

ORIGINAL

Decision No. 46588

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application)
of the Southern California Water) Application No. 32128
Company to increase water rates)
in its Highland District.)

For Applicant: L. M. Wright, of O'Melveny & Meyers.

For Protestants: Highland Water Committee, by
C. J. Clark, Chairman;
J. W. Curtis, Jr., for Highland
Consumers.

Commission Staff: Robert P. O'Brien, Supervising Engineer.

O P I N I O N

The Southern California Water Company, a corporation, 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 February 14, 1951, asking for authority to increase water rates in its Highland District to produce an additional \$22,610 of annual revenue based on its 1951 estimate of operations. The proposed rates are set forth in Exhibit A of the application. The operations in Highland 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 Edwards on October 3, 1951 at Highland, 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, two of which feed directly into the distribution system, and two of which discharge into a 360,000-gallon concrete reservoir located on high ground at

City Creek Plant. As of December 31, 1950, the company used 102,722 feet of distribution pipe to deliver water to 786 customers located in the community of Highland and surrounding territory.

Company's Position

In general, the company seeks to increase revenues by 85% in this district in order to bring the rate of return from an estimated 0.97% up to 6.10% for 1952 operations. 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 common items of material used in the system since 1940 show price increases ranging up to as much as 163%. Furthermore, it claims that wages also have increased sharply in this period and for the past five years have increased at the rate of 10.78% per year. During the past few years the rate of return as computed by the company has exhibited the following down trend:

1949 (Recorded)	-	3.32%
1950 (Recorded)	-	2.03
1951 (Normalized)	-	1.90
1951 (Estimated)	-	0.97

Customer Statements

Several customers, as well as customer representatives appeared at the hearing and made statements in opposition to the proposed rate increase. Some complaint was made as to sand or rust in the water which applicant plans to remove by installation of a sand trap. Most of the customer testimony concerned

conditions of low pressure and lack of water during summer months in previous years. During the past summer the company added distribution plant and pipes which apparently have removed this source of complaint. Concern was expressed by the complainants as to the fire hazard and lack of a sufficient number of fire hydrants. The representative of the Chamber of Commerce asked for elimination of the 25 cents per customer fire hydrant rate.

The position taken by the representative of the Chamber of Commerce with respect to other items was: (1) the rate should be reduced rather than increased; (2) the quantity of water available for the minimum charge should not be decreased; (3) the system should be built up to stand good pressure; (4) leaks should be repaired more promptly, and (5) the utility should investigate savings that would accrue by closing its local office and placing collections in the hands of a local merchant who maintains convenient office hours for the citizens to pay their bills.

In addition this representative forecasts a large growth of customers in the area within two to five years and suggested that the utility's rate level should take into account this potential growth.

A witness for the water consumers testified that there has been an extreme drought in the area and, consequently, a below normal recharge of the underground basins during the past several years. He claimed that the large current pumping charge will be decreased considerably as soon as a year of normal rainfall occurs and therefore permanent rates should not be predicated upon these past abnormal pumping costs. This party introduced some comparative rates of nearby systems which indicated that the proposed rates of applicant are higher than for other systems serving adjoining

areas. He also testified that with the recent improvements in pressure and availability of water, the customers will use more water, which condition was not properly reflected in the estimates of future revenues.

Evidence of Earnings

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

Highland District - Earnings on Present Rates

	<u>Company Exhibit No. 2</u>		<u>Staff Exhibit No. 3</u>	
	<u>1950</u>	<u>1951</u>	<u>1950</u>	<u>1951</u>
Revenues	\$ 25,163	\$ 26,620	\$ 25,163	\$ 26,480
Expenses and Taxes	21,552	22,630	21,902	21,921
Net Revenue	3,611	3,990	3,261	4,559
Rate Base (Depreciated)	177,623	209,640	167,400	203,100
Rate of Return	2.03%	1.90%	1.95%	2.24%

The applicant also computed the rate of return for 1952 operations to be 0.97% under present rates and estimated that the rate of return under the proposed rates, after allowing for an increase in federal income tax rates from the previous level of 47% to the present 52% level, would be 6.10%.

The staff did not present an estimate for 1952 operations but introduced Exhibit No. 4 indicating that for 1951 the rates proposed by applicant would have yielded a rate of return of 7.35% on a rate base of \$201,900. 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 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. These plant expenditures made under

today's inflated costs of labor and material, require increased revenues to provide a fair return. Furthermore, the wage and tax 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 reasonable return.

Having given consideration to all estimates of revenues and expenses for the test year 1951, we find that for that year the company would realize net revenues of approximately \$14,850, assuming applicant's proposed rates in effect throughout the entire period at a federal income tax rate of 52%. When tested against a rate base of \$201,900, which we hereby adopt, a rate of return of 7.35% results. As pointed out by protestant witnesses, there is probability of increased net revenues from larger unit customer sales and from economies that can be effected under more efficient management. In our opinion, the increased revenues should offset the declining trend in return, which would be experienced in 1952 and consequently a rate of return of 5.9% for the test year 1951, should enable applicant to earn 6% in 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 \$16,190 are required, and increased rates will be authorized as set forth in Exhibit A herein. This estimated increase in revenue is \$6,420 less than requested by the company. Until the operations of this district have been stabilized, the Commission desires to be kept informed as to the effect of the authorized rates on the rate of return. Therefore, the company will be required to file a statement showing the results of operation of this system for the 12-month period subsequent to the effective date of this order.

Authorized Rates

The company's rate blocking has been changed, as well as the proposed rate levels modified, to meet the findings of this order. The company's present and proposed rates and authorized rates for metered service are summarized in the following tabulations:

A. Present Rates:

First	800 cu. ft. or less	.....	\$1.50 per month
Next	1,200 cu. ft. @	.....	.18 per 100 cu.ft.
Next	1,500 cu. ft. @	.....	.15 per 100 cu.ft.
Over	3,500 cu. ft. @	.....	.10 per 100 cu.ft.

B. Company Proposed Rates:

First	800 cu. ft. or less	.....	\$2.75 per month
Next	1,200 cu. ft. @	.....	.34 per 100 cu.ft.
Next	2,000 cu. ft. @	.....	.29 per 100 cu.ft.
Next	16,000 cu. ft. @	.....	.20 per 100 cu.ft.
Over	20,000 cu. ft. @	.....	.16 per 100 cu.ft.

C. Authorized Rates:

First	500 cu. ft. or less	.....	\$1.90 per month
Next	2,000 cu. ft. @	.....	.28 per 100 cu.ft.
Next	7,500 cu. ft. @	.....	.21 per 100 cu.ft.
Over	10,000 cu. ft. @	.....	.16 per 100 cu.ft.

Consistent with the change in meter rates the flat rate has been established at \$2 per month instead of at \$2.75 as requested by applicant.

Schedules of rates for construction and other temporary service and for private fire sprinkler service will be established as requested by applicant. However, the present fire hydrant rate will be unchanged except to set out specifically that the charge will apply to all consumers located within 500 feet of a fire hydrant.

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.

EXHIBIT A
Page 1 of 5

Schedule No. 1

METERED WATER SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

In and about the town of Highland, San Bernardino County, as delineated on the map included in the tariff schedules.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 500 cu. ft. or less	\$1.90
Next 2,000 cu. ft., per 100 cu. ft.....	.28
Next 7,500 cu. ft., per 100 cu. ft.....	.21
Over 10,000 cu. ft., per 100 cu. ft.....	.16

Minimum Charge:

For 5/8 x 3/4-inch meter	\$1.90
For 3/4-inch meter	2.50
For 1-inch meter	4.00
For 1 1/2-inch meter	6.00
For 2-inch meter	9.00
For 3-inch meter	15.00
For 4-inch meter	25.00
For 6-inch meter	40.00

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

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Schedule No. 2

FLAT RATE WATER SERVICE

APPLICABILITY

Applicable to unmetered service to domestic and commercial consumers.

TERRITORY

In and about the town of Highland, San Bernardino County, as delineated on the map included in the tariff schedules.

RATE

For each flat rate consumer, supplied through a service not to exceed 3/4-inch, occupying not more than a single lot and using water within the premises and on the lot only, per month \$2.00

SPECIAL CONDITION

Meters may be installed at the option of either the customer or the Company, provided the installation is feasible.

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Schedule No. 3

TEMPORARY WATER SERVICEAPPLICABILITY

Applicable to all construction and other temporary water service.

TERRITORY

In and about the town at Highland, San Bernardino County, as delineated on the map included in the tariff schedules.

RATES

- | | | |
|-----|---|--------|
| (1) | For each 100 square feet of concrete sidewalk constructed | \$0.20 |
| (2) | For each 100 linear feet of concrete curb constructed | .40 |
| (3) | For each 100 square feet of concrete gutter constructed | .40 |
| (4) | For each 100 square feet of concrete street constructed | .40 |
| (5) | For settling graded street, for each 100 square feet of street graded | .05 |
| (6) | For settling backfill of trenches, for each lineal foot of trench with 16 square foot cross sectional area, or less | .01 |

For each lineal foot of trench of over 16 square foot cross sectional area the rate per foot of trench increases in proportion to the area.

SPECIAL CONDITIONS

1. For other temporary uses, the quantity of water used will be measured or estimated by the Company. The charge for this water will be made at the quantity rate for General Metered Water Service.
2. The applicant for such temporary service shall be required to pay to the Company in advance, the net cost of installing and removing any facilities necessary in connection with furnishing such service by the Company.
3. The applicant for temporary service shall be required to deposit with the Company a sum of money equal to the estimated amount of the Company's bill for such service or to otherwise secure, in a manner satisfactory to the Company, the payment of any bills which accrue by reason of such service so furnished or supplied.

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Schedule No. 4

PRIVATE FIRE SPRINKLER SERVICE

APPLICABILITY

Applicable to all private fire sprinkler service.

TERRITORY

In and about the town of Highland, San Bernardino County, as delineated on the map included in the tariff schedules.

RATE

Per Service
Per Month

For each inch of diameter of the service \$1.00

SPECIAL CONDITIONS

1. The customer will pay, without refund, the entire cost of installing the fire sprinkler service.
2. The minimum diameter for fire sprinkler service will be 4 inches and the maximum diameter will be not more than the diameter of the main to which the service is connected.
3. The customer's installation must be such as to separate effectively the fire sprinkler system from that of the customer's regular water service. As a part of the sprinkler service installation there shall be a detector check or other similar device acceptable to the Company which will indicate the use of water. Any unauthorized use will be charged for at the regular established rate for General Metered Service, and/or may be grounds for the Company's discontinuing the fire sprinkler service without liability to the Company.
4. There shall be no cross-connection between the fire sprinkler system supplied by water through the Company's fire sprinkler service to any other source of supply without the specific approval of the Company. This specific approval will require, at the customer's expense, a special double check valve installation or other device acceptable to the Company. Any such unauthorized cross-connection may be the grounds for immediately discontinuing the sprinkler service without liability to the Company.

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Schedule No. 5

FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all domestic and commercial consumers within a distance of 500 feet from a fire hydrant.

TERRITORY

In and about the town of Highland, San Bernardino County, as delineated on the map included in the tariff schedules.

RATE

Per Service
Per Month

For each domestic or commercial consumer, within a distance of 500 feet from a fire hydrant, there will be, in addition to the regular monthly bill for metered or flat rate service, the following charge for fire protection service \$0.25

SPECIAL CONDITIONS

1. The Company will install additional fire hydrants under the following conditions:
 - (a) No additional mains will be installed for the installation of a fire hydrant.
 - (b) Hydrants will be installed when required by any governmental authority, or on the basis of one (1) hydrant for six (6) additional consumers who sign up for fire protection service; and are each within a distance of 500 feet from the proposed hydrant.
2. The Company will assume no liability as to the quantity of water which will flow through any of those hydrants.
3. No water will be used through these hydrants except for fire fighting purposes.

O R D E R

Southern California Water Company, having applied to this Commission for authority to increase water rates in its Highland 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 increases in rates and charges authorized herein are justified, and that present rates, in so far as they differ from those herein prescribed, are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that:

1. 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 to the public, to make said rates effective for service rendered on and after January 16, 1952.

IT IS HEREBY FURTHER ORDERED that after twelve (12) months of operation under the rate levels herein authorized, applicant shall file a statement of revenues and expenses together with such memoranda as will enable the Commission to determine the rate of return under the authorized rates. Such data shall be presented on or before April 1, 1953.

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

Dated at San Francisco, California, this 21st day of December, 1951.

A. J. [Signature]
President.

Justice F. [Signature]

Harold H. [Signature]

[Signature]

[Signature]
Commissioners.