

Decision No. 45013**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
California-Michigan Land and Water
Company for an Order Authorizing a
Change of Water Rates and Tariff
Schedules.

Application No. 31520

William N. Parker and William L. Arnold,
for applicant; Reid R. Briggs, for
Michillinda Park Association, Inc.,
interested party.

O P I N I O N

California-Michigan Land and Water Company, a corporation, owner and operator of a water system serving domestic customers in unincorporated territory in the vicinity of East Pasadena and Arcadia, Los Angeles County, filed the above-entitled application on June 20, 1950, seeking authority to establish a schedule of increased rates. At the hearing the applicant requested that the Commission establish a fair value of applicant's water rights, and also filed a schedule of alternate proposed rates.

A public hearing on this application was held before Examiner Warner in Los Angeles, on September 29, 1950.

California-Michigan Land and Water Company is a California corporation which has been operating as a public utility in accordance with a certificate of public convenience and necessity granted by Decisions Nos. 407 and 419, dated, respectively, January 15, and January 23, 1913, in Application No. 273.

Domestic water service is furnished in three separated areas, comprising a total of approximately 680 acres of subdivided

land as shown in Exhibit No. 5, filed at the hearing. The water system is interconnected, however, and water service is also furnished to the East Pasadena Water Company, a wholly owned subsidiary, which serves an area comprising approximately 40 acres located north of the so-called Michillinda Tract, and adjacent to applicant's service area therein.

The sources of supply consist of five wells with deep-well turbine pumps, one driven by a gas engine, the others by electric motors; six booster pumps which maintain pressure in the distribution mains and fill four reservoirs having a combined capacity of 613,000 gallons; and 138,000 feet of 1½- to 10-inch transmission and distribution mains which supply water to the area through approximately 1,250 service connections and 15 fire hydrants. The system is entirely metered.

The area served is primarily residential. It is approximately 85% fully developed, and there are no prospects for substantial future expansion, applicant's service area being surrounded by the City of Pasadena and the City of Arcadia municipal water systems, and Sunnyslope Water Company, a public utility.

The record shows that applicant has not applied for an increase in its filed rates since 1919, and a reduction in metered water service rates was, in fact, effected in 1937 on a trial basis, and later accepted by the Commission on March 5, 1940. Applicant now alleges that the proposed increase in metered rates is necessary, in order to receive sufficient revenues to pay maintenance and operating costs, and to provide a sufficient net return to enable it to establish a sound credit position for the financing of capital improvements.

The present rates specify a minimum charge of \$1 per meter per month, which entitles the consumer to 500 cubic feet of water

usage, with the next 800 cubic feet at 20 cents per 100 cubic feet, the next 700 cubic feet at 10 cents per 100 cubic feet, and all over 2,000 cubic feet at 4 cents per 100 cubic feet. The present minimum charge for a 1-inch meter is \$1.50 per meter per month; for a 1½-inch meter, \$2 per month; and for a 2-inch meter, \$2.50 per meter per month. Since 1934, a 25-cent discount on bills paid by the 20th day of the month following water delivery has been allowed. Applicant's present Rule and Regulation No. 12 provides for an extra minimum monthly charge of \$1 for each additional residential unit connected in multiple through a single meter, with an additional allowance of 500 cubic feet of water. The fire-hydrant rate established June 1, 1950, is \$1 per hydrant per month for a 2-inch hydrant, \$1.50 for a 3-inch hydrant, and \$3 per hydrant per month for a 4-inch hydrant. No change is proposed in the fire-hydrant rate.

Applicant's proposed rates provide for a monthly minimum charge of \$1.50 per meter per month for a 5/8 x 3/4-inch meter, \$3 per meter per month for a 1-inch meter; \$5 per meter per month for a 1½-inch meter; and \$8 per meter per month for a 2-inch meter. The proposed quantity rates are \$1.50 per meter per month for the first 600 cubic feet of water or less, with the next 900 cubic feet at 20 cents per 100 cubic feet, the next 1,500 cubic feet at 15 cents per 100 cubic feet, and all over 3,000 cubic feet at 6 cents per 100 cubic feet. The requested rates would provide for a charge of \$1.50 for each multiple unit under its presently filed Rule and Regulation No. 12, and allow an additional 600 cubic feet for each.

At the hearing an alternate proposed rate was filed as Exhibit No. 2, which provides for the same minimum charges but includes two additional blocks of monthly quantity charges for water usage over 3,000 cubic feet per meter per month of 10 cents

per 100 cubic feet for water usage from 3,000 to 5,000 cubic feet, and 7 cents per 100 cubic feet for all water usage in excess of 5,000 cubic feet per meter per month. The purpose of the alternate proposed rate would be to substitute it for the presently filed combined service rate now included in applicant's Rule and Regulation No. 12.

Applicant requested that the Commission establish a fair value of its water rights, and include such fair value, or a reasonable portion thereof, in its rate base for rate-fixing purposes.

Applicant's water rights in the Raymond Basin area were adjudicated in a recent decree of the Supreme Court of the State of California (City of Pasadena vs. California-Michigan Land and Water Company, et al, 33 Cal. 2nd 908). Applicant has been restricted thereby to the production of 359 acre feet of water per year from the Raymond Basin area. It is estimated that, in order to meet demands upon its system, it will be necessary to produce a total of 1,446 acre feet per year, leaving some 1,087 acre feet to be obtained from other sources. Since adjudication, applicant has drilled a well in the San Gabriel Basin and installed a pump therein with a capacity of 1,500 gallons per minute. Two booster pumps have also been installed therein, and it is expected to produce about 92% of the entire requirements from this source in the year 1951 and thereafter. Water from this source has to be lifted about 350 feet more than water produced from the Raymond Basin supply.

The court costs of the so-called Raymond Basin suit, as recorded on the company's books, amount to \$50,864.56. These costs have been capitalized. In addition thereto, applicant requests that at least the sum of \$60,000 fair value be assigned to its water rights, under the Raymond Basin agreement, and that such fair

value be included in its rate base and authority be granted to record such on its books as part of its fixed capital.

A report on applicant's operations for a normal year, based on 1,376 consumers, was introduced as Exhibit No. 1 by witness for applicant, and includes estimates of operating revenues, expenses, and net income, assuming that the proposed rates were in effect for the full year 1951.

Exhibit No. 2 includes an estimate of net operating earnings utilizing the alternate proposed rate noted hereinabove.

A report on applicant's results of operations was submitted as Exhibit No. 5 by a Commission staff engineer. The estimates of earnings included therein are based on the rates as proposed in the application, and show rates of return on rate bases excluding and including \$60,000 in water rights.

The earnings data set forth in Exhibits Nos. 1 and 5 are summarized in the following tabulation:

CALIFORNIA-MICHIGAN LAND AND WATER COMPANY
SUMMARY OF EARNINGS YEAR ENDING JUNE 30, 1950
RECORDED AND ESTIMATED, PRESENT AND PROPOSED RATES
YEARS ENDING JUNE 30, 1951 and DECEMBER 31, 1951 ESTIMATED

Classification	P.U.C. Exh. No. 5 : Co. Exh. No. 1 :		P.U.C. Exh. No. 5 :		
	Year Ending 6-30-50	Year 1951	Year Ending 6-30-51	Year Ending 6-30-51	
	Recorded	Estimated	Est. at	Estimated	
	Present	Proposed	Proposed	Present	
	Rates	Rates	Rates	Rates	
<u>Operating Revenue</u>	\$ 50,338	\$ 74,345	\$ 80,240	\$ 53,560	\$ 78,930
<u>Operating Expenses</u>					
Source of Supply	\$ 676	\$ 304	\$ 1,074	\$ 570	\$ 570
Pumping	12,834	13,964	21,144	19,090	19,090
Trans. & Dist'n	5,291	6,155	9,888	6,800	6,800
Rep. to Trans. & Dist'n	3,797	3,963		3,620	3,620
Collection	2,060	3,860	4,642	4,470	4,470
General	27,432	12,153	13,557	12,400	12,400
Uncollectibles	20	20	-	30	30
Subtotal	52,110	40,419	50,355	46,980	46,980
Taxes	3,410	9,030	9,833	4,390	8,560
Depreciation (S.L.)	7,428*	7,428*	8,953	8,653*	8,653*
Total Oper. Expenses	\$ 62,948	\$ 56,877	\$ 69,111	\$ 60,023	\$ 64,193
Net Operating Revenue	\$ <u>(12,610)</u>	\$ 17,468	\$ 11,129	\$ <u>(6,463)</u>	\$ 14,737
Average Rate Base (Deprec.) (Excl. \$60,000 wtr. rts.)	-	\$223,000	-	\$245,500	\$245,500
Rate of Return	-	7.83%	-	-	6.00%
Average Rate Base (Incl. \$60,000 wtr. rts.)	-	\$283,000	\$333,661#	\$305,500	\$305,500
Rate of Return	-	6.17%	3.3%	-	4.82%

(Red Figure)

* Average year

"Net capital sum to be related to operating earnings."

NOTE: If the alternate proposed rates, as introduced in Exhibit No. 2, were applied, it is estimated they would yield \$81,922, which, with operating expenses of \$69,550, would result in net operating earnings of \$12,372, or an estimated rate of return of 3.71 per cent on the net capital sum proposed as rate base by applicant of \$333,661.

It should be noted, for comparative purposes and analysis of the preceding tabulation, that the staff estimates cover the years ending June 30, 1950, and June 30, 1951, respectively, whereas the applicant's estimate is for the normal year ending December 31, 1951, and therefore some of the operating expenses estimated are not directly comparable. However, this is not controlling in the determination of the estimated rates of return.

In explaining Exhibit No. 1, applicant's Witness Arnold stated that the greatest change to be effected in operating expenses would be in increased costs of purchased power resulting from the increased lift necessitated by the production from the new well drilled in the San Gabriel Basin and put in operation in the summer of 1949, hereinbefore mentioned. Also, power rates were increased in 1947 when the Southern California Edison Company placed applicant on its commercial electric rate schedule instead of its agricultural schedule, thus effecting substantially higher power operating costs to applicant. Other radical increases are shown to have been estimated for repairs to pumping equipment and general property taxes. Estimated additions to fixed capital were \$61,602 for the year 1950, and \$57,065 for the year 1951. The net capital sum utilized by applicant as a rate base was based on estimated fixed capital as of December 31, 1951, including an amount of \$4,133 representing an excess depreciated cost of the Cribb-Brodek purchase over book cost, plus an amount for materials and supplies and working cash, less advances, donations, and depreciation reserve.

In explaining Exhibit No. 5, the Commission staff engineer testified that he had transferred certain items of expense from the recorded amount to one or more other accounts considered more appropriate, but that such adjustments had not resulted in any substantial

change in operating expenses. However, he stated that the 1949 cost of the Raymond Basin suit, amounting to \$9,301, had been capitalized by him, and that, therefore, \$50,000, total cost of that suit, had been included as franchises and water rights in the rate base. He included the Cribb-Brodek system in the rate base at the depreciated historical cost.

With regard to applicant's request that the additional \$60,000 book figure be entered as the cost of water rights, or that some larger sum be substituted therefor, the Commission, after careful consideration of the record in this proceeding, sees no justification for deviating from its established practice of predicated rates upon a historical cost rate base. The "value" of water rights does not enter into such a rate base. A rate base of \$245,500 for the average year ending June 30, 1951, will be adopted for the purposes of this proceeding.

It appears desirable, in order to effect more uniform rate schedules, that applicant cancel the portion of its presently filed Rule and Regulation No. 12, providing for multiple minimum charges. The standard block type of rate will be simpler, and less subject to discrimination. Therefore, a block rate, which will produce the same revenue as the rates requested in the original application, will be ordered herein. The order also will provide for the filing by applicant of new rules and regulations and such new rules should exclude the combined service provision.

It is evident from the record that the present rates will not produce a fair rate of return, and that applicant is entitled to certain financial relief. No protest was made against the request for increased rates. It is, therefore, concluded that the rates authorized to be filed by the order herein, which should result

in a rate of return of approximately 6% for the coming year's operations, are just and reasonable.

O R D E R

California-Michigan Land and Water Company, a corporation, having applied to the Commission for an order authorizing an increase in water rates and charges, and having asked the Commission to fix a value of its water rights, a public hearing having been held and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are 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 the Commission's General Order No. 96, a schedule of rates shown in Exhibit A attached hereto and, on not less than five (5) days' notice to the Commission and the public, to make said rates effective for service rendered on and after December 4, 1950.

IT IS HEREBY FURTHER ORDERED as follows:

1. That applicant's presently filed Rule and Regulation No. 12, "Meters and Appliances," be canceled in so far as multiple minimum charges are contained therein.
2. That applicant shall file, within forty (40) days after the effective date of this order, four copies of a comprehensive map, drawn to an indicated scale of not less than 400 feet to the inch, delineating by appropriate markings the various tracts of land and territory served, and the locations of various properties of applicant.
3. That applicant shall file, coincident with the rate filing ordered herein, four copies of rules and regulations, and tariff service area map acceptable to this Commission and in accordance with the requirements of General Order No. 96.

IT IS HEREBY FURTHER ORDERED that applicant's request that the Commission fix a value of its water rights be denied without prejudice.

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

Dated at San Francisco, California, this 8th day of November, 1950.

A. Z. [Signature]
Justin J. Callen
[Signature]

[Signature]
Commissioners.

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Within the entire service area located adjacent to the cities of Arcadia, Pasadena, and San Marino as delineated on the map included in the Tariff Schedules.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 600 cubic feet, or less	\$1.50
Next 800 cubic feet, per 100 cubic feet20
Next 1,300 cubic feet, per 100 cubic feet15
Next 1,800 cubic feet, per 100 cubic feet10
Over 4,500 cubic feet, per 100 cubic feet07
 Minimum Charge:	
For 5/8 x 3/4-inch meter	1.50
For 3/4-inch meter	2.25
For 1-inch meter	3.00
For 1 1/2-inch meter	5.00
For 2-inch meter	8.00

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