

ORIGINAL

Decision No. 87220

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of PARK WATER COMPANY, a California)
corporation, for authority to)
increase rates charged for waste-)
water service to offset increased)
expenses resulting from connection)
to the Lompoc regional wastewater)
treatment plant in its VANDENBERG)
DISPOSAL DIVISION.)

Application No. 56631
(Filed July 20, 1976)

Chris S. Rellas, Attorney at Law,
for applicant.
John J. Flaherty, for Vandenberg
Village Association, protestant.
Timothy E. Treacy, Attorney at Law,
Andrew Tokmakoff, and Ichiro
Nagao, for the Commission staff.

O P I N I O N

Park Water Company (Park), a California corporation, seeks authority to increase its rates for wastewater service in its Vandenberg Disposal Division (VDD) in order to increase operating revenues for test year 1977 from \$123,290 to \$326,560, an increase of \$203,270 (165 percent) annually over the rates in effect at the time of the filing of the application which, it alleges, would result in a net estimated operating income of \$74,396, or 9.50 percent on its rate base of \$783,112, which was the rate of return on rate base authorized in its last general rate increase, D.85716 dated April 20, 1976. It contends that at present rates its operating revenue will be \$123,290 and its expenses will be \$206,006, which will result in a net loss of \$82,716.

Park estimates that during test year 1977 it will have 1,670 one-family residential customers whose monthly rates will be increased from \$5.25 to \$14.50, for an annual increase from \$105,210 to \$290,580, or \$185,370 (176 percent), and it will have 22 commercial customers, which include multi-unit residential customers with only one meter per apartment building, whose rates will be based on the volume of effluent discharge to the sewer based on water consumption, and will increase the total operating revenue from such commercial customers from \$18,080 to \$35,980, or \$17,900 (99 percent) annually. The 1,670 single-family residences, plus 112 units in the three apartment buildings,^{1/} plus the 19 commercial customers other than apartment buildings, will result in an estimated 1,801 customers during test year 1977.

The Commission staff contends that for test year 1977 Park will have 1,685 (not 1,670) residential single-family customers and 21 (not 22) commercial customers, and that its rate base will be \$663,561 (not \$783,112). At present there are no wastewater meters and it is estimated by Park and the staff that 80 percent of the water usage is for sewer purposes. If the 1,685 residential single-family customers pay a flat rate of \$13.20 (not \$14.50) per month (an increase of 151 percent on the present charge of \$5.25 per month), and if the 21 commercial customers pay a minimum of \$13.20 (not \$14.50) per month each (but if the average water usage for the 21 commercial customers exceeds 12 Ccf per month, the charge would be $1.35 \times .8$, or \$1.08 (not \$1.20) per Ccf for the average

^{1/} Each apartment building has only one meter and is to be treated as a commercial customer.

water usage of the customer^{2/}) the staff contends that the operating revenues will be \$299,165 an increase over \$123,290 of \$175,875 (143 percent), and expenses will be \$235,940 for a net operating revenue of \$63,225, or 9.53 percent on rate base of \$663,560.^{3/}

In Exhibit A attached to its application Park alleges on page 1 that the increase requested is required to offset increased expenses and to provide a reasonable return on increased rate base resulting from the connection to the Lompoc Regional Wastewater Treatment Plant (Treatment Plant) on or about March 1, 1977.

Park alleges that it has paid to the city of Lompoc the sum of \$4,923 from May to December 1972; \$14,239 during 1973; \$47,248 during 1974; and \$457,590 during 1975; for a total of \$524,000 for certain capacity rights in the expansion of the Treatment Plant and \$80,400 as the cost of certain capacity rights in pre-existing facilities of the Treatment Plant, for a total of \$604,400; the capacity rights to be for 35 years, plus an option on behalf of Park to renew for an additional 15 years. In addition, Park has elected to add \$83,940 interest on construction^{4/} during the time that the Treatment Plant was being constructed and when added to the \$604,400, there is a total disbursement of \$688,340. It contends that this is an addition to plant and, therefore, an addition to rate base.

^{2/} At present the commercial customers are charged flat monthly rates ranging from \$7 to \$252.

^{3/} If a customer installs a wastewater meter, the staff contends that a reasonable and comparable charge would be a minimum of \$13.20 for the first 9.8 Ccf and \$1.35 per Ccf over 9.8 Ccf per month.

^{4/} Classified as Allowance for Funds during Construction.

Without the requirement that Park connect to and be a part of the new wastewater treatment plant for test year 1977, it contends that its income would be \$123,290, its operating expenses \$105,863, with net operating income of \$17,427, which would yield a 12.51 percent return on its present rate base of \$139,284. It further contends that by reason of the pending connection of the new facility, it has not made the capital improvements to or kept the present utility plant in a good state of repair, and as a result its rate base is a smaller amount than it would normally be, which causes the reflection of a larger percent return on rate base than authorized by the Commission's previous decision in this matter.

Park contends that for test year 1977, \$44,780, and each succeeding year certain estimated sums as set forth on page 42 of Exhibit A, will be required to be paid by it as a contribution to the wastewater capital reserve fund and it intends to treat this as a reduction to user-charge receipts. A portion of this will be recovered in its behalf from the reserve fund as debt principal payments to Pacific Mutual Company, the lender, and payments to the city of Lompoc during 1977 to 1998 in a total amount of \$493,814. (See Exhibit A, p. 17.) It states that upon receipt of these sums, it intends to treat the same as contributions to be deducted from rate base at the time that the sums are recovered. Park intends to treat the payment of \$44,780 and the payments in succeeding years as a contribution paid as distinguished from a capital investment, but the return of a portion of the sum, upon receipt thereof, as a reduction in rate base as distinguished from an offset against expense. The reduction in rate base caused thereby will be considered periodically to determine whether rates should be adjusted downward.

Park owns and operates water systems in Los Angeles and San Bernardino Counties and both water and sewer systems in Vandenberg Village, a subdivision near the city of Lompoc in San Barbara County.

Park's history and the description of its operations are included in Exhibit 1 in A.55367 filed December 6, 1974, and pursuant to that application its present rates for waste-water service provided by its VDD were established by D.85716 dated April 20, 1976.

The Treatment Plant was created to maintain the quality of water in the Lompoc area as described in Park's Revenue Requirement Study dated July 1976 and attached as Exhibit A to its application.

After proper notice public hearings were held before Examiner James Tante in Lompoc on February 1, 2, and 3, and in Los Angeles on February 7, 1977, and the matter was submitted on the latter date. The parties were authorized to submit briefs in the form of proposed opinions in letters to the presiding officer before February 18, 1977.

All of the parties agreed that it was necessary and economically feasible for Park to participate in the Treatment Plant project.

At the hearings in Lompoc, approximately 120 members of the public attended the first day, 13 attended the second day, and 10 attended the third day. A representative of the Lompoc Unified School District made a statement opposing the extent of the requested increase and particularly opposing the proposed procedure for establishing rates, which, he stated, would result in increases of up to 568 percent for certain of its schools in Park's service area. However, we find that the proposed rate structure is based on 80 percent of water consumption

for the school district as well as for other users and is not unreasonable, but merely eliminates the present inequity based on flat monthly rates for its schools without considering the extent of use. (Exhibit 6, page 43.)

The vice president of Vandenberg Village Development Company and three customers of Park made statements opposing the extent of the requested increase. Twenty-four letters, some protesting the extent of the requested increase and some requesting notice of the date, time, and place of hearing, and a petition, containing 19 signatures protesting the proposed rate increase, were received.

A graduate civil engineer, who is now a college instructor, testified for the protestant Vandenberg Village Association (Association); Park's vice president for revenue requirements, who is a professional engineer registered in California and Arizona, a sanitary engineer and vice president of Brown and Caldwell, consulting engineers, and a supervising water quality control engineer for the central coast region of the California Regional Water Quality Control Board testified for Park; a financial examiner of the Finance and Accounts Division and an assistant utilities engineer of the Hydraulic Branch testified for the Commission staff.

The Association argued that the Treatment Plant is capable of providing twice as much treatment capacity as is presently needed, the excess capacity does not benefit the

present users, and should be borne by future users by an increase in the connection charge from \$295 to a larger amount, perhaps \$800, and reduce the \$2 per month charge applied to present customers. This argument is without merit inasmuch as the California State Water Resources Control Board (Board) Revenue Program Guidelines for Wastewater Agencies, for September 1974, provides in part in Article 5, Section 4, Capital Recovery, that "...costs should be allocated to all existing and future users of treatment works in direct proportion to cost of design capacity provided." The apportionment has been submitted to and approved by the Board and appears to be reasonable.

The Association argues that there are certain questionable items which Park seeks to include in rate base; that the authorized rate of return for Park is too high and should be reduced to perhaps five percent; that Park's payment of income taxes is merely hypothetical and should not be considered; that if and when Vandenberg Air Force Base (VAFB) participates in the project, there should be a reduction in rates; and that Park's rates should not be greater than those of the city of Lompoc which are at present \$10 per month for private residences.

Park's vice president testified that if VAFB participates, the earliest it could do so would be mid-1979, but agreed that if and when it did, Park would consider this fact and any change in its expenses, up or down, in a request to modify rates by the Commission's advice letter procedure.

Park's vice president stated that the city of Lompoc was then, and for some time had been, charging the \$10 per month rate even though not providing the new service as the Treatment Plant was not yet in operation. In addition, he referred to Table 10-5 on page 45 of Exhibit 6 to point out the reason that a private utility must establish a rate higher than a utility operated by a municipality.

Park contended that its application consisted of an offset only and should be treated as such. The staff contended that it was not an offset, but a request for a general rate increase.

D.83127 dated July 9, 1974 sets forth in part that:

"...Occasionally, a specific element of the cost of service can undergo a sudden and significant change. The adjustment of rates to reflect the effect of a change in specific definable elements, independent of the changes that may have occurred to other elements, is known as an offset, and a rate proceeding involving such a change is known as an offset proceeding. The offset procedure has an obvious advantage from a time standpoint, but, in order to be valid, a relatively recent adopted cost of service, or results of operations as it is known in California, must be available as a foundation upon which to base the offset."

In this case there is a recent adopted cost of service available, but Park seeks a large increase in rates based on an increase in rate base and an increase in expenses, including a change in the amount of income tax to be paid, and has calculated operating revenues based on newly estimated number of customers. The application has more of the characteristics of a request for a general rate increase than an offset. The staff contention is

adopted and the application constitutes one for a general rate increase. As such, a reserve account is not required to be established pursuant to Section 792.5 of the Public Utilities Code.

Lompoc Treatment Facility

Park's requested increase in revenues is required to offset increased expenses and return on increased rate base resulting from connection to the Treatment Plant. The wastewater treatment facility is being constructed by the city of Lompoc as a regional treatment facility as required by the Central Coast Region, California Regional Water Quality Control Board (WQCB), under provisions of the California Porter-Cologne Water Quality Control Act of 1969, the California Clean Water Bond Act of 1970, the Federal Water Pollution Control Act of 1956 (PL84-600), and the Federal Water Pollution Control Act Amendments of 1972 (PL92-500). Under provisions of these laws, approximately 87.5 percent of the cost of the regional facilities are funded through State and federal grants with the balance of approximately 12.5 percent of costs paid by the local wastewater agencies. Grant regulations require as a condition of receiving the grant that rates be designed to meet specific requirements and that a Wastewater Capital Reserve Fund (WCRF) be established to finance small projects and equipment replacements as needed during the useful life of the treatment works. Disbursements from this WCRF are restricted to specific purposes including bond principal payments for bond issues to the extent that the proceeds of the bond issues were used to pay the grantees' share of construction costs on grant funded treatment works.

The treatment facility being constructed consists of the conveyance facilities from Vandenberg Village to the Lompoc Treatment Plant and expansion of the Treatment Plant to a capacity of 5 mgd to meet the present and future wastewater needs for the entire Lompoc Valley. Park is a participant in this project as required by the WQCB, and upon completion of the project will own capacity rights in the Vandenberg Village interceptor and capacity rights of .89 mgd in the Treatment Plant.

Park's vice president testified that revenue requirements and rates as requested were computed to meet all requirements of the California State Water Resources Control Board. In its Exhibit 14 the staff computed revenue requirements and rates in the same manner as proposed by Park.

Park's engineer witness from the firm of Brown and Caldwell, who performed the planning and design of this treatment facility, and also the engineer from the WQCB, which has jurisdiction over this project, testified as to the need for the project. The representative of the Association agreed that this is a necessary project and that Park's participation is both necessary and desirable. It is the Commission's opinion that participation in this project by Park's VDD is necessary and that reasonable costs associated with this project should be included in rate base and in allowed expenses for the Division.

Rates

Park's present sewer tariffs provide flat rates for all customers under two schedules. The general residential service schedule provides for a single rate for each single-family residence or apartment unit of \$5.25 per month. The commercial rate schedule provides a specific flat rate for each commercial customer. Park proposes that new rates be flat rates for residential single-family and condominium units of \$14.50 per month and that charges for commercial dischargers, including residential multi-family units, be based on the volume and strength of wastewater at a rate of \$1.20 per Ccf of water usage recorded on the meter serving other than irrigation or other outside use. Park's witnesses testified that these rates were designed to meet federal and State requirements for user charge systems for grant funded treatment facilities. The key requirement to be met by a user charge system as stated in Appendix B of Title 40, Code of Federal Regulations, Chapter 1, Part 35, is as follows: "The User Charge System adopted by the applicant must result in the distribution of treatment works operation and maintenance cost to each user (or user class) in approximate proportion to his contributions to the total wastewater loading of the treatment works."

The staff agreed with Park with reference to rate design. Members of the public who made statements at the hearing indicated concern that these proposed rates are expected to result in reduced charges to several commercial dischargers and disproportionate increases to other dischargers, in particular to the Cabrillo High School.

In subsequent testimony it was determined that the reasons for the expected variations in wastewater charges resulting from application of the proposed rates was that the present flat rates did not accurately reflect the actual discharge from each commercial customer.

The rate design as proposed by Park and agreed to by the Commission staff will be adopted.

Both Park and the staff included in their proposed rates amounts to be deposited in the city of Lompoc WCRF. These deposits were to be considered as user charge contributions in the amount of \$2 per month for residential customers and \$.20 per Ccf of commercial wastewater discharged. These amounts would be collected by Park to be deposited in the WCRF as required by the State and Federal grant regulations. The Commission finds that the amount of user charge contributions to be collected as proposed by Park and the staff is reasonable and will be adopted. The Commission also finds that Park's proposed method of accounting for these user charge contributions which is acceptable to the staff is reasonable and will be adopted.

Results of Operation

Witnesses for Park and the Commission staff have analyzed and estimated Park's operating results. Park submitted a revised summary of earnings in Exhibit 12 which was based on data included in its Revenue Requirement Study, Exhibit 6, adjusted for additional customer growth, reduced rate base, and depreciation expense due to increased connection fees, and reduced income taxes due to extension of provisions of the 1975 tax law. Summarized in the following tabulations are the estimated results of operation for the test year 1977

under present sewer rates (Table I) and under those proposed by Park (Table II). For comparison, these tables also show the corresponding results of operation adopted in this decision.

Table I
Summary of Earnings
(Test Year 1977)

Item	Present Rates		
	Applicant	Staff	Adopted
(Dollars in Thousands)			
Operating Revenues	\$124,240	\$124,240	\$124,240
Less Contributions to WCRF	45,550	45,550	45,550
Net Operating Revenues	78,690	78,690	78,690
Operating Expenses			
Operation & Maintenance	124,220	124,220	124,220
Amortization of Deferred Debit	9,261	9,590	9,590
Taxes Other Than Income	21,764	20,470	20,570
Depreciation	6,193	5,910	5,990
Subtotal	161,438	160,190	160,370
Income Taxes	0 ^{1/}	(50,290)	(62,080)
Total Expenses	161,438	109,980	98,290
Net Revenue	(82,748)	(31,210)	(19,600)
Rate Base	769,837	663,560	667,070
Rate of Return	(10.75%)	Loss	Loss

(Red Figure)

^{1/} Applicant did not compute negative income tax.

Table II
Summary of Earnings
(Test Year 1977)

Item	Proposed Rates		
	Applicant ^{1/}	Staff	Adopted
(Dollars in Thousands)			
Operating Revenues	\$321,989	\$329,180 ^{2/}	\$299,590
Less Contributions to WCRF	45,550	45,550	45,550
Net Operating Revenues	276,439	283,630	254,040
Operating Expenses			
Operation and Maintenance	124,220	124,220	124,220
Amortization of Deferred Debit	9,261	9,590	9,590
Taxes Other Than Income	21,764	20,470	20,570
Depreciation	6,193	5,910	5,990
Subtotal	161,438	160,190	160,370
Income Taxes	41,866	46,020	30,300
Total Expenses	203,304	206,210	190,670
Net Revenue	73,135	77,420	63,370
Rate Base	769,837	663,560	667,070
Rate of Return	9.50%	11.67%	9.50%

^{1/} Proposed in Exhibit 12.

^{2/} Based on rates proposed in Exhibit 6.

Operating Revenues

Park based its estimate of customers and revenues on recorded customer growth through 1975 and estimated growth for 1976 and 1977. The staff based its estimate of customers and revenues on recorded customer growth through 1976 and estimated growth through 1977 based on residential units presently under construction. At the hearing, Park stipulated that the staff estimate based on later recorded data was acceptable. Customers and revenues at present rates as presented by the staff will be adopted.

Operating Expenses

Both Park and the staff estimated operating expenses from the adopted results of operation in D.85716 with adjustments made for increased expenses associated with connection to the Treatment Plant and for increased customer growth. These expense estimates were reduced by the amount of adopted operation and maintenance expenses of Park's existing wastewater treatment facility which will be abandoned upon connection to the Treatment Plant. Park and the staff agree on operating expenses and the amount proposed by both will be adopted.

Depreciation Expense

Both the staff and Park computed depreciation expense on the amount of Park's investment in wastewater collection and treatment facilities which will not be deemed as being contributed following debt principal payments made from the city of Lompoc WCRF under provision of State and federal regulations applicable to this project. Depreciation expense as proposed by Park is greater than proposed by the staff because Park's estimate of the cost of capacity rights in the Treatment Plant is larger than estimated by the staff and because Park's

estimate of the cost of facilities to be abandoned upon connection to the Treatment Plant is lower than estimated by the staff.

Adopted depreciation expense was computed using the adopted estimate of the cost of capacity rights and utility plant as discussed below and the staff estimate of the cost of facilities to be abandoned upon connection to the Treatment Plant.

Deferred Debit

Both Park and the staff proposed that the undepreciated portion of Park's existing treatment facility plus costs of removal, less salvage value, be set up as a deferred debit and be amortized over a ten-year period. The reason for setting up this deferred debit is that retirement of utility plant, which will no longer be required upon connection to the Treatment Plant, will result in negative depreciation reserve balances in several accounts and in zero balances in the corresponding plant accounts. Using normal Commission accounting procedures, the annual depreciation accrual, which is based on the plant account balance, would be zero and therefore there would be no credit made to the depreciation reserve. The net result would be a negative depreciation reserve balance which would never be amortized. To allow for amortization of this undepreciated balance in a manner which would be consistent with Commission practice in such occurrences with remaining balances in the plant account, it was proposed that a deferred debit of this amount be established. The staff's estimate of the annual expense for amortization of the proposed deferred debit is slightly higher than proposed by Park due to use of a higher estimated cost of facilities to be retired. This higher estimate is offset in part by a lower estimate of depreciation expense computed on the basis of a lower estimate of the cost of plant remaining in service. As adopted depreciation expense is

based on the staff's estimate of the cost of plant to remain in service, it is appropriate to adopt the staff's estimate of the annual expense for amortization of the deferred debit.

Taxes Other Than Income

Taxes other than income proposed by the staff are lower than estimated by Park because the staff estimate of assessed valuation was less than Park's due to the staff's estimate of utility plant being less than Park's and the staff applied the tax rate received by VDD for fiscal year 1976-1977, whereas Park used an estimated tax rate based on the 1975-1976 tax rate. The amount of taxes other than income to be adopted will be based on the adopted utility plant using the later tax rate used by the staff in its computation.

Rate Base

Plant items included in Park's proposed rate base consisted of the cost of present utility plant remaining in service following connection to the Treatment Plant, the cost of capacity rights in the Treatment Plant with allowance for funds used during construction computed at an interest rate of .75 percent per month (9 percent annual rate), and the deferred debit discussed previously. Staff plant items in rate base included the cost of existing plant remaining in service and the cost of capacity rights with allowance for funds used during construction computed at a rate of 8 percent with no allowance for funds used during construction charged to the Vandenberg Interceptor for 1976. The deferred debit included in Park's proposed rate base was not included in the staff recommended rate base.

Except for the offsetting difference in the amount of the deferred debit discussed above, and offsetting differences in estimated contributions in aid of construction to fund existing facilities, Park's and the staff's cost of existing plant remaining in service were the same.

Both Park and the staff used the same project costs of capacity rights in the Treatment Plant. Park also included in the cost of capacity rights an allowance for funds used during construction computed at a rate of .75 percent per month (annual rate 9 percent) on payments made to the city of Lompoc to fund project costs. The rate of 9 percent was chosen by Park to include the net cost of borrowed funds used for construction purposes of 8.50 percent in addition to a reasonable rate upon Park's own funds based on the allowed return on rate base of 9.50 percent. The staff used an interest rate of 8 percent which was deemed reasonable and recently authorized for Pacific Gas and Electric Company. A staff witness testified that Park's funds consisted of \$106,000 and the balance was borrowed funds of \$418,000 at 8.50 percent interest. He stated that the interest paid was a deductible expense for income tax purposes resulting in a less than 8.50 percent cost, so 8 percent was a reasonable allowance for funds used during construction. The staff argues that the Commission has never approved an amount in excess of 8 percent and this was not refuted by Park. The Commission adopts the interest rate proposed by the staff of 8 percent.

In addition to the difference in interest rates, the staff's computation of allowance for funds used during construction was lower than Park's because the staff did not allow interest to be computed on the \$108,000 cost of the interceptor which was completed in December of 1975. The staff argued that

according to the uniform system of accounts,^{5/} when a part only of a plant or project is placed in operation or is completed and ready for service but the construction work as a whole is incomplete, that part of the cost of the property placed in operation or ready for service shall be treated as utility plant in service and interest thereon as a charge to the construction shall cease. Park's position was that although construction work on the interceptor was complete, the interceptor itself is not ready for service until completion of the Treatment Plant. Use of the interceptor prior to the completion of the facility would result in untreated effluent being discharged into the Santa Ynez River clearly in violation of orders of the Regional Water Quality Control Board. Park also argued that disallowing the allowance for funds used during construction on this interceptor would be inconsistent with treatment of this interceptor in the last rate case for its VDD for which hearings were held in early November 1975. At that time it was apparent that the interceptor was nearing completion and would be completed by year-end 1975. If it were determined that this interceptor was then ready for service, it would have been appropriate for the staff to recommend that the interceptor be placed in utility plant and included as a component of rate base at that proceeding. This was not done. It was Park's position that disallowing the allowance for funds used during construction on this facility is both inconsistent with a true determination of the interceptor being ready for service and also inconsistent with the treatment of the interceptor by the staff in the last rate proceeding. The Commission agrees with Park that the interceptor is not ready for service until completion of the Treatment Plant and, therefore,

^{5/} Section 5. (17), page 42.

Park should be allowed to continue to charge allowance for funds used during construction on the cost of this facility until the Treatment Plant is completed and the interceptor placed in service. The adopted cost of capacity rights therefore includes allowance for funds used during construction computed at an interest rate of 8 percent from the time that payments were made to the city of Lompoc to pay project costs until the Treatment Plant is complete and placed in service.

Park argued that excluding the deferred debit discussed above from rate base is clearly inconsistent with the Commission's depreciation as outlined in the Commission's Standard Practice U-4 which is used by Park in computing depreciation accruals.

The staff elected not to include the deferred debit in rate base because it will cease to be used or useful in VDD's utility business and future customers should not have to pay rates covering this amount in rate base. The staff determined that amortizing the deferred debit over a 10-year period was sufficient compensation for the retirement of undepreciated plant.

The staff argued that the inclusion in rate base of the deferred debit for a large unusual retirement, in addition to authorization of the debit through rates, would unreasonably burden the customers. In our opinion the question is one that requires further study, but we do not wish to delay granting relief to Park. We will, therefore, exclude the deferred debit from rate base for the purpose of this decision, but we advise the parties that this issue may be relitigated in Park's next rate application.

Also, in computing rate base the staff's estimate of contributions in aid of construction exceeded Park's as the staff estimate was based on recorded connection fee receipts through 1976 while Park's estimate was based on recorded receipts through 1975 and estimated receipts for 1976. Being based on later recorded data, the staff estimate will be adopted.

The staff estimate of reserve for depreciation is lower than proposed by Park due to the staff's lower total depreciation accruals prior to 1976, higher estimate of depreciated plant to be retired, and the lower estimate of plant capacity rights. Consistent with adoption of the staff's estimate of existing plant to remain in service and plant to be retired, the staff's estimate of reserve for depreciation will be adopted.

Summarized in the following tabulation (Table III) is the rate base as proposed by Park and staff for test year 1977. For comparison this table also shows the rate base adopted in this decision.

Table III
Rate Base
(Test Year 1977)

Item	Applicant	Staff	Adopted
(Dollars in Thousands)			
Existing Utility Plant	\$ 677,368	\$ 663,790	\$ 663,790
Capacity Rights	688,340	668,560	672,250
Materials and Supplies	3,820	3,820	3,820
Working Cash	2,080	2,080	2,080
Deferred Debit	92,532	0	0
Subtotal	1,464,140	1,338,250	1,341,940
Deductions:			
Reserve for Depreciation	172,745	167,604	167,640
Contributions in Aid of Construction	495,729 ^{1/}	482,569	482,569
Investment Tax Credit Adjustment	25,829	24,516	24,660
Total Deductions	694,303 ^{1/}	674,689	674,869
Rate Base	769,837 ^{1/}	663,561 Rounded to	667,071 667,070

^{1/} Adjusted to amount shown in Exhibit 12.

Income Taxes

Park's computation of income taxes was based on its estimate of results of operation and rate base assuming that certain provisions of the Tax Reduction Act of 1975 would expire as scheduled on December 31, 1976. The staff estimate of income taxes was based on its estimated results of operation and rate base including extension of provisions of the 1975 tax law which were extended by the Tax Reform Act of 1976. The only other difference in Park's and the staff's computation of income taxes resulted from Park using the adopted tax depreciation from D.85716 while the staff recomputed tax depreciation based on the depreciation rate which will be used by Park. Park argued that although it agreed that depreciation rates adopted in the last decision were incorrectly computed, they were still the correct rates to use in this proceeding because all other expense and rate base items were carried forward directly from adopted results in that decision, even though there were other errors in the adopted amounts in that decision. Park believed that if this one error is corrected in this proceeding, it should have the opportunity to have the other errors corrected also. Park was not prepared to make a showing on these other items because it had treated this application as an offset application and its vice president testified that Park had no indication that the staff was treating it as other than an offset application until immediately prior to the hearing.

The Commission finds that in the absence of a showing by Park that the corrected tax depreciation amounts are incorrect that it must adopt the amounts as proposed by the staff.

Rate of Return

Park and the staff both recommended a 9.5 percent rate of return as this was the level authorized for Park for its VDD in D.85716. We find this to be reasonable and adopt the 9.5 percent rate of return as recommended by both Park and the staff, and not a lesser rate of return as recommended by the Association.

Connection Charges

Park presently charges a connection fee of \$295 for a single-family home. Connection fee receipts to date have been applied against the cost of its participation in the Treatment Plant and are credited as contributions in aid of construction. Following completion of the Treatment Plant, Park proposes that the \$295 connection fee be continued and that all receipts from this connection fee be deposited to the WCRF to meet requirements of the State Water Resources Control Board Revenue Program Guidelines. Park also proposed a schedule of connection fees for commercial establishments including apartment houses and other residential dwelling units with master metered water service based on the size of meter required to meet inside usage requirements. The staff agrees with Park that the present connection charge of \$295 per connection is adequate to meet the needs for which it is designated. The connection charge as proposed by Park for single-family dwelling units and for commercial establishments based on the size of meter required to meet inside water usage requirements shall be adopted.

Findings

1. The adopted estimate previously discussed herein of operating revenues, operating expenses, and rate base for test year 1977 are reasonable.

2. Vandenberg Disposal Division 1977 revenues at rates proposed by Park would yield total operating revenues of \$329,180 and a rate of return of 11.60 percent on an adopted rate base of \$667,070. This rate of return is excessive.

3. The Vandenberg Disposal Division is in need of additional revenues to offset increased expenses and return on increased rate base resulting from connection to the Lompoc Regional Wastewater Treatment Plant, but the proposed rates are excessive.

4. A rate of return of 9.5 percent on the adopted rate base of \$667,070 is reasonable.

5. The proposed amounts of \$2 per month for residential customers and \$.20 per Ccf of commercial wastewater discharged as user charge contributions and the proposed method of accounting for these funds are reasonable.

6. The authorized rates contained in Appendix A attached hereto should provide annual service revenues of \$299,590, an increase of 141.1 percent over the present rates for the test year 1977.

7. The increase in rates for charges authorized by this decision are just and reasonable and the present rates and charges insofar as they differ from those prescribed by this decision are for the future unjust and unreasonable.

The Commission concludes that Park's 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 Park Water Company is authorized to file the revised rate schedule attached to this order as Appendix A and concurrently cancel and withdraw presently effective schedules for sewer service. Rates as approved include user charge contributions in the amount of \$2 per month for each residential customer and \$.20 per Ccf of commercial wastewater discharged. Upon receipt, these amounts with connection charge receipts shall be transmitted to the city of Lompoc for deposit in the Wastewater Capital Reserve Fund. Accounting for these funds shall be as proposed by Park Water Company in this proceeding. The effective date of the revised schedules shall be four days after the date of filing or upon connection to the Lompoc Regional Wastewater Treatment Plant, whichever date is later. The revised

A.56631 SW

schedules shall apply only to service rendered on or 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 19th day of April, 1977.
President Batinovich signed this
order on April 18, 1977.

Robert Batinovich
President

William J. Quaresima, Jr.

Vernon L. Sturgeon

Richard D. Grady
Commissioners

APPENDIX A
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Schedule No. 1

Vandenberg Disposal Division

GENERAL RESIDENTIAL SERVICE

APPLICABILITY

Applicable to General Residential Sewer Service for single-family residences and other residential dwelling units with individually metered water service.

(C)

(C)

TERRITORY

Vandenberg Village and vicinity, north of Lompoc, Santa Barbara County.

RATES

Single-family residence or dwelling unit \$13.24 per month

(I)

(D)

SPECIAL CONDITIONS

1. Single-family residences are billed monthly.
2. If service is discontinued for nonpayment of bills, a reconnection charge of \$100 is charged.

(D)

APPENDIX A
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Schedule No. 2

Vandenberg Disposal Division

COMMERCIAL SERVICE

APPLICABILITY

Applicable to all sewer service except as shown in Schedule No. 1. (C)

TERRITORY

Vandenberg Village and vicinity, north of Lompoc, Santa Barbara County.

RATES

For commercial establishments including apartment houses and other residential dwelling units with master metered water service: (C)
(C)

Per Ccf of water usage recorded on meter serving other than irrigation or other outside use \$1.08 (I)

or

Per Ccf of metered wastewater \$ 1.35 (I)

or

Per 1,000 gallons of metered wastewater \$ 1.80 (I)

Minimum charge per month \$13.24 (I)

(Continued)

APPENDIX A
Page 3 of 6

Schedule No. 2

Vandenberg Disposal Division

COMMERCIAL SERVICE
(Continued)

STRENGTH SURCHARGES

For BOD and/or SS strengths in excess of 300 mg/l, a surcharge computed as follows shall be added to the volume charge:

(N)

$$\text{Surcharge} = \frac{\text{Measured BOD or SS}-300}{300} \times$$

Per Ccf of water usage recorded on meter serving
other than irrigation or other outside use \$.11

or

Per Ccf of metered wastewater \$.14

or

Per 1,000 gallons of metered wastewater \$.19

TERMS OF PAYMENT

Monthly minimum charges are payable in advance and usage charges in excess of minimum charges for each month are payable on a monthly basis upon receipt of a bill for sewer service.

SPECIAL CONDITIONS

1. If, in the opinion of the Company, variations in monthly water consumption are not the result of variations in inside water usage, sewer charges may be based on the average metered water consumption for the three months with lowest usage during the preceding calendar year.

(N)

(Continued)

APPENDIX A
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Schedule No. 2

Vandenberg Disposal Division

COMMERCIAL SERVICE

SPECIAL CONDITIONS - Continued

2. The measurement of strengths of BOD and SS in wastewater discharged shall be the responsibility of the discharger and such measurements shall be made from time to time to establish strengths to be used for billing purposes. Such measurements are limited to only those customers who are known or believed to be discharging wastewater of greater than domestic or base strength. Measurements shall be reviewed annually or at the request of the customer, or at the option of the Company if there is reason to believe that there has been any significant change in the strength of wastewater discharged.

(N)

3. If service is discontinued by nonpayment of bills, a reconnection fee of \$100 is charged.

(N)

APPENDIX A
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Schedule No. 4

Vandenberg Disposal Division

CONNECTION CHARGES

APPLICABILITY

Applicable to all new construction of units to be provided sewer service. (C)
(C)

TERRITORY

Vandenberg Village and vicinity, north of Lompoc, Santa Barbara County. (T)
(T)

RATES

A sewer connection charge, in accordance with the following schedule, will be paid upon establishment of water service based on the size of the meter or sub-meter serving water which will eventually be discharged to the sewer. (N)
|
(N)

For single-family residence or other residential dwelling unit with individually metered water service \$295 (C)
(C)

(Continued)

APPENDIX A
Page 6 of 6

Schedule No. 4

Vandenberg Disposal DivisionCONNECTION CHARGESRATES - Continued

For commercial establishments including apartment houses and other residential dwelling units with master metered water service based on the size of meter required to meet inside usage requirements:

<u>Meter Size</u>	<u>Capacity, gpm</u>	<u>Factor</u>	<u>Charge</u>
5/8 x 3/4-inch	20	1	\$ 295
3/4-inch	30	1.5	445
1-inch	50	2.5	740
1 1/2-inch	100	5.0	1,475

The connection charge for larger size water meters shall be based on the rated capacity of the meter computed in the same manner as illustrated above. The connection charge in the event of an increase in meter size shall be the difference between the listed charges for the new and old meter.

(N)

(N)