

Decision No. 87000

ORIGINAL

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application  
of the SOUTHERN CALIFORNIA WATER  
COMPANY for an order authorizing  
an increase in water rates in its  
Pomona Valley District.

Application No. 56181  
(Filed January 6, 1976)

Harold M. Messmer, Jr., Attorney at Law,  
for Southern California Water Company,  
applicant.

Norm King, City Manager, for City of Claremont,  
interested party.

William J. Jennings, Attorney at Law, and  
Ernst G. Knolle, for the Commission staff.

O P I N I O N

By this application Southern California Water Company (Company) requests authority to establish rates in its Pomona Valley District which are designed to increase annual revenue by \$166,000 or 12.00 percent over the revenues produced by the authorized rate levels now in effect based on test year 1977 operations. In addition, Company requests step increases in rates of approximately \$19,800, or 1.3 percent in each of the test years 1978 and 1979.

Public hearing was held before Examiner Gillanders in Claremont on November 17, 1976, and the matter was submitted upon receipt of late-filed Exhibit No. 21 on January 6, 1977. Copies of the application had been served and notice of hearing had been published and posted in accordance with this Commission's Rules of Practice and Procedure.

Oral testimony on behalf of Company was presented by two of its vice presidents and its manager of its Rate and Evaluation Department. The Commission staff presentation was made by one

accountant and two engineers. Ten customers attended the hearing. The city manager of Claremont, speaking on behalf of the Claremont City Council, outlined the two major concerns of the City - peak pricing and pumping surcharges in particular zones. The City's position was further bolstered by the statement of Councilwoman Cohen. The president of The League of Women Voters of Claremont testified that The League was very interested in water conservation and the issue of conservation through pricing in order to conserve local water and in order not to use excess amounts of Colorado and/or state water. The League supports the idea of peak pricing and of pumping surcharges. A member of the Claremont Water Task Force and of The League of Women Voters testified that she supported the City's recommendations. The City Council asked that a commitment be given at this time to a specific time framework, such as 12 months, for a concrete proposal on the above two concepts from the Company, which then would be evaluated by the Commission in a fairly short amount of time. Such commitment would be a sufficient action as far as the council was concerned and need not be tied directly to the approval of this matter. Company agreed to make the studies and file them with the Commission as part of the record in this proceeding. Staff counsel agreed to have such studies reviewed by the staff. If it appears that the studies require further action, the matter will be reopened.

General Information

Company, a California corporation organized under the laws of the State of California on December 31, 1928, is a public utility rendering water service in various areas in the counties of Contra Costa, Imperial, Los Angeles, Orange, Sacramento, San Bernardino, and Ventura. It also renders electric service in the vicinity of Big Bear Lake in San Bernardino County.

Pomona Valley District

The Pomona Valley District service area includes the city of Claremont and portions of the cities of Chino, Montclair, Pomona, and Upland and certain adjacent unincorporated territory in the counties of Los Angeles and San Bernardino. On December 31, 1974, Company served 7,804 customers and, in addition, water service for public fire protection was provided by 766 fire hydrants. Applicant supplies water to its customers through 637,406 feet of main in two distribution systems which are not inter-connected. Applicant has water treatment, storage, booster pumps, and other auxiliary equipment at various locations in the district. The water supply is obtained from Company-owned wells, a well belonging to Pomona College, and five connections to two agencies of the Metropolitan Water District.

As of December 31, 1974 the book cost of utility plant in the Pomona Valley District amounted to \$5,297,200 with depreciation and amortization reserves of \$1,368,900 or a net plant of \$3,928,300.

Rates

The basic present rates for this District were set by Decision No. 83050 dated June 25, 1974 in Application No. 54064. The Commission authorized a rate of return of 7.90 percent on rate base and 12.37 percent on common equity for the test year 1974. Step rates were also authorized to become effective July 1, 1975 and July 1, 1976. Since that decision the Commission has authorized the following offset rate increases:

<u>Advice Letter</u>	<u>Resolution Number</u>	<u>Dated</u>	<u>Date Rates Effective</u>	<u>Increased Expense Offset</u>
445-W	W-1613	9-4-74	9-9-74	Offset increased power rates. \$32,867
456-W	W-1709	4-8-75	4-13-75	Offset increased purchased water, power, labor, and ad valorem tax rates. \$49,600
482-W	W-1928	5-13-76	7-1-76	Offset increased purchased water, power, labor and ad valorem tax rates. \$78,300

Rate Proposals

Company proposes to increase the general metered, limited metered, and private fire protection rates. Present and proposed rates are shown in Exhibit D attached to the application.

Results of Operation

Witnesses for Company and the Commission staff have analyzed and estimated Company's operational results.

At the hearing, Company stipulated to the staff results of operation shown in Exhibit 16. However, Company believes that for ratemaking purposes Exhibit 16 should be adjusted for later information regarding certain costs (Exhibit 5). According to Company, on August 1, 1976 its costs for gas used for pumping were increased. It expects a slight increase in its cost of purchased power. On December 25, 1976 Company started paying its employees an average of 6.8 percent more than they were being paid. As of October 1, 1976 Company began paying a 278 percent increase in its liability insurance. The effects of these increases are shown on the following table:

## SOUTHERN CALIFORNIA WATER COMPANY

## POMONA VALLEY DISTRICT

Functional Summary of Earnings and Rates of Return  
 CPUC Staff Report Adjusted for Later Information  
 (Dollars in Thousands)

	Exhibit No. 16		Effect of Adjustment For Later Information	Exhibit No. 16 Adjusted for Later Information	
	Present Rates Estimated Year 1977	Proposed Rates Estimated Year 1977		Present Rates Estimated Year 1977	Proposed Rates Estimated Year 1977
Operating Revenues	\$1,378.1	\$1,552.5	\$	\$1,378.1	\$1,552.5
<u>Operating Expenses</u>					
Purchased Water	300.5	300.5	1.1	301.6	301.6
Pump Tax	3.1	3.1		3.1	3.1
Power for Pumping	311.2	311.2		311.2	311.2
Chemicals	0.7	0.7		0.7	0.7
Labor - Direct	105.8	105.8	7.2	113.0	113.0
Common Cust. Acct. Labor	5.5	5.5	1.0	6.5	6.5
Common Cust. Acct. Supplies	2.1	2.1	0.2	2.3	2.3
Common Cust. Acct. Postage	6.5	6.5	0.7	7.2	7.2
Common Cust. Acct. EEP Rental	2.7	2.7	0.3	3.0	3.0
Uncollectibles	1.5	1.5		1.5	1.5
Advertising	1.5	1.5		1.5	1.5
Office Supplies	4.0	4.0		4.0	4.0
Injuries and Damages	6.1	6.1	7.2	13.3	13.3
Pensions and Benefits	13.1	13.1	1.5	14.6	14.6
Regulatory Commission	1.2	1.2		1.2	1.2
Rent	3.3	3.3		3.3	3.3
Depreciation and Amortization	110.1	110.1		110.1	110.1
Property Taxes	125.8	125.8		125.8	125.8
Payroll Taxes	7.1	7.1	0.4	7.5	7.5
Street Franchise Taxes	6.1	6.8		6.1	6.8
Allocated General Office	37.3	37.3	2.8	42.1	42.1
Other Expenses	46.5	46.5		46.5	46.5
Subtotal	<u>1,103.7</u>	<u>1,104.4</u>	<u>22.4</u>	<u>1,126.1</u>	<u>1,126.8</u>
State Income Tax	10.1	25.8	(2.0)	8.1	23.8
Federal Income Tax before IDC	48.8	124.6	(9.8)	37.0	114.8
Investment Tax Credit	(27.9)	(27.9)		(27.9)	(27.9)
Total Income Tax	<u>31.0</u>	<u>122.5</u>	<u>(11.8)</u>	<u>19.2</u>	<u>110.7</u>
Total Operating Expenses	1,134.7	1,226.9	10.6	1,145.3	1,237.5
Net Operating Revenue	243.4	325.6	(10.6)	232.8	315.0
Rate Base	3,208.1	3,208.1		3,208.1	3,208.1
Rate of Return	7.59%	10.15%		7.26%	9.82%

(Red Figure)

Rate of Return

Any rate of return determination necessarily requires the weighing of a number of economic intangibles which are difficult to measure by statistical comparisons. It devolves upon the judgment of the Commission, after weighing the evidence presented by all of the experts, to determine and set a fair and reasonable rate of return. (Pac. Tel. & Tel. Co. (1968) 69 CPUC 53.) It was the testimony of Company's expert in investment banking and utility finance that a 9.73 percent rate of return on rate base or approximately 15 percent rate of return on common stock equity is needed to enable Company to sell its shares at a price which would not be punitively dilutive to the present stockholders and destructive to the market for Company's common stock.

The staff's financial witness recommended a rate of return of 9.15 percent on rate base, or approximately 13.33 percent return on common stock equity. We have considered the arguments advanced by Company and staff and adopt as reasonable a rate of return of 8.85 percent on rate base, or approximately 12.5 percent return on common stock equity.

Company has requested step increases in rates averaging \$19,800 or 1.3 percent in each of the test years 1978 and 1979 in order to cover increases in rate base which it claims occur every year.

Decision No. 83050 dated June 25, 1974 in Application No. 54064 was an order authorizing Company to increase rates for water service in its Pomona Valley District. Ordering Paragraph 2 stated that on or before April 1, 1975 Company should file with the Commission an earnings statement for the Pomona Valley District for 1974 normalized and adjusted to the rate levels authorized therein for 1974, together with an estimate of earnings for 1975, under similar normalized conditions and that on or before April 1, 1976, Company should file similar normalized and estimated earnings statements for 1975 and 1976.

By letter dated November 15, 1976 in Application No. 54064, Company advised that it had by letter dated March 12, 1975 filed a report on earnings of Pomona Valley District for 1974 adjusted, and by letter dated March 18, 1976 filed a similar report for 1975 adjusted. Estimates for the year 1976 were filed with this application on January 6, 1976. These reports and estimates all contain rates of return substantially below the 7.9 percent found reasonable in Decision No. 83050 in Application No. 54060.

We are convinced that it is not necessary to set rates in this proceeding that would automatically grant Company a rate increase. If circumstances are such that Company believes it deserves a further increase, it can avail itself of the numerous options open to it. ✓

A rate of return of 8.85 percent applied to the staff's test year 1977 rate base requires an increase of \$108,600 over present rates.

For purposes of setting rates, we will adopt the 1977 estimated results of operation shown in Exhibit 5.

Service

The record shows that there were six informal complaints (all billings) to the Commission from the district during the year 1975. Complaints on file in Company's office by types are as follows:

<u>1975 Complaints to Company</u>	
Billing	232
Pressure	35
Dirty Water	7
Taste and Odor	<u>17</u>
Total	291

According to the staff, Company records indicate that customer complaints received at its district office were quickly resolved. These complaints do not appear too excessive for a district of this size and service appears to be satisfactory.

Conservation

Company started its conservation information program in 1972, which consists of advertisements in the local paper in all districts. These appear about once a month, and they are highly specific. The advertisements provide the customers with definite education, for instance, on how to read a water meter, how to check for pipe leaks, and how to check the notorious water thief, toilet tank leaking.

In addition to the advertisements, the company provides bill inserts with the same information. It is well aware of what happens to most bill inserts that are included with utility bills, so it attempts to design those inserts to have a little grab. When a customer opens the envelope he will see some ideas that might intrigue him to read further. If he does, he will find the kind of information that is conducive to lowering water use and lowering water bills. Much of the advertising and bill inserts have been related to the energy conservation idea of reduced water volumes. The advertisements stress that it takes electric energy and sometimes gas energy to pump water and to boost it, and that any savings in water use automatically reduces the energy needs of the community. This is the program that Company has followed in the past and intends to follow in the future.

Company believes that its program has resulted in reduced water sales, whether looked at from a recorded basis or a temperature and rainfall adjusted basis. Company plans to continue its current program as it has produced good results. Company has other pilot programs that it is working on now in preparation for the water conservation case. Company believes it has had an aggressive



conservation program and that the recorded results prove it. Company will continue that program, plus others as recommended by the Commission.

Rate Spread

We have concluded that Company's increased revenue requirement, based on our adopted 1977 test year results of operation, is \$108,600. Company and staff do not agree on how the increase should be spread to consumers.

Company has proposed a general metered service schedule with monthly service charges based on a cost-of-service study and inverted block rates. The staff recommends, in accordance with the lifeline principle, that there be no increase for 5/8 x 3/4-inch meters for the first 500 cubic feet per month. By Decision No. 86708 dated December 7, 1976 in Application No. 56157 - Company's Orange County District - we adopted the lifeline type of rate schedule. We will do so in this matter.

Findings

1. Company is in need of additional revenues, but the proposed rates set forth in the application are excessive.
2. The estimates, previously discussed herein, of operating expense and rate base for the test year 1977 reasonably indicate the results of Company's operations for the future and are adopted.
3. A rate of return of 8.85 percent on the adopted rate base for the year 1977 will produce a return on common equity of approximately 12.5 percent. Such rate of return requires an increase in gross revenues of \$108,600 which amount is reasonable.
4. The establishment of a lifeline form of rate is reasonable.
5. The staff's rate spread is reasonable and should be adopted.
6. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that after the effective date of this order, Southern California Water Company is authorized to file the revised rate schedules attached to this order as Appendix A, and concurrently to withdraw and cancel its presently effective schedules. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 23rd  
day of FEBRUARY, 1977.

Robert Bateman  
President  
Richard D. Howell  
Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A  
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Schedule No. PV-1

Pomona Valley District

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Claremont, portions of the Cities of Chino, Montclair, Pomona, Upland, and adjacent unincorporated territory in Los Angeles and San Bernardino Counties.

RATES

	Per Meter Per Month	
Quantity Rates:		
First 500 cu.ft., per 100 cu.ft. ....	\$ 0.257	(C)
Over 500 cu.ft., per 100 cu.ft. ....	0.284	(I)
Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 2.50	
For 3/4-inch meter .....	2.75	
For 1-inch meter .....	3.25	
For 1-1/2-inch meter .....	5.00	
For 2-inch meter .....	7.50	
For 3-inch meter .....	15.50	
For 4-inch meter .....	25.00	(I)
For 6-inch meter .....	50.00	
For 8-inch meter .....	85.00	
For 10-inch meter .....	120.00	(I)

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.

APPENDIX A  
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Schedule No. PV-7ML

Pomona Valley District

LIMITED METERED SERVICE

APPLICABILITY

Applicable to metered water service to the City of Claremont.

TERRITORY

The City of Claremont, Los Angeles County.

RATES

Quantity Rate:		Per Meter Per Month
Per 100 cu.-ft. ....		\$ 0.227 (I)
Service Charge:		
For 5/8 x 3/4-inch meter .....		\$ 2.50
For 3/4-inch meter .....		2.75
For 1-inch meter .....		3.25
For 1-1/2-inch meter .....		5.00
For 2-inch meter .....		7.50
For 3-inch meter .....		15.50
For 4-inch meter .....		25.00 (I)
For 6-inch meter .....		50.00
For 8-inch meter .....		85.00
For 10-inch meter .....		120.00 (I)

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 Rate.

(Continued)

APPENDIX A  
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Schedule No. PV-7ML

Pomona Valley District

LIMITED METERED SERVICE  
(Continued)

SPECIAL CONDITIONS

1. All meter readings for municipal departments of the City of Claremont will be combined for the purpose of computing a single monthly bill.
2. During periods of high demand, service under this schedule applicable to municipal parks may be restricted to off-peak hours.

APPENDIX A  
Page 4 of 5

Schedule No. AA-4

All Districts

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Rate A - Applicable within the Orange County, Central Basin, and Pomona Valley Districts. (C)

Rate B - Applicable within the Barstow, Culver City, San Gabriel Valley, Simi Valley, and Southwest Districts. (C)

Rate C - Applicable within the Arden-Cordova, Bay, Big Bear, Calipatria-Miland, Desert, Ojai, and San Bernardino Valley Districts.

RATE

	Per Month		
	A	B	C
For each inch of diameter of service connection .....	\$3.00	\$2.25	\$2.00

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

(Continued)

APPENDIX A  
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Schedule No. AA-4

All Districts

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage, or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.