

Decision No. 42540

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 increase) Application No. 31696
water rates in its Huntington) (Amended)
Beach District.)

For Applicant: L. M. Wright of O'Melveny & Myers;
Protestant: City of Huntington Beach by
C. A. Bauer, City Attorney;
Commission Staff: Robert P. O'Brien, Supervising
Engineer.

O P I N I O N

The Southern California Water Company, operating a number of water distribution systems at various places in California and relatively minor electric utility and ice businesses, filed the above-entitled application on August 22, 1950 for authority to increase water rates in its Huntington Beach District by \$42,140 based on its 1951 estimate. On September 24, 1951 it filed an amendment to its application seeking even higher rates equivalent to an increase of \$55,630 in Huntington Beach based on the estimated year 1952. Applicant's final proposed increased rates are set forth in Amended Exhibit A of this application. The operations in Huntington Beach account for approximately 3% of the total revenues of the company at present rate levels. A public hearing on this application was held before Examiner M. W. Edwards on October 1, 1951 at Huntington Beach, California.

Facilities of applicant for serving water to customers in this district consist of production, transmission, storage, and distribution equipment. The water supply is obtained from

four company-owned wells located at the Goldenwest Plant and one well at the Clay Plant. Storage consists of a 1,100,000-gallon concrete structure located on the north side of the city at an elevation 85 feet above sea level and a 250,000-gallon redwood treatment tank at the Goldenwest pumping station. As of December 31, 1950 the company used 207,797 lineal feet of pipe to distribute water to 1,979 customers located in the City of Huntington Beach and contiguous unincorporated territory. As of this same date the company owned and maintained 218 fire hydrants connected directly to its lines in the Huntington Beach District.

Company's Position

In general the company seeks to increase revenues by 78% in this district in order to bring the rate of return from an estimated 0.11% up to 6.05% for 1952. Applicant claims that this additional revenue is necessary for it to earn a fair return of not less than 6% on its capital invested in facilities used, and useful, in rendering service to the public. The reason it requests such a large increase at this time is due to the disproportionate cost of new capital which has been required in this area since the close of World War II compared to prewar costs. At the same time its rates are still at the prewar level.

Applicant's Exhibit No. 2 shows that since 1940 common items of material used in the system show price increases ranging up to as much as 163%. Furthermore, it claims that the pay per hour also has increased sharply in this period and for the past five years has increased at the average rate of 8.68% per year.

The rate of return as computed by the company has exhibited the following down trend:

1949 (Recorded)	3.59%
1950 (Recorded)	1.71
1951 (Normalized)	1.18
1952 (Estimated)	0.11

Evidence of Earnings

Both the applicant and the Commission's staff presented analyses of earnings under present rates for the years 1950 and 1951. The following table briefly presents the results as testified to by the parties:

Huntington Beach District - Earnings on Present Rates

Item	: Company Exhibit No. 2 :		: Staff Exhibit No. 3 :	
	: Year : : 1950 :	: 1951 : : Estimate :	: Year : : 1950 :	: 1951 : : Estimate :
Revenues	\$ 65,519	\$ 70,140	\$ 65,518	\$ 70,000
Expenses and Taxes	57,876	64,160	58,315	59,433
Net Revenue	<u>7,643</u>	<u>5,980</u>	<u>7,203</u>	<u>10,567</u>
Rate Base (Depr.)	446,112	505,490	444,900	498,200
Rate of Return	1.71%	1.18%	1.62%	2.12%

Applicant claims that the proposed rates in the original application would have yielded a rate of return of only 5.29% in 1952 and that the higher rates proposed in the amended application will yield 6% after allowing for an increase in federal income tax rates from the early 1951 level of 47% to the 52% level recently established.

The staff did not prepare an estimate for 1952 but determined that for 1951 the amended rates proposed by applicant would have yielded a rate of return of 7.24% with a 52% federal income tax. The company took no particular exception to the staff's analysis except to point out the declining trend in rate of return between 1951 and 1952 due to large capital additions in the latter part of 1951 that are not reflected on a full-year basis in the staff's 1951 weighted average rate base.

Conclusion on Earnings

It is evident that the applicant will be faced with the problem of earning a reasonable return on the full amount of these capital expenditures in 1952. These plant expenditures made under today's inflated costs of labor and material, require increased revenues to provide a fair return. Furthermore, the tax and wage increases, imposed or permitted with the approval of the federal government, must be considered in determining rate increases if the utility is to receive a fair rate of return.

The City Council of Huntington Beach entered a protest against the water rate increases requested by the company. This protest has been carefully considered by the Commission. No other parties entered any objection to the proposed increase in water rates.

Having given consideration to all estimates of revenues and expenses for the test year 1951, we find that for that year the company will realize net revenues of approximately \$35,800, assuming applicant's proposed rates in effect throughout the entire period at an effective federal income tax rate of 52%. When tested against a rate base of \$495,000, which we hereby adopt, a rate of return of 7.24% results. In our opinion, after giving weight to the declining trend, the rate of return, based on the year 1951 should be 6.8% in order for applicant to earn at least 6.0% for the future, which rate of return we find to be fair and reasonable. On the basis of this finding we conclude that additional gross revenues of \$49,400 in the test year 1951 are required, and increased rates to produce such gross revenues will be authorized as set forth in Exhibit A herein.

Authorized Rates

In authorizing an increase in rates we are of the opinion that it is desirable to reduce the quantity of water included in the minimum charge in order to spread more equitably the increase among the various sizes of customers. The company's rate blocking has been changed as well as proposed rate levels modified to meet the finding of this order. The company's present, proposed, and the authorized basic rates follow:

A. <u>Present Rates:</u>		
First	800 cu.ft. or less	.....\$1.00 per month
Next	2,800 cu.ft. @	..... .12½ per 100 cu.ft.
Over	3,600 cu.ft. @	..... .08 per 100 cu.ft.
B. <u>Company Proposed Rates:</u>		
First	600 cu.ft. or less	.....\$1.60 per month
Next	4,400 cu.ft. @	..... .23 per 100 cu.ft.
Next	4,500 cu.ft. @	..... .17 per 100 cu.ft.
Next	150,000 cu.ft. @	..... .11 per 100 cu.ft.
Over	200,000 cu.ft. @	..... .09 per 100 cu.ft.
C. <u>Authorized Rates:</u>		
First	500 cu.ft. or less	.....\$1.40 per month
Next	2,000 cu.ft. @	..... .21 per 100 cu.ft.
Next	7,500 cu.ft. @	..... .17 per 100 cu.ft.
Next	40,000 cu.ft. @	..... .14 per 100 cu.ft.
Next	100,000 cu.ft. @	..... .11 per 100 cu.ft.
Over	150,000 cu.ft. @	..... .09 per 100 cu.ft.

After reviewing all of the evidence brought before us in the matter, it is our conclusion that an order should be issued increasing the rates in accordance with the findings herein.

O R D E R

Southern California Water Company having applied to this Commission for authority to increase water rates in its Huntington Beach District, a public hearing having been held; the matter having been submitted and now being ready for decision;

EXHIBIT A

Schedule No. 1

METERED WATER SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

In and about the incorporated City of Huntington Beach, Orange County, as delineated on the map included in the Tariff Schedules.

RATES

Quantity Rates:	Per Meter Per Month
First 500 cu.ft. or less.....	\$1.40
Next 2,000 cu.ft., per 100 cu.ft.....	.21
Next 7,500 cu.ft., per 100 cu.ft.....	.17
Next 40,000 cu.ft., per 100 cu.ft.....	.14
Next 100,000 cu.ft., per 100 cu.ft.....	.11
Over 150,000 cu.ft., per 100 cu.ft.....	.09

Minimum Charge:

For 5/8 x 3/4-inch meter.....	\$1.40
For 3/4-inch meter.....	1.90
For 1-inch meter.....	2.50
For 1 1/2-inch meter.....	4.00
For 2-inch meter.....	6.00
For 3-inch meter.....	12.00
For 4-inch meter.....	22.00
For 6-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 Rates.

SPECIAL CONDITION

All meter readings for municipal departments of the City of Huntington Beach will be combined for the purpose of computing monthly bills at the Quantity Rate, and for such municipal departments there will be a monthly minimum charge in the amount of the sum of the Minimum Charges for all meters serving the City of Huntington Beach.

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that present rates, in so far as they differ from those herein prescribed for the future, are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file after the effective date of this decision, 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 15, 1951.

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

Dated at San Francisco, California, this 20th day of November, 1951.

R. T. [Signature]
President
Justice F. [Signature]
Harold [Signature]
[Signature]
[Signature]
Commissioners.