

ORIGINAL

Decision No. 45068

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 Gardena-Lawndale Area from its Central District and make it a separate operating district to be known as the Gardena-Lawndale District; to set up fixed capital in accordance with historical cost study; and to increase water rates in the Gardena-Lawndale District.

Application No. 31376

O'Melveny & Myers by L. M. Wright for applicant; P. L. Garver for K. Charles Bean, Chief Engineer for the Department of Public Utilities and Transportation, City of Los Angeles; Neale Houston for Burton S. Grant of Department of Water and Power, City of Los Angeles; Earl P. Powers for people of Gardena; Ernest L. Stockton, Consumer; Mrs. Charles D. Webster, Consumer; C. T. Mess for the Staff of the Public Utilities Commission.

O P I N I O N

Southern California Water Company, a California corporation and applicant herein. by the above-entitled application filed May 5, 1950, requests an order of the Commission authorizing it to withdraw the Gardena-Lawndale Area from its Central District, make it a separate operating district and increase the rates in such area. The Gardena-Lawndale Area is located in Los Angeles County south of the central portion of the City of Los Angeles and includes the City of Gardena and unincorporated territory west of Gardena. A proposed set of rates for the Gardena-Lawndale District is attached to the application and marked Exhibit A. A public hearing on this

application was held before Examiner Edwards on October 5, 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. In addition, on September 22, 1950, applicant filed an Amendment to Application to abandon a separate irrigation system and withdraw the special irrigation rate.

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 8% in 1949. The Gardena-Lawndale District of the Southern California Water Company at present rate levels accounts for approximately 10% of the total water revenues of the company, and about 25% of the revenues from the Central District of which it was a part.

Facilities of applicant for serving water to customers in this district consist of production, transmission, storage, and distribution equipment. Water supply is at present largely produced from wells. This supply is supplemented by water received from the West Basin Municipal Water District, which in turn obtains water from the Metropolitan Water District of Southern California. Water is stored in a 250,000-gallon elevated storage tank, designated as the Doty Tank, and in 1,400,000 gallons of reservoir capacity located on high ground at the Budlong Plant. This latter storage

facility also serves the Normandie District. As of December 31, 1949, there were 634,800 lineal feet of pipe being used to distribute water to 9,876 customers located in the Gardena-Lawndale District. Some 339 fire hydrants also are connected to this distribution system.

The rate changes proposed by applicant are estimated to increase revenues by \$104,100 in the year 1951. In general, the company seeks to increase revenues by approximately 36% in this district in order to bring the rate of return in this area in 1951 from an estimated 2.61% up to 6.02%. Applicant claims that the necessity for this substantial 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 sizable portion of the system has been built up in recent years at high postwar labor and material unit costs which are practically double prewar unit costs. In the six-year period from 1945 to end of 1951, applicant estimated the cash outlay for new construction in this district to be \$954,952, which represents nearly one-half of the estimated total capital of \$2,015,373 as of December 31, 1951. In addition, there is a deficient water supply within the west basin area and it is necessary for the utility to purchase supplemental water supplied through the Colorado River Aqueduct. Colorado River water costs more than water produced locally.

Applicant requests authority to increase the present basic residential water rate from \$1.25 per month for first 1,000 cubic feet to \$1.75 for the first 900 cubic feet. Quantity rates which now start at 11 cents per 100 cubic feet are proposed at 15 cents. Parallel increases in minimum charges for meters larger than 5/8 inch x 3/4 inch are

proposed. No increase in the rate for hydrant rentals is proposed. Since there is no longer any surplus of water from wells in the area, earnings from irrigation sales are expected to decline sharply on the assumption that the Commission will permit the company to withdraw the special irrigation rate, Schedule No. 5, covering sale of surplus well water.

Customer Statements

Several consumers, as well as their representatives, appeared at the hearing and made statements in opposition to the proposed increase. Principal complaint was occasioned by the fact that the proposed increase in rates is due in part to the extra cost of Colorado River water compared to local production. When the consumers in the Gardena-Lawndale Area voted to join the West Basin Municipal Water District, they were of the opinion there would be no increase in water rates because they were paying taxes to the Metropolitan Water District of Southern California.

Applicant's president answered these complaints by testifying that the Metropolitan Water District is financed by tax levy on all land in the district and by the sale of water to distributing agencies. Municipal, as well as private distributing agencies, are required to pay for Colorado River Water at a wholesale rate. The cost of this water would be much greater if there were no tax revenues to defray part of the cost of bringing it all of the way across the state.

As we see this problem, taxes paid by these consumers are reflected as a credit on the wholesale water cost assessed to the utility. The local underground water supply is being rapidly depleted, and the Colorado River supply is

the only reasonably available source of this vital commodity. As time passes, more and more of the company's supply will have to be purchased from the district. Obviously, the company's cost of rendering utility service will be less than if it had to pay a wholesale rate for water, that did not reflect the tax advantage. This lesser cost is reflected in retail rate levels, which would eventually have to be higher were there no tax levies.

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 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 table briefly presents the results as testified to by the parties:

Cardena-Lawndale District - Summary of Earnings  
Present Rates

Item	1949		1950		1951	
	Staff : Exhibit 11	Company : Exhibit 6	Staff : Exhibit 11	Company : Exhibit 6	Staff : Exhibit 11	Company : Exhibit 6
1. Operating Revenues	\$ 251,400	\$ 251,400	\$ 264,300	\$ 263,900	\$ 290,400	\$ 289,900
2. Operating Expenses	194,338	190,642	213,691	210,350	244,996	247,700
3. Net Revenue	57,062	60,758	50,609	53,550	45,404	42,200
4. Rate Base (Deprac)	1,278,000	1,282,800	1,376,000	1,381,800	1,627,000	1,619,200
5. Rate of Return	4.46%	4.74%	3.68%	3.88%	2.79%	2.61%

While the rates of return computed by the staff vary slightly with those computed by the company, there is no disagreement that the downward trend which the company seeks to correct is evident in both sets of computations. The staff's revenue estimate is slightly higher than the applicant's, but the expense estimate is lower. The resulting net revenue is 7.6% higher under the staff's computation.

The net rate base on which a 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 customers' 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 outside facilities to this district. Items prorated consist of water supply, storage and general capital, and construction work in progress. These outside facilities are not a controlling item, however, as only some 8½% of the rate base in this district consists of prorated capital; the balance, or 91½%, is actually located within the area of the proposed district.

The staff's estimate of rate base is \$7,800 higher than the applicant's and the rate of return is 0.18% greater. By and large, the difference between the two computations is minor and within the range of normal estimating divergence. The company's representatives offered no objection to the staff's computation, and it will be used in judging as to the need for an increase in rates.

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	\$ 394,500	\$ 394,000
Operating Expenses	178,130	184,500
Depreciation	41,175	38,400
Taxes	75,691	73,600
Total Expenses	294,996	296,500
Net Revenues	99,504	97,500
Rate Base (Depreciated)	1,613,000	1,619,200
Rate of Return	6.17%	6.02%

The applicant also made two other computations which showed returns of 5.80% and 5.16% on the proposed rates. The first of these two computations was under the assumption that the portion of the system located in the City of Los Angeles would be sold to the city prior to the year 1951. The second computation assumed both the sale of the portion in Los Angeles City and adjudication of water rights in the West Basin prior to year 1951. With sale of the Los Angeles portion, the revenues would decrease and unit expense per remaining customer would increase. When the court case on water rights is decided, the utility expects additional restrictions on water withdrawals from the basin; as a consequence quantities of purchased water would increase with a resultant overall increase in expense. While it appears both of these contingencies would decrease the rate of return in this area, the probability of their happening prior to January, 1951, is

too conjectural to warrant consideration at this time and no weight can be given to these contingencies as of this date.

There is no major difference between the two estimates under the proposed rates. Applicant concluded that it would obtain a return of 6.02%, whereas the staff's estimate indicates that the proposed rates will yield a return slightly higher, or 6.17%.

#### Authorized Rate Changes

The increases in rates authorized are set forth in Exhibit A attached hereto. The company proposed a monthly \$1.75 minimum for the first 900 cubic feet or less, with block quantity rates starting at 15 cents per 100 cubic feet. Our computations indicate that the company's proposal is at an appropriate level, but we believe that the rate should reflect a monthly minimum of \$1.60 with the included quantity reduced to 800 cubic feet. No changes in special hydrant or municipal rates are being made.

The revenue from irrigation service in 1951 is estimated at \$600. The company now has only eight customers in this class on a special rate schedule and has requested permission to cancel and withdraw the rate and abandon the separate irrigation system of old riveted steel, concrete, and vitrified clay pipe. The special irrigation rate, Schedule No. 5, has been closed to new customers since February 1, 1944, and applies only to surplus water as may be available at the wells. Since the company is now required to purchase water to supplement its well supply in this area, surplus water is no longer available. The irrigable land is rapidly being subdivided and such remaining customers as desire irrigation service in the future can obtain it from



the domestic system at the general metered service rates. The order will authorize the cancellation of this special service.

The rates to be authorized are estimated to increase gross revenues by \$93,800 and to produce for 1951 a net revenue of some \$94,000 which, on a rate base of \$1,613,000, should result in a rate of return of 5.8% in the Gardena-Lawndale District.

O R D E R

Southern California Water Company having applied to this Commission for an order authorizing the withdrawal of the Gardena-Lawndale Area from its Central District, to make it a separate district and increase rates in such area, and authorizing the withdrawal of special irrigation service, 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 Gardena-Lawndale 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 26, 1950.

- 3. Applicant may cancel, by advice letter filing, after the effective date of this order and after not less than thirty (30) days' notice to the Commission and to the public, its Schedule No. 5, Irrigation Service; and may thereafter discontinue said service from its separate irrigation system.

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

Dated at San Francisco, California, this 28<sup>th</sup> day of November, 1950.

*R. J. Anderson*  
*Walter F. Casper*  
*Joseph L. ...*  
*Harold P. Hule*  
*Wm. H. ...*  
 Commissioners.

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to water service furnished on a metered basis.

TERRITORY

Within the Gardena-Lawndale 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 800 cu. ft., or less . . . . .	\$1.60
Next 1,700 cu. ft., per 100 cu. ft. . . . .	.15
Next 7,500 cu. ft., per 100 cu. ft. . . . .	.13
Next 40,000 cu. ft., per 100 cu. ft. . . . .	.11
Next 50,000 cu. ft., per 100 cu. ft. . . . .	.09
Over 100,000 cu. ft., per 100 cu. ft. . . . .	.08

Minimum Charge:

For 5/8 x 3/4-inch meter . . . . .	1.60
For 3/4-inch meter . . . . .	2.25
For 1-inch meter . . . . .	3.00
For 1 1/2-inch meter . . . . .	4.75
For 2-inch meter . . . . .	6.50
For 3-inch meter . . . . .	9.50
For 4-inch meter . . . . .	12.50
For 6-inch meter . . . . .	20.00
For 8-inch meter . . . . .	35.00

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