

ORIGINAL

Decision No. 91974 JUL 2 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application )  
of POMONA VALLEY WATER COMPANY )  
for an order authorizing an )  
increase in rates for water )  
service. )

Application No. 57766  
(Filed December 23, 1977;  
amended February 13, 1979)

Donald E. Maroney and Dennis A. Krueger,  
Attorneys at Law, for applicant.  
Parker, Milliken, Clark & O'Hara, by  
Richard L. Franck, Attorney at Law,  
for Los Serranos Golf Course, protestant.  
I. B. Nagaio, E. L. Cooke, Kenneth K. Chew,  
and Grant E. Tanner, Attorney at Law,  
for the Commission staff.

FINAL OPINION

Applicant, Pomona Valley Water Company, filed on December 23, 1977 this application to increase rates, and on July 17, 1978 it filed a petition therein for interim emergency rate relief. Public hearing on the request for interim rate relief was held before Administrative Law Judge Main on November 2 and 3, 1978 in Chino and on November 20, 1978 in Los Angeles. The evidence amply demonstrated that applicant was confronted by a financial emergency. By Decision No. 89866 dated January 16, 1979, an interim increase of \$44,300, or 5.7 percent, in gross revenues was granted.

On February 13, 1979 applicant filed an amendment to its application in which the test period was moved forward from the year 1978 to the year 1979. The primary purpose of the amendment was to update applicant's estimates of its operating revenues, expenses, and rate base. There were no changes made in the rates proposed by applicant in its original application.

Public hearing on the amended application was held before Administrative Law Judge Main in Chino on February 20 and in Los Angeles on April 9, and May 22, 23, and 24, and June 26 and 27, and July 24 and 25, 1979. The matter was taken under submission on October 1, 1979 on the filing of reply briefs.

During the course of those hearings, applicant's precarious financial condition was alleviated by Park Water Company's acquiring control of applicant pursuant to Decision No. 90215 dated April 24, 1979 in Application No. 58579. In light of that development the major focus of the proceeding could readily turn to applicant's books and records, its operating results, its extraordinarily large water losses, and its cost of rendering irrigation water service.

Although in its last rate proceeding applicant was ordered<sup>1/</sup> to remedy a number of deficiencies in its accounting practices and to institute a work order system, our staff, nevertheless, encountered in the present proceeding difficulty in obtaining reliable information. A staff audit of applicant's books and records ensued. That audit, in turn, delayed completion of the staff exhibit on operating results until May 1979.

During the May hearings, it became clear through the staff's evidence, in conjunction with a backdrop setting of prior rate case decisions' (Decisions Nos. 85299 and 72594) indicating that applicant had in those earlier proceedings proposed irrigation rates at less than the cost to serve, that cost of service studies were needed. What crystallized this need was the following staff recommendation in Exhibit 23:

"Problem: Water losses associated with  
Los Serranos Lake.

"Recommendation: Meter the water into the  
lake for charges to Los  
Serranos Golf Course.

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<sup>1/</sup> Decision No. 85299 dated January 6, 1976 in Application No. 55052.

"This will transfer the burden of lake water loss from the customers of the water system to the golf course, which is one of the two beneficiaries of the lake. The other beneficiary is the trailer court."

The Los Serranos Golf Course and Country Club (Los Serranos golf courses) was alerted generally, by letter dated June 13, 1979, to these developments in the proceeding and began participating as a protestant at the June 26, 1979 hearing. By letter dated July 9, 1979, all irrigation and resale customers were notified of the July 24, 1979 hearing and the possibility that the rates eventually adopted for the irrigation and resale services may be significantly higher than applicant proposed in this application, as a result of evidence on the cost to serve by classes of customers. At the June and July hearings, Los Serranos golf courses participated extensively in cross-examination of witnesses sponsored by applicant or the staff and presented affirmative evidence through three witnesses. The Western Hills Golf and Country Club (Western Hills golf course), through the president of its board, participated briefly in the proceeding. He pointed out that Western Hills golf course incurred substantial additional pumping costs in utilizing applicant's irrigation water service. No resale customers or other irrigation customers participated in the June/July 1979 hearings.

#### Present Operations

Applicant's service area comprises approximately 10,000 acres, all of which falls within the boundaries of the Chino Basin Municipal Water District (Chino BMWD). The sources of water supply are applicant's wells and imported water purchased from Chino BMWD.

Applicant's seven wells pump water from the local ground water basin. Pumping rights in this basin were recently adjudicated. Applicant's pumping entitlement then was established at 2,162.6 acre-feet (AF) per year. Water requirements in excess of this

entitlement are typically met by water purchases from the Chino BMWD, a member agency of the Metropolitan Water District (MWD).

Applicant operates a gravity-flow water system and a pressure system. The gravity system provides irrigation water service to the Los Serranos golf courses and to six irrigation customers. Five of the seven wells supply water to the gravity system.

The pressure system, serving a lower zone and an upper zone, is fed by both the wells and an MWD connection. The Carbon Canyon Booster facility lifts the water from the lower to the upper zone. Six distribution reservoirs, having a combined storage capacity of 5,800,000 gallons, are located at elevations within the service area to provide delivery of water service to customers which meets the requirements of General Order No. 103.

Approximately 4,200 commercial (residential and business) customers are served. A lack of sewer treatment plant capacity in Chino Basin has disrupted a several-year pattern of burgeoning growth in number of customers served.

#### Service

As an overall assessment, the staff engineering witness testified that he found applicant's service to be satisfactory. However, the upper Los Serranos portion of applicant's large and diversified service area, where less than 10 percent of the customers reside, represents an important departure from the overall assessment. In Exhibit 23 the staff engineer described the service problems there and made recommendations as follows:

"Problem - The poor quality of service in the Los Serranos area is due to the following:

- "a. Customer density is increasing in an area served by old, small steel mains with inadequate valving. This is causing low pressure and volume complaints and unexpected outages.

"b. Pressure surges due to malfunction of area pressure regulators are causing failure of customers' plumbing. These homes were built prior to the requirement that each house has its own pressure regulator.<sup>2/</sup>

"c. Poor quality of water due to the reliance on Colorado River water during the recent drought.

"Recommendations:

"a. Applicant develop and instigate a program of systematic replacement of undersized and deteriorated mains.

"b. Applicant complete its program of repairing faulty parts in main pressure regulator valves serving the area. Require all new homes added to the system to have individual pressure regulators before being connected.<sup>2/</sup> Monitor existing valves for malfunction, if the problem continues.

"Make a study to determine whether to install individual regulators at the meters of homes not so regulated or to install backup main regulators in the area. Due to the nature of this system, it is the responsibility of the utility to protect the existing customers from damage, due to malfunction of utility equipment.

"c. Applicant has no control over the quality of water furnished to it by MWD. The problem will correct itself as more Northern California water is used. However, if the problem should arise again, applicant should instigate a flushing program for mains where heavy sedimentation may occur."

Applicant did not take exception to these recommendations.

Our order herein will require applicant to carry them out.

The staff engineering witness also recommended that applicant keep a detailed list of customer complaints and also a map of the system on which complaint locations are plotted. Applicant is hereby

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<sup>2/</sup> Applicant's general manager testified that this requirement is imposed by San Bernardino County.

put on notice that a record of complaints must be kept and it must conform to General Order No. 103 (I.8).

Rates

Under applicant's proposal, the rates for general metered service would be increased and restructured. They would be restructured by replacing the minimum charge with a service charge, by replacing the five-tier rate blocks with descending rates with two-tier inverted rates, and by fixing the first tier at a lifeline quantity of 300 cubic feet. Present (interim) and proposed rates for general metered service are as follows:

Item	Per Meter Per Month			
	Present Rates		Proposed Rates	
	Lower	Upper	Lower	Upper
	Zone	Zone	Zone	Zone

Quantity Rates

First 300 cu.ft., per 100 cu.ft. ....	\$) 4.20	\$) 4.70	\$ .37	\$ .38
Next 500 cu.ft., per 100 cu.ft. ....	)	)	)	)
Next 4,200 cu.ft., per 100 cu.ft. ....	.585	.605	.42	.47
Next 20,000 cu.ft., per 100 cu.ft. ....	.375	.395	)	)
Next 25,000 cu.ft., per 100 cu.ft. ....	.205	.225	)	)
Over 50,000 cu.ft., per 100 cu.ft. ....	.185	.205	)	)

Type of Charge

Type of Charge	Minimum <sup>a/</sup>		Service <sup>b/</sup>	
For 5/8 x 3/4-inch meter .....	\$ 4.20	\$ 4.70	\$ 3.00	\$ 3.50
For 3/4-inch meter .....	7.00	10.00	3.50	4.00
For 1-inch meter .....	10.00	12.00	4.50	5.25
For 1-1/2-inch meter .....	18.00	21.00	6.00	7.00
For 2-inch meter .....	25.00	30.00	8.10	9.50
For 3-inch meter .....	40.00	46.00	15.00	17.50
For 4-inch meter .....	60.00	72.00	30.00	35.00
For 6-inch meter .....	100.00	120.00	60.00	70.00

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

<sup>b/</sup> 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.

Present (interim) and proposed measured irrigation service rates, golf course irrigation service rates, and limited metered resale service rates are shown as follows:

Measured Irrigation Service

	<u>Per Acre-Foot Per Service Connection</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
Lower Zone Quantity Rates:		
For gravity flow deliveries .....	\$43.00	\$52.75*
For pressure system deliveries .....	59.50	63.05
Upper Zone Quantity Rates:		
For pressure system deliveries .....	\$70.00	**

The minimum monthly charge per connection is the charge for one acre-foot of water at the applicable rate.

\*Per Exhibit 25.

\*\*No customers and no longer offered.

Golf Course Irrigation Service

	<u>Per Acre-Foot Per Service Connection</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
Quantity Rates:		
Lower Zone .....	\$68.00	\$74.50
Upper Zone .....	78.50	87.95

The minimum monthly charge per connection is the charge for one acre-foot of water at the applicable zone rate.

Limited Metered Resale Service

	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
	<u>Rates</u>	<u>Rates</u>
Quantity Rate per 100 cu.ft. ....	\$ .255	\$ .27
Minimum Charge at Present Rates/Service		
Charge at Proposed Rates:		
For 1-inch meter .....	\$ 8.50	8.50
For 1-1/2-inch meter .....	11.80	11.80
For 2-inch meter .....	16.00	16.00
For 3-inch meter .....	28.00	28.00
For 4-inch meter .....	45.00	45.00
For 6-inch meter .....	85.00	85.00
For 8-inch meter .....	140.00	140.00

Staff Audit

The staff financial and accounting witness performed an audit of applicant's accounting records and procedures. This audit and the adjusted financial statements and supporting schedules which resulted, as set forth in Exhibit 21, enabled the staff engineer to develop a summary of applicant's earnings for the adjusted year 1978. Those results, in turn, were used in his developing an estimate of applicant's operating results for test year 1979.

Exhibit 21 is replete with deficiencies found in applicant's accounting records and procedures. The staff accountant made the following recommendations to establish timely and well-documented records, to establish better cash control, and to align procedures with those required by the Uniform System of Accounts:

- "a. Establish a work order system for all projects and assign a numbering system prefixed by the year the work began and identified by the date of completion and transferred to utility plant or expense. Provide for capital projects, maintenance and repair jobs, major purchases, and retirements.



- "b. Renumber Account No. 240 to Account No. 241 and title it Advances for Construction. Remove contributed projects and transfer these to Account No. 265 - Contributions in Aid of Construction. Cease balancing projects against each other unless the proper accounting transfers are made.
- "c. Cease the use of Account 763-A - Maintenance of Other Transmission and Distribution Plant for reimbursable projects. If these are contributions, record them as such and make the proper recordations to Utility Plant.
- "d. Cease the use of Account 798 - Outside Services Employed to gather costs to be transferred to construction work in progress. Make transfer directly from the expense accounts containing the original expense to construction work in progress and offset Account No. 791 and No. 792 by using Account No. 812 - Administrative Expenses Transferred-Cr.
- "e. Make appropriate journal entries giving full and complete descriptions and references.
- "f. Correctly title general ledger accounts and provide appropriate numbers.
- "g. Separate unpaid refunds on main extension projects and record these in Account 230 - Other Current and Accrued Liabilities and in Schedule A-30 in the annual report as a separate entry.
- "h. Record unapplied advances for construction in Account No. 242 - Other Deferred Credits.
- "i. Treat purchase discounts as reductions in cost. Allocate these discounts among the accounts affected. Do not include as operating revenues."

Although the foregoing recommendations should be substantively implemented, minor departures will be permitted for their accommodation within Park Water Company's accounting and record-keeping procedures.

Pump Overhaul Accounting

An exception was taken by the staff accounting witness to applicant's debiting a major pump overhaul to maintenance expense instead of utility plant. Applicant doubts the validity of the exception and expresses concern that staff members in future proceedings would take exception to accounting for pump overhauls as capital improvements.

There is a need for more guidance on this matter than can be gleaned from the record in this proceeding. The following interpretation of the Uniform System of Accounts for Class A, B, and C water utilities was made by our accounting staff:

"Under the System of Accounts, utility plant is segregated into (1) units of property and (2) minor items of property.

"'Units of Property' means those items of utility plant which, when retired with or without replacement, are accounted for by crediting the book cost thereof to the utility plant account in which it is included.

"'Minor Items of Property' means the associated parts or items of which units of property are composed.

"The determination of the proper accounting for expenditures incurred in connection with utility plant should be based on the following:

"When a unit of property is added to utility plant, the cost thereof shall be added to the appropriate utility plant account.

"However, when a minor item of depreciable property is replaced independently of the unit of which it is a part, the cost of replacement shall be charged to the maintenance account appropriate for the item, except that if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate utility plant account.

"The staff contacted 6 Class A Water Utilities within our jurisdiction and presented each utility with the following problem:

"How do you determine the unit of property for a pumping station and how do you record the expenditure as to whether it is a maintenance expense or a capital item?

"The consensus of all the utilities contacted was that the interpretation for a unit of property for pumping plant, as an example, consisted of the following:

- "a. Head Assembly
- "b. Column and Shaft Assembly
- "c. Pump Bowl Assembly

"It should be noted that within the definition of a unit of property mentioned above, there will be included an increment of property which by itself when repaired or replaced should be expensed. With this thought in mind, it is the Financial Analysis Staff's recommendation that the accounting for work done on pumping stations be classified either as maintenance expenses or capital improvements using the following guidelines:

- "a. Replacement of units (actual exchange) of property are considered to be retirement of utility plant and handled in accordance with the Uniform System of Accounts for Water Utilities.

"b. Any repair job which comes under the definition of a unit of property will be charged to the proper maintenance account.

"c. Any repair job which does not come under the definition of a unit of property, i.e., repair or replacement of an increment of property, will be charged to the proper maintenance account."

No details were provided on the pump overhaul to which the accounting exception was taken, thus precluding a determination at this point of which of its elements to capitalize and which to expense. However, in the discussion of our adopted operating results, we have set forth the pertinent ratemaking treatment that is appropriate in the particular circumstances of this case.

Los Serranos Golf Courses

Protestant, Los Serranos golf courses, presented evidence and "challenged the staff and applicant with all available means." The challenges run the gamut from adequacy of notice to results reached in rate design.

Pursuant to Section 454(a) of the Public Utilities Code, applicant mailed the following notice to its customers:

"\*Notice of Application to Increase Water Rates\*

"Notice is hereby given that on December 16, 1977, Pomona Valley Water Company filed Application #57766 with the California Public Utilities Commission, State of California for authorization to modify and increase water rates in its service areas in San Bernardino County. This proposed increase is required to offset increased expenses resulting from inflation and to compensate for decreased average usage from that adopted in its last general rate decision.

"The proposed rates will increase revenues by \$137,370.00 for test year 1978 which represents an increase of approximately 21.4%. For an average residential usage of 16.5 HCF per month, the cost of water would be increased from \$8.37 to \$11.09, an increase of 32%. For other usages cost would be increased by varying percentages which would also vary by meter size.

"Requests by customers to receive notice of date, time and place of any hearing on this application and for other information relative to the proposed increase may be directed to the Public Utilities Commission, California State Building, San Francisco, California 94102."

In pertinent part, Section 454(a) reads:

". . . Whenever any...water...corporation files an application to increase any rate...for the services or commodities furnished by it, the corporation shall furnish to its customers affected by the proposed increase notice of its application to the commission for approval of such increase. . . . The notice shall state the amount of the proposed increase expressed in both dollar and percentage terms, a brief statement of the reasons the increase is required or sought, and the mailing address of the commission to which any customer inquiries relative to the proposed increase, including a request by the customer to receive notice of the date, time, and place of any hearing on the application, may be directed."

Upon receiving this notice, protestant's secretary-manager contacted applicant's general manager to ascertain the proposed increase in golf course irrigation rates. Protestant's secretary-manager attended the initial hearing held November 2, 1978, for which a hearing notice was mailed to applicant's customers on October 25, 1978. He did not enter an appearance or otherwise participate in the initial hearing. Protestant did not attend the hearing held on February 20, 1979, for which a hearing notice was also mailed to applicant's customers.

By letter dated June 13, 1979, applicant urged protestant to attend the continued hearings:

"A continued hearing scheduled for 26, June 1979 at the State Building, 107 S. Broadway, Los Angeles, California in the application number 57766 for an order authorizing an increase in

rates for water service will consider as a subject for discussion, cost of service allocations affecting service to the Los Serranos Golf and Country Club which may affect rates beyond those proposed in the above application.

"The manner in which service is being provided will be subject for review. Changing the meter locations to source wells and transmissions and evaporation losses resulting will be subject to testimony.

"I urge you to attend or have proper representation at this hearing on this important matter."

At the hearing held on June 26 and 27, 1979, protestant entered an appearance, cross-examined witnesses, and indicated that its affirmative presentation could be ready for hearing within about 30 days. That affirmative evidence was presented at the hearings held July 24 and 25, 1979.

Protestant's contention that there has been lack of notice, and as a result its case has been prejudiced significantly, is without merit.

Protestant's next contention is that the accounting and other factual data relied on by both applicant and the staff is too unreliable to support a rate increase. The audit by the staff accounting witness and the adjusted financial statements and supporting schedules prepared by him (Exhibit 21) were referred to earlier in this decision. They provided adequate accounting data for the purposes of this rate proceeding as well as for requiring applicant to improve its accounting practices and bring them into conformity with the Uniform System of Accounts. The audit, of course, was expressly undertaken for the purpose of assuring reliable accounting data.

The staff financial witness completed his testimony concerning his Exhibit 21 prior to protestant's entering an appearance in this proceeding. Protestant asserts, in conjunction with its contention on lack of notice, that all testimony on the record prior to protestant's appearance should be stricken. That assertion, like the lack of notice contention, is without merit.

The basic data employed by the staff engineering witness in developing his estimate of applicant's operating results for test year 1979 included the supporting schedules for the adjusted financial statements referred to hereinabove, the rates of the Chino BMWD expected to be in effect for the test year, the then current electric rates for determining the purchased power component of pumping costs, a customer count, growth in number of customers for the test year, and many other components. Our adopted operating results, as set forth in Table 1 herein, reflect an allowance of 79 AF (rather than the 500 AF that may actually be experienced) for losses and unaccounted for on the gravity system which serves the Los Serranos golf courses and 585 AF of irrigation water sales to the Los Serranos golf courses. The record in this proceeding provided an adequate basis upon which to reach operating results which are reasonably representative of applicant's operations for the near future.

Through the testimony of a consulting engineer, protestant developed on the record a proposal (Exhibits 41 and 42) to by-pass Lake Los Serranos in rendering irrigation water service to the Los Serranos golf courses. The lake presently performs regulation, equalization, and storage functions necessary to that service. It is, however, a major contributor to inordinately high water losses and a source of debris which causes problems. The estimated cost of the lake by-pass project is \$15,200 in water company facilities and \$60,000 in Los Serranos golf courses facilities.

Applicant has indicated that if protestant will expend \$60,000 for capital improvements which would allow the Los Serranos golf courses to take gravity irrigation service without the functions provided by Lake Los Serranos, then applicant would be willing to by-pass the lake once the golf course capital improvements are made by protestant. However, applicant cautions that Lake Los Serranos may have a key role to play if reclaimed water becomes available (presumably through the Chino BMWWD in perhaps three or more years) to the Los Serranos golf courses.

We have carefully considered protestant's evidence. We will reject the staff proposal to change the measuring points for deliveries to the Los Serranos golf courses from the existing meter locations at the golf courses to locations of the several wells supplying the golf courses. We will limit the losses and unaccounted for on the gravity system to 79 AF for ratemaking purposes. We will follow a cost allocation methodology which, by following actual system operations, results in the Los Serranos golf courses being assigned the lowest cost water supply. In summary, protestant has had a full opportunity to be heard and is being treated fairly.

Rate of Return

According to the amended application, applicant's proposed rates yield an 8.8 percent rate of return on a \$1,534,000 rate base. As can be seen in Table 1 herein, our adopted rate base is \$1,482,650 and operating revenues at the rates authorized by this decision are \$18,570 less than those at applicant's proposed rates.

The staff's analysis indicates that:

1. Applicant's capital structure consists of 100 percent common equity. Net investment in utility plant in service as of December 31, 1978 was \$3,413,980. This plant was financed as follows:

<u>Method of Financing</u>	<u>Percentage</u>
Common Equity	49.95%
Advances for Construction	46.08
Contributions in Aid of Construction	<u>3.97</u>
	<u>100.00%</u>



2. Applicant earned only a 5.25 percent rate of return in calendar year 1978.
3. In light of applicant's financial needs, its sale to Park Water Company, its lack of long-term debt obligations, and other factors, a rate of return of 9.5 percent is not considered unreasonable. (Future cash-flow requirements will be a matter for consideration by Park Water Company which will have to meet the heavy demand for refunds on main extension contracts.)

We find a rate of return of 9.5 percent reasonable for applicant.

Results of Operation

Applicant's estimates of its operating results for test year 1979 are set forth in Exhibit 19-R. The staff estimates of those operating results are contained in Exhibit 22-R. The latter estimates were developed in pertinent part from the staff audit of applicant's accounting records and procedures (Exhibit 21) previously discussed. Table I on the next page sets forth a comparative summary of operating results for test year 1979 as estimated in Exhibits 19-R and 22-R and as adopted herein.

A.57766 AJJ/EA/KS

Table 1

POMONA VALLEY WATER COMPANY

Summary of Earnings

Test Year 1979

Item	Applicant		Staff		Adopted	
	Interim Rates*	Proposed Rates	Interim Rates*	Proposed Rates	Interim Rates*	Rates Authorized Herein
Operating Revenues	\$ 713,060	\$ 813,160	\$ 723,570	\$ 816,370	\$ 728,940	\$ 797,800
<u>Deductions</u>						
Operating Expense	492,500	492,500	408,380	408,380	451,560	451,560
Depreciation	65,020	65,020	62,000	62,000	62,000	62,000
Taxes Other Than Inc.	41,100	41,100	35,550	35,550	39,600	39,600
Subtotal	598,620	598,620	505,930	505,930	553,160	553,160
Taxes on Income	39,000	89,900	90,060	137,260	68,770	103,790
Tot. Oper. Exp.	637,620	688,520	595,990	643,190	621,930	656,950
Net Operating Revenues	75,440	124,640	127,580	173,180	107,010	140,850
Depr. Rate Base	1,571,700	1,571,700	1,482,650	1,482,650	1,482,650	1,482,650
Rate of Return	4.8%	7.9%	8.6%	11.7%	7.2%	9.5%
Average Commercial Customers	4,411	4,411	4,125	4,125	4,125	4,125

\*The interim rates were authorized by Decision No. 89866 dated January 16, 1979.

Operating Revenues

Applicant accepted the staff's estimates of water sales and revenues, which were based on more recent data than those used by applicant. However, protestant, upon its participation in this proceeding, took exception to the staff's estimate of 506 AF of irrigation water sales to the Los Serranos golf courses.

The staff's estimate of 506 AF was based on the last three years of recorded sales. Protestant contended that an estimate based on recorded sales for a longer span of years should be more representative for the test year. Accordingly, protestant advocated using the nine-year period, 1970 through 1978. The quantity of irrigation water used by the Los Serranos golf courses averaged 628 AF/year for that period.

An automatic sprinkler system for the fairways was not installed, however, until well into the nine-year period. We are persuaded that a fair reading of the record in this proceeding supports using a six-year (1973-1978) average as the basis for a representative estimate of test year irrigation water sales to the Los Serranos golf courses. The resultant estimate is 585 AF.

Our adopted operating revenues of \$728,940 at interim rates are reached by adding \$5,370 (i.e.,  $\frac{585 \text{ AF} - 506 \text{ AF}}{68 \text{ AF}}$ ) to the staff figure of \$723,570.

Operating Expenses

A breakdown of operating expenses as estimated by the staff is compared below with a similar breakdown of applicant's estimate. Also, shown in this fashion is the adopted estimate.

Operating Expenses

Test Year 1979

Item	Applicant Estimate	Staff Estimate	Adopted Estimate
Water Cost	\$209,400	\$172,640	\$183,380
Power Cost	87,400	82,940	80,340
Uncollectibles	1,300	2,500	2,500
Payroll	142,440	114,100	142,440
Misc. Other Expenses	29,500	18,100	24,800
ASG Expenses	30,000	36,400	36,400
Regulatory Expense	3,000	2,500	2,500
Rent	13,200	13,200	13,200
Expenses Capitalized	(23,740)	(34,000)	(34,000)
Total	\$492,500	\$408,380	\$451,560

(Red Figure)

## a. Water Cost

Applicant's estimate of water cost exceeds the staff's estimate by \$36,760. Most of this difference can be accounted for in the allowances used for losses and unaccounted for. Applicant included a 15 percent allowance in a total estimated water requirement of 4,909 AF (i.e., water sales of 4,269 AF and losses and unaccounted for of 640 AF). The staff included a 12.4 percent

allowance for the pressure system in a water requirement of 4,143 AF (i.e., water sales of 3,686 AF and losses and unaccounted for of 457 AF) but made no allowance on water sales of 558 AF from the gravity system.

Overall losses and unaccounted for on applicant's water system have been running about 25 percent. Applicant's witness recognized that losses and unaccounted-for water of that order should not be absorbed fully by the ratepayer. His approach was to employ an allowance of 15 percent which was used in the last rate case decision (D.85299, supra) and in applicant's three rate cases prior to this one by the Commission staff.

The staff witness analyzed 1978 operations and found losses and unaccounted-for water running at 12.4 percent for the pressure system and in excess of 40 percent for the gravity system. As noted above, his approach for the test year estimate was to apply the 12.4 percent factor to estimated test year water sales from the pressure system to determine an allowance for losses and unaccounted for but to reject any allowance for losses and unaccounted for on the gravity system.

A fair assessment of the record indicates that his disallowance of any losses on the gravity system stemmed from (1) the inordinate relative size of the losses; (2) the fact that without the losses, the water saved, which is pumped water and a part of applicant's basin entitlement, would displace purchases of MWD water made at \$85/AF to serve residential customers; and (3) that the several small irrigation customers on the gravity system are billed on the basis of well production (i.e., gross deliveries, including line losses). These same factors, it appears, spawned his recommendation to change the measuring points for deliveries to the Los Serranos golf courses from the existing meter locations at the golf courses to the locations of the several wells supplying the golf courses.

Putting the Los Serranos golf courses on a gross delivery basis, as he has recommended, is patently unacceptable. Clearly, the division of responsibility between the utility and the customer for the water should not be changed. Applicant should continue to be responsible for what happens to the water as it passes through its system and protestant should continue to become responsible for the water once it is received at the existing meter locations. As far as the several small irrigation customers on the gravity system are concerned, the record is unclear whether there is a sufficient need to change the metering locations to the points of delivery. Were it to become necessary to have all gravity system customers on the same delivery basis, the gross basis is the one to eliminate.

This criticism of the gross delivery basis should not be construed in any way as detracting from the fact that irrigation water requirements exceed irrigation water sales to the extent of losses and unaccounted for. Indeed, water requirements rather than water sales determine water purchases. Accordingly, if the Chino BMWD were to use applicant's irrigation water requirements instead of applicant's irrigation water sales as the part of applicant's total purchases of MWD water qualifying for the irrigation rate, the determination would be more realistic.

With our retention of the existing delivery basis to the Los Serranos golf courses, some allowance for losses and unaccounted-for water on the gravity system should be included in estimating applicant's water cost for ratemaking purposes. The 12.4 percent losses and unaccounted for experienced on the pressure system appears representative of a reasonable lower limit for that allowance on the gravity system.

Our adopted operating results reflect a 12.4 percent allowance for losses and unaccounted for on the entire system. Those results also reflect increasing the estimate of irrigation water sales to Los Serranos golf courses from the 506 AF estimated by the staff to our adopted level of 585 AF. The total water requirement adopted for the test year is thus 4,859 AF, of which 2,163 AF are pumped from the basin and 2,696 AF are purchases of MWD water. The latter figure exceeds the staff estimate by 158 AF, making our adopted water cost \$183,380 (i.e., \$172,640 + 79 AF x \$85/AF + 79 AF x \$51/AF).

b. Power Cost

The staff's estimate of power cost, which is \$4,460 lower than applicant's estimate, was accepted by applicant. Our adopted power cost of \$80,340 consists of the staff estimate modified to reflect the effect on pumping operations of the adopted water sales for Los Serranos golf courses exceeding the staff estimate by 79 AF and the adopted 79 AF allowance (i.e., 12.4 percent) for losses and unaccounted for on the gravity system. Their effect on pumping is to reduce the throughput on the Caterpillar Boosters, which supply the pressure system with well water, by 158 AF and to increase the throughput on booster pumps (14A, B, and C) supplying the Los Serranos (north) golf course by 40 AF. The staff estimate of power cost of \$82,940 is thus reduced by \$3,420 (i.e., 158 AF x \$21.65/AF) and increased by \$820 (i.e., 40 AF x \$20.44/AF) to yield the adopted power cost of \$80,340.

c. Payroll and Expenses Capitalized

Applicant's estimate of total payroll is \$142,440, and its estimate of expenses capitalized, which is primarily payroll, is \$23,740. The payroll expensed, therefore, approximates \$121,000, or \$29 per customer.

In developing his estimate, applicant's witness, a consulting engineer, "went back as far as 1975 to take the number of positions that I felt were required to run this company and took the salaries that they were paid at that time and then increased them by the wage increases which were granted to these employees." Although some of the jobs have gone unfilled from time-to-time as the result of inferior wage levels and applicant's financial problems, it was this witness' basic conclusion that all of the jobs were necessary to operate the company satisfactorily. For test year 1979 this witness allowed a 7.6 percent wage increase.

The staff witness' estimates of applicant's total payroll and expenses capitalized are \$114,100 and \$34,000, respectively. His estimate of payroll expensed is \$80,100, or about \$19 per customer.

In developing his estimate of total payroll, the staff witness used the present complement of 10 employees "annualized for 1979 with a 7 percent pay increase for the year." It was his basic view that the actual payroll at the time of his study with adjustment for a wage increase was an appropriate gauge, especially in light of the then impending takeover by Park Water Company. The staff witness did not make a study of the staffing required for the company to be operated properly.

In rebuttal testimony applicant's manager contended that 13 employees and a total payroll on the order of \$178,000 would be required to properly operate the utility and that lack of finances has heretofore prevented staffing at that level. He also testified that applicant has been paying "under scale in the area and people just don't want to work for us." In further rebuttal the vice president of revenue requirements of Park Water Company testified that he supported the testimony of applicant's manager concerning manpower requirements and that he considered the amount proposed by



applicant (an expensed payroll of approximately \$121,000, or \$29 per customer) was actually inadequate to meet the utility's needs. It was his assessment that an amount in excess of \$30 per customer comparable to the present needs of Park Water Company would be more appropriate. The vice president noted that: (1) "there were 17 different employees who went through the company applicant during 1978"; (2) pump overhauls are overdue; and (3) maintenance of meters and other facilities has been deficient. To upgrade the level of service provided by applicant, he testified that Park Water Company plans to have applicant upgrade "the salary schedule so that they can get employees who will continue to work with the company and not just work for the company between jobs at the dairies or some other place." In a similar vein the Commission staff has made recommendations for applicant to improve its practices in system operation and maintenance, record keeping and accounting, meter reading, and surveillance of the gravity system.

To provide good water service, applicant should have an adequate staff and one with less exposure to excessive turnover. In our judgment applicant's estimate of total payroll of \$142,440 is not excessive in relation to that objective. However, the staff estimate of expenses capitalized of \$34,000 appears more representative in relation to the level of construction work in the test year. Deducting \$34,000 from the \$142,440 yields an expensed payroll of \$108,440, or \$26 per customer, which is reflected in our adopted operating results.

d. Uncollectibles, A&G Expenses,  
Regulatory Expense, and Rent

In developing his estimates for these expense categories, the staff engineering witness had available the results of the detailed audit of applicant's accounts for the year 1978 made by the staff accounting witness. The staff engineer's estimates, which in the aggregate exceed applicant's estimates, for these expense categories were uncontested. We adopt the staff estimates for these items.

e. Miscellaneous Other Expenses

The staff engineer's estimate of \$18,100 for miscellaneous other expenses was developed from the staff audit. In that audit the staff accountant took exception to applicant's expensing the following two items: a \$10,776 major overhaul of a pump and a \$369 rewinding of an electric motor. In the staff accountant's report on the audit, the staff accountant made adjustments in the accounting for these items to remove them from expense (maintenance of pumping equipment), enter them in utility plant (pumping equipment), and decrease both utility plant and depreciation reserve by \$7,506 for unrecorded retirements, which presumably represented the amount at which the well pump and electric motor was carried on applicant's books before the respective overhaul and rewinding.

In capitalizing rather than expensing the \$369 expenditure for rewinding an electric motor the staff accounting witness relied upon a rule of thumb which calls for capitalizing repair jobs which exceed 50 percent of the repaired plant item's original cost. Applicant pointed out that on that basis it would have to capitalize most meter overhauls. Applicant's practice of expensing small items, such as a several hundred dollar rewinding of an electric motor, is proper and may continue.

Applicant's practice of expensing major overhauls in their entirety is another matter. A proper determination of which elements of a major overhaul to capitalize and which to expense requires, as pointed out earlier in this decision, the application of specific criteria. The criteria cannot be applied to the major overhaul in question because of insufficient data on it in this record. In this situation we deem it reasonable for ratemaking purposes to place one-half of the \$10,776 cost of the pump major overhaul in rate base and the other half in expense.

The record is silent as to the frequency of major overhauls on applicant's well pumps of which there are, as previously stated, seven. There is some testimony that Park Water Company has determined that its 80 wells, few if any of which are located in the same water basin as applicant's seven wells, are on a seven-year overhaul cycle. An inspection of applicant's wells by Park Water Company personnel has disclosed that needed work has been delayed on several of these wells, indicating an overhaul rate of one or more wells per year over the next several years can be expected. We thus conclude that the \$5,400 expensed portion of pump overhaul should be reasonably representative for test year purposes without amortization.

It was the staff engineer's assessment that the results of the 1978 audit, including the accounting adjustments made, provided a representative level for this miscellaneous expense category in the 1979 test year with two exceptions. The 1978 expenses included a \$10,000 expenditure for water system maps which for ratemaking purposes, as the staff witness contends and we agree, should be amortized over a five-year period. The other 1978 expense to which exception was taken was \$2,360 for maintenance of Lake Los Serranos. It was the staff position that this expense, which is incurred primarily for debris removal, should be disallowed in its entirety.

Lake Los Serranos is essential, as the irrigation water system is presently constituted, to provide service in the quantities and pressures required by the Los Serranos golf courses. Accordingly, an allowance in expenses for its maintenance is in order. Since 1978 was a very wet year and the incidence of debris at the lake is, in part at least, a function of rainstorms, the \$2,360 expenditure in 1978 is probably excessive for a normal or test year. Applicant's expense estimate for maintaining Lake Los Serranos is represented approximately by the difference between its \$210,300 estimate of source of supply expense and its \$209,400 estimate of water cost. That difference is \$900, which we adopt as reasonable for use in the test year.

In summary, our adopted estimate of \$24,770 for miscellaneous other expenses is arrived at through increasing the staff estimate of \$18,100 by \$370 for rewinding the electric motor, \$5,400 for the expensed portion of the pump overhaul, and \$900 for maintenance of Lake Los Serranos.

#### Depreciation

The staff and applicant used the same depreciation rate in arriving at their respective estimates. Their estimates differ primarily because the staff charged more of the depreciation accrual to Account 265, Contributions in Aid of Construction.

Applicant accepted the staff's estimate of \$62,000. We adopt that estimate for the test year. In so doing we recognize that no allowance has been made for the departure we made from the staff estimate of utility plant (pumping equipment) by our rejecting the accounting treatment the staff accorded to pump overhauls. The effect of this departure, however, is negligible on either depreciation expense or rate base.

Taxes Other Than Income

Applicant accepted the staff estimate of \$35,550, which is \$5,550 lower than applicant's estimate, subject to the caveat that the payroll tax component of that estimate should be consistent with the level of payroll expensed included in the adopted operating results. In addition to that caveat, however, the record, as subsequently developed, shows that a pump tax of \$2.50 per acre-foot applies instead of the \$1.75 per acre-foot which the staff used in developing its estimate of \$3,750 (2,163 AF @ \$1.75/AF) for pump tax.

Modified in the above indicated ways the staff estimates of payroll taxes and pump tax increase from \$6,400 to \$8,800 and from \$3,750 to \$5,410, respectively, increasing, in turn, taxes other than income from \$35,550 to \$39,600. We adopt as reasonable for the test year an estimate of \$39,600 for taxes other than income.

Taxes on Income

Computation of income taxes for the adopted operating results follows:

Item	At	
	Interim Rates	Rates Authorized Herein
Operating Revenues	\$728,940	\$797,800
<u>Deductions</u>		
Operating Expenses	451,560	451,560
Depreciation	62,000	62,000
Taxes Other Than Income	39,600	39,600
Payroll Taxes Capitalized	2,710	2,710
Total Deductions	555,870	555,870
Taxable Income (State)	173,070	241,930
State Franchise Tax at 9%	15,576	21,773
Federal Taxable Income	157,494	220,157
<u>Federal Income Tax</u>		
First \$25,000 at 17%	4,250	4,250
Next \$25,000 at 20%	5,000	5,000
Next \$25,000 at 30%	7,500	7,500
Next \$25,000 at 40%	10,000	10,000
Over \$100,000 at 46%	26,447	55,271
Total Federal Tax	53,197	82,021
Total Taxes on Income	68,773	103,794
USE	68,770	103,790

Rate Base

Applicant accepted the staff's \$1,482,650 estimate of rate base, which is \$89,050 lower than applicant's estimate. We adopt the staff estimate.

Authorized Revenue Increase

Our adopted summary of earnings at the rates to be authorized herein results in 9.5 percent rate of return on a rate base of \$1,482,650 for test year 1979. By comparing the entries for operating revenues in Table 1 hereinabove, it can be seen that the rates to be authorized yield in test year 1979 additional gross revenues of \$68,860 which represent a 9.4 percent increase over revenues at interim rates presently in effect.

Wage and Price Guidelines

By Interim Decision No. 89866 (dated January 16, 1979), supra, a 5.7 percent increase in applicant's rates was authorized because of a financial emergency. By virtue of its emergency nature, that rate increase was exempt from the guidelines.

By this decision, a 9.4 percent rate increase, yielding \$68,860 in additional annual gross revenues, is authorized. It is based on a 1979 test year in which a 7.6 percent wage increase is reflected in the operating results. The 9.4 percent rate increase is necessary to provide applicant with a reasonable opportunity to earn a 9.5 percent rate of return on rate base. Authorized rates which provide a reasonable rate of return on rate base are not deemed to exceed the guidelines.

Rate Spread

After the total revenue requirement is determined, there still remains the problem of an equitable distribution of that revenue requirement among the classes of service. Cost allocation studies were prepared by applicant and by the staff to shed light on that problem. Their primary focus was to determine the cost of providing irrigation service to the Los Serranos and Western Hills golf courses.

Applicant, in its cost of service study, made an allocation of rate base and total revenue requirements by separation of the gravity system and the pressure system as presented in Exhibit 26 under Alternate I. Applicant's Alternate I represents its estimate of the cost of service to the gravity system and its estimate of the cost of service to the pressure system using facilities presently installed. The rate base assignment to the gravity system was based on data from Decision No. 72594 which established plant and depreciation reserve amounts for the Rolling Ridge Ranch facilities purchased by Pomona Valley Water Company. The facilities so acquired are for the most part those used to provide gravity irrigation service. The principal customer served off the gravity system is the Los Serranos golf courses. In conjunction with Alternate I applicant made a separate allocation, as presented in Exhibit 27, to determine the cost to serve the Western Hills golf course from the pressure system.

Presented in Exhibit 26 as Alternates II, III, and IV were allocations by applicant based on other possible methods of providing service to the gravity system. These alternates were intended to illustrate that other methods of serving the Los Serranos golf courses would result in higher costs to that customer with insignificant changes in the cost of service to other customers. These allocations were performed in simplified form.

The Commission staff's cost allocations were presented in Exhibits 28 through 32 and Exhibit 34. Costs were distributed among each of applicant's seven rate schedules under three alternates. For each alternate water cost was the only variable (i.e., all other costs underwent the same allocations under each alternate). Alternate I reflected the allocation of the average cost of purchased water to each schedule. Alternate II reflected the assignment of the full \$51 per acre-foot MWD irrigation rate to water requirements under the irrigation schedules, with the remainder of total water



costs being distributed to nonirrigation customers based on usage. Alternate III was the alternate recommended by the staff. It reflected an assumption of no MWD water being purchased for irrigation service and accordingly allocated all water purchases to the nonirrigation schedules. In Exhibit 34 Alternate III was modified to comport with the staff recommendation that water sales to the Los Serranos golf courses include line losses and losses at Lake Los Serranos.

The staff's Alternate III has several unacceptable features. Its basic premise is that the only source of water supply for the irrigation schedules is pumped water from the Chino basin (i.e., no purchased water). That premise runs counter to the fact that both pumped and purchased water are supplied to the pressure system which system accounts for more than one-half of the total irrigation sales. Alternate III's power cost allocation conversely appears to be consistent with the actual operations of both the gravity and pressure systems (and therefore inconsistent with the alternate's hypothetical basic premise of only pumped basin water serving the irrigation customers). In addition, Alternate III's allocation of rate base appears distorted. It is clear, for example, that an unrealistically low rate base is assigned to the Western Hills golf course.

Needless to say, neither applicant nor the staff had available for its allocations our adopted operating results as set forth in Table 1 hereinabove. In Table 2 on the next page our adopted operating results are allocated between the gravity and pressure systems.

Table 2

POMONA VALLEY WATER COMPANY  
 Separation of Costs Between  
Gravity and Pressure Systems  
 Test Year 1979

Item	Gravity System	Pressure System	Total
<u>Revenue Requirements</u>			
Net Operating Revenues	\$ 9,580	\$ 131,270	\$ 140,850
Income Taxes	7,060	96,730	103,790
Taxes Other Than Income	3,260	36,340	39,600
Depreciation Expense	2,550	59,450	62,000
Purchased Water	-	183,380	183,380
Purchased Power	19,100	61,240	80,340
Customer Accts. Expense	100	49,400	49,500
Other O&M Expense	20,340	118,000	138,340
Total Cost of Service	61,990	735,810	797,800
Water Sales, AF	637	3,686	4,323
%	14.7%	85.3%	100.0%
Cost of Service, AF	\$ 97.32	\$ 199.63	\$ 184.55
<u>Rate Base</u>			
Utility Plant	\$168,600	\$3,924,900	\$4,093,500
%	4.1%	95.9%	100.0%
- Depreciation Reserve	76,500	515,700	592,200
+ Working Cash	5,900	39,100	45,000
+ M & S	2,600	17,400	20,000
- Advances	-	1,687,300	1,687,300
- Contributions	-	227,100	227,100
- ITC Adjustment	-	169,200	169,200
Rate Base	100,600	1,382,100	1,482,700
%	6.8%	93.2%	100.0%
Rate Base + 1/2 Advances	100,600	2,225,750	2,326,350
%	4.3%	95.7%	100.0%

In Table 2 the rate base assignment to the gravity system is the one developed from Decision No. 72594, supra, for applicant's Alternate I in Exhibit 26. Net operating revenues (i.e., return on rate base) and income taxes are allocated in proportion to the rate base assignments. Taxes other than income are allocated as follows: The ad valorem and payroll tax components according to the percentage entries for "rate base + 1/2 advances"; the pump tax component according to quantity of water pumped from the basin @ \$2.50/AF (i.e., 716 AF x \$2.50/AF = \$1,790 for the gravity system). There is no purchased water for the gravity system and therefore all purchased water is assigned to the pressure system. The power cost for the gravity system was developed by using the staff's estimates of power costs of \$18.32/AF for well production and \$20.44/AF for Boosters 14A, B, and C (i.e., 716 AF x \$18.32/AF + 292.5 AF x \$20.44/AF = \$19,100). Customer accounts expense is allocated according to the number of customers. Other operation and maintenance expense is allocated on the basis of usage (i.e., water sales). These allocations, it can thus be seen, were performed in simplified form.

Notwithstanding the simplifications, the Table 2 allocations, with certain further approximate breakdowns indicating whether a particular service is above or below the average system cost, are adequate to assist us in applying the following criteria to develop rate spread:

- (a) No rate schedule will have its rates increased in the aggregate by more than 50 percent (i.e., 50 percent over the interim rates, which are the present rates made effective February 17, 1979).
- (b) No rate schedule will have its rates decreased in the aggregate.
- (c) Where not limited by parameter (a) above, rate schedules will have their rates increased to approximate allocated costs.

From the gravity system, service is provided under Schedule 3-ML--Lower Zone to the Los Serranos golf courses and under Schedule 3-M to several irrigation customers. Tabulated below for the gravity system is a comparative application of the rate spread criteria and the resultant adopted rates.

<u>Schedule</u>	<u>Present Rate \$/AF</u>	<u>Pres. Rate Increased 50% \$/AF</u>	<u>Allocated Cost \$/AF</u>	<u>Adopted Rate \$/AF</u>
3-ML (Lower Zone)	68	102	> 97	95
3-M (Gravity)	43	65	< 97	65

> = greater than

< = less than

The Los Serranos golf courses have a slightly greater than average gravity system cost of service per acre-foot because Lake Los Serranos and Boosters 14A, B, and C are used to provide service at volumes and pressures as required by the golf courses and are not used to provide service to the several smaller customers on the gravity system. In addition, sales to the latter customers, by being measured at the wellhead, include line losses. Customers served by the gravity system are credited with having a relatively low cost of service because of the cost allocation methodology used. By its following actual system operations, that methodology assigns only the lowest cost water supply to the gravity system and also assigns less than \$100,000 in net utility plant to supply water sales in excess of 600 AF annually.

From the pressure system, service is provided to upper and lower zones. The Western Hills golf course is situated in the upper zone and provided service under Schedule 3-ML--Upper Zone. The analysis of the cost to serve this golf course presented by applicant in Exhibit 27 has made it clear that not less than 75 percent of the \$200/AF average cost of service for the pressure system, as developed in Table 2 hereinabove, should be representative of the cost to serve this customer. In addition to the service to the golf course, general metered service and limited metered resale service are provided in the upper zone. These latter services, we can readily conclude by virtue of their being rendered to residences situated in the upper zone and in the case of the limited resale service in the extremities of the upper zone, cost in excess of the average cost of service for the pressure system of \$200/AF. Tabulated below is a comparison of the applicable rate spread criteria and the rate levels adopted.

<u>Schedule</u>	<u>Present Rate \$/AF</u>	<u>Rate Increased 50% \$/AF</u>	<u>Allocated Cost \$/AF</u>	<u>Adopted Rate Level \$/AF</u>
3-ML (Upper Zone)	78.50	118	> 150	115
U-1 (Avg. equiv. rate per AF*)	213*	320	> 200	235
6-ML (Avg. equiv. rate per AF*)	111*	167	> 200	167

> = greater than

\*Average equivalent rate per acre-foot equals sales revenues under block rates divided by sales in AF.

In the lower zone, which is where most of applicant's customers are located, general metered service and measured irrigation service are provided from the pressure system. A salient difference in the cost to serve between the upper and lower zones lies in the lifting of the water through the Carbon Canyon Booster facility to the upper zone. The associated power cost approximates \$20/AF, or \$.05/Ccf, of water boosted. On the basis of the lower power cost alone, the cost to provide measured irrigation service (Schedule 3-M) in the lower zone should be at least \$20/AF lower than the cost of serving irrigation water to the Western Hills golf course in the upper zone. With respect to general metered service (Schedule L-1 - Lower Zone) the existing differential between the rates for the upper and lower zones approximates 2c/Ccf and under our adopted rates the differential will approximate 8c/Ccf. Tabulated below are the comparative results obtained by applying the rate spread criteria and also the rate levels adopted.

<u>Schedule</u>	<u>Present Rate</u> \$/AF	<u>Rate Increased 50%</u> \$/AF	<u>Allocated Cost</u> \$/AF	<u>Adopted Rate Level</u> \$/AF
3-M (Pressure)	59.50	90	< 130	90
L-1 (Avg. equiv. rate per AF*)	213	320	> 200	218

> = greater than

< = less than

\*Average equivalent rate per acre-foot equals sales revenues under block rates divided by sales in AF.

In Table 3, which follows, the authorized revenue requirement of \$797,800 developed in Table 1 hereinabove is distributed by rate schedules consistent with the foregoing discussion.

Table 3

Distribution of the Total Revenue  
Requirement of \$797,800 and the  
Additional Revenue Requirement  
Portion Thereof (\$68,860)

Schedule No.		Revenues At		Increase	
		Present Rates	Authorized Rates	\$	%
<u>General Metered Service</u>					
L-1	Lower Zone	\$558,080	\$573,190	\$15,110	2.7
U-1	Upper Zone	63,530	70,140	6,610	10.4
<u>Measured Irrigation Service</u>					
3-M	Pressure System Deliveries	32,230	48,760	16,530	51.3
3-Y	Gravity System Deliveries	3,200	4,850	1,650	51.6
<u>Golf Course Irrigation Service</u>					
3-ML	Lower Zone (Los Serranos G. C.)	39,770	55,580	15,810	39.8
3-ML	Upper Zone (Western Hills G. C.)	23,000	33,700	10,700	46.5
<u>Limited Resale Service</u>					
6-ML	Resale	4,900	7,350	2,450	50.0
<u>Other</u>					
	Fire Protection	1,130	1,130	-	-
	Miscellaneous	3,100	3,100	-	-
		\$728,940	\$797,800	68,860	9.4

Lifeline Rate Design

The rates for general metered service have been increased as indicated by Table 3 above and restructured as set forth in Appendix A to this decision. They have been restructured by replacing the minimum charge with a service charge, by replacing the five-tier rate blocks with descending rates with two-tier inverted rates, and by fixing the first tier at a lifeline quantity of 300 cubic feet. Commercial (i.e., business and residential) customers using 300 cubic feet of water per month who have a 5/8 x 3/4-inch meter would not experience an increase in their monthly water bills. The purpose of the adopted rate design is to provide customers with an incentive to conserve, the incentive being "the closer they can keep their monthly usage to the initial 300 cu.ft. quantity, the lower their monthly bill". The rates for other customer classes were increased without altering the rate format of the pertinent schedules.

Findings of Fact

1. Applicant is in need of additional revenue, but the proposed rates set forth in the application would produce an excessive rate of return.
2. The adopted estimates of operating revenues, operating expenses, and rate base for test year 1979, as set forth in Table 1 herein, reasonably indicate the probable results of applicant's operations for the near future.
3. A rate of return of 9.5 percent on applicant's rate base is reasonable. The related allowance for return on common equity is also 9.5 percent inasmuch as the capital structure consists entirely of common equity. This will require an increase above interim rates of \$68,860, or 9.4 percent, in annual revenues for test year 1979. Such an increase is reasonable and justified.



4.a. It is reasonable to apply the following criteria in developing the rate spread:

- (1) No rate schedule will have its rates increased in the aggregate by more than 50 percent (i.e., 50 percent over the interim rates, which are the present rates made effective February 17, 1979).
- (2) No rate schedule will have its rates decreased in the aggregate.
- (3) Where not limited by parameter (1) above, rate schedules will have their rates increased to approximate allocated costs.

b. Cost allocations, as set forth in Table 2, reasonably approximate the cost of service by systems. These allocations, with certain further breakdowns indicating whether a particular service is above or below the average system cost, are suitable for use in applying the foregoing criteria.

c. The adopted rate spread is reasonable.

5. Protestant, Los Serranos golf courses, has had a full opportunity to be heard.

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

7. The rate design employed for general metered service is reasonable and is intended to promote conservation.

8. With the exception of the upper Los Serranos area, service in applicant's service area has been satisfactory. The staff recommendations, set forth on pages 4 and 5 of this decision, to improve service to the upper Los Serranos area are reasonable.

9. Applicant's accounting practices have been deficient. The staff recommendations, set forth on pages 8 and 9 of this decision, to make needed accounting improvements are reasonable.

Conclusions of Law

1. The notice of the filing of Application No. 57766 substantively complied with Section 454(a) of the Public Utilities Code.

2. Applicant should take the necessary actions to improve the quality of its service and the adequacy of its accounting procedures in the areas described in Findings 8 and 9 herein.

3. The application should be granted to the extent authorized below. In all other respects the application should be denied.

4. As there is a need for prompt relief, the effective date of this order should be the date hereof.

FINAL ORDER

IT IS ORDERED that:

1. After the effective date of this order, applicant, Pomona Valley Water Company, is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised rate schedules shall be four days after the date of filing. The revised rate schedules shall apply only to service rendered on and after the effective date thereof.

2. Applicant is directed to carry out the staff recommendations, set forth on pages 4 and 5 of this decision, to improve the quality of its service, and within ninety days after the effective date of this order, applicant shall file a written report, in duplicate, setting forth the program which it has developed for that purpose.

3. Applicant is directed to implement the staff accounting recommendations, set forth on pages 8 and 9 of this decision, and within sixty days after the effective date of this order, applicant shall file a written report, in duplicate, of its actions taken in compliance with this ordering paragraph.

The effective date of this order is the date hereof.

Dated JUL 2 1980, at San Francisco, California.

John E. Byrne  
President

Deborah L. Strangman

Robert D. Howell

Clair J. Dwyer

Donald W. Spitzer  
Commissioners

APPENDIX A  
Page 1 of 5

Schedule No. L-1  
Lower Zone

GENERAL METERED SERVICE

APPLICABILITY

Applicable to general metered water service.

TERRITORY

Lower Zone, Los Serranos Village and vicinity, San Bernardino County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 300 cu.ft., per 100 cu.ft. ....	\$ .280	(C)
Over 300 cu.ft., per 100 cu.ft. ....	.355	
Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 3.30	(C)
For 3/4-inch meter .....	4.50	
For 1-inch meter .....	6.20	
For 1-1/2-inch meter .....	8.50	
For 2-inch meter .....	11.00	
For 3-inch meter .....	21.00	
For 4-inch meter .....	28.00	
For 6-inch meter .....	47.00	
For 8-inch meter .....	69.00	(C)

SPECIAL CONDITION

The lower zone rates shall apply to that portion of the territory below the Carbon Canyon Boosters.

APPENDIX A  
Page 2 of 5

Schedule No. U-1  
Upper Zone

GENERAL METERED SERVICE

APPLICABILITY

Applicable to general metered service.

TERRITORY

Upper Zone, Los Serranos Village and vicinity, San Bernardino County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 300 cu.ft., per 100 cu.ft. ....	\$ .360	(C)
Over 300 cu.ft., per 100 cu.ft. ....	.430	
Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 3.30	(C)
For 3/4-inch meter .....	4.50	
For 1-inch meter .....	6.20	
For 1-1/2-inch meter .....	8.50	
For 2-inch meter .....	11.00	
For 3-inch meter .....	21.00	
For 4-inch meter .....	28.00	
For 6-inch meter .....	47.00	
For 8-inch meter .....	69.00	

SPECIAL CONDITION

The upper zone rates shall apply to that portion of the territory served water supplied through the Carbon Canyon Boosters.

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Schedule No. 3-M

MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service except golf courses.

TERRITORY

Los Serranos Village and vicinity, San Bernardino County.

RATES

Per Acre-Foot  
Per Service Connection  
Per Month

Lower Zone Quantity Rates:

For Pressure System Deliveries .....	\$90.00	(I)	(T)
For Gravity-Flow Deliveries .....	65.00	(I)	(T)

(D)  
(D)

SPECIAL CONDITIONS

1. The minimum monthly charge per connection (gravity or pressure) is the charge for one acre-foot of water at the applicable zone rate.

2. For each residence served from the irrigation service as of the effective date of this schedule, there is a surcharge of \$1.85 per month.

3. Upper zone rates apply to the portion of the territory served water supplied through the Carbon Canyon Boosters.

4. The utility will establish appropriate meter size and type for each irrigation service.

5. The water supplied by the gravity system under this schedule which was formerly served by Rolling Ridge Ranch is untreated water. The company does not represent or guarantee that any water delivered hereunder, formerly served by Rolling Ridge Ranch, is potable or of a quality suitable for human consumption. Any customer who uses said water or makes it available or offers it to others for human consumption shall take all necessary precautions to make the same potable and shall assume all risks and liabilities in connection therewith.

(C)

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Schedule No. 3-ML

GOLF COURSE IRRIGATION SERVICE

APPLICABILITY

Applicable to all metered irrigation service to golf courses.

TERRITORY

Los Serranos Village and vicinity, San Bernardino County.

RATES

	<u>Per Acre-Foot Per Service Connection Per Month</u>	
Quantity Rates:		
Lower Zone .....	\$ 95.00	(I)
Upper Zone .....	115.00	(I)

SPECIAL CONDITIONS

1. The minimum monthly charge per connection is the charge for one acre-foot of water at the applicable zone rate.

2. Upper zone rates apply to the portion of the territory served water supplied through the Carbon Canyon Boosters.

3. The utility will establish appropriate meter size and type for each irrigation service.

4. The water supplied to the lower zone under this schedule which was formerly served by Rolling Ridge Ranch is untreated water. The company does not represent or guarantee that any water delivered hereunder, formerly served by Rolling Ridge Ranch, is potable or of a quality suitable for human consumption. Any customer who uses said water or makes it available or offers it to others for human consumption shall take all necessary precautions to make the same potable and shall assume all risks and liabilities in connection therewith. (C)

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Schedule No. 6-ML

LIMITED METERED RESALE SERVICE

APPLICABILITY

Applicable to limited metered resale service.

TERRITORY

Upper Carbon Canyon and vicinity, San Bernardino County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		
Per 100 cu.ft. ....	\$ 0.34	(I)
Service Charge:		(C)
For 1-inch meter .....	\$ 6.20	
For 1-1/2-inch meter .....	8.50	
For 2-inch meter .....	11.00	
For 3-inch meter .....	21.00	
For 4-inch meter .....	28.00	
For 6-inch meter .....	47.00	
For 8-inch meter .....	69.00	

SPECIAL CONDITION

Service under this schedule shall be limited to service to San Bernardino County Water Works District No. 8 and Mountain View Park Mutual Water Company.