

ORIGINAL

Decision No. 18399.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of SOUTHERN CALIFORNIA UTILITIES, INC., for authority to increase water rates.	) Application No. 13305 )
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Paul Overton, for Applicant.  
 Carson B. Hubbard, City Attorney, for City  
 of Huntington Park, Protestant.  
 C. A. Johnson, for Florence Chamber of Com-  
 merce, Protestant.  
 Lorenzo Romans, for Tract 5450, Protestant.  
 Mrs. Bettie Mahood, for Fruitland District  
 of Huntington Park, Protestant.

BY THE COMMISSION:

O P I N I O N

Southern California Utilities, Inc. supplying water for domestic and industrial uses in and in the vicinity of the City of Vernon, and in what is known as Goodyear Park, Los Angeles County, requests authority from the Railroad Commission to increase its schedule of rates. Applicant alleges in effect that the present rates are unjust and unreasonable in that they do not produce sufficient revenue to earn a fair return upon the investment.

A public hearing in this proceeding was held before Examiner Williams at Los Angeles after all interested parties had been duly notified and given an opportunity to be present and be heard.

This water system was originally installed in 1903 and

operated under the name of South Los Angeles Water Company. In 1916, the name was changed to South Los Angeles Land and Water Company, and, in January 1926, the system was transferred to the Southern California Utilities, Inc. by authority of the Commission in its Decision No. 16727. In 1920, the City of Huntington Park purchased all that portion of the system within its then city limits. Service by applicant has now been extended to include the City of Vernon and what is known as Goodyear Park.

The water supply is obtained from wells located at four advantageous points within the territory served. Water is either pumped directly into the mains or elevated into high storage tanks from which it is distributed by gravity to the consumers. At the present time applicant has an ample water supply to meet system demands and apparently has an abundant underground supply for future development.

The rates now in effect were established before the enactment of the Public Utilities Act and are as follows:

MINIMUM RATE PER MONTH

For 1000 cubic feet . . . . .	\$1.00
For each 100 cubic feet in excess of 1000 cu. ft. . . . .	.10

On December 1, 1926, the following flat rates for special construction service were accepted for filing:

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|---|--------|
| (1) For cement walks for each 100 square feet . . . . .   | \$0.20 |
| (2) For cement curbs for each 100 linear feet . . . . .   | .40    |
| (3) For all other purposes - per barrel of<br>cement used . . . . .   | .10    |
| (4) For grading, macadam or other natural sur-<br>face street work per 1000 square feet .. . . .                    | .50    |
| (5) For water settling pipe trenches less than<br>2 feet width and 4 feet depth per<br>linear foot trench . . . . . | .02    |
- For wider and deeper trenches, a proportional charge shall be made.

Detailed reports showing an appraisal of the properties of this utility, replacement annuity, an analysis of maintenance and

operating expense, and revenues were submitted at the hearing by R.H. Nicholson, for applicant, and F.E. Van Hoesen, one of the Commission's Hydraulic Engineers. A summary of the final results of these reports covering the above items is set out below:

	<u>Nicholson</u>	<u>Van Hoesen</u>
Estimated Original Cost as of		
January 1, 1927 . . . . .	\$758,238.	\$678,254.
Annuity 5% Sinking Fund Method . . . . .	16,253.	14,308.
Maintenance and Operating Expense		
for 1926 . . . . .	73,009.	69,757.
1926 Revenues . . . . .	115,336.	115,336.

An analysis of the details of these appraisals shows a considerable variation in the estimates of cost of lands which is largely due to differences in classification as to usefulness in the public service. It appears from the testimony that applicant has included certain lands which are not at the present time used or useful in supplying water to its consumers. These lands are located in a business or industrial area, but the wells located thereon have not been used for many years last past. Better and more advantageously located wells have been drilled elsewhere. From the evidence it appears that the physical properties classified as non-operative by the Commission's engineer were properly excluded and we are therefore of the opinion that, for the purposes of this proceeding, the sum of \$678,254. is a fair and proper rate base and that \$14,308. is a reasonable allowance for the annual depreciation fund.

The record discloses considerable variation in the costs of operation and maintenance for both past and future as submitted by applicant and the Commission's engineer. Applicant set forth the operating expenses for 1926 to be \$73,009. and estimated the expenses for 1927 to be \$79,055., while the Commission's engineer gave the operating expenses for 1926 as \$69,757. and estimated

the reasonable costs of operation for the immediate future to be \$63,475. The evidence shows that applicant has included in the operating expenses some capital charges, certain expenditures incurred in prior years and also certain extraordinary expenses which will not recur annually together with items of expense which have now been eliminated entirely and will not arise in the future. However, it also appears that the estimate of future operating expenses as presented by the engineer for the Commission did not make adequate provision for the increased taxes attributable mainly to the two per cent gross revenue tax levied by the County of Los Angeles on water systems and also general office and commercial expense. In view of these circumstances, it appears that the sum of \$67,000. is an adequate and proper allowance for the operating and maintenance expenses for the immediate future.

Based upon the foregoing figures and using the operating expenses as determined for the future, the operations for the year 1926 resulted in gross revenues of \$115,336. and a net return of approximately 5% upon the rate base of \$676,254. It is apparent, therefore, that applicant is entitled to an increased schedule of rates.

A considerable amount of dissatisfaction was expressed by many of the consumers with the existing rate schedule which provides for the collection of a minimum monthly charge from each patron where water is furnished to more than one consumer through the same metered service connection. Obviously, this method will produce more revenues than when only a single monthly minimum is charged for each meter. To abolish the present type of rate structure on this system under the existing operating conditions will necessarily require a substantial increase in the quantity rates to produce the same revenues. In this particular instance, the suggested change will result in the loss of approximately

\$1,000. per month in revenues or about \$12,000. per year which will have to be made up through an increased rate.

This utility is operating upon a competitive basis with a municipally owned and operated water works and has for this reason requested the establishment of a rate that will produce a certain amount of increased revenues and at the same time still permit it to continue to serve in the areas made competitive by the municipal water works. The rate established herein is substantially the rate requested by applicant and will result in but only a slight increase in the cost of water to the consumers. In connection with the minimum monthly charges, it should be pointed out that each consumer is entitled to a separate metered service connection and should the plumbing upon his premises be so arranged as to be supplied by an individual pipe, such consumer may have installed, without expense to him, a separate meter by applying to the utility.

#### O R D E R

Southern California Utilities, Inc., having made application as entitled above, a public hearing having been held thereon, and the Commission being now fully informed in the matter,

It is hereby found as a fact that the rates now charged by Southern California Utilities, Inc. for water delivered to consumers in and in the vicinity of Vernon, and what is known as Good-year Park, Los Angeles County, are unjust and unreasonable insofar as they differ from the rates herein established, and that the rates herein established are just and reasonable rates for such service.

Basing its Order upon the foregoing finding of fact and upon the statements of fact contained in the preceding opinion,

IT IS HEREBY ORDERED that Southern California Utilities, Inc. be and it is hereby directed to file with this Commission within thirty (30) days of this Order the following schedule of

