in that it reduces rate base as well. SGVWC argues that the purpose of the cash working capital allowance is "to compensate investors for funds provided by them which are permanently committed to the business, for the purpose of paying operating expenses in advance of receipt of offsetting revenues from its customers and in order to maintain minimum bank balances." (Standard Practice U-16, pages 1-2, paragraph 5.)

SGVWC asks that we adopt its empirical method of estimating working cash allowance or, in the alternative, that we accept its estimates over staff's lead-lag days estimates and other working cash items with which SGVWC takes issue. These differences will be addressed later.

Lead Lag Studies

SGVWC's president testified that its lead-lag study produces a negative expense lag figure as a result of prudent and effective management of the company's cash. Citing an example (Exhibit 15), he testified that SGVWC could benefit its customers by reducing its water cost expense by negotiating favorable leases of water rights and making payment on a delayed basis. However, he testified that if staff's approach were to be adopted, it would lower ratepayers' water costs, but it would also cause SGVWC to lose rate base and the earnings on it.

SGVWC argues that a lead-lag study does not provide a realistic or useful basis on which to develop the working cash allowance when the result of such study is a negative figure which imposes a severe penalty for the efficient management of a utility's cash.

Besides the difference in methodology used by staff and SGVWC, major differences result from varying estimates of lag-days for the following items which are components of working cash allowances.

Purchased Power

Staff estimated the lag in payment of purchased power expenses to be 34.0 days for both 1983 and 1984 while SGVWC estimated 32.1 days.

Staff's witness testified that his calculation was based on 15 days as the midpoint of the monthly service period and on an estimate of 18 days between the time the monthly service period ends and the time payment of the energy bill

is mailed by SGVWC, plus an additional day for mail transit. Staff argues that its calculations could have added at least several more days to the 34 days if it took into consideration the three-day lag between the end of the monthly billing period, the date the bill is prepared, and the mailing time from Southern California Edison Company (Edison) to SGVWC. SGVWC states its 32.1 lag-days calculation is arrived at from a study of its actual practice. According to SGVWC's witness, SGVWC receives numerous individual billings from Edison which are then grouped and paid in bunches for administrative convenience. The witness stated that SGVWC does not wish its power bills to become delinquent with a possibility of termination of service. It was pointed out by staff witness, however, that Edison's bills show that the 19-day period before payments became past due do not begin until the bill is received which effectively lengthens the period before a bill becomes delinquent. SGVWC believes its actual practice should have been used as the basis for the lead-lag day result rather than staff's "approach". While SGVWC may believe its actual practice demonstrates prudent cash management, it is a subjective belief which was not convincingly supported at the hearing. While SGVWC believes staff's approach is "simplistic" and theoretical, we believe staff's estimate of 34.0 lag-days is fair and reasonable and it is therefore accepted.

Purchased Water

There is a difference of 14.4 lag-days between staff's 200.0 lag-days estimate and SGVWC's estimate of 185.6 lag-days for 1983 and a 7.4 lag-days difference between staff's 193 lag-days estimate and the 185.6 lag-days calculated by SGVWC for 1984. Staff's estimates were based on a thorough review of

SGVWC's invoices for purchased water payments. Although SGVWC witnesses pointed out some minor differences in the lead-lag days for some of the components comprising purchased water, they did not take issue with these minor differences. However, with respect to the Upper San Gabriel Basin Watermaster makeup water assessment, SGVWC alleges that staff in its study failed to give effect to the prepayment made by SGVWC which would result in a negative 109.5 lag-days.

SGVWC's witness stated that he made a thorough lead-lag day study approximately one month before the hearings following a telephone call from a Revenue Requirements Division staff supervisor who advised SGVWC to review the matter because it appeared there would be a very big difference between staff and SGVWC about working cash. The witness acknowledged that his study for leased water rights showed a larger lag than that of staff. The witness testified that SGVWC prepaid its Upper San Gabriel Basin Watermaster assessments based on the amount it pumped a year earlier. However, he was unable to support his testimony with any documentation or supply any new figures to substitute for the figures contained in Exhibit 13 (staff's lead-lag study work papers). The staff witness responsible for the preparation of Exhibit 13 testified that he prepared the exhibit from documentation furnished to him by SGVWC and that he was informed by SGVWC only two days prior to the hearing that part of the makeup obligation assessment was a prepayment and thus should be a negative lag rather than a positive lag. The staff witness testified that he had no objection to changing the lead-lag figures if SGVWC could furnish him with an official document showing a prepayment, but he was informed by SGVWC

that it did not have any document to substantiate the claim. Because SGVWC was unable to furnish staff with substantiation of any prepayment or the calculation of its overall composite of 185.6 lag-days for purchased water, or present such evidence at the hearing to corroborate its witness's testimony, we will adopt staff's estimates.

Minimum Bank Balances

Because staff included minimum bank balances as an expense, it included the expense in its lead-lag study, but a zero-day lag was assigned to this expense.

California Corporation Franchise Tax (CCFT)

A major area of disagreement is in the different lead-lag results obtained by staff and SGVWC. Staff determined a lag time in CCFT payments of 86.2 days for both 1983 and 1984. SGVWC determined a lead time for payment of this expense to be 285.0 days since it believes that it pays this expense in advance of the time when the benefit of the expense accrues to SGVWC. Staff's position is that the payments are made after the tax liability has accrued.

SGVWC's witness stated that the examples in Standard Practice U-16 support its estimates although its witness's testimony about CCFT prepayments was unclear and unconvincing.

Staff's estimate is in line with previous Commission decisions. In SGVWC's application for a rate increase for its Fontana Division, we adopted a working cash allowance that used 82.2 lag-days for payment of CCFT. In a recent General Telephone Company of California (General) rate case, staff estimated the CCFT lag-days at 96.3 and General estimated the

lag-days to be 75.8. In the current Pacific Gas and Electric Company's general rate case application, staff has estimated the lag-days for payment of CCFT to be 82.6 days and the utility has agreed with staff's calculations. Comparable CCFT lag-day estimates have been used for other utilities.

For ratemaking purposes we have treated the CCFT as a current year tax consistent with staff's estimates rather than a prepayment for future privilege, as SGVWC suggests. Deductions for CCFT are calculated on current year net revenues and the CCFT is treated as a current year income tax. The so-called prepayment CCFT expense has already been included in rate base revenues and such revenues for taxes are accruing at the rate of approximately one-twelfth per month from ratepayers. Thus, when the utility pays its quarterly tax payments, it has already accrued the revenues to pay those taxes and should properly treat the taxes as a current year tax. We have not been persuaded by SGVWC to change our treatment of CCFT.

Revenues

Staff's revenue collection lag-days estimate of 27.58 days contrasts with SGVWC's 32.5 days. Staff's overall figure was developed from an estimated 17.4 days for monthly bills and 32.4 days for bimonthly bills (Exhibit 13). SGVWC's corresponding monthly bill lag was 24.6 days and the bimonthly bill lag-days was 36.6 days.

SGVWC's figure for monthly bills was over seven days longer than staff's. Staff's figure was based on 15 days as the midpoint of the service rendered and SGVWC's figure should be the same. Staff allowed one day for meter reading and one

day for bill preparation and mailing. Because an additional two days of lag would occur when meters were read on Friday staff took the additional weekend days into account in developing its 17.4-day estimate. A similar calculation was used in the bimonthly calculation. SGVWC was unable to offer any explanation as to why, since the midpoint of the service calculation should have been the same as staff's, it required nine to ten days to read meters, prepare bills, and mail the bills. We believe staff has calculated a reasonable lag-day figure for preparation of customer bills and we accept staff's figures since SGVWC was not able to support its figures.

Negative Working Cash Allowance

SGVWC objects to the negative working cash allowance results of staff's lead-lag study because of the effect it has on reducing "good" rate base. In the view of SGVWC, its investors would be penalized if the negative working cash allowance is adopted.

The purpose of the working cash allowance is to compensate investors for any contribution they have made to the utility's cash on hand. When the result of a lead-lag study is negative, it points up the fact that the utility has not required any contribution from investors to meet its daily operating needs but, instead, that the day-to-day cash requirements are being met with revenues supplied by ratepayers. The negative result further indicates that the utility has had the use of revenues in excess of its expenses for a number of days.

We have previously considered this situation and determined that the equitable treatment of the utility's ability to make use of excess cash supplied by ratepayers is a deduction from rate base. In Decision 63706 (1962) 59 CPUC 610, 625, the Commission stated: "In our opinion it is equitable both to applicant's stockholders and to the ratepayers to deduct from rate base the average amount of working cash applicant has on hand not supplied by stockholders." This policy was incorporated into the detailed basis for determining working cash allowance of Standard Practice U-16 (Exhibit 10, pages 3-14), which was followed by staff, but not by SGVWC. Although utilities have challenged the Commission's policy on the negative working cash allowance, we have not been swayed to depart from that policy (see, e.g., Decision 75873 (1969) 69 CPUC 601, 658-659). SGVWC has presented no evidence to persuade us to change our policy in this case.

Operational Cash Requirements

As part of the operational cash requirement staff and SGVWC agreed on allowing $1,900 for the working funds component. They disagreed, however, in the following component areas of operational cash requirements:

Average Minimum Bank Deposits

SGVWC requested that $141,600 be included in rate base for maintenance of average minimum bank balances. This permits SGVWC to avoid paying service charges in lieu of receiving interest on this amount of bank balance. By also including this amount in rate base, it would have a tax effect upon ratepayers requiring additional revenues in addition to the amount required

for net income. Thus, in effect, ratepayers are required to pay twice for the bank charges.

Staff believes that the best treatment of minimum bank balances where there is no contractually required amount to be maintained is one which results in the least cost to ratepayers.

Commercial banks normally require utilities to maintain a minimum balance on deposit. If this minimum is not maintained, the banks generally will charge a fee. Assuming an 11% rate of return and a 2.103 net-to-gross multiplier, staff calculated that $32,800 in additional revenues would be required each year on SGVWC's inclusion of $141,600 as minimum bank deposits for 1983 and 1984. After examining some of SGVWC's bank statements staff concluded that the $32,800 in additional revenues required if the $141,600 were to remain in rate base would more than offset estimated annual bank charges of approximately $13,800 and $14,600 for test years 1983 and 1984 respectively.

Thus, staff argues, it would be less expensive for ratepayers if we allowed, for ratemaking purposes, an expense item corresponding to the amount the bank would have charged SGVWC if the minimum bank balances had not been maintained. Staff does not recommend that SGVWC abandon its minimum bank balances. SGVWC could continue to maintain minimum bank balances if it chooses to do so rather than pay service charges, but the ratepayers should not have to bear the extra expense of such management decision. Thus, staff would allow recovery in rates of the expenses associated with service charges but not have ratepayers bear the additional revenue requirements for tax

effects if the $141,600 minimum bank balance requested by SGVWC were to remain in rate base.

Staff's approach is not only reasonable, but it is consistent with the requirements of Standard Practice U-16 (pages 3-4) which states in part: "In determining the cash requirement, the only amounts which should be considered are the required minimum bank deposits that must be maintained and reasonable amounts of working funds." In Decision 82-04-028 we adopted an approach to average minimum bank balances similar to that recommended by staff. In that case, General was contractually obligated to maintain a minimum bank balance and was allowed to include this in its working cash allowance. However, all other bank balances were converted to activity fees, treated as an expense item, and were not included in the calculation of working cash.

SGVWC did not present any evidence that it is contractually required to maintain any part of the minimum bank balances it has requested. As a matter of fact, SGVWC's witness testified that the bank was indifferent to whether SGVWC maintained minimum balances or paid activity fees. We find upon consideration that staff's approach, which has determined that allowance of bank activity fees is less expensive to ratepayers, is reasonable and we will adopt its recommendation.

Deferred Debits

SGVWC has included $31,500 for the deferred debits component of operational cash requirement which represents the unamortized balance of SGVWC's expenditures to secure its long-term debt. Staff has recommended disallowance of this amount because those expenditures to secure SGVWC's long-term debt are

already included in the determination of its capital cost of money which is reflected in or accounted for in the rate of return. Staff believes that to include these expenditures in the working cash allowance results in SGVWC recovering the same expense twice. Staff has therefore included the amount of the deferred debits in its calculation of the cost of debt. Staff recommends its approach as adequately compensating SGVWC for its costs connected with the issuance of long-term debt. Staff's approach is also consistent with Standard Practice U-16 which indicates that deferred debits should be "abnormal expenses which are being amortized to operating expenses and uncleared amounts from the clearing accounts." Staff points out that expenses connected with issuing long-term debt are ordinary expenses. We accept staff's recommendation.

Miscellaneous Accounts Receivable

SGVWC requested $77,000 be included in this working cash component. Staff has recommended disallowance of this amount because the expenses SGVWC included in this category were for amounts paid to contractors for utility-oriented work done at the request of the Los Angeles County Road Department and the City of South El Monte, both of whom reimburse SGVWC for all its work. A staff review of several of these projects, which were deemed representative, indicates that there is a period of approximately 60 days after a project is completed before SGVWC is reimbursed by the government entities. Staff's review determined that SGVWC has some control over the time when a contractor can bill it. As a consequence, the utility can reduce the lag time between funds expended for the work and reimbursement for said work it performs at the request of, and for the benefit of, government entities.

The inclusion of miscellaneous accounts receivable in working cash, as with the other components, is to compensate investors for funds which would ordinarily bear interest. If SGVWC took all necessary steps to reduce the lag time by such means as increasing the time for payment to contractors in its contracts to 30 days instead of 15 days and inducing the government entity who requested the project to reimburse SGVWC within 30 days or else include an interest provision in its contracts with the governmental agency on the amount of the billing if not paid within 30 days, it would benefit SGVWC's cash flow as well as benefiting the ratepayers. We accept staff's recommendation and will disallow the $77,000 as part of SGVWC's working cash.

Cost of Capital

The only significant difference between staff and SGVWC is with respect to the estimated cost of long-term debt and common equity. In all other respects there were no significant differences in the capital structure or cost of preferred stock of SGVWC.

Cost of Debt

SGVWC intends to raise capital in 1984 by the issuance and placement of a new long-term debt (Series M). The difference in estimated cost involves the interest rate the new issue will carry as well as the cost of issuance.

SGVWC estimates the interest rate to be carried on its new issue to be 12.5%. Originally it was estimated that the new issue would carry a 17% interest rate, but SGVWC revised its earlier estimate due to market change and changes in

interest rates. According to SGVWC's witness, who testified on the cost of capital, SGVWC anticipates a $4 million Series M bond issue in 1984 to replace two matured or maturing low-interest bonds. SGVWC anticipates a $35,000 expense to issue the new series based upon its actual cost of issuing its $3 million Series L bonds in January 1980 which was in excess of $30,000. In arriving at its estimated 12.5% coupon rate for the Series M bond, the witness testified that he had investigated current interest costs and then developed projections of what he believed the interest rate would be on the projected new long-term bonds. The witness introduced attachments 1 and 2 to Exhibit 3 in support of his estimate. Attachment 1 was a page from Solomon Brothers' indexes on corporate bonds and the witness called attention to the fact that as of June 3, 1983 the current yield on new long-term A-rated utility bonds were estimated to be 12.38%. The witness testified that this figure would normally be for a market issue, but since SGVWC's bonds are private placement bonds, a higher interest rate is traditional because the market is a little thinner for private placements and they are not as readily traded or marketed as market-traded bonds. The witness presented a letter from the investment manager of its largest bondholder (Attachment 2, Exhibit 3) in which the manager anticipates an approximate 12.5% interest rate on the contemplated bond issue as confirmation of SGVWC's estimates.

Staff's estimate of an 11.75% interest rate for the Series M issue was developed after reviewing historical data, interest rate forecasts prepared by DRI, and SGVWC's particular financial situation. DRI's April forecast of long-term AA utility issues was 10.32%. The six-month average ending in

April was 10.68% and the three-month average ending in April was 10.36%. Staff believes its estimate of 11.75% adequately takes into account both the difference between an AA utility bond and the A quality of SGVWC's bonds and the premium, if any, associated with a private placement rather than a public issue.

SGVWC's witness pointed out the current yields on new long-term A-rated utility bond issues, as shown on the Solomon Brothers' corporate bond yield indexes, which as of June 3, 1983 were estimated to provide a yield of 12.38%. The witness then pointed to the average 12-month spread of 84 basis points between A and AAA bonds and testified that he added this amount to the current weekly yield of 11.75% for AAA bonds to obtain an expected 12.59% interest rate for A bonds. Staff correctly points out several problems with this comparison from Solomon Brothers' indexes.

Staff contends that SGVWC used the tables inconsistently. It combined the current estimates of long-term yields with the average spread between A and AAA bonds over the past 12 months. If the current yield spread of 63 points is used rather than the average, the result is less than the 12.5% which SGVWC has employed in its projections for the Series M bonds. Additionally, SGVWC's approach makes the unlikely assumption that the yields existing when it issues its bonds in 1984 will be the same as the yields existing on June 3, 1983. Thus SGVWC has relied on current yields rather than forecasted yields.

We believe staff has presented a more detailed and thoughtful analysis in developing its forecasts than did SGVWC and for that reason we find staff's recommendation of an 11.75% interest rate forecast for SGVWC's planned Series M bond issue reasonable. We will therefore adopt this figure.

We accept SGVWC's $35,000 estimate of the cost of issuance of its new Series M bond issue based upon its past costs associated with a smaller bond issuance and on the failure of staff to support its allowance of only $20,000 for such cost.

Rate of Return

SGVWC has requested that we authorize a 17.0% return on common equity for each of the test years as recognition of its efficient and superior management, so that its common stock shareholders can have the opportunity to earn a return on their investment sufficient to compensate them at a rate which is competitive with other investments with similar risks, and because of the high risks of a water utility. SGVWC's witness on cost of capital and rate of return, in explaining Exhibit 5, testified that by comparison to other Class A water utilities, it has been a superior performer in managing its capital structure and cost of debt. The witness pointed out that although Exhibit 5 shows the highest return on common equity resulting from the authorized rate of return in recent water utility cases to be 15.0%, he believes SGVWC should have a higher authorized rate of return and a 17.0% return on common equity because it is more efficient than the companies shown in Exhibit 5. The witness believes this would be justified on the basis of SGVWC's lower weighted cost of preferred stock and long-term debt and SGVWC's lower average net plant investment per customer which have resulted from superior management of SGVWC's operations and financial affairs. The witness testified that SGVWC's weighted cost of preferred stock and debt in its capital structure is lower than any other Class A water utility

which has recently been granted a general rate increase as illustrated in Exhibit 5. SGVWC believes this is a significant benefit to ratepayers and that it should be recognized and rewarded for its effective management of its capital structure and cost of debt.

SGVWC's witness pointed out that SGVWC could be granted a 17.0% return on common equity and still have an overall rate of return on its rate base (12.13% in 1983) which is lower than that recently authorized for California Water Service Company (12.17%) and lower than the average rate of return for the other companies highlighted in Exhibit 5.

Staff responds to SGVWC's argument for a higher rate of return on equity by pointing out that SGVWC's common equity investor has already been rewarded for the company's relatively low cost of preferred stock and debt because it has been authorized a rate of return comparable to other water utilities that present greater risks to their shareholders. SGVWC has lesser financing costs, higher than average earnings on equity, and higher than average interest coverage when compared with other water utilities. Thus, staff argues, the risk presented to equity holders is greatly reduced and that an investment in SGVWC's common stock is less risky than an investment in an otherwise comparable water utility because of SGVWC's low cost of preferred stock and debt.

Staff's witness on rate of return testified that his recommended range for return on common equity of 14.25% to 14.75% was arrived at after a thorough review of pertinent information such as the financial history and capital structure of SGVWC for the past 10 years, comparisons of SGVWC's financial

situation with those of other water utilities, the implications of its recommended return on equity on SGVWC's ability to meet its interest obligations, an evaluation of the additional risks faced by equity holders in water utilities as compared to other utilities, and finally, an evaluation of the results of his review by performing a discounted cash flow analysis.

These reviews reveal that SGVWC's book value and book value per share have steadily increased and earnings have remained high, demonstrating SGVWC's financial health; a decreasing proportion of long-term debt, corresponding to a relatively lower level of obligation to make fixed payments makes SGVWC's common stock less risky for its investors; and SGVWC's earnings rate is higher than average and its net plant investment per customer is below average. SGVWC also has a high ratio of operating revenues to average net plant investment, a high ratio of net operating income to operating revenue, and a high return on average net plant investment. The midpoint of staff's recommended range results in an after-tax interest coverage of 2.53x for 1983 which is an improvement over the interest coverage of 2.39x resulting from the recent decision for SGVWC's Fontana Division.

Staff's evaluation of the risks faced by water utility equity holders in comparison to other types of utilities contrasts with the views of SGVWC's witness who testified that water utilities are more risky than electric utilities because water utilities are significantly affected by the weather and are subject to large expenditures due to chemical contamination in water supplies. He also cited as an example the fact that one of SGVWC's largest water users is contemplating going out of

business. The witness, however, acknowledged that such expenditures by SGVWC had been incurred in previous years, and thus were included in the expenses considered in this rate case.

Staff's conclusion, based upon its analysis, is that water utilities can be considered less risky compared to other utilities. Staff points out that water utilities are not as capital intensive as other utilities and that the average California water company generates over 75% of its capital needs from internal sources while an average California energy utility generates only 15 to 20% internally. SGVWC has been able to generate approximately 72% of its financial needs over the past five years from internal sources. Another reason is that water utilities finance a large portion of their net utility plant from advances for construction and contributions in aid of construction than either energy or communications utilities. Staff also points out that water utilities do not capitalize interest on construction projects as do energy and communications utilities and, further, energy and communications utilities need to sell common stock to maintain a balanced capital structure. A large number of California water utilities do not sell common stock at all. SGVWC historically has not sold common stock and does not plan to do so during the test period. We believe staff's analysis as to risk is more persuasive.

Staff's comparison of the results of its risk premium and its discounted cash flow analysis with its recommended return for common equity shows the 14.25% to 14.75% staff recommendation to be even more generous than the 13.88% to 14.12% expected rate of return for common equity which results from staff's discounted cash flow analysis.

The determination of a fair and reasonable rate of return is not one which can be arrived at by the application of any precise formula or mathematical calculation. It is at best an imprecise art which relies upon informed judgment derived from the consideration of many factors and of the facts of a particular situation. It is a judgment which attempts to attain a viable balance between the utility's common equity investors and the utility's ratepayers. After consideration of all the evidence, we will accept staff's midpoint recommendation as being fair and reasonable and authorize SGVWC a rate of return of 11.05% for test year 1983 and 11.17% for test year 1984 which will provide a return on equity of 14.50%. The following tabulation reflects the adopted rate of return:

Component	Capitalization Ratios	Cost	Weighted Cost
Average Year 1983			
Long-term Debt	52.00%	8.38%	4.36%
Preferred Stock	3.00	5.39	0.16
Common Equity	45.00	14.50	6.53
Total	100.00%		11.05%
Average Year 1984			
Long-term Debt	52.00%	8.62%	4.48%
Preferred Stock	3.00	5.38	0.16
Common Equity	45.00	14.50	6.53
Total	100.00%		11.17%
Average Year 1985			
Long-term Debt	52.00%	9.00%	4.68%
Preferred Stock	3.00	5.38	0.16
Common Equity	45.00	14.50	6.53
Total	100.00%		11.37%

Attrition

Attrition consists of two parts: financial and operational. Financial attrition is the deterioration in the realized rate of return to common equity holders when there is a change in the utility's cost of money between test periods while operational attrition is the decline in the rate of return between test periods caused by increases in expenses and rate base which are not offset by increased productivity and/or revenues. Since the Commission expects water utilities to file for a general rate increase no more than once every three years, an attrition allowance to compensate for possible revenue downfall in the year following the latest test year is generally allowed by the Commission. As a result of our authorized rate of returns at present rates for the years 1983 and 1984 and adopted costs of long-term debt for the years 1984 and 1985, allowances of 0.72% for operational attrition and 0.20% for financial attrition will yield a total of 0.92% attrition. When applied against the 1984 adopted rate base and using the net-to-gross ratio, the additional gross revenue for 1985 is obtained which amounts to $300,300. Staff recommends that SGVWC be required to file an advice letter with supporting work papers on or after

each November 15 in 1983 and 1984 to justify step increases in rates for the years 1984 and 1985 respectively. We will adopt staff's recommendation.

Rate Design

There were no significant issues between staff and SGVWC in this area. Staff recommends the adoption of a rate design which will result in a lifeline differential of 25% for residential customers. Staff has no objections to increasing the service charge for residential customers within this limit so long as no group of users is exposed to excessive increases. We concur.

Findings of Fact

1. SGVWC is in need of additional revenue, but the proposed rates set forth in the application are excessive.

2. The adopted estimates of operating revenues, operating expenses, and rate base for test years 1983 and 1984 reasonably indicate the probable results of SGVWC's operation for the near future.

3. A rate of return of 11.05% on the adopted rate base of $15,347,000 for test year 1983 is reasonable.

4. A rate of return of 11.17% on the adopted rate base of $15,681,000 for test year 1984 is reasonable.

5. The authorized increases in rates are expected to provide annual increases in revenues of $921,700 in 1983 and $344,000 in 1984.

6. The increases in rates and charges authorized herein are justified, and the present rates and charges, insofar as they differ from those presented herein, are for the future unjust and unreasonable.

7. Operational attrition on the basis of adopted rates is 0.72% and financial attrition is 0.20% for 1985.

8. Increased service charges as listed in Appendix A and a rate design which retains at least a 25% differential between lifeline and system average increases are reasonable.

9. The compilation of adopted quantities and the adopted tax calculation are contained in Appendix B of this decision.

Conclusions of Law

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

2. Because of the immediate need for additional revenues, the effective date of the order which follows should be today.

O R D E R

IT IS ORDERED that:

1. Applicant San Gabriel Valley Water Company is authorized to file the revised schedules for 1983 shown in Appendix A and to concurrently cancel its present schedules for such service. Such filing shall comply with General Order (GO) 96-A. The revised schedules shall apply only to service rendered on or after their effective date.

2. On or after November 15, 1983 applicant is authorized to file an advice letter, with supporting work papers, requesting the step increases for 1984 shown in Appendix A attached to this order or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix A in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments

for the 12 months ended September 30, 1983 exceeds the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the then most recent rate decision, or (b) 11.05%. Such filing shall comply with GO 96-A. The requested step rates shall be reviewed and approved by the Commission prior to becoming effective. The effective date of the revised schedules shall be no earlier than January 1, 1984, or 30 days after the filing of the step rates, whichever is later. The revised schedules shall apply only to service rendered on and after the effective date thereof.

3. On or after November 15, 1984 applicant is authorized to file an advice letter, with appropriate work papers, requesting the step rate increases for 1984 shown in Appendix A attached to this order or to file a lesser increase which includes a uniform cents per hundred cubic feet of water adjustment from Appendix A in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal rate-making adjustments for the 12 months ended September 30, 1984 exceeds the lower of (a) the rate of return found reasonable by the Commission for applicant during the corresponding period in the then most recent rate decision, or (b) 11.17%. Such filing shall comply with GO 96-A. The requested step rates shall be reviewed and approved by the Commission prior to becoming effective. The effective date of the revised schedules shall

be no earlier than January 1, 1985, or 30 days after the filing of the step rates, whichever is later. The revised schedules shall apply only to service rendered on or after the effective date thereof.

This order is effective today.

Dated OCT 5 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

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

Joseph E. Bodovitz, Executive Director

San Gabriel Valley Water Company

Los Angeles County Tariff Area

Schedule No. LA-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

Service Charges:	Per Meter Per Month
For 5/8 x 3/4-inch meter	$ 4.65
For 3/4-inch meter	5.65
For 1-inch meter	7.65
For 1-1/2-inch meter	15.10
For 2-inch meter	24.10
For 3-inch meter	42.90
For 4-inch meter	61.85
For 6-inch meter	103.65
For 8-inch meter	153.65
For 10-inch meter	174.20

Quantity Rates:

First	300 cu. ft. per 100 cu. ft.	0.294
Next	19,700 cu. ft. per 100 cu. ft.	0.496
Over	20,000 cu. ft. per 100 cu. ft.	0.481

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

SAN GABRIEL VALLEY WATER COMPANY

AUTHORIZED INCREASE IN RATES

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 rates in effect on that date.

Schedule No. LA-1

Los Angeles County Tariff Area

GENERAL METERED SERVICE

	Rates to be Effective 1-1-84	1-1-85
Service Charges:		
For 5/8 x 3/4-inch meter.....	$ 0.05	$ 0.05
For 3/4-inch meter.....	0.15	0.15
For 1-inch meter.....	0.15	0.20
For 1-1/2-inch meter.....	0.30	0.45
For 2-inch meter.....	0.50	0.70
For 3-inch meter.....	0.90	1.20
For 4-inch meter.....	1.25	1.75
For 6-inch meter.....	2.15	2.95
For 8-inch meter.....	3.15	4.35
For 10-inch meter.....	11.10	13.20
Quantity Rates:		
First 300 cu. ft. per 100 cu. ft.....	0.0	0.0
Next 19,700 cu. ft. per 100 cu. ft.....	0.017	0.018
Over 20,000 cu. ft. per 100 cu. ft.....	0.017	0.015

SAN GABRIEL VALLEY WATER COMPANY

Los Angeles County Division
Vallecito Zone 11 Tariff Area

Schedule No. LAV-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

Service Charges:	Per Meter Per Month
For 5/8 x 3/4-inch meter	$ 4.89
For 3/4-inch meter	5.95
For 1-inch meter	8.00
For 1-1/2-inch meter	15.85
For 2-inch meter	25.30
For 3-inch meter	45.00
For 4-inch meter	64.95

Quantity Rates:	
First 300 cu. ft. per 100 cu. ft.	0.338
Over 300 cu. ft. per 100 cu. ft.	0.571

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

SAN GABRIEL VALLEY WATER COMPANY

AUTHORIZED INCREASE IN RATES

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 rates in effect on that date.

Schedule No. LAV-1

Los Angeles County Division
Vallecito Zone 11 Tariff Area

GENERAL METERED SERVICE

	Rates to be Effective 1-1-84	1-1-85
Service Charges:		
For 5/8 x 3/4-inch meter	$ 0.06	$ 0.05
For 3/4-inch meter	0.15	0.15
For 1-inch meter	0.20	0.20
For 1-1/2-inch meter	0.35	0.45
For 2-inch meter	0.55	0.70
For 3-inch meter	1.00	1.25
For 4-inch meter	1.35	1.80
Quantity Rates:		
First 300 cu. ft. per 100 cu. ft.	0.0	0.0
Over 300 cu. ft. per 100 cu. ft.	0.019	0.021

SAN GABRIEL VALLEY WATER COMPANY

Schedule No. LA-3L
Los Angeles County Division

LIMITED IRRIGATION SERVICE

APPLICABILITY

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

TERRITORY

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

RATES	Per Service Connection Zone I	Zone II
Quantity Rates:		
First 1,800 cu. ft., or less	$ 7.90	9.15
Over 1,800 cu. ft., per 100 cu. ft.	0.410	0.472
Minimum Charge:		
For each irrigation delivery scheduled	$ 7.90	9.15

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

Schedule No. LA-4
Los Angeles County Division

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

The Los Angeles County Division, Los Angeles County.

RATE	Per Service Per Month
For each inch of diameter of fire protection service	$ 3.70

(END OF APPENDIX A)

APPENDIX B
Page 1

SAN GABRIEL VALLEY WATER COMPANY
COMPARISON OF MONTHLY RATES

	Present Rates 1-1-83	Proposed Rates 1983 1/	Per Meter Per Month Adopted Rates 1983	1984	1985
Los Angeles County Tariff Area					
Schedule No. LA-1					
GENERAL METERED SERVICE					
Service Charges:					
For 5/8 x 3/4-inch meter	$4.59	$5.15	$4.65	$4.70	$4.75
For 3/4-inch meter	5.24	6.15	5.65	5.80	5.95
For 1-inch meter	7.10	8.15	7.65	7.80	8.00
For 1-1/2-inch meter	14.00	15.60	15.10	15.40	15.85
For 2-inch meter	22.35	26.00	24.10	24.60	25.30
For 3-inch meter	39.80	45.00	42.90	43.80	45.00
For 4-inch meter	57.35	66.00	61.85	63.10	64.85
For 6-inch meter	96.10	109.00	103.65	105.80	108.75
For 8-inch meter	142.45	157.00	153.65	156.80	161.15
For 10-inch meter	161.50	210.00	174.20	185.30	198.50
Quantity Rates:					
First 300 cu. ft. per 100 cu.ft.	$0.293	$0.369	$ 0.294	$0.294	0.294
Next 19,700 cu. ft. per 100 cu.ft.	0.439	0.531	0.496	0.513	0.531
Over 20,000 cu. ft. per 100 cu.ft.	0.425	0.517	0.481	0.498	0.513
Los Angeles County Division Vallecito Zone 11 Tariff Area					
Schedule No. LAV-1					
GENERAL METERED SERVICE					
Service Charges:					
For 5/8 x 3/4-inch meter	$4.89	$5.40	$4.89	$4.95	$5.00
For 3/4-inch meter	5.57	6.40	5.95	6.10	6.25
For 1-inch meter	7.67	8.50	8.00	8.20	8.40
For 1-1/2-inch meter	15.00	16.30	15.85	16.20	16.65
For 2-inch meter	23.50	27.00	25.30	25.85	26.55
For 3-inch meter	42.25	47.00	45.00	46.00	47.25
For 4-inch meter	61.00	69.00	64.95	66.30	68.10
Quantity Rates:					
First 300 cu. ft. per 100 cu. ft.	$0.320	$ 0.407	$0.338	$0.338	$0.338
Over 300 cu. ft. per 100 cu. ft.	0.495	0.597	0.571	0.590	0.611

1/ Service Charges include Fire Protection Revenue Loss Surcharge.

SAN GABRIEL VALLEY WATER COMPANY

COMPARISON OF MONTHLY RATES

Schedule No. LA 3-L
Los Angeles County Division

LIMITED IRRIGATION SERVICE

	Present Rates 1-1-83		Proposed Rates 1983		Per Meter Per Month Adopted Rates 1983		1984		1985	
Quantity Rates:	Zone I	Zone I	Zone I	Zone II	Zone I	Zone II	Zone I	Zone II	Zone I	Zone II
First 1,800 cu. ft., or less.....	$ 7.42	8.58	7.90	9.15	7.90	9.15	8.15	9.45	8.38	9.71
Over 1,800 cu. ft., per 100 cu. ft...	0.373	0.413	0.469	0.520	0.410	0.472	0.423	0.487	0.435	0.501
Minimum Charge:										
For each irrigation delivery scheduled	$ 7.42	8.58	7.90	9.15	7.90	9.15	8.15	9.45	8.38	9.71

Schedule No. LA-4
Los Angeles County Division
PRIVATE FIRE PROTECTION SERVICE

	Present Rates 11-11-79	Proposed Rates 1983	Per Service Per Month Adopted Rates 1983	1984	1985
For each inch of diameter of fire protection service	$ 3.00	3.70	3.70	3.90	4.10

SAN GABRIEL VALLEY WATER COMPANY

Los Angeles County Division

ADOPTED QUANTITIES FOR LOS ANGELES COUNTY TARIFF AREA
(Excluding Vallecito Zone II Area)

Number of Services - Meter Size: (Annual)	1983	1984
5/8 x 3/4-inch meter	393,840	395,784
3/4-inch meter	35,628	35,820
1-inch meter	33,744	33,924
1-1/2-inch meter	9,708	9,780
2-inch meter1/	11,531	11,531
3-inch meter1/	594	594
4-inch meter1/	235	235
6-inch meter1/	116	116
8-inch meter1/	109	109
10-inch meter	12	12
	485,517	487,905

Metered Water Sales (Usage Ccf)	1983	1984
Range Ccf		
0 - 3	1,427,849	1,434,738
3 - 200	8,541,992	8,582,184
Over 200	5,318,241	5,325,096
Total	15,288,082	15,342,018

1/ Includes "Battery of Meters" equivalents based on 1-1-83, present rate structure.

SAN GABRIEL VALLEY WATER COMPANY
Los Angeles County Division

ADOPTED QUANTITIES FOR VALLECITO ZONE II TARIFF AREA

Number of Service - Meter Size (Annual)	1983	1984
5/8 x 3/4-inch meter.....	3348	3408
3/4-inch meter.....	2016	2040
1-inch meter.....	7872	8004
1-1/2-inch meter.....	132	132
2-inch meter.....	132	132
3-inch meter.....		
4-inch meter.....		
	13,500	13,716

Metered Water Sales (Usage Ccf)	1983	1984
Range Ccf		
0 - 3	40,511	41,159
Over 3	313,301	318,315
	353,812	359,474

SAN GABRIEL VALLEY WATER COMPANY
Los Angeles County Division

ADOPTED QUANTITIES

	1983 Quantity Basis AF	1983 Unit Cost	1983 Total Cost or Assessment
CEMWD - Purchased Water	843.0	157.56	132.8
Central Basin - Replenishment	4,437.1	21.50	95.4
- Leased Water Rights	1,860.1	112.25	208.8
- Watermaster Assessment	-	-	1.5
Make-Up Obligation Assessment	28,112.0	9.00	253.0
USG Basin Replacement Water Assessment	4,152.8	112.50	467.2
USG Basin Leased Water Rights	6,846.9	94.23	645.2
USG Basin Watermaster Assessment	32,264.8	1.27	41.0
Total Cost			$1,844.9
Operating Safe Yield - 230,000 AF			
		1984	
CEMWD - Purchased Water	843.0	173.72	146.4
Central Basin - Replenishment	4,448.8	27.00	120.1
- Leased Water Rights	1,871.8	139.00	260.2
- Watermaster Assessment	-	-	1.5
Make-up Obligation Assessment	30,073.3	9.00	270.7
USG Basin Replacement Water Assessment	2,276.3	125.00	248.5
USG Basin Leased Water Rights	7,324.6	103.50	758.1
USG Basin Watermaster Assessment	32,349.6	1.27	41.1
Total Cost			$1,882.6
Operating Safe Yield - 230,000 AF			

	1983	1984
Metered Sales - KCCF		
Residential	10,265.8	10,320.2
Commercial	1,907.5	1,911.8
Industrial	2,113.4	2,115.7
Public Authority	1,355.2	1,353.7
Irrigation	42.8	42.8
Other	5.9	5.9
Total	15,690.6	15,750.1
Water Supply - KCCF	15,987.6	16,049.5
Wells	367.2	367.2
Purchased MWD		
Other		
Total	16,354.8	16,416.7
Unaccounted for - KCCF	664.2	666.5
Unaccounted for - Percentage	4.06%	4.06%

SAN GABRIEL VALLEY WATER COMPANY
Los Angeles County Division

ADOPTED QUANTITIES

	1983		1984	
	Staff	Utility	Staff	Utility
SCE Schedule PA-1				
Power Requirement - kWh	3,114,797	3,259,907	3,127,128	3,268,478
Composite Cost per kWh	8.0258¢	7.4648¢	8.0223¢	7.4626¢
SCE Schedule PA-2				
Power Requirement - kWh	8,649,011	9,051,946	8,683,251	9,075,746
Composite Cost per kWh	7.5205¢	6.8256¢	7.5158¢	6.8226¢
SCE Schedule TOU-8				
Power Requirement - kWh	6,251,212	6,542,440	6,275,960	6,559,642
Composite Cost per kWh	7.9646¢	6.9764¢	7.9580¢	6.9719¢
SCG Co. Schedule GN-1				
Nat. Gas Requirement - T.U.	380,100	365.309	380,100	365,309
Composite Cost per Therm	62.306¢	51.712¢	62.306¢	51.712¢

Rates shown are:

(a) Southern California Edison Company (SCE),
Effective: February 2, 1983

(b) Southern California Gas Company (SCGCo),
Effective: January 1, 1983

Adopted Energy Consumption: 480 kWhr/AF.

SAN GABRIEL VALLEY WATER COMPANY
Los Angeles County Division

ADOPTED TAX CALCULATION

	Test Year 1983		Test Year 1984	
	CCFT	FIT	CCFT	FIT
	(Dollars in Thousands)			
Operating Revenue	$10,640.6	$10,640.6	$10,984.6	$10,984.6
Expenses				
General Office Prorated	1,045.6	1,045.6	1,087.0	1,087.0
Operation & Maintenance	5,306.2	5,306.2	5,431.8	5,431.8
Administrative & General	722.9	722.9	746.9	746.9
Taxes Other Than Income	373.9	373.9	400.6	400.6
CCFT	-	161.4	-	167.2
Subtotal	7,448.6	7,610.0	7,666.3	7,833.5
Deductions from Taxable Income				
Tax Depreciation	816.8	675.2	850.6	673.9
Interest Expense	693.6	693.6	726.0	726.0
Subtotal Deduction	1,510.4	1,368.8	1,576.6	1,399.9
Net Taxable Income (CCFT)	1,681.6		1,741.7	
CCFT @ 9.6%	161.4		167.2	
Net Taxable Income (FIT)		1,661.8		1,751.2
FIT @ 46%		764.4		805.6
Graduated Tax Adjustment		-14.3		-14.3
ITC		-		-
Total FIT		750.1		791.3

Uncollectibles @ .25%

Franchise @ .85%

User Fee @ 1.5 %

Net-to-Gross @ 2.103%

(END OF APPENDIX B)

SGVWC feels the 10% factor should be used for 1984 so that its employees could regain purchasing power lost over the past years because of the rise in the Consumer Price Index (CPI). SGVWC fears a turnover of employees if a wage increase of lesser amount that 10% is granted in January 1984. SGVWC's president introduced and explained Exhibit 4 which shows a graphical comparison between the CPI and employee salary adjustments between 1973 and 1983 plus a profile of the cumulative lag in the salary adjustments versus the CPI during that same period. He explained that SGVWC attempted to achieve a balanced salary adjustment policy and that a 10% salary adjustment in January 1984 would bring employees "even" with the average increase in the cost of living over the past 10 years.

Staff used the actual 6.4% increase granted by SGVWC in its projections for 1983 and the Commission's Revenue Requirements Division Economics Section's recommended 4% factor for 1984. The 4% wage escalation forecast for 1984 which appears in staff Exhibit 11 is primarily based on information from Data Resources, Inc. (DRI), a reputable economics consulting firm. According to staff witnesses, the DRI forecasts are widely used and relied upon by many large utilities in California. According to a staff witness, staff compares the DRI forecasts with other forecasts to determine reasonableness. We adopted the 6.4% wage escalation factor based on the Economics Section's forecast in SGVWC's recent Fontana Division rate case.

Our current ratemaking procedures applicable to SGVWC require us to set rates to cover a reasonable level of costs and a fair return for investors in a future test year and two subsequent attrition years. Arriving at reasonable cost levels requires judgement about cost trends.

In this rate setting process, the Commission's obligation to ratepayers to maintain reasonable utility rates and high quality service is fundamental. This obligation, however, cannot be met or sustained if a utility is placed at a competitive disadvantage in skilled labor markets by allowances for forecasted wage adjustments that limit wages and salary increases to cost-of-living escalators while denying employees the opportunity to participate in productivity advances in the utility or in the economy. Our basic policy in this respect is to give maximum laditude to utility management to establish or negotiate wage and salary adjustments which are consistent with efficient management of operations, including access to skilled labor markets and the maintenance of a qualified utility workforce.

In this proceeding, we find that the staff's estimate represents a more reasonable wage escalation forecast for all employees and one based on more reliable forecast data than SGVWC's labor cost estimates. The company has not provided persuasive evidence that its proposed labor escalation rates represent labor cost levels that are necessary for maintaining a qualified workforce. They maintain that a 10% increase is required to allow SGVWC wages to catch up with the rise in the CPI over the past few years. They do not show how wage levels in other utilities or in other unregulated markets have fared vis-a-vis the CPI. They do not show why the CPI is the proper benchmark for wage levels nor how productivity gains are reflected if such a benchmark is used.

April was 10.68% and the three-month average ending in April was 10.36%. Staff believes its estimate of 11.75% adequately takes into account both the difference between an AA utility bond and the A quality of SGVWC's bonds and the premium, if any, associated with a private placement rather than a public issue.

SGVWC's witness pointed out the current yields on new long-term A-rated utility bond issues, as shown on the Solomon Brothers' corporate bond yield indexes, which as of June 3, 1983 were estimated to provide a yield of 12.38%. The witness than pointed to the average 12-month spread of 84 basis points between A and AAA bonds and testified that he added this amount to the current weekly yield of 11.75% for AAA bonds to obtain an expected 12.59% interest rate for A bonds. Staff correctly points out several problems with this comparison from Solomon Brothers' indexes.

Staff contends that SGVWC used the tables inconsistently. It combined the current estimates of long-term yields with the average spread between A and AAA bonds over the past 12 months. If the current yield spread of 63 points is used rather than the average, the result is less than the 12.5% which SGVWC has employed in its projections for the Series M bonds. Additionally, SGVWC's approach makes the unlikely assumption that the yields existing when it issues its bonds in 1984 will be the same as the yields existing on June 3, 1983. Thus SGVWC has relied on current yields rather than forecasted yields.

We believe staff has presented a more detailed and thoughtful analysis in developing its forecasts than did SGVWC and for that reason we find staff's recommendation of an 11.75% interest rate forecast for SGVWC's planned Series M bond issue reasonable. We will therefore adopt this figure.