

Decision No. 36685

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the investigation upon the Commission's own motion into the water rates, rules, regulations, charges, classifications, practices, contracts and service, or any of them, of SOUTHERN CALIFORNIA WATER COMPANY, in the service of water in that area designated as its Venice System.

ORIGINAL

Case No. 4690

In the matter of the investigation upon the Commission's own motion into the water rates, rules, regulations, charges, classifications, practices, contracts and service, or any of them, of SOUTHERN CALIFORNIA WATER COMPANY, in the service of water in that area designated as its Culver City - Palms System.

Case No. 4697

O'MELVERN & MEERS, By W. W. CLARY, 433 South Spring St., Los Angeles, for Southern California Water Company, respondent.

RAY L. CHESEBRO, City Attorney, By GILMORE TILMAN, Assistant City Attorney; and STANLEY M. LANHAM, Chief Engineer and General Manager of the Board of Public Utilities and Transportation of the City of Los Angeles; for the City of Los Angeles.

M. TELLEFSON, City Attorney, for City of Culver City.

HAVENNER, COMMISSIONER:

OPINION

These cases are investigations on the Commission's own motion into the reasonableness of the water rates in Venice System and Culver City-Palms System, two of the 29 systems operated by Southern California Water Company. Hearings were held in Los Angeles on September 27 and October 14, 1943, and the two cases were consolidated for a hearing and decision.

Southern California Water Company is a corporation organized under the laws of the State of California and represents the consolidation of some

20 corporations which were formerly operating under the jurisdiction of the Commission as public utilities. All of the outstanding shares of common stock, as of December 31, 1942, were owned by American States Utilities Corporation, (a Maryland corporation) which thus controls the California company.

Southern California Water Company, hereinafter referred to as the company, operates entirely in Southern California, except for a small system near Sacramento. Twenty-nine of its operating units render public utility water service. Electric service is rendered in Big Bear Valley, a portion of which is also served with water by the company. The company operates one non-utility service, a small ice plant in Barstow. In the year 1942, 94.46% of the revenue was derived from the water operations; 3.73% from electric; and the remaining 1.81% from nonutility operations. The combined estimated population served by the water department is approximately 224,000 persons.

The present proceeding is the culmination of a special study (S-180) inaugurated by the Commission in September, 1939, into the operations of the company. As a result of the preliminary report, a very comprehensive study was undertaken of the fixed capital of selected systems of the company. The Valuation Division of the Commission has made detailed investigations of three separate systems, namely, Venice, Culver City-Palms, and Florence-Graham. Following these studies, the company applied to the Commission for permission to restate its books on the basis of the original cost and accrued depreciation statements prepared by the Commission's staff. The Commission granted its permission and the books have been restated. After further study of the company's operations, representatives of the Commission's staff entered into negotiations with the company, looking forward to a rate adjustment in the amount of some \$80,000 annually, approximately equally divided between the Venice and Florence-Graham Systems. Subsequently, representatives of the company in conference with the Commission offered to make a reduction of \$40,000 in the Venice area, and approximately \$15,000 in the Florence-Graham area. In the

course of these negotiations there developed several points of difference between representatives of the company and members of the Commission's staff, and as a result formal proceedings were inaugurated as to the Venice System, and because of the physical interconnections, the Culver City-Palms System.

The company, at the first hearing, indicated its willingness to reduce the Venice rates in the amount of approximately \$40,000 annually to put them on a parity with the rates in the Culver City-Palms System. The offer by the company was taken under consideration by the Commission. After further negotiations between representatives of the company, Commission's staff, and cities of Los Angeles and Culver City, the company, at the hearing on October 14, 1943, agreed to an over-all reduction of \$80,000 and the cases were submitted for decision. Approximately \$40,000 of the reduction will be made in the Venice and Culver City-Palms Systems and the remainder in the Florence-Graham and other systems as developed by further study and conference. In addition certain other rate adjustments in the Culver City area were agreed upon.

The Venice Water System of the company is operated in conjunction with the Culver City-Palms System as the Venice, Culver City-Palms District. Geographically adjacent, the two properties are linked by the joint use of a water reservoir, and are operated under the direction of one district superintendent. Mr. James F. Wilson, one of the Commission's engineers, testified that the two systems should be consolidated, as they are interconnected and have other characteristics of operation that would warrant their being operated as one system. The revenue for the Venice System in 1942 amounted to \$218,941.89, and represented 15.45% of the total revenue from water operations. The corresponding figures for the Culver City-Palms System were \$138,002.25, representing 9.74% of the total revenues from water operations. The company maintains a business office at 1718 Main Street in Venice, and 9909 Venice Boulevard in Palms, while operating headquarters for both systems are located at the Charnock Water Plant, Charnock Road between Sawtelle and Inglewood Boulevards in Venice. As of December 31, 1942, the Venice System had 18

employees, and the Culver City-Palms System had 6. However, a number of the employees of the Venice System spent a portion of their time at work on the Culver City-Palms System.

A ten-inch pipe line interconnection exists between the Culver City-Palms and Venice Systems. This connection is normally open so that the Grandview Reservoir in Venice floats as a pressure control on the two distribution systems. There is also a second interconnection between the two systems. It is concluded that, under the circumstances, these two systems should be considered as a single integrated operation.

Ground water lying from 60 to 170 feet below the surface constitutes the Venice System's chief source of water supply, and ground water lying from 123 to 132 feet below the surface constitutes the Culver City-Palms System's chief source of supply.

The staff of the Commission⁽¹⁾ submitted a report on the results of operation for the company as a whole, Exhibit No. 1; for the Venice System, Exhibit No. 2; and for the Culver City-Palms System, Exhibit No. 3. These three exhibits covered operations for the years 1941 and 1942.⁽²⁾

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- (1) The report on results of operations was prepared by members of the Commission's staff under the direction of E. F. McNaughton, Director, Public Utilities Department and W. C. Fankhauser, Financial Expert.
 - (2) The reports on Results of Operation were prepared by members of the Commission's Public Utilities Department and Department of Finance and Accounts. An analysis of the Balance Sheet, Income Statement and Depreciation Reserve were prepared under the direction of W. C. Fankhauser, Financial Expert, assisted by Theodore Stein.

The chapters on History, Present Operations, Operating Revenues, Operating and Maintenance Expenses, General Expense, Taxes, Summary of Earnings and Customer Distribution and Usage were prepared under the direction of Walter B. Wessells, Research Engineer, and by James F. Wilson and Stewart Weber.

The chapters on Fixed Capital, Rate Base, Accrued Depreciation, Clearing Accounts, Common Properties and Depreciation Expense were prepared under the supervision of C. T. Mess, Valuation Engineer, by John W. Pringle, R. P. O'Brien and T. A. Hopkins. The chapter on Present Value of Lands was prepared by E. P. McAuliffe assisted by M. W. Boright.

The results of operation as shown by these exhibits for the Venice and Culver City-Palms area for the year 1942 (including certain adjustments) are as follows:

Item	Venice System	Culver City-Palms System	Combined
Rate Base-Undepreciated	\$1,275,100	\$696,700	\$1,971,800
Depreciation Reserve	280,800	141,300	422,100
Rate Base-Depreciated	994,300	555,400	1,549,700
Operating Revenues	218,942	138,002	356,944
Operating & Maintenance Expense	51,504	53,027	104,531
Uncollectibles	446	76	522
General Expense	19,197	12,743	31,940
Depreciation Exp. (Straight Line)	25,240	15,361	40,601
Taxes - All Exc. Income	11,377	7,341	18,718
- State Corp. Franchise	2,483	1,631	4,114
- Federal Income	24,605	11,425	36,030
- Fed. Ex. Pr. Tax	3,459	1,606	5,065
Total Expense & Taxes	138,311	103,210	241,521
Net Revenue	\$ 80,631	\$ 34,792	\$ 115,423
Rate of Return	8.11%	6.26%	7.45%

In considering the adjustment of rates of a corporation such as the Southern California Water Company, the problem arises as to the area of operations to be used for rate fixing purposes. As a result of the discussions between representatives of the Commission's staff and the company, the following statement was submitted by the company setting forth its position with reference to the principle:

"Due to the fact that operating and other conditions vary in the different service areas, the company does not have a uniform rate schedule for its entire system. In each service area there is an individual rate schedule which reflects as nearly as possible the operating and other conditions existing in that particular area. The company agrees to the propriety of this practice."

The above statement substantially reflects the practices which have been followed by the California Commission in fixing rates for nonintegrated systems.

The revenues derived from the combined Venice and Culver City-Palms Systems from presently effective rates is shown in the tabulation on the following page for the year 1942.

Classes of Service	Operating Revenues		
	Venice	Culver City-Palms	Combined
R-1 Commercial			
Flat Rate	\$ 391.52	\$ -	\$ 391.52
Metered	196,575.82	112,863.90	309,439.72
R-2 Industrial Metered	10,909.25	17,957.72	28,866.97
R-3 Municipal Hydrants	8,958.00	5,430.00	14,388.00
R-5 Municipal Departments	748.95	1,626.27	2,375.22
R-6 Irrigation	1,149.35	-	1,149.35
R-7 Miscellaneous	209.00	124.36	333.36
Total Revenues	\$218,941.89	\$138,002.25	\$356,944.14

The average number of customers in each of these classifications for the year 1942 is as follows:

Classes of Service	Customers		
	Venice	Culver City-Palms	Combined
R-1 Commercial			
Flat Rate	17	-	17
Metered	8,005	5,468	13,473
R-2 Industrial Metered	68	67	135
R-6 Irrigation	8	-	8
Total Customers	8,098	5,535	13,633

The reported operating expenses excluding taxes and depreciation for the year 1942 were as follows:

Item	Operating Expenses (Exclud. Taxes & Deprec.)		
	Venice	Culver City-Palms	Combined
Production	\$26,199.66	\$32,856.09	\$ 59,055.75
Transmission & Distribution	15,443.12	7,321.83	22,764.95
Commercial	13,734.00	9,810.03	23,544.03
Uncollectibles	445.59	75.95	521.54
General & Miscellaneous	19,196.62	12,743.02	31,939.64
Total Operating Expenses	\$75,018.99	\$62,806.92	\$137,825.91

The tax structure particularly with reference to federal taxes under war conditions has changed greatly during recent years. However, the 1943 tax structure has not been changed from the 1942 base and all indications are that any further changes, if any, made by Congress will not be retroactive to 1943 conditions. It appears, therefore, that the most significant analysis of taxes deals with the bases effective in 1942.

In 1942 taxes accrued and allocated to the Venice and Culver City-Palms operations were as follows:

Type	Taxes		
	Venice	Culver City-Palms	Combined
City and County Ad Valorem and Local Franchise	\$10,195.20	\$ 6,565.32	\$16,760.52
State Corporation Franchise & Unemployment	2,406.15	1,580.10	3,986.25
Federal Excess Profits Income & Surtax	11,189.62 20,751.36	5,192.79 9,630.12	16,382.41 30,381.48
Capital Stock, Unemploy- ment & Old Age	960.30	630.62	1,590.92
Total Taxes	\$45,502.63	\$23,598.95	\$69,101.58

The record shows that a complete investigation of the historical cost and depreciation reserve requirements of the Culver City and Venice properties has been made during the past several years by Mr. C. T. Mess, Valuation Engineer of the Commission, and his assistants. These studies were agreed to by the company, and during 1942 the books of the company were adjusted, with the approval of the Commission, to this new basis for both the Culver City and Venice Systems. The amounts of capital, as shown by the record, as of December 31, 1942, were as follows:

Item	Fixed Capital		
	Venice	Culver City-Palms	Combined
Intangible Capital	\$ 18,776.79	\$ 2,715.58	\$ 21,492.37
Tangible Landed Capital	34,455.36	21,041.01	55,496.37
Tangible Nonlanded	1,347,774.19	901,473.80	2,249,247.99
Total Fixed Capital	\$1,401,006.34	\$925,230.39	\$2,326,236.73

Likewise, the depreciation reserve, as adjusted on the straight line method by request of the company, as of December 31, 1942, is as follows:

	Venice	Culver City-Palms	Combined
Depreciation Reserve	\$325,901.57	\$195,183.11	\$521,084.68

Extensions of service into new real estate subdivisions and to new customers have, in many instances, been built through funds advanced by the subdivider or customer, or through actual construction of the distribution system by the subdivider, and the donation of such plant to the utility for

operation. The amounts of such property included in the original cost as set up on the books are as follows:

Item	: Advances & Donations in Aid of Construction :		
	: Venice	: Culver City-Palms:	: Combined :
Mains	\$120,472.17	\$226,487.00	\$346,959.17
Hydrants	37,757.17	8,992.00	46,749.17
Services	333.52	7,628.01	8,021.53
Meters	667.04	8,890.22	9,557.26
General Garage Equipment	200.00	-	200.00
Total	\$159,429.90	\$252,057.23	\$411,487.13

With respect to the customers' advances, such monies may be refunded later, (3) or if the areas have not developed sufficiently within the time period the unrefunded portion of such advances are transferred to "Donations in Aid of Construction." The purpose of this arrangement is to protect the existing customers and the utility in its extension policies. The rate base prepared by the staff was determined by deducting from the cost as recorded on the company's books the amounts of donations and unrefunded advances.

Landed capital is included in the staff reports at market value which conforms to the past practice of the Commission in the determination of rate bases.

Working capital is made up of two parts; materials and supplies and working cash. Materials and supplies were allocated to the Venice and Culver City-Palms Systems on the basis of fixed capital ratios. Working cash was allocated to the systems on the basis of computed working cash requirements after giving effect to tax accruals.

Depreciation expense is on a straight line basis consistent with the basis used in calculating the depreciation reserve.

The record shows that federal income taxes will be higher in 1942 than the amount shown by Exhibits 1, 2 and 3 because of a recent agreement with the Bureau of Internal Revenue on disputed items. Offsetting increases in allowable expense, however, is an increase in business in 1943 as shown by Exhibits 5, 6, 7 and 8. It is the position of the Commission's staff that the

(3) Generally within a ten-year period subject to time extensions provided in Decision No. 36528.

7.45% rate of return shown by Exhibit 4 for the year 1942 for the combined Venice-Culver City System may be accepted as representative of the future; and that a rate reduction of \$40,000 will reduce the return to slightly in excess of 6% rate of return.

In view of the agreement reached, the company did not cross-examine the Commission staff witnesses, nor introduce testimony on its own behalf, and specifically did not agree to the methods used by the staff.

Mr. C. P. Harnish, Executive Vice President of the company, presented the proposed agreed rate schedule for the combined Venice-Culver City-Palms System as follows:

	<u>Per Meter Per Month</u>
First 800 cu. ft. or less	\$1.00
Next 6,700 cu. ft. per 100 cu. ft.12 $\frac{1}{2}$
Over 7,500 cu. ft. per 100 cu. ft.10

Minimum charges would be established on a graduated scale starting at \$1.00 per month for 5/8" meters and extending to \$25.00 per month for 8" meters. These minimum charges would entitle the consumer to the quantity of water which that monthly minimum charge will purchase at the quantity rates.

Mr. Harnish further testified that the initial proposed reduction of rates would result in a gross annual reduction in the revenues of the present Venice System by approximately \$40,000. He estimated that a net minimum reduction of approximately \$3,700 would be made in the revenues of the present Culver City-Palms System resulting from eliminating an extra 50 cents per month minimum charge per additional business or dwelling served through one meter, but offset by an increase because of higher minimum charges for meters larger than 5/8".

The consolidation of the general rules and regulations for the service areas is under consideration but will not be attempted at this time.

Representatives of the City of Los Angeles and the City of Culver City participated in the hearings and conferences during the course of this proceeding, with reference to the reductions herein ordered.

The order will provide for the rates to be effective with meter readings beginning December 1, 1943 in order that a copy of this decision may be furnished the Office of Price Administration not less than thirty (30) days prior to the effective date of rates.

As a result of this proceeding a substantial reduction in charges to consumers will be made, and although minor increases will result from establishing a uniform schedule of minimum charges throughout the Venice and Culver City-Palms Systems, a more equitable distribution of charges will be made.

I recommend the following form of order.

ORDER

A public hearing having been held in the above proceedings and the matters having been submitted for decision;

IT IS HEREBY FOUND AS A FACT that the rates charged by Southern California Water Company for water service in the Venice System and Culver City-Palms System, in so far as they differ from the rates herein established are unjust and unreasonable and that the rates herein ordered are just and reasonable, and basing this order upon the foregoing findings of fact and statements of fact contained in the Opinion preceding this Order,

IT IS HEREBY ORDERED that Southern California Water Company shall file in each of the four presently existing tariff areas hereinafter designated, on or before November 15, 1943, and to become effective with meter readings taken on and after December 1, 1943, the following General Metered Service Schedule:

GENERAL METERED SERVICE

Applicability

Applicable to domestic, commercial, industrial and irrigation metered water service.

Territory

Within the area served by the Venice and Culver City-Palms water systems.

Rates

Per Meter
Per Month

Quantity Charge

First 800 cu. ft. or less	\$1.00
Next 6,700 cu. ft., per 100 cu. ft.12
Over 7,500 cu. ft., per 100 cu. ft.10

Minimum Charge

For 5/8 inch meter	1.00
For 3/4 inch meter	1.75
For 1 inch meter	2.00
For 1 1/2 inch meter	3.50
For 2 inch meter	5.00
For 3 inch meter	7.50
For 4 inch meter	10.00
For 6 inch meter	15.00
For 8 inch meter	25.00

The Minimum Charge will entitle the consumer to the quantity of water which that monthly minimum charge will purchase at the Quantity Rates.

IT IS HEREBY FURTHER ORDERED that Southern California Water Company, coincident with the above filing and effective on the same date cancel the following schedules of rates:

1. Rate schedule filed June 14, 1933 by American States Water Service Company of California applicable to Venice service area.
2. Rate schedule filed June 14, 1933 by American States Water Service Company of California applicable to Ocean Park - Mar Vista service area.
3. Rate schedule filed November 25, 1924 by Peoples Water Company of Palms applicable to Culver City-Palms service area.
4. Rate schedule filed December 8, 1925 by Mesmer City Water Company applicable to Mesmer City service area.

IT IS HEREBY FURTHER ORDERED that the Southern California Water Company may consolidate the operations of the Venice and Culver-City Palms Systems in so far as reports to this Commission are concerned on January 1, 1944.

For all other purposes the effective date of this Order shall be twenty (20) days from and after the date hereof.

The foregoing Opinion and Order are hereby approved and filed as
the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 26th day of
October, 1943.

Francis A. Johnson
J. J. Ball
Justin F. Coe
Richard H. ...
Frank W. ...
Commissioners