

ORIGINAL

Decision No. 39806

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 AIRWAYS WATER COMPANY, INC., a
 California corporation, for authority
 to increase rates and to issue notes.

Application No. 27562

Herbert Cameron, Attorney for Applicant.
 George W. Lowe, Mabel D. Munger and:
 Kenneth Sampsel, for the Consumers.

O P I N I O N

Airways Water Company, Inc., a corporation, is engaged in the business of supplying domestic water service in an unincorporated area of 260 acres adjacent to the westerly boundary of the City of Hawthorne in Los Angeles County. In this proceeding the Commission is asked to authorize an increase in the schedule of flat rates and to establish a schedule of meter rates. The Commission also is asked to authorize the issuance of notes in the sum of \$25,000.

The Office of Price Administration was duly notified of the filing of this application and of the time and place set for the hearing thereof.

A public hearing was held in Los Angeles before Examiner Wm. Stava.

Airways Water Company, Inc., serves water to a subdivided territory formerly a part of the Bohan Ranch outside of the City of Los Angeles and also outside but adjoining the City of Hawthorne in Los Angeles County.

The water supply is obtained from five deep wells located in various sections of the project. Each well is equipped with a turbine pump directly connected to an electric motor. The pumps discharge through automatically-controlled pressure tanks into the distribution system. The total pumping capacity is 1,600 gallons per minute. The distribution system consists of 49,181 feet of steel pipe

lines, varying in diameter from two to six inches. There were 1,158 consumers as of October 1, 1946:

Much difficulty has been experienced from crenothrix, an iron bacteria which produces iron rust stains and a disagreeable taste in and to the water. Chlorine control is now in use and has offered considerable relief in conjunction with a continuous program of main flushing through hydrants and blow-off valves. The company intends further to install additional fire hydrants and blow-off valves this winter which should materially improve the quality of the water. Consumers also complained of the hardness of the water.

At present all water service is on a flat rate basis. The schedule of rates now in effect was established by the Commission in its Decision No. 34356, issued August 27, 1941, and is as follows:

FLAT RATES

| <u>Classification:</u> | <u>Per Month</u> |
|---|------------------|
| One single residence on one lot | \$1.50 |
| Each additional residence on the same lot | 1.00 |
| Restaurants | 2.50 |
| Service stations | 2.50 |
| Stores, markets and other business, each | 1.50 |

Louis L. Robinson, secretary-treasurer of the company, and James F. Wilson, one of the Commission's hydraulic engineers, presented reports on fixed capital, depreciation, revenues and expenses. The fixed capital was based upon an appraisal of the used and useful property of the company made in 1941 by Evrett L. Clark, one of the Commission's engineers. This appraisal reflected the original cost of the property and in most cases was based upon supporting vouchers in the company's records. To these amounts were added the adjusted net additions and betterments.

The company uses the straight-line method in calculating depreciation. The depreciation reserve balance at the end of the year 1940 was \$1,249.15. During the years 1941 through 1945, a total of \$6,469.37 was credited to the reserve and

\$1,243.81 charged against the reserve for property retired, leaving a balance of \$6,475.71 in the reserve at the end of the year 1945. However depreciation annuity, calculated by the 5% sinking fund method, would be \$1,568.48 for the year 1945.

There was no disagreement in the fixed capital as of December 31, 1945, which amounted to \$62,969. The net additions and betterments to August 31, 1946, are reported to be only \$691, making a total fixed capital investment of \$63,660 as of this date. In addition to the above, complete metering of the system, to be finished as soon as meters are available, will require an estimated \$21,024, which amount will be expended over two or more years as far as the present outlook for meter deliveries is concerned.

From the evidence presented, the following tabulation shows the results of operation for the year 1945:

| Item | Year 1945 | |
|---------------------------------------|---------------|---------------|
| | Recorded | Adjusted |
| Operating Revenues from Sale of Water | \$20,774 | \$20,774 |
| Operating Expenses | <u>21,584</u> | <u>20,703</u> |
| Net Operating Revenue | \$ (810) | \$ 71 |
| Undepreciated Rate Base | \$62,495 | \$62,495 |
| Depreciation Reserve | <u>6,476</u> | |
| Depreciated Rate Base | \$56,019 | |
| Rate of Return | | 0.001% |

(Red Figure)

The net return for 1945 was considerably less than 1%. The evidence shows that the area served by applicant is now practically fully developed. The new capital installed during 1946 is less than \$1,000. The revenues have been about the same while the operating costs have increased somewhat, mainly through higher labor and material costs. The net rate of return for 1946, therefore, is slightly less than for 1945. It is clear therefore that this return is insufficient and that the present schedule of rates should be adjusted.

The flat rate schedule proposed by applicant is estimated to yield a net return of less than 5% on the estimated 1946 earnings. The yield on meter rates is practically the same.

The applicant seeks authority to issue unsecured notes in the sum of \$25,000 to Inglewood Properties, Inc., and its three officers for moneys advanced during the past three years to defray the cost of additions and betterments to the water system. The amounts due these creditors, as of April 30, 1946, are as follows:

| | |
|--|-----------------|
| Inglewood Properties, Inc. | \$16,933.48 |
| Louis L. Robinson, secretary-treasurer | 4,400.00 |
| C. M. Heintz, vice president | 2,000.00 |
| F. L. Botsford, president | <u>2,000.00</u> |
| Total | \$25,333.48 |

The four creditors have agreed to accept, in cancellation of these debts, \$1,000 unsecured notes, payable twenty years from the date of issuance, with interest at the rate of 5% per annum, payable semi-annually. The notes are redeemable on any interest-payment date on thirty-days written notice to the holder thereof. Inglewood Properties will accept 17 such notes and pay a cash adjustment to the company in the sum of \$66.52. Louis L. Robinson will accept four such notes and the balance of \$400 in cash upon the issuance of such notes or at such other time as applicant is financially able to pay. C. M. Heintz and F. L. Botsford will each accept two such notes.

ORDER

Application having been filed as entitled above, a public hearing having been held thereon, the matter having been duly submitted and the Commission being of the opinion that the money, property or labor to be procured or paid for through the issuance of notes in the amount of \$25,000 by Airways Water Company, Inc. as reasonably required by it for the purpose herein stated, therefore,

IT IS HEREBY ORDERED that Airways Water Company, Inc., may, after the effective date hereof, and on or before March 1, 1947, issue not exceeding \$25,000

face amount of unsecured 5% twenty-year notes for the purpose of refunding the indebtedness to which reference is made in the foregoing Opinion, said notes to be in substantially the same form as the note filed in this application as Exhibit D.

IT IS HEREBY FOUND AS A FACT that the rates now charged by Airways Water Company, Inc., for water supplied to its customers in Los Angeles County are unjust and unreasonable in so far as they differ from the rates herein established, and that the rates herein established are just and reasonable rates to be charged for the service rendered, and basing its order upon the foregoing findings of fact and upon further statements of fact contained in the Opinion which precedes this Order,

IT IS HEREBY FURTHER ORDERED AS FOLLOWS:

1. That Airways Water Company, Inc., a corporation, be and it is hereby authorized and directed to file in quadruplicate with the Public Utilities Commission of the State of California, within thirty (30) days from the date of this Order, the following schedule of rates to be charged for all water service rendered to its customers on and after the first day of January, 1947:

Schedule No. 1

MONTHLY FLAT RATES

Applicability:

For all water furnished on a flat rate basis.

Territory:

In an unincorporated area of 260 acres adjacent to the westerly boundary of the City of Hawthorne in Los Angeles County.

Rates:

Per Month

| | |
|--|--------|
| One single residence on one lot | \$1.80 |
| Each additional residence on same lot | 1.20 |
| Restaurants | 3.00 |
| Service stations | 3.00 |
| Stores, markets and other business, each | 2.00 |

Special Conditions:

1. Rates for flat rate service are payable in advance.

Schedule No. 2.

MONTHLY METER RATES

Applicability:

Applicable to all water service furnished on a metered basis.

Territory:

In an unincorporated area of 260 acres adjacent to the westerly boundary of the City of Hawthorne in Los Angeles County.

Rates:

Per Meter.
Per Month

Minimum Monthly Charges:

| | |
|-------------------------------------|--------|
| For 5/8 x 3/4 inch meters | \$1.50 |
| For 3/4 inch meters | 1.75 |
| For 1 inch meters | 2.00 |
| For 1 1/2 inch meters | 3.50 |
| For 2 inch meters | 5.00 |
| For 3 inch meters | 7.50 |
| For 4 inch meters | 10.00 |

Monthly Quantity Charges:

| | |
|---|--------|
| First 1,500 cubic feet or less | \$1.50 |
| Next 1,500 cubic feet, per 100 cubic feet | .10 |
| Next 1,000 cubic feet, per 100 cubic feet | .09 |
| Over 4,000 cubic feet, per 100 cubic feet | .08 |

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

2. That Airways Water Company, Inc., within thirty (30) days after the effective date of this Order, shall file four sets of rules and regulations governing relations with its consumers, each set of which shall contain a suitable map or sketch, drawn to an indicated scale of 8 1/2 x 11 inches in size, indicating thereon the service area and the location thereof with reference to the surrounding territory. Such filing shall not be construed as a final determination or establishment, in whole or in part, of the dedicated area of service.

3. That Airways Water Company, Inc., within sixty (60) days after the effective date of this Order, shall file four copies of a comprehensive map or sketch, drawn to an indicated scale of not less than 400 feet to the inch, delineating correctly thereon, by appropriate markings, the various tracts of land in the territory served. Such map should be reasonably accurate, show the source and date thereof, and include sufficient data to determine clearly and definitely the location of the various properties comprising the entire area of service. Such filing shall not be construed as a final determination or establishment, in whole or in part, of the dedicated area of service.

- 4. That the authority herein granted to issue notes will become effective when Airways Water Company, Inc., has paid the minimum fee prescribed by Section 57 of the Public Utilities Act, which minimum fee is Twenty-five (\$25.00) Dollars.
- 5. That Airways Water Company, Inc., shall file, within thirty (30) days after the issuance of the notes herein authorized, a true and correct copy of the notes issued, together with a statement showing the amount of notes issued and to whom such notes were issued.

The effective date of this Order shall be twenty (20) days from and after the date hereof.

Dated at San Francisco, California, this 30th day of December, 1946.

Harold P. Kula

Justin J. Green

W. H. Kelle

A. J. ...

Commissioners.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA

