

Decision No. 46511

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 water rates; and )                   Application No. 32108  
to set up fixed capital in accordance )  
with historical cost study in its )  
Placentia District. )

Appearances

For Applicant: L. M. Wright, of O'Melveny & Myers.  
Protestants: City of Placentia, by D. J. Schumacher,  
acting City Attorney, and A. W. Wilson,  
Mayor; Placentia Chamber of Commerce, by  
Don Haiber; Placentia Business  
Association, by Robert A. Bowman.  
Commission Staff: Robert P. O'Brien, Supervising Utilities  
Engineer.

O P I N I O N

Southern California Water Company, a corporation, operating a number of water distribution systems in various communities in California, and relatively minor electric and ice businesses, filed the above-entitled application on February 6, 1951, for authority to increase water rates in its Placentia District and revise its capital accounts. Applicant's proposed increased rates are set forth in Exhibit A of the application. The operations in the Placentia District account for approximately 1% 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 4, 1951, at Santa Ana, California.

Facilities of applicant for serving water to customers in this district consist of production, transmission, storage, and distribution equipment. The Placentia District is composed of two separate water systems, one serving the City of Placentia and adjacent unincorporated areas, and the other serving the town of Atwood. All water served in Placentia is produced by three company-owned wells, and in the isolated Atwood System the water is purchased from the West Coast

Refining Company through a 2-inch meter. There is a 50,000-gallon elevated storage tank for the Placentia System, but there is no utility-owned storage for the Atwood System. As of December 31, 1950, the company used 74,409 lineal feet of pipe to serve 796 customers in the district. Only some 10% of these customers are served by the Atwood System. All of the services are metered.

Company's Position

In general, the company seeks a 38% increase in revenues, or \$11,510 in 1952 in this district, in order to raise the rate of return from an estimated 2.87% to 6.22% in that year. Applicant claims that this additional revenue is necessary for it to earn a fair return on the 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, and increased maintenance and operating expenses as compared with prewar costs. The rates, however, have been maintained at the prewar level.

Applicant's Exhibit No. 3 shows that, between 1940 and 1950, common items of material used in the system show price increases ranging 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 7.98% per year. The rate of return, as computed by the company, indicates the following downward trend:

1949 (Recorded)	- 4.50%
1950 (Recorded)	- 4.22
1951 (Normalized)	- 3.61
1952 (Estimated)	- 2.87

Customer Representations

Several customer representatives appeared at the hearing in opposition to the proposed increase. The City Council of the City of Placentia opposed the proposed rate increase on the grounds that it was excessive, claiming that the facilities of the company for serving the area are limited and that the service rendered is inadequate. The company's answer to the City's contention was that it has given the problem of inadequate service a great deal of attention, and

lately has added new plant and improved the system and the service. The company maintains that it has a good, sound water works system and that the claimed inadequacy primarily concerns the fire protection system. The company's president testified that the system now furnishes a reasonable degree of fire protection, and that he would be glad to consider supplying additional fire protection in cooperation with the city officials.

The Placentia Chamber of Commerce contended that existing rates are high and that the increases requested by the company are excessive. It claimed that these increases would be burdensome on the consumers of the Placentia system, but it admitted that the water company might be entitled to some rate increase due to general price increases.

The Mayor of the City of Placentia testified that the company's maintenance expense was high due to its reluctance to replace old pipe lines of inadequate capacity many years ago. He also contended that the consumers living outside of the city limits should pay more than those living inside for water service. The company's answer to this latter contention was to the effect that the district served was comparatively so small that the more customers served on its fringes and in Atwood, the more advantageous it would be for all customers on the two systems.

#### Evidence of Earnings

The company and the Commission staff presented analyses of earnings under the present rates for the years 1950 and 1951. The following table briefly presents the results as testified to by the witnesses:

#### Placentia District - Earnings on Present Rates

	<u>Company Exhibit No. 3</u>		<u>Staff Exhibit No. 4</u>	
	<u>Yr. 1950</u>	<u>Yr. 1951</u>	<u>Yr. 1950</u>	<u>Yr. 1951</u>
Revenues	\$27,181	\$29,250	\$27,181	\$29,360
Expenses and Taxes	<u>21,521</u>	<u>23,860</u>	<u>22,243</u>	<u>23,590</u>
Net Revenues	5,660	5,390	4,938	5,770
Rate Base (Deprec.)	134,223	149,510	135,900	150,400
Rate of Return	4.22%	3.61%	3.63%	3.84%

The applicant's exhibit also contained an analysis for the year 1952 which showed that the present rates would yield 2.87%, and that the proposed rates

would increase this return to 6.22% after allowing for an increase in federal income tax rates from the early 1951 level of 47% to the 52% level recently established by the Congress.

The staff did not prepare an estimate of 1952 operations, but estimated that for 1951 operations the proposed rates would have yielded a rate of return of 7.60% after applying a 52% federal income tax. The company took no particular exception to the staff analysis, except to point out the declining trend in the 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.

#### Conclusions 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. The 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 rate increases if the utility is to receive a fair rate of return.

Having given consideration to all estimates of revenues and expenses for the test year of 1951, we find that for that year the company would realize net revenues of approximately \$10,750, assuming applicant's proposed rates to be in effect throughout the entire period at an effective federal income tax rate of 52%. When tested against a rate base of \$149,500, which we hereby adopt, a rate of return of 7.19% results. In our opinion, after giving weight to the declining trend in return, the rate of return based on the year 1951 should be 6.8% in order for applicant to earn 6.0% for the future, which future rate of return we find to be fair and reasonable. On the basis of this finding, we conclude that additional gross revenues of \$9,715 in the test year 1951 are required, and increased rates will be authorized to produce this sum as set forth in Exhibit A herein. This increase in revenue is \$1,345 less than requested by the company.

Restatement of Accounts

Applicant asks that it be authorized to place on its books the results of an historical cost study of its properties in its Placentia District as of December 31, 1948, resulting in a net decrease in the amount of \$1,994.16. A comparison of the book figures as of that date with those developed by the study is shown in the following tabulation:

	<u>Book Figures</u>	<u>Historical Cost Study</u>	<u>Decrease</u>
Fixed capital accounts	\$138,862.42	\$133,614.70	\$5,247.62
Less-			
Donations and advances	3,287.07	6,391.62	(3,104.55)
Depreciation reserve	41,888.53	35,530.52	6,358.01
Balance	93,686.82	91,692.66	1,994.16

The record indicates that data pertaining to some early additions to fixed capital are not available and that the historical cost study prepared by applicant is based on a field inventory to which have been applied costs incurred in construction, estimated if not known.

We are of the opinion, upon the basis of the record made in this matter, that we are warranted in authorizing applicant to restate its books in line with its request.

Authorized Rates

In authorizing an increase in rates, we are of the opinion that applicant's proposal to place both the Atwood System and the Placentia System rates on the same level is a sound operation. The company's proposed rate blocking has been changed, as well as proposed rate levels modified, to meet the increase in revenue authorized by this order, which is less than proposed by applicant. The company's present, proposed, and the authorized basic rates follow:

A. Present Rates:

		<u>Placentia</u>	
First	500 cu.ft. or less.....	\$1.25	
Next	500 cu.ft., per 100 cu.ft.....	.25	
Next	3,000 cu.ft., per 100 cu.ft.....	.20	
Next	4,000 cu.ft., per 100 cu.ft.....	.15	
Next	4,000 cu.ft., per 100 cu.ft.....	.12	
Over	12,000 cu.ft., per 100 cu.ft.....	.10	
		<u>Atwood</u>	
First	400 cu.ft. or less.....	\$1.50	
Over	400 cu.ft., per 100 cu.ft.....	.25	

B. Company Proposed Rates:

<u>Placentia and Atwood</u>		
First	500 cu.ft. or less.....	\$1.80
Next	500 cu.ft., per 100 cu.ft.....	.35
Next	3,000 cu.ft., per 100 cu.ft.....	.28
Next	4,000 cu.ft., per 100 cu.ft.....	.20
Next	4,000 cu.ft., per 100 cu.ft.....	.15
Over	12,000 cu.ft., per 100 cu.ft.....	.12

C. Authorized Rates:

First	500 cu.ft. or less.....	\$1.80
Next	2,000 cu.ft., per 100 cu.ft.....	.30
Next	7,500 cu.ft., per 100 cu.ft.....	.20
Over	10,000 cu.ft., per 100 cu.ft.....	.12

Applicant also requested that its present filed rates for "Construction and Other Temporary Flat Rate Service" and for private "Fire Sprinkler Service" be made applicable to the entire Placentia District including the Atwood area. Refiling and consolidation of existing and proposed rates for the Atwood area will be ordered.

After reviewing all of the evidence brought before us in this proceeding, it is our conclusion that an order should be issued increasing and revising 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 Placentia District, 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 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 in quadruplicate with this Commission, after the effective date of this order, in conformity with the Commission's 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 to the public to make said rates effective for service rendered on and after January 7, 1952.

IT IS HEREBY FURTHER ORDERED that applicant is authorized to restate its fixed capital in accordance with an historical cost study as set forth in

Exhibit No. 3 herein and on or before March 31, 1952, shall file appropriate journal entries with the Commission.

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

Dated at San Francisco, California, this 11<sup>th</sup> day of December, 1951.

R. T. [Signature]  
President.  
Justice F. Cooney  
Harold A. Kula  
Samuel P. Potter  
John L. Mitchell  
Commissioners.

EXHIBIT A

The effective rates, charges, and conditions are changed only as specifically set forth in this exhibit.

1. Applicant shall revise the rate filings under Atwood and provide for cancellation of separate Atwood tariffs by the Placentia District refilings.
2. All necessary title sheets, preliminary statements, maps, tariff sheets, rules and regulations in the Placentia District shall be refiled to include the Atwood area and in addition incorporate the changes herein specified.
3. Revise Schedule No. 1 to include the following clauses and rates:

METERED WATER SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

In and about the cities of Placentia and Atwood, Orange County, as delineated on the maps included in the Tariff Schedules.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 500 cu.ft., or less.....	\$ 1.80
Next 2,000 cu.ft., per 100 cu.ft.....	.30
Next 7,500 cu.ft., per 100 cu.ft.....	.20
Over 10,000 cu.ft., per 100 cu.ft.....	.12
 Minimum Charge:	
For 5/8 x 3/4-inch meter.....	\$ 1.80
For 3/4-inch meter.....	2.50
For 1-inch meter.....	3.75
For 1 1/2-inch meter.....	5.50
For 2-inch meter.....	8.00
For 3-inch meter.....	15.00
For 4-inch meter.....	25.00
For 6-inch meter.....	40.00

4. Refile Schedule No. 2, Construction and Other Temporary Flat Rate Service, with appropriate new territory designation to include Atwood.
5. Refile Schedule No. 3, Fire Sprinkler Service, with appropriate new territory designation to include Atwood.