

Decision No. 43121**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
CALIFORNIA WATER & TELEPHONE COMPANY  
to increase rates for water service  
in its Sweetwater District.

Application No. 29094  
(First Supplemental)

Bacigalupi, Elkus & Salinger by Claude N. Rosenberg for applicant; Burke, Marshall & Burke, by Louis H. Burke and Stephen B. Robinson on behalf of the City of National City and City of Chula Vista; Albert C. Bover, City Attorney, on behalf of City of Chula Vista; James B. Abbey on behalf of Chula Vista Vegetable Exchange and Chula Vista Citrus Association; Mrs. James B. Olsen, O. G. Robinson, Anthony H. Forbes, Alfred Johnston, Frank White, W. H. Farrel, E. S. Bonat, Warren F. Thomas, and G. R. Haltermann, as their interests may appear.

OPINION ON FIRST SUPPLEMENTAL APPLICATION

On May 18, 1948, this Commission issued its interim opinion and order, Decision No. 41607, authorizing applicant herein to make effective on June 1, 1948, schedules of increased rates for water service in its Sweetwater District in San Diego County. The schedules authorized were proposed by applicant in its application filed on February 16, 1948. In seeking such increased rates, applicant contended that the rates charged for water service in its Sweetwater District were insufficient to yield a reasonable return on the fair value of its plants and properties devoted to such service, that substantial increases in pay roll and other expenses had occurred in recent years, and that its net income from water service would be substantially reduced by the necessity to obtain and distribute Colorado River water pursuant to a proposed agency contract between applicant and the Cities of National City and Chula Vista.

On March 28, 1949, applicant filed its first supplemental application herein seeking a further increase in water rates in its Sweetwater District. It proposed that all sales of water under the rates authorized by Decision No. 41607 be surcharged 12%, that such increase be made effective immediately on an emergency basis, and that such surcharge remain in effect on an interim basis until further order of this Commission.

Applicant contends that the surcharge, which it estimates would increase its revenues approximately \$76,000 a year, is vitally necessary to avoid the adverse effect of inadequate earnings in the district on its plans to raise additional finances during 1949, a substantial portion of which should be obtained through the sale of common and/or preferred stock. It points out that lack of adequate rainfall and runoff into its storage reservoirs during the past winter season necessitates purchase of Colorado River Water in an amount which will substantially equal the full water requirements of the Cities of National City and Chula Vista, and that such purchases will be about three times as large as had normal runoff occurred. It further alleges that net revenues under the proposed surcharge will be insufficient to produce a reasonable return on the fair value of its Sweetwater properties.

Public hearings on the first supplemental application were held in San Diego before Examiner O'Brien on May 25 and 26, 1949, after due notice to the political subdivisions and customers affected.

The proposed increase in rates was opposed by representatives of the Cities of National City and Chula Vista, by the Chula Vista Vegetable Exchange and the Chula Vista Citrus Association, by the Coordinating Council of Lincoln Acres, the Lower Sweetwater Fire Protection District, the Harborside Civic Association, and by a number of customers on their own behalf.

Individual domestic and residential users, in general, felt that present rates are too high for the quality of service received. The testimony includes complaints about the hardness of the water and presence of foreign matter such as mud and rust. Many customers have installed filters and water softeners at their own expense to make the water usable. Low delivery pressure in certain areas and small size mains providing insufficient fire protection were other causes of dissatisfaction. The company's witness in discussing these service matters, pointed out that the lack of adequate storage had reduced the available pressure which, in certain instances, had been corrected by the installation of booster pumps. Deficient storage had likewise raised the concentration of foreign matter in the water supplies. The shortage of supply had also dictated a reduction in the amount of flushing of mains normally practiced and that the introduction of Colorado River water had created chemical activity which produced additional foreign matter in the water supply.

Irrigation customers, on the other hand, were largely unconcerned with the quality of the water but urged not only that no further increases be granted but that the heavy increase to irrigation customers incorporated in the present interim rates be reviewed to determine whether some of the burden should be shifted to domestic and commercial customers. The Cities of National City and Chula Vista suggest reconsideration of the present interim rates and oppose the proposed surcharge, pointing out that the increased cost of water purchases departs from average conditions upon which rates should be predicated. The cities' representative likewise took exception to the suggestion that since the high cost purchased water would be used to serve customers inside the city, the rates of customers outside should not be raised to absorb such increased costs. It was contended that the price paid by applicant to the cities for water did not fully cover the cost thereof and that the balance was made up by tax payments by customers

inside the cities. It was further contended that sale of water by the cities increased water available to all customers of the utility.

In Decision No. 41607, it was pointed out that the rates therein ordered were adopted pending completion of a study by the Commission's staff of applicant's earning position. Such study has not as yet been submitted. Applicant's estimates of its earning position are the only evidence on that subject available at this time.

Based upon revenues from the presently effective interim rates as well as the application of the proposed surcharge for the full year 1949, applicant's estimate of its revenues, expenses and return may be summarized as follows:

RESULTS OF OPERATION

	<u>Actual 1948</u>	<u>Estimated 1949</u>	
		<u>Present Rates</u>	<u>Present Rates Surcharged 12%</u>
Operating Revenues	\$ 617,254.66	\$ 654,700	\$ 731,800
Operating Expenses			
Water Purchase and Standby	176,650.56	167,700	176,200
Other Operating Expense	160,082.55	163,650	163,650
Taxes	91,588.76	108,230	134,300
Depreciation	25,331.51	26,100	26,100
Total Expense	453,653.38	465,680	500,250
Net Operating Income	163,601.30	189,020	231,550
Rate Base	6,388,556.00	6,556,608	6,556,608
Return, Per Cent	2.56%	2.88%	3.53%

Testimony herein reveals that applicant's present difficulty stems primarily from the deficiencies in rainfall in recent years. The evidence shows that in this district, the applicant has two reservoirs with an aggregate storage capacity of 52,000 acre-feet and on April 30, last, had approximately 5,200 acre-feet of water in storage, 4,900 of which was in Sweetwater Lake. Lake Loveland, which has a capacity of approximately 25,000 acre-feet, in April had only 244 acre-feet in storage. Some 60% of applicant's invested capital reflected in its rate base, represents lands and structures comprising its water storage and reservoir system. During periods of deficient rainfall, annual fixed

charges on this investment are not reduced and annual expenses are increased by the cost of acquiring water from other sources to make up the deficiencies. Under average conditions, the return to the utility under existing rates would be more favorable than that shown above.

It is of record that, during the current year, applicant proposes to raise from \$2,500,000 to \$3,000,000 of new capital. However, the gross additions to the Sweetwater District are estimated at only \$170,000. The remainder will be expended in other districts. The company has to date raised about \$1,500,000 through the sale of bonds. Applicant's estimate of its earnings at present rates under the adverse conditions now prevailing indicates that the Sweetwater District should produce sufficient net revenue to cover its proportion of the bond interest and preferred stock dividend requirements of the company, and contribute something to common stock earnings. Such contribution would be increased if either the expenses or capital base were adjusted as above stated. The evidence before us does not warrant the conclusion that the earning position of applicant's Sweetwater District is such as to justify the proposed emergency interim surcharge increase in rates.

A review of the interim rate authorized by Decision No. 41607 does not indicate any present justification for a modification of the rate structure authorized therein at the present time. While it is true that the percentage increases varied substantially as between customers and volume of usage, the percentage variation was caused by an inappropriate spread of rates in the superseded schedules rather than from inequities in the schedules now in effect. On the record presently before us, there is no basis for ordering a change in the present rates.

Pending consideration of the evidence of the company and that of the Commission's staff covering applicant's original application for an increase in rates and pending the final disposition of that application, it is concluded that the interim schedule of rates ordered by Decision No. 41607 shall remain in effect as presently filed. The matter will be reset on the calendar for further hearing prior to October, 1949.

A-29094  
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ORDER ON FIRST SUPPLEMENTAL APPLICATION

The Commission having considered California Water & Telephone Company's first supplemental application for an emergency interim increase in rates, public hearings having been held, evidence introduced, and the matter being submitted for decision,

IT IS HEREBY ORDERED that California Water & Telephone Company's First Supplemental Application No. 29094, dated March 25, 1949, be and it is hereby denied.

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

Dated at San Francisco, California, this 12<sup>th</sup> day of July, 1949.

R. B. Dunning  
Justice J. C. Cramer  
Joseph H. Russell  
Harold P. Kildie  
Penelope (Patterson)  
Commissioners.