

ORIGINAL

Decision No. 92510 DEC 16 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of VALENCIA WATER COMPANY, a)
California corporation, for)
authorization to increase rates)
for water service.)

Application No. 59505
(Filed March 10, 1980)

Gibson, Dunn and Crutcher, by Raymond L. Curran, Attorney
at Law, for Valencia Water Company, applicant.
Charles L. Stewart, for himself, interested party.
Robert M. Mann, for the Commission staff.

O P I N I O N

Applicant, Valencia Water Company (Valencia), seeks authority to increase water rates by \$259,200 for test year 1981 or approximately 25 percent to realize a 9.65 percent rate of return on the estimated 1981 test year rate base.

Valencia, a wholly owned subsidiary of Newhall Land and Farming Company, supplies water to approximately 6,000 customers in a service area of approximately eight square miles, mostly within the unincorporated community of Valencia. The last general rate increase in water rates authorized Valencia was by Decision No. 82511 dated February 20, 1974 in Application No. 53877. Valencia indicates that it has received only two power offset rate increases subsequent to Decision No. 82511.

After due notice hearings in this matter were held before Administrative Law Judge K. Tomita, in Los Angeles, on July 28 and 29, 1980 and the matter was submitted on July 29, 1980.

Decision No. 92510 December 16, 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of VALENCIA WATER COMPANY, a
California corporation, for
authorization to increase rates
for water service.

Application No. 59505
(Filed March 10, 1980)

Gibson, Dunn and Crutcher, by Raymond L. Curran, Attorney
at Law, for Valencia Water Company, applicant.
Charles L. Stewart, for himself, interested party.
Robert M. Mann, for the Commission staff.

O P I N I O N

Applicant, Valencia Water Company (Valencia), seeks authority to increase water rates by \$259,200 for test year 1981 or approximately 25 percent to realize a 9.65 percent rate of return on the estimated 1981 test year rate base.

Valencia, a wholly owned subsidiary of Newhall Land and Farming Company, supplies water to approximately 6,000 customers in a service area of approximately eight square miles, mostly within the unincorporated community of Valencia. The last general rate increase in water rates authorized Valencia was by Decision No. 82511 dated February 20, 1974 in Application No. 53877. Valencia indicates that it has received only two power offset rate increases subsequent to Decision No. 82511.

After due notice hearings in this matter were held before Administrative Law Judge K. Tomita, in Los Angeles, on July 28 and 29, 1980 and the matter was submitted on July 29, 1980.

This application was filed pursuant to the regulatory lag plan for water utilities. Under this procedure an informal public hearing was held on May 7, 1980 in applicant's service area. Applicant's president, Richard C. Hackney, testified that approximately five to six people appeared at the informal public hearing with one woman customer complaining about an objectional film forming on top of the water when she boiled water for tea. Hackney testified that a laboratory test indicated that the condition was due to a silicate in the water that does not show in a normal test and was not of any public health concern. He further indicated that Valencia has been attempting to communicate with the customer but so far was unsuccessful. No public witnesses appeared at the hearings of July 28 and 29, 1980 held in Los Angeles.

Need for Rate Increase

In its application Valencia states that its projected rate of return for estimated years 1979, 1980, and 1981 are 6.92 percent, 6.35 percent and 6.17 percent respectively. Among the major causes for this deterioration in earnings set forth by Valencia are the increased costs for power and purchased water.

Valencia states that the decline in rate of return can be expected to continue until the deficiency in earnings is corrected. Valencia believes its present rates for water service are insufficient, unreasonable, and unjust for the reason that they do not permit Valencia to earn a fair rate of return on its property devoted to public utility water service and the continuing decline in the rate of return will impair its ability to obtain sufficient funds to continue proper maintenance and expansion of its facility.

Aside from Hackney, Gerald W. Peasley and Matt Peasley, certified public accountants, testified for Valencia. Victor Moon, an engineer in the Hydraulic Branch, testified for the Commission staff.

Rates

Valencia's proposed rates for general metered service provide for a flat quantity rate of 32¢^{1/} per 100 cu.ft. compared to a declining two-step quantity rate of 28¢ per 100 cu.ft. for the first 4,000 cu.ft. and 23¢ per 100 cu.ft. for quantities over 4,000 cu.ft. under present rates. They provide for an increase in service charges of approximately 25 percent. The following tabulation compares Valencia's present and proposed general metered service rates.

Quantity Rates:	Per Meter Per Month	
	<u>Present</u>	<u>Proposed</u>
First 4,000 cu.ft., per 100 cu.ft.	\$ 0.28	\$
Over 4,000 cu.ft., per 100 cu.ft.	0.23	
All water, per 100 cu.ft.		0.32
Service Charge:		
For 5/8 x 3/4-inch meter	3.00	3.75
For 3/4-inch meter	3.30	4.15
For 1-inch meter	4.50	5.65
For 1-1/2-inch meter	6.00	7.50
For 2-inch meter	8.00	10.00
For 3-inch meter	15.00	18.75
For 4-inch meter	20.00	25.00
For 6-inch meter	34.00	42.50
For 8-inch meter		62.50
For 10-inch meter	62.00	77.50

The Service Charge is applicable to all General Metered Service and is a readiness-to-serve charge. It is added to the charge computed at the Quantity Rates for water used during the month.

^{1/} The quantity rate was increased from 31¢ per Ccf to 32¢ per Ccf on 7/28/80 to reflect the reduction of 505 general metered customers for estimated year 1981.

Valencia proposes to eliminate Schedule No. 5-PR, Private Fire Hydrant Service; combine such service under Schedule No. 4; and retitle such schedule as Private Fire Service rather than Private Fire Sprinkler Service. Valencia also proposes to delete Schedule 5, Public Fire Hydrant Service since Assembly Bill 1653 (Public Utilities Code, Section 2713) which became effective January 1, 1980 prohibits water purveyors from charging fees to any entity providing fire protection service to others for the use of their facilities for fire protection purposes, except pursuant to a written agreement with such entity providing fire protection service. In the case of Valencia, the county of Los Angeles has stated that it would not enter into a contract to pay such fire hydrant rental or maintenance charges. Valencia also proposes to delete Schedule 10, Service to Company Employees.

Results of Operations

Table 1 compares the summary of earnings estimates of Valencia and the staff for estimated year 1981 at proposed rates, together with the adopted summary of earnings for test year 1981. Applicant's figures for 1981 reflect the revised estimates shown on Exhibit 14. Staff and Valencia's estimates for test year 1981 are basically in agreement except for revenues, power expenses, depreciation, income taxes, and the rate base.

TABLE 1

Valencia Water Company

Summary of Earnings
 Estimated Year 1981
Proposed Rates

	Applicant Revised <u>Ex. 14</u>	Staff	<u>Adopted</u>
	(Dollars in Thousands)		
Operating Revenues	\$1,264.4	\$1,296.6	\$1,265.3
<u>Deductions</u>			
Op. Exp.	468.6	540.5	475.1
A. & G. Exp.	106.7	106.7	106.7
Depreciation	122.3	119.1	122.2
Taxes Other Than Inc.	81.8	81.8	81.8
Inc. Taxes	<u>138.6</u>	<u>120.8</u>	<u>136.6</u>
Total Deductions	<u>918.0</u>	<u>968.9</u>	<u>922.4</u>
Net Revenues	346.4	327.7	342.9
Avg. Rate Base	3,563.8	3,607.9	3,606.3
Rate of Return	9.7%	9.1%	9.51%

Operating Revenues

Since Valencia adopted the staff estimate of the number of residential customers for 1981, the basic difference of \$32,200 in estimated revenues are attributable to the following:

1. Staff estimates 16 Ccf higher consumption per metered residential customer annually	\$27,100
2. Staff estimated 3 extra metered construction customers	31,200
3. Staff included revenues from public fire hydrant service	9,000
4. Staff revenues included public hydrant maintenance charges	2,400
5. Valencia increased quantity charges by 1 cent at August 28, 1980 hearings	(30,500)
6. Miscellaneous differences	(7,000)
Staff revenue estimate higher	<u>\$32,200</u>

In our adopted revenues for test year 1981 we will adopt as reasonable the staff estimates of consumption, Valencia's estimate of metered construction customers, and exclude revenues from public fire hydrant service and hydrant maintenance charges. We believe that the Modified Bean Method used by the staff more accurately depicts the consumption levels for test year 1981. We do not agree with the staff's estimates for a doubling of metered construction customers for test year 1981 and will adopt Valencia's estimate as being more reasonable. We also agree with Valencia that including revenues from public fire hydrant service tariffs would be unreasonable when such amounts are obviously not collectible. We will increase general metered revenues by a comparable amount to offset this source of revenue.

Operating Expenses

The only areas of difference between Valencia and the staff relate to purchased power expenses. Valencia based its estimate on

Southern California Edison Rate Schedules 5142-E effective January 1, 1979 and 5234-E effective July 3, 1979. The staff used more recent rate schedules for the energy cost adjustment clause, the conservation load management adjustment clause, and the Energy Commission Tax. Valencia further adjusted its power consumption to reflect the lower revised estimate of power consumption due to the lower estimate in the number of customers for test year 1981. Valencia requests that its power expenses based on Southern California Edison Company's Tariff Sheets Nos. 5142-E and 5234-E be used for the purposes of this proceeding and that Valencia be permitted to offset any increases in power costs subsequent to the above tariffs by advice letter filing. Valencia states that its rate request was based on earning a 9.65 percent rate of return on rate base and the inclusion of the higher rates used by the staff would penalize the rate of return. We find Valencia's request to be reasonable and will base our adopted power costs on the rates used by Valencia. We will authorize Valencia to file by advice letter for all increases in power costs to date.

Depreciation Expense

Valencia and staff estimates of depreciation expense for test year 1981 differed by approximately \$3,100, due to the staff's failure to include depreciation on the plant investment for the Castaic Lake Water Agency connection. The staff agreed that such depreciation should be included. Our adopted depreciation expense estimate will include depreciation on the Castaic Lake connection.

Rate Base

We will adopt the staff rate base estimate adjusted for depreciation on the Castaic Lake water supply connection as Valencia indicated that the staff estimates were more up-to-date.

Rate of Return

Valencia requests that it be authorized rates to earn a 9.65 percent rate of return on rate base which is estimated to produce

a 10.1 percent return on common equity. Valencia's witness, G. W. Peasley, testified that such rate of return and return on common equity were reasonable based on rates of return granted by this Commission to other Class A water utilities. Although a 10.1 percent return on common equity was lower than what it would like to earn, Valencia indicated it would be satisfied with such return. The staff indicated that it did not find Valencia's requested rate of return unreasonable. We are of the opinion that the rate of return on rate base of 9.51 percent shown on Table 1 under our adopted results will provide Valencia with a reasonable return on its investment.

Rate Design

Valencia's and staff rate design proposal differed for general metered service in that Valencia is requesting an approximate 25 percent increase in service charges for the various sized meters and a flat quantity rate of 32¢ per Ccf. The staff on the other hand proposed that the service charge for the smallest meter (5/8 by 3/4-inch meter) be maintained at present levels with proportionate increase to other meter sizes based on equivalent meter factors. To compensate for lower revenues from service charges, the staff recommends that the quantity rate be set at 33¢ per Ccf.

The staff recommends that its rate design proposal be adopted although it is not in strict conformance with the Commission's lifeline policy. The staff witness testified that his proposal was superior to Valencia's since no increase is proposed on the service charges for the smallest meter which is generally used by residential customers, thereby holding that element of rate as a lifeline rate. He further justified deviating from the Commission's general practice of having lifeline rates on lifeline quantities, as he believed his proposal provided the best fit to collect the required revenues.

Although neither Valencia nor the staff proposed the standard lifeline rate proposals adopted for most water utilities

subject to our jurisdiction, no compelling reasons have been offered for not adopting lifeline rates.

Our adopted rates will provide for no increase in service charge rates for 5/8 x 3/4-inch size meters for general metered customers and will also hold the quantity rate for the first 3 Ccf consumption at the existing 28¢ rate. All consumption in excess of 3 Ccf monthly for general metered customers will be billed at 33.2¢ per Ccf. The adopted lifeline rates will provide bare-bones service at low rates and also provide an incentive to conserve.

Under the adopted rates, the water bill for a typical residential consumer using 21 Ccf of water monthly will increase from \$8.88 under present rates to \$9.82 or an increase of 10.5 percent.

Wage and Price Standards

By Resolution No. M-4704 dated January 30, 1979 the Commission ordered all utilities requesting general rate increases to submit an exhibit to show whether the requested increases comply with the Voluntary Wage and Price Standards issued by the Council of Wage and Price Stability. Valencia in Exhibit No. 4 indicates that the wage increases proposed for test year 1981 are projected at 7 percent and that the requested rate increase for water service is noninflationary and in substantial compliance with the voluntary standards.

Valencia further states that various costs over which the company has no control have increased substantially since its last general rate increase in 1974. During this period Valencia states that the cost of materials and supplies as measured by the Consumer Price Index for the Los Angeles-Long Beach area increased by 60 percent since 1975 to the end of 1979; payroll taxes by 133.9 percent for employees earning \$29,700 in wages subject to payroll taxes; and that electric power costs have increased by 39.6 percent since the most recent offset effective January 4, 1975. Valencia requests that should its rate increase exceed the wage

and price standards an exemption should be granted. We believe that in this case where applicant's last rate increase was over 5 years ago, it would create an undue hardship if applicant is denied the increase authorized herein.

Findings of Fact

1. The adopted estimates previously discussed herein (as set forth in Table 1) of operating revenues, expenses, and rate base for test year 1981 reasonably indicate the results of operations in the near future.

2. A rate of return on rate base of 9.51 percent is reasonable.

3. It is reasonable to establish lifeline rates for general metered customers by holding the service charge rate for 5/8 x 3/4-inch meter at present rates of \$3.00 and holding the quantity rate for the first 3 Ccf of monthly consumption at the existing rate of 28¢ per Ccf. All consumption over 3 Ccf per month will be billed at 33.2¢ per Ccf.

4. Revenues will be increased by \$247,000 by the rates authorized and set forth in Appendix A.

5. It is reasonable to eliminate tariffs for Public Fire Hydrant Service, Service to Company Employees, and also eliminate rates for Private Fire Hydrant Service and charge for such service under Tariff Schedule No. 4, Private Fire Service.

6. County of Los Angeles Fire Department has advised Valencia it would not be willing to enter into a hydrant maintenance contract or to pay for hydrant rental, thereby eliminating such contracts as a source of revenue. Thus, it is reasonable to compensate for such loss of fire hydrant revenue by increasing rates for general metered service in an equivalent amount.

7. Valencia provides reasonable service to its customers as indicated by almost no complainants appearing at the public meeting held by the staff and applicant.

8. The increase in rates and charges authorized by this decision are justified and reasonable.

9. Valencia may file to recover all increases in power costs subsequent to Southern California Edison Tariff Sheets Nos. 5142-E and 5234-E by advice letter filings.

10. Valencia's requested increase is in substantial conformance with the Voluntary Wage and Price Standards. The wage increase for 1981 of 7 percent is within the guideline standards. To the extent that the magnitude of the increase sought may exceed the price standards, we find that since Valencia's last rate increase was in 1975 it would create an undue hardship if applicant is denied the increase authorized herein.

Conclusion of Law

The application should be granted to the extent set forth in the order which follows; the increased rates are just and reasonable.

O R D E R

IT IS ORDERED that after the effective date of this order, Valencia Water Company is authorized to file the rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the new and revised

schedules shall be four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

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

Dated DEC 16 1988, at San Francisco, California.

John E. Guyno
President

Richard D. Howell
Clair J. DeWitt

Commissioners

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

Commissioner Leonard M. Grimes, Jr., being necessarily absent, did not participate.

APPENDIX A
Page 1 of 6

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service for which no special schedule is available.

TERRITORY

The service area of Valencia Water Company in the community of Valencia in Los Angeles County.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>	
First 300 cu.ft., per 100 cu.ft.	\$ 0.280	
Over 300 cu.ft., per 100 cu.ft.	0.332	(I)
 Service Charge:		
For 5/8 x 3/4-inch meter	\$ 3.00	
For 3/4-inch meter	3.50	(I)
For 1-inch meter	5.00	
For 1½-inch meter	7.00	
For 2-inch meter	10.00	
For 3-inch meter	18.00	
For 4-inch meter	25.00	
For 6-inch meter	40.00	
For 8-inch meter	60.00	
For 10-inch meter	70.00	(I)

The Service Charge is applicable to all General Metered Service and is a readiness-to-serve charge. It is added to the charge computed at the Quantity Rates for water used during the month.

APPENDIX A
Page 2 of 6

Schedule No. 3-ML

GOLF COURSE METERED INTERRUPTIBLE OFF-PEAK SERVICE

APPLICABILITY

Applicable to irrigation water service furnished to private or publicly owned golf courses.

TERRITORY

Valencia and vicinity, Los Angeles County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		
For all water delivered, per 100 cu.ft.	\$ 0.16	(I)
Minimum Charge:		
For 4-inch meter	\$ 50.00	(I)
For 6-inch meter	81.25	
For 8-inch meter	125.00	
For 10-inch meter	187.50	(I)

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

SPECIAL CONDITIONS

1. The golf course metered interruptible off-peak service is subject to interruption of service whenever the utility determines that service to its other customers will be impaired.
2. The off-peak period during which this schedule is applicable is between the hours of 9 p.m. and 7 a.m. of the following day, or during other hours as may be determined from day to day by the utility.
3. The minimum diameter for 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.

4

(Continued)

APPENDIX A
Page 3 of 6

Schedule No. 3-ML

GOLF COURSE METERED INTERRUPTIBLE OFF-PEAK SERVICE

SPECIAL CONDITIONS (Cont.)

4. If a distribution main of adequate size to serve the golf course 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.

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

APPENDIX A
Page 4 of 6

Schedule No. 4

PRIVATE FIRE SERVICE

(N)

APPLICABILITY

Applicable to all private fire service.

TERRITORY

Valencia and vicinity, Los Angeles County.

RATES

	<u>Per Month</u>
For each 4-inch service connection	\$ 7.50
For each 6-inch service connection	11.25
For each 8-inch service connection	15.00
For each 10-inch service connection	31.25
For each 12-inch service connection	43.75

SPECIAL CONDITIONS

1. The private 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.

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

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

4. Service hereunder is for private fire protection to which no connections for other than private fire service 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 Insurance Services Office for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

5. For water delivered for other than private fire service, charges shall be made therefor under Schedule No. 1, General Metered Service.

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

APPENDIX A
Page 5 of 6

Schedule No. 9-FC

FLAT RATE CONSTRUCTION SERVICE

APPLICABILITY

Applicable to unmetered construction water service provided from permanently installed water services prior to meter installation and used on the premises for which the service was installed.

TERRITORY

Valencia and vicinity, Los Angeles County.

RATES

	<u>Per Service Per Month</u>		
For 3/4-inch service	\$ 3.75	(I)	
For 1-inch service	5.50		
For 1 1/4-inch service	6.00		
For 2-inch service	8.00		
For 3-inch service	12.00		
For 4-inch service	20.00		
For 6-inch service	30.00		
For 8-inch service	45.00		
For 10-inch service	70.00		(I)

SPECIAL CONDITIONS

For other unmetered water use, as determined by the utility, an estimate of the quantity of water used will be made by the utility. The charge for this water will be made at the quantity rate for Schedule No. 9-MC, Metered Construction Service.

APPENDIX A
Page 6 of 6

Schedule No. 9-MC

METERED CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all measured water service furnished for street paving, grading and trench flooding and for delivery to tank trucks.

TERRITORY

Valencia and vicinity, Los Angeles County.

RATES

Service Charge:

For installation and removal or relocation
of the meter when necessary, in advance \$31.25 (I)

Quantity Rate:

	<u>Per Meter</u>	
	<u>Per Month</u>	
For all water delivered, per 100 cu.ft.	\$ 0.52	(I)

SPECIAL CONDITIONS

1. Construction water service under this schedule will be furnished only when surplus water is available over the requirements for domestic service and under conditions which will not adversely affect domestic service. The utility will be the sole judge as to the availability of such surplus water.

2. Applicants for metered construction water will be required to apply for the service at least 48 hours in advance of the time for delivery of the water.

3. In accordance with Rule No. 13, Temporary Service, a deposit will be required in advance for each meter and connection to cover the cost of installation and removal of the meter and connection.