

ORIGINAL

Decision No. 88719 APR 18 1978

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 it to increase the rates for water service in its San Gabriel Valley District.

Application No. 57269 (Filed April 29, 1977; amended December 7, 1977)

O'Melveny & Myers, by Guido R. Henry, Jr., Attorney at Law, for applicant. Benny Y. B. Tan, for the Commission staff.

O P I N I O N

Southern California Water Company (SCWC) seeks authority to increase its general metered service<sup>1/</sup> and private fire protection rates for its San Gabriel Valley District approximately \$190,200 (24 percent) annually over the rates established by D.83833 dated December 17, 1974 in A.54620, as modified by offset increases authorized by Resolutions Nos. W-1753 dated July 1, 1975, W-1928 dated June 22, 1976, and W-2157 effective July 3, 1977.

SCWC, a California corporation, renders public utility water service in various areas in the counties of Contra Costa, Imperial, Los Angeles, Orange, Sacramento, San Bernardino, and Ventura, and public utility electric service in the vicinity of Big Bear Lake in San Bernardino County. SCWC owns all of the outstanding capital stock of a subsidiary, California Cities Water Company, which renders public utility water service in

<sup>1/</sup> No increase is proposed for SCWC's San Gabriel Valley District public fire hydrants nor for company-wide schedules covering temporary service or service to company employees.

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various areas in the counties of Lake, Los Angeles, Orange, San Bernardino, San Luis Obispo, and Santa Barbara.

The San Gabriel Valley District, located in Los Angeles County, consists of two physically separated systems: the South San Gabriel system serving portions of the cities of Monterey Park, Rosemead, and San Gabriel; and the South Arcadia system serving portions of the cities of Arcadia, El Monte, Irwindale, Monrovia, and Temple City and adjacent territory. As of December 31, 1976 the San Gabriel Valley District was providing metered water service to 10,904 customers and private flat-rate fire protection service to 29 customers. In addition there were 578 fire hydrants for public fire protection connected to the system.

The water for the South Arcadia system is obtained from 13 company-owned wells, ranging in size from 12 inches to 26 inches in diameter of casing, equipped with deep well turbines driven by ten electric motors and three natural gas engines.

The water for the South San Gabriel system is obtained from six company-owned wells, ranging in size from 12 inches to 18 inches in diameter of casing, equipped with electrically driven deep well turbine pumps and through a connection to the Upper San Gabriel Valley Municipal Water District, a member agency of the Metropolitan Water District of Southern California.

The water produced from the wells is of good quality. Water from two of the wells at the Encinita plant is chlorinated and sand traps are located at the Encinita, Farna, and Persimmon plants.

As of December 31, 1976 there were 527,401 feet of distribution mains in the San Gabriel Valley District ranging in size up to 12 inches in diameter. Storage facilities consist of two steel tanks with a combined capacity of 520,000 gallons located in the South San Gabriel system.

After due notice, public hearing was held before Administrative Law Judge N. R. Johnson in Los Angeles on January 3 and 10, 1978 and the matter was submitted on the latter date.

Testimony<sup>2/</sup> on behalf of SCWC was presented by its president, senior vice president, one of its vice presidents, one of its assistant vice presidents, and by its chairman of the Finance Committee. The Commission staff presentation was made through a financial examiner and two utilities engineers. None of SCWC's customers made statements nor presented testimony.

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2/ Testimony and exhibits relating to the cost of money and rate of return for SCWC's operations had been presented by witnesses for SCWC in A.56157 for Orange County District. Testimony and exhibits relating to adjustments to the CPUC staff report on general office common revenues and expenses adjusted for later information had been presented by witnesses for SCWC in A.56158 for the Central Basin District and A.56440 for the Southwest District. These exhibits, together with related testimony and cross-examination, were included in this record by reference as Exhibits 9, 10, and 10-A and Exhibits 8 and 8-A, respectively.

Rates

The following tabulation sets forth the present and proposed general service and private fire protection rates:

	<u>Per Meter Per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
<b>Quantity Rates:</b>		
First 500 cu.ft., per 100 cu.ft. ....	\$ 0.182	\$ 0.207
Over 500 cu.ft., per 100 cu.ft. ....	0.215	0.235
<b>Service Charge:</b>		
For 5/8 x 3/4-inch meter .....	\$ 2.00	\$ 2.75
For 3/4-inch meter .....	2.20	3.00
For 1-inch meter .....	2.80	6.00
For 1-1/2-inch meter .....	3.90	10.00
For 2-inch meter .....	5.50	14.75
For 3-inch meter .....	12.00	20.00
For 4-inch meter .....	16.00	35.00
For 6-inch meter .....	30.00	70.00
For 8-inch meter .....	42.00	100.00
For 10-inch meter .....	80.00	150.00

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

Private Fire Protection Service

Territory

- Rate A - Applicable within the Central Basin, Orange County, San Gabriel Valley, Pomona Valley, and Southwest Districts.
- Rate B - Applicable within the Barstow, Culver City, San-Gabriel-Valley and Simi Valley Districts.
- Rate C - Applicable within the Arden-Cordova, Big Bear, Calipatria-Niland, Desert, Ojai, and San Bernardino Valley Districts.

Rates

	<u>Per Month</u>		
	<u>A</u>	<u>B</u>	<u>C</u>
For each inch of diameter of service-connection .....	\$3.00	\$2.25	\$2.00

The proposed general service rates are designed to implement an increase to lifeline usage (5/8 x 3/4-inch meter and first 500 cubic feet of water) in total 25 percent less than the increase in total for nonlifeline usage since January 1, 1976. The Commission staff's engineer recommended that the increase for a 300-cubic-foot lifeline quantity be an unspecified amount less than the average increase. SCWC's witness testified his agreement of the reasonableness of the utilization of a 300-cubic-foot lifeline quantity. We will adopt a lifeline quantity of 300 cubic feet for this proceeding and authorize rates providing for an increase for this quantity 25 percent less than the average increase.

#### Results of Operation

Both SCWC and the Commission staff presented summaries of earnings for the years 1976 adjusted and 1977 estimated. In addition, SCWC presented an exhibit setting forth summary of earnings and rate of return for the year 1977 at present rates and the years 1976 and 1977 at proposed rates reflecting the effect of 15 percent reduction in sales because of conservation effects, the latest information on expenses and rate base, and the rate increase, effective July 3, 1977, granted to offset increases in the price of water purchased from Metropolitan Water District, increased pump taxes, and increased purchased power costs.

#### Revenue

Both the staff and SCWC used the "Modified Bean" method to estimate commercial per unit sales. Consistent with the guidelines established by the staff and the California Water Association's Consumption-Revenue Estimation Committee, the estimated normalized consumption per commercial customer before adjustment for conservation effect was estimated by the

staff and SCWC to be 254.0 Ccf per customer for both test years 1976 and 1977. SCWC's and the staff's witnesses agree that there will be some conservation consciousness effect when the drought ends but disagree as to the amount. SCWC's witness used one-half of the maximum percentage difference in recorded monthly supply for the first six months of 1977 as compared to the first six months of 1976 to derive a conservation consciousness effect of 15 percent. The staff's witness used one-quarter of the percentage reduction from normalized sales to recorded sales for the first seven months of 1977 to derive a conservation consciousness effect of six percent. The record shows that the sales for the 12 months ended October 1977 was approximately 15 percent lower than for the 12 months ended October 1976. Under these circumstances the adoption of SCWC's conservation consciousness effect of 15 percent would reflect the unlikely assumption that full drought and post-drought conservation consciousness effect would be the same. We will, therefore, adopt the staff's sales and revenue estimates for the test year 1977 at present rates.

#### Operation and Maintenance Expense

The staff's analysis of SCWC's various operating and maintenance expense estimates indicated that they were generally reasonable with the primary differences attributable to the differences in sales estimates and the use of later information by the staff. Consistent with our adoption of the staff's revenue estimate we will adopt the staff's estimates of purchased water, pump tax, and power for pumping expenses with the power for pumping expense reflecting recent increases authorized by D.88340 dated January 17, 1978 on Southern California Edison Company's A.57578. Both SCWC and the staff estimated its 1977 payroll level by adjusting recorded years 1972 through 1976 total district employee payroll expense for the 1977 wage level.

SCWC used the 1977 wage level for estimating both 1976 and 1977 expenses whereas the staff estimated its 1976 payroll at the 1976 level and the 1977 payroll at the 1977 level. We will adopt the staff's estimated payroll expense for the test year 1977.

The staff's and SCWC's administrative and general expenses differed primarily in employee pensions and benefits and street franchise expenses. We will adopt the staff's estimated employee pensions and benefits expense because it is based on later information and the staff's estimated franchise expense as being commensurate with our adopted revenues. The staff's estimate of ad valorem taxes reflects the roll-back of a well installed at the Encinita plant in 1977 to January 1, 1976 as the addition of a well was not considered to be a normal year addition. This adjustment appears reasonable and we will adopt the staff's estimate of ad valorem taxes. The staff's and SCWC's 1977 test year estimate for payroll taxes was \$8,000 and will be adopted for the test year.

The staff's estimate of depreciation expense and reserve is higher than SCWC's due to the previously discussed roll-back of the Encinita plant well. SCWC and the staff used the same depreciation rates. Consistent with our acceptance of the roll-back adjustment, we will adopt the staff's estimate of depreciation expense and reserve for the test year 1977.

Based on later information, the staff's estimates of rate base reflect a lower average balance for construction work in progress and higher average advances for construction advances and contributions in aid of construction than SCWC's estimates. The staff's working cash allowances reflect its

estimated operating expenses. Consistent with our adoption of the staff's expense estimates and in recognition of the use of later data, we will adopt the staff's rate base estimate for the test year 1977.

The following tabulation sets forth our adopted revenue, expense, and rate base amounts at present rates for the test year 1977:

Summary of Earnings  
(Estimated Year 1977)

Item	Present Rates
(Dollars in Thousands)	
Operating Revenues	\$ 845.7
<u>Operating Expenses</u>	
Operation & Maintenance	454.2
Administrative & General	91.1
Taxes; Other Than Income	70.6
Depreciation	62.9
Subtotal	678.8
Income Taxes	28.3
Net Operating Revenue	138.6
Depreciated Rate Base	2,075.0
Rate of Return	6.68%

The staff's estimates of two test years (recorded and adjusted 1976 and estimated 1977) indicate an attrition in the rate of return of 0.23 percent at present rates and 0.27 percent at proposed rates. The staff recommends that a 0.25 percent attrition in rate of return be considered in setting rates for this district. We will adopt this recommendation.



Rate of Return

SCWC had included in this record by reference the exhibits, testimony, and related cross-examination presented by SCWC's witnesses at the hearings in A.56157 for a general rate increase in SCWC's Orange County District. These exhibits, testimony, and related cross-examination were also incorporated by reference at the hearings on A.56158 for SCWC's Central Basin District; A.56181 for its Pomona Valley District; A.56440 for its Southwest District; and A.56339 for its Big Bear District. For all of these, except the Big Bear District, the staff's financial examiner recommended a rate of return of 9.15 percent and a return on equity of 13.33 percent, and we adopted as a reasonable a rate of return of 8.85 percent to provide a return on common equity of approximately 12.5 percent. A lesser rate of return of 8.0 percent with a return on equity of 10.34 percent was authorized for the Big Bear District because of the quality of service being rendered.

The rates proposed in this application were designed to provide a rate of return of approximately 9.6 percent based on the test year 1977 estimated. SCWC alleges that this is the minimum rate of return required by it to attract capital at a reasonable cost and to maintain appropriate borrowing capability or credit. Such a return approximates the 9.73 percent rate of return to provide a return on equity of 15 percent as requested in A.56157 for the Orange County District and incorporated into this record by reference.

In this proceeding, the Commission staff's financial examiner recommended a range of rate of return of 8.85 percent to 9.05 percent which would provide a range on return on common stock equity of 13 percent to 13.62 percent on the present consolidated financial structure. The present financial

structure consists of 51.97 percent long-term debt; 3.31 percent bank loans; 12.94 percent preferred stock; and 31.78 percent common stock equity. The staff's financial examiner testified that as a result of the acquisition of CCWC by SCWC the common stock equity dropped from its historical 35 percent of the capital to the present 31.78 percent. He believes this to be a temporary position and expects the capital structure to return to the normal 35 percent common stock equity in the near future. Consequently, he recommends that such a financial structure be used for our computations. Assuming such a capital structure the range of rate of return of 8.85 percent to 9.05 percent will provide a return on equity ranging from 12.40 percent to 12.97 percent. Under the latter assumption, the return on equity will provide an after-tax interest coverage of about 2.5 times and a combined coverage of about 2.0 times for debt interest and preferred stock dividends. It is the staff financial examiner's judgment that a rate of return within the recommended range will provide a balancing of the consumer interest with the benefits accruing to the investor of the company, allow for the servicing of the utility's fixed charges, and provide an opportunity to make moderate additions to retained earnings after the payment of a suitable dividend. We have carefully considered the evidence of record on rate of return and adopt as reasonable a rate of return of 9.0 percent which will provide a return on equity of approximately 13.47 percent with the present financial structure and 12.83 percent with an assumed 35 percent common stock equity. Because of the previously discussed attrition in the rate of return we will authorize rates that will provide a 9.25 percent return for the test year 1977 and 9.0 percent return for 1978, the first year the newly authorized rates will be in effect.

Balancing Account

At the hearing, SCWC's senior vice-president proposed that a balancing account be established as a vehicle to mitigate the adverse effect on revenue requirements caused by widely fluctuating sales resulting from water supply rationing and water conservation efforts. It is proposed that the balancing account amounts reflecting the difference in revenue and direct supply expenses caused by deviations in water sales and supply expenses from CPUC adopted amounts be determined monthly. After 12 months of operation of the balancing account and each 12 months thereafter, SCWC would file an advice letter setting forth its calculation of the amounts in the balancing account certified to by a registered professional engineer or certified public accountant together with a proposal for the amortization of such a balance by a unit rate change in the quantity rate for water sold in excess of the lifeline quantities. The balancing account amount is to be computed by deducting from the revenue deviation the sum of the supply cost deviation from water sales change and the supply cost deviation from unit cost changes. The direct supply expense included in the computations is the sum of purchased water expense, power for pumping expense, and chemicals expense.

The Commission staff's engineer presented testimony in opposition to the implementation of such a balancing account on the basis that speedy rate relief for certain increased expenses and for the increased revenue requirements caused by conservation and for rationing is available in the form of advice letter offset filings.

While the effects of increased purchased water costs and increased purchased power costs would be reflected in the annual amortization of the balance in the balancing account,

SCWC would, according to the record, still file advice letters requesting that the base figures be adjusted to reflect, as nearly as possible, actual costs. Consequently, there would be no decrease in the number of advice letter filings related to unit cost charges. Under these circumstances and with the availability of advice letter filings to provide rapid conservation and/or rationing caused rate relief, it would appear that the adoption of the requested balancing account would serve no useful purpose at this time.

Service

According to the record there were four informal complaints for disputed bills and no service-related informal complaints filed with the Commission during the period from January 1975 to June 1977. Customer complaints on file in SCWC's San Gabriel Valley District office are as follows:

Type	1975	1976	7 Months Ended July 1977
Billing	60	119	45
Pressure	16	9	2
Dirty Water	11	9	0
	87	137	47

The record shows that in most instances these complaints were quickly resolved.

Conservation

In D.86959 on C.10114, our investigation into water conservation, we found as follows: "9. Rather than requiring detailed compliance reports during the impending water crisis period, the Commission should consider compliance with this decision in connection with requests for rate or other relief from this Commission." (Mimeo, page 16.) As a result, one of SCWC's vice presidents presented testimony detailing its present

and proposed water conservation programs. The present program, according to the testimony, includes traveling and appearing before various groups and organizations espousing water conservation, the distribution of water conservation pamphlets, the distribution of landscaping suggestions using plants that consume relatively little water, placing advertisements of water saving tips in local papers, the distribution of water conservation kits, the institution of leak detection and repair programs, and the forecasting of probable availability of water in the area. In this witness' opinion the conservation measures listed above fully comply with the requirements of D.86959.

Findings

1. Southern California Water Company is in need of additional revenues for its San Gabriel Valley District, but the proposed rates set forth in the application are excessive.

2. The adopted estimates previously discussed herein of operating revenues, operating expenses, and rate base for the test year 1977 reasonably indicate the results of SCWC's operations in its San Gabriel Valley District in the near future.

3. A rate of return of 9.25 percent on the adopted rate base of \$2,075,000 is reasonable for the test year 1977. For the year 1978, the rates should provide a rate of return of 9.0 percent and a return on equity of approximately 13.47 percent with the present CCWC/SCWC consolidated financial structure and approximately 12.83 percent on the assumption that SCWC will return to its historical capital structure of approximately 35 percent common stock equity.

4. The increases in 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.

5. The authorized increase in rates at the 9.25 percent rate of return for the test year 1977 is expected to provide increased revenues of approximately \$114,800 (13.6 percent) for SCWC's general metered service and private fire protection service compared to a requested increase of \$190,300 (24.0 percent).

6. The quality of service rendered by SCWC in its San Gabriel Valley District is adequate.

7. SCWC's present and proposed plans for effecting water conservation generally comply with the requirements of D.86959.

8. The establishment of a 300-cubic-foot lifeline block bearing an increase of 25 percent less than the overall increase of nonlifeline quantities is reasonable.

9. A balancing account to mitigate the adverse effect on revenue requirements caused by fluctuations in sales related to conservation and/or rationing should not be authorized.

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 thirty days after the date hereof.

Dated at San Francisco, California, this 18<sup>th</sup> day of APRIL, 1978.

*I dissent because of  
Lynch  
William Sproul*

Robert Bateman  
President

Vernon L. Sturgeon

Clare T. Daniels  
Commissioners

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A  
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Schedule No. SG-1

San Gabriel Valley District

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the cities of Arcadia, El Monte, Irwindale, Monrovia, Monterey Park, Rosemead, San Gabriel, Temple City and vicinity, Los Angeles County.

RATES

Per Meter  
Per Month

Quantity Rates:

First 300 cubic feet, per 100 cubic feet .....	\$0.203	(I)
Over 300 cubic feet, per 100 cubic feet .....	.245	(I)

Service Charge:

For 5/8 x 3/4-inch meter .....	\$2.20	(I)
For 3/4-inch meter .....	2.40	
For 1-inch meter .....	3.30	
For 1 1/2-inch meter .....	4.40	
For 2-inch meter .....	6.00	
For 3-inch meter .....	12.00	(I)
For 4-inch meter .....	16.00	
For 6-inch meter .....	30.00	
For 8-inch meter .....	42.00	
For 10-inch meter .....	80.00	

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. AA-4

All Districts.PRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

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

TERRITORY

- Rate A - Applicable within the Big Bear, Central Basin, Orange County, Pomona Valley, San Gabriel Valley, and Southwest Districts. (C)
- Rate B - Applicable within the Barstow, Culver City, and Simi Valley Districts.
- Rate C - Applicable within the Arden-Cordova, Bay, Calipatria-Niland, 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

- 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. The facilities paid for by the applicant shall be the sole property of the applicant.
- 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.
- 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.
- 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.
- In accordance with Section 774 of the Public Utilities Code, the utility is not liable for injury, damage or loss resulting from failure to provide adequate water supply or pressure.