

ORIGINALDecision No. 42767

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of

PALOS VERDES WATER COMPANY,
a corporation,for an order authorizing it
to increase rates charged
for water service in the City
Of Palos Verdes Estates and
vicinity.

Application No. 29703

Garner, Lillie, and Bryant by George M. Bryant and Charles Peckham, for applicant; Paul Overton and Donald Armstrong, City Attorney, for protestants City of Palos Verdes Estates and Palos Verdes Homes Association; Harry Tyler for Miralesta Park Recreation and Parkway District; Fred Peacock, Ethel S. Parsons, James P. Gray, and William Ripley Dorr, consumers; George Ishibashi for self and a group of vegetable growers.

O P I N I O N

Palos Verdes Water Company, a corporation, owns and operates a water works serving domestic, municipal, and irrigation customers within the City of Palos Verdes Estates and the Palos Verdes Hills, Los Angeles County, California, and filed the above-entitled application on September 16, 1948, seeking authority to establish an increased schedule of rates. Public hearings were held before Examiner Warner in Palos Verdes on February 24 and March 1, 1949.

Service Area

The applicant's system serves approximately 840 domestic, municipal, and irrigation customers in an area comprising some 12,000 acres of hilly land overlooking the Pacific Ocean and located approximately two miles south of Redondo Beach in Los Angeles County. The City of Palos Verdes Estates includes approximately 3,000 acres of

this area, 1,000 acres of which are presently supplied with water through the applicant's system, and in which there are 646 service connections. Land supplied outside the city limits comprises approximately 1,700 acres with 279 service connections. About 200 acres of this land are in the Miralesta Subdivision with 117 service connections therein. It is estimated there will be an average of 930 domestic, 32 municipal, and 20 irrigation customers connected to the entire water system during 1949.

Description of System

Water is obtained from two wells 620 feet and 500 feet deep, respectively, located just north of Anaheim Street at Gaffey Street in the City of Wilmington, and is pumped into a 135,000-gallon concrete aeration reservoir located at the well site, and is then elevated by means of 12 booster pumps into 13 reservoirs and tanks with a combined capacity of 2-1/2 million gallons which supply the 13 service zones of the utility. This water is pumped from minus 60 feet to plus 1,500 feet in the course of its being delivered to customers. The transmission and distribution mains consist of approximately 300,000 feet of pipe lines varying from one to 16 inches in diameter, of which 44,560 feet are 14-inch redwood stave pipe.

In addition to the domestic service which is supplied to the numbers of medium and large homes, with larger-than-normal lots and gardens, irrigation service is furnished for the growing of tomatoes, peas, and other truck crops, and for commercial flower growing, the area being one of the most frost-free in southern California. Also, water is supplied to a municipally-owned but privately-leased golf course, and for public park and numerous and extensive flowered and shrubbed parkways.

For the 12-month period ending August 31, 1948, domestic sales amounted to 25,013,800 cubic feet with an annual average of

35,500 cubic feet per customer. Municipal sales, including golf course and fire hydrants, amounted to 9,169,200 cubic feet, and irrigation sales were 7,685,000 cubic feet. Water losses amounted to 34% during the year ending August 31, 1948. This was due, primarily, to the poor condition of the redwood stave transmission pipes, and to the necessity of frequent flushing of mains, occasioned by heavy slime and crenothrix accumulations aggravated by the non-circulating type construction of the system.

Service Matters

Complaints registered at the hearings regarding service included those with respect to "too high pressures," and to quality of the water. The company should review these complaints, and reduce high pressures by the installation of additional "pressure-breaks" where necessary. Quality of water has been improved by chlorination. The poor quality stems from the aforementioned slimes and incrustations, and from the sulphurous character of the waters prevalent in the West Coast Basin.

West Coast Basin Source of Supply and Litigation

Due to the continued lowering of the underground water level in the West Coast Basin and the encroachment of salt water therein, litigation is now in process in the Superior Court (California Water Service Company, et al, v. City of Compton, et al, No. 506,806) and the State Department of Public Works, Division of Water Resources, has been appointed referee to report to the Court upon the facts. Edward R. Bowen, Consulting Engineer. for the applicant, testified that it is anticipated that the aggregate draft on the Basin, as of 1948, may be ordered reduced by 80% or more. The date or exact provisions of any such court order are not predictable, however.

Metropolitan Water District Water

In the meantime, applicant intends to apply for water from the Metropolitan Water District of Southern California through the West Coast Basin Municipal Water District. The latter District is now a constituent member of the former District as the result of public elections. Rates in this order will provide revenues to cover some increased cost of water attendant upon the acquisition of from 60% to 80% of the present water supply of the applicant from the Metropolitan Water District. The question was raised as to whether or not immediate alignment with Metropolitan Water District would jeopardize applicant's rights to take water from its present wells at its present rate of production. However, it appears that the obtaining of water from sources other than applicant's own wells, even at considerable additional cost, is imperative in order to assure all customers an adequate supply of potable water.

Summary of Earnings

E. F. Catey, Associate Engineer of the Commission's staff, introduced a report which shows the following Summary of Earnings for the estimated year 1948 at present rates, and the estimated year 1949 at present and proposed rates, taking 80% and 60% of water from Metropolitan Water District. A 1949 estimate introduced by applicant's witness is also shown for comparison:

SUMMARY OF EARNINGS
5% SINKING FUND METHOD
YEARS 1948-1949

Item	PUC STAFF EXHIBIT				COMPANY EXHIBIT
	Estimated Year 1948	Estimated Year 1949	Proposed Rates	Proposed Rates	Estimated Year 1949
	80% of Present Rates	80% of water from MWD	80% of water from MWD	60% of water from MWD	64% Water from MWD
<u>Operating Revenues</u>					
Commercial revenue	\$ 53,860	\$ 62,140	\$ 87,920	\$ 87,920	\$
Municipal revenue	8,750	10,440	19,430	19,430	
Irrigation revenue	14,900	14,900	20,320	20,320	
Miscellaneous	300	390	390	390	
Total Oper. Revenues	77,810	87,870	128,060	128,060	128,805
<u>Operating Expenses</u>					
Source of supply	480	30,930	30,930	23,200	21,708
Pumping	25,180	23,670	23,670	25,220	24,821
Purification	350	1,040	1,040	2,080	2,929
Trans. & dist.	8,820	9,640	9,640	9,640	10,419
Commercial	4,610	5,000	5,000	5,000	4,759
General	12,410	12,580	12,580	12,580	13,710
Subtotal	51,850	82,860	82,860	77,720	78,346
Taxes	5,100	7,700	10,180	11,500	14,276
Depreciation, 5% S.F.	11,760	13,300	13,300	13,300	18,162 ^a
Total Oper. Expense	68,710	103,860	106,340	102,520	110,784
Uncollectibles	110	120	180	180	
Net Operating Revenue	8,990	(16,110)	21,540	25,360	18,021
Rate Base (Undepreciated)	589,500	640,600	639,600	639,000	625,496
Rate of Return	1.5%	Loss	3.4%	4.0%	2.9%

(Red Figure)

a 3% Sinking Fund

The only significant difference between the staff estimate and applicant's estimate is in the allowance for, and basis of computation of, depreciation annuity. Although the record shows the company has never fully earned its depreciation, with the rate of return resulting from the rates ordered herein, the 5% sinking fund annuity is considered proper.

Mr. Haggott, president of the company, testified in considerable detail regarding the operations of the applicant and indicated, among other things, that efforts were being made to curtail water losses, purify the water, maintain and obtain an adequate supply and operate the water system at minimum expense. In this connection, he testified his own salary was \$4,800 per year.

Protestants claim that the original investment of \$272,000 in the water system should not be charged against the customers, but should be regarded as a part of the general development of the project as reflected in the selling price of the lots. However, no showing was made that the system was financed by the customers or property owners. In fact at the present time but a fraction of the lots have been sold and only a small proportion thereof actually have been built upon. The record does show that expenditures for water development and distribution facilities were made by applicant's predecessor in interest as well as applicant itself. The Commission's staff rate base excludes, however, some \$247,000 of "donations in aid of construction" and "consumers' advances in aid of construction" where extensions have actually been financed by the customers and subdividers.

Rates

Applicant's present rates were filed with the Commission December 22, 1924, and have remained unchanged from that date, except that the rate for the golf course was reduced from 12 cents to ten cents per hundred cubic feet by informal filing on February 21, 1939. Present rates provide for a monthly minimum charge of \$1.40 per meter per month for 400 cubic feet or less. For water in excess of 400 cubic feet, rates range from 25 cents down to 12 cents per 100 cubic feet. The fire hydrant charge is in two parts, vis., (1) \$2 per hydrant for the first 50 hydrants, and (2) \$1.50 per hydrant for each hydrant in excess of 50.

The rates proposed by applicant provide for a \$2 minimum for 400 cubic feet or less, with rates which range from 40 cents per 100 cubic feet down to 17 cents. Provisions are also included for meters as large as six inches in diameter. The fire hydrant rate is proposed to be \$2 per hydrant per month for all hydrants, regardless of numbers installed. A municipal rate of ten cents per 100 cubic

feet for street sprinkling, sewer and street flushing, irrigation of parks, parkways, playgrounds, school grounds, and for the Palos Verdes Home Association Golf Course, is excluded from the proposed rates.

Protestants argued that applicant should enjoy a lower rate of return than other water utility systems because, they averred, it was developed as part of a real estate development. However, the evidence shows that applicant has never paid any dividends on its stock, and accumulated losses since 1941 have amounted to approximately \$75,000.

It is concluded that the rates proposed by the applicant will not yield an excessive rate of return, and that the applicant is entitled to certain relief. Our order herein will therefore authorize the proposed rates which it is estimated will increase revenues based on present sales approximately \$51,000 annually.

O R D E R

Palos Verdes Water Company, a corporation, having applied to the Commission for an order authorizing increase in water rates and charges, a public hearing having been held, and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increase in rates authorized herein is justified; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with this Commission's General Order No. 96, the schedule of rates shown in Exhibit A attached hereto, and, after not

less than five (5) days' notice to the Commission and to the public, to make said rates effective by billing periods for service rendered on and after May 15, 1949.

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

Dated at San Francisco, California, this 19th day of April, 1949.

R. E. Anderson
Justice F. Cooney
James H. Powell
Harold A. Kula
Samuel P. Potter
Commissioners.

Schedule No. 1

DOMESTIC, MUNICIPAL, AND IRRIGATION SERVICE

APPLICABILITY

Applicable to all water service furnished on a measured basis.

TERRITORY

Throughout the entire service area comprising approximately 12,000 acres in and about the city of Palos Verdes Estates, the Miralasta Subdivision and in the Palos Verdes Hills, Los Angeles County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Monthly Quantity Rates:	
First 400 cu.ft. or less.....	\$ 2.00
Next 1,600 cu.ft., per 100 cu.ft.....	.40
Next 3,000 cu.ft., per 100 cu.ft.....	.30
Next 5,000 cu.ft., per 100 cu.ft.....	.25
Next 40,000 cu.ft., per 100 cu.ft.....	.20
Over 50,000 cu.ft., per 100 cu.ft.....	.17
Minimum Charge:	
For 3/4-inch meter, or smaller.....	\$ 2.00
For 1-inch meter.....	3.00
For 1 1/2-inch meter.....	5.00
For 2-inch meter.....	7.50
For 3-inch meter.....	10.00
For 4-inch meter.....	15.00
For 6-inch meter.....	25.00

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

Schedule No. 2

FIRE HYDRANT RATES

APPLICABILITY

Applicable to public fire hydrant service from direct connections to distribution mains.

TERRITORY

Within the city of Palos Verdes Estates.

RATES

	<u>Per Hydrant</u> <u>Per Month</u>
For each fire hydrant	\$ 2.00

All hydrants remain the property of Palos Verdes Water Company.