

Decision No. 45061

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of
 the Southern California Water Company
 for authority to withdraw the Normandie
 Area from its Central District and make
 it a separate operating district to be
 known as the Normandie District; to set
 up fixed capital in accordance with
 historical cost study; and to increase
 water rates in the Normandie District.

Application No. 31306

O'Melveny & Myers by L. M. Wright for
 applicant; R. Wayne Parker for Consumers;
Frank Grateful for Consumers on 96th
 Street; K. Chas. Bean, City of Los
 Angeles, Department of Public Utilities
 and Transportation by P. L. Garver.

O P I N I O N

Southern California Water Company, a California corporation and applicant herein, by the above-entitled application filed April 14, 1950, requests an order of the Commission authorizing it to segregate the Normandie Area from its Central District, make it a separate operating district and increase the rates in such area. The Normandie Area is located in Los Angeles County, south of the central part of the City of Los Angeles, east of the City of Inglewood, north of the City of Gardena, and west of Vermont Avenue. A proposed set of rates for the Normandie Area is attached to the application and marked Exhibit A. A public hearing on this application was held before Examiner Edwards on October 4, 1950, at Los Angeles, California. At this hearing, applicant requested amendment of the application to change the prayer so as to make the historical cost figures subject to further study before approval.

The applicant is engaged in the business of rendering water service to various communities in Southern California and, in addition, to South Sacramento. The company also is engaged in the distribution of electric energy in the vicinity of Big Bear Lake, San Bernardino County, and in the manufacture of ice at Barstow. Water sales produce by far the largest share of revenues with electric and ice accounting for only some 8% in 1949. The proposed Normandie District at present rate levels accounts for approximately 4% of the total water revenues of the company, and about 10% of the revenues from the Central District, of which it was a part.

Water supply for the Normandie District is obtained from wells in the district area and from wells located in the adjacent South Los Angeles District. Water is stored in a 100,000-gallon elevated tank located at the Normandie plant, and in 1,400,000 gallons of reservoir capacity located on high ground at the Budlong Plant. This latter storage facility also serves the Gardena-Lawndale District. As of December 31, 1949, there were 208,770 lineal feet of pipe being used as mains to serve 4,056 customers located in the Normandie District. Some 139 fire hydrants also are connected to this distribution system.

The rate changes proposed by applicant are estimated to increase revenues by \$76,000 in the year 1951. In general, the company seeks to increase revenues by approximately 65% in this district in order to bring the rate of return in this area up from an estimated negative figure to a level of 6.14% in 1951. Applicant claims that the necessity for this sharp increase at this time is due to the disproportionate amount of new capital which has been required in this area since the close of World War II. A relatively large portion of the system in the area has been built in recent years at the high postwar unit labor and material costs, which are practically double prewar unit costs. Since 1944, the Normandie

District rate base has increased approximately 300% while the entire Central District rate base has increased only 64%. In addition, there has not been sufficient water supply within the Normandie Area itself to satisfy the greatly increasing demands and large capital expenditures have been required for facilities to transmit water from neighboring areas.

Applicant requests authority to increase the present basic residential water rate from \$1.25 per month for the first 1,000 cubic feet to \$1.90 for the first 700 cubic feet. Quantity rates which now start at 11 cents per 100 cubic feet are proposed at 19 cents. Parallel increases in minimum charges for meters larger than 5/8 inch by 3/4 inch are proposed. No increase in the special rate for hydrant rentals or for municipal departments is proposed.

Customer Statements

Several customers, as well as their representatives, appeared at the hearing and made statements in opposition to the proposed increase. Some complaint was made as to occasional muddy water, odor, sand or rust in the water. Prime concern of the users was that the minimum charge is proposed to be raised and the included quantity reduced. While a representative of the consumers was afforded 10 to 15 days following the close of the hearing to prepare a statement outlining suggestions as to rate levels, no such statement was received within 40 days, so we feel obligated to proceed without it.

Applicant's sanitary engineer and its president answered the complaints regarding the quality of the water. According to their testimony, no more sand, color, or odor is in the water than is found in the average system where new services and mains are being frequently installed. Bacteriological tests have shown the water to be suitable for human consumption as it comes from deep wells where there is no evidence of pollution. Water at the wells is chlorinated as a further safeguard. There is some hydrogen sulphide in the water

that at times is not completely eliminated and causes odor. Applicant's president testified that the service complaints in the area are relatively few and for those that are received by the company, the policy is to follow them to a satisfactory conclusion.

Summary of Earnings - Present Rates

In determining the validity of applicant's request for higher rates, we have reviewed the utility's immediate past, present, and forecasted future expenses and costs of rendering service. Both applicant and the Commission staff submitted estimates of revenues reflecting present rates, expenses, rate base, and rate of return for years 1949, 1950, and 1951. The following tabulation briefly presents the results as testified to by the parties:

Normandie District - Summary of Earnings
Present Rates

Item	1949		1950		1951	
	Staff : Exh.9	Company: Exh.4	Staff : Exh.9	Company: Exh.4	Staff : Exh.9	Company: Exh.4
1. Operating Revenues	98,315	98,315	108,300	108,150	116,700	116,200
2. Operating Expenses	81,285	86,643	94,915	105,600	104,744	117,450
3. Net Revenue	17,030	11,672	13,385	2,550	11,956	(1,250)
4. Rate Base (Depreciated)	568,000	568,100	724,000	721,800	836,000	834,500
5. Rate of Return	3.00%	2.05%	1.85%	0.35%	1.43%	(0.15)%

(Red Figure)

The net rate base on which applicant is allowed to earn a fair return is comprised of capital invested in plant, plus working capital items consisting of materials and supplies and working cash capital, less customer's advances for construction and depreciation reserve. Because this company operates over a considerable area and has facilities outside of this district that are, in part, used for this service, it is necessary to assign a portion of the capital invested in the outside facilities to this district. Items prorated consist of water supply, general capital, and construction work in

progress. These outside facilities are not a controlling item, however, as only some 8.1% of the rate base in this district consists of prorated capital after Budlong Plant storage credit; the balance, or 91.9%, is actually located in the area.

While in the preceding table the rate of return computed by the staff is in each case somewhat greater than that shown by the company's exhibit, the decided downward trend is evident. The differences between the company and staff rates of return in the preceding table are due, principally, to differences in taxes on income. The staff computations assigned an income tax credit to the Normandie Area whereas the company showed the income tax as zero. This difference in computed income taxes under present water rates is of minor consequence in determining the level of rates to be adopted, since the difference disappears as soon as the earnings are increased so as to yield a positive taxable income. In the estimates of earnings for 1951 under the company's proposed rates, set forth below, the staff and company estimates of taxes are substantially the same.

Summary of Earnings - Proposed Rates - 1951

The applicant and the staff both estimated the effect on revenues and expenses if the rates suggested by applicant were in effect for the entire year, 1951. The principal elements of those estimates are summarized as follows:

Summary of Earnings in 1951
Under Applicant's Proposed Rates

Item	Staff	Applicant
Operating Revenues	\$193,000	\$192,200
Operating Expenses	79,840	81,850
Depreciation	21,704	20,200
Taxes	39,756	38,950
Total Expenses	141,300	141,000
Net Revenues	51,700	51,200
Rate Base (Depreciated)	829,000	834,500
Rate of Return	6.24%	6.14%

There is no major difference between the two estimates, as under the proposed rates, applicant concluded that it would obtain a return of 6.14%, whereas the staff's estimate indicates that the proposed rates will yield a return slightly higher, or 6.24%. The rates which are authorized in the following order are estimated to produce a rate of return of 5.8%. The company's proposed method of spreading the increase is modified as hereinafter described, which reflects a reduction of the unit sales trend due to the deterrent effect of the higher rate levels on customer consumption.

Authorized Rate Changes

The increases in rates authorized are set forth in Exhibit A attached hereto. The company proposed a monthly \$1.90 minimum for the first 700 cubic feet or less, with block quantity rates starting at 19 cents per 100 cubic feet. It is our opinion that the company's proposal is higher than need be for the monthly minimum charge, and we are reducing applicant's request to \$1.70 for the first 700 cubic feet or less. Likewise, we are reducing applicant's request by 1 cent per 100 cubic feet for usage in excess of 2,500 cubic feet per month. The general metered service rate as authorized is estimated to produce a revenue increase in 1951 of about \$71,300 annually. No change in the special hydrant rate is proposed. The rates to be authorized are estimated to produce for 1951 a net revenue of some \$43,800, which, on a rate base of \$829,000, should result in a rate of return of 5.8% in the Normandie District.

O R D E R

Southern California Water Company having applied to this Commission for an order authorizing the withdrawal of the Normandie Area from its Central District, to make it a separate district and

increase rates in such area, a public hearing having been held, the matter having been submitted and now being ready 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 as follows:

1. Applicant may withdraw the Normandie Area from its Central District, make it a separate operating district, and refile such portion of its tariff book as is necessary to be consistent with this change.
2. Coincident with such change, but after the effective date of this order, applicant is authorized to file in quadruplicate with this Commission in conformity with 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 the public, to make said rates effective for service rendered on and after December 28, 1950.

Q.24

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

Dated at San Francisco, California, this 28th day of November, 1950.

R. E. Dunning
Justin J. Cramer
W. H. Lawrence
Harold H. Kulo
Marionette Patten
 Commissioners.

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

Within the Normandie District in Los Angeles County, as delineated on the service area map filed herewith.

RATES

Quantity Charge:	<u>Per Meter</u> <u>Per Month</u>
First 700 cu. ft., or less	\$ 1.70
Next 1,800 cu. ft., per 100 cu. ft.19
Next 7,500 cu. ft., per 100 cu. ft.16
Over 10,000 cu. ft., per 100 cu. ft.14
 Minimum Charge:	
For 5/8 x 3/4-inch meter	1.70
For 3/4-inch meter	2.40
For 1-inch meter	3.35
For 1 1/2-inch meter	5.75
For 2-inch meter	8.50
For 3-inch meter	12.00
For 4-inch meter	23.00
For 6-inch meter	46.00

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