

ORIGINAL

Decision No. 46678

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 in its Claremont )  
District. )

Application No. 32186

O'Melveny & Myers, by Lauren M. Wright,  
for applicant; City of Claremont, by  
K. I. Dienes, City Manager; League of  
Women Voters, by Mrs. George Gibbs.

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 March 6, 1951, for authority to increase water rates in its Claremont District, in an amount estimated at \$29,820, based on the 1952 level of business. Applicant's proposed increased rates are set forth in Exhibit A attached to the application. The operations in the Claremont District accounted for approximately 3% of the total revenues of the company for the year 1950. A public hearing on this application was held before Examiner M. J. Kimball on November 20, 1951, at Claremont, 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 the wells are located at the Indian Hill plant, one at the Fair Oaks plant and one at the Mills

plant. In addition, the company operates a well owned by Pomona College with which institution an agreement for the exchange of water is in effect. Storage consists of a 1,333,000-gallon reservoir at the Mills plant and a 250,000-gallon reservoir at the Indian Hill plant. As of December 31, 1950, the company had in service 172,289 lineal feet of pipe to distribute water to 1,700 customers located in the City of Claremont, and a small portion of contiguous unincorporated territory. Of the 1,700 customers being served at the end of 1950, all but three services were metered. As of the same date, the company owned and maintained 134 fire hydrants connected directly to its lines in the Claremont District.

#### Company's Position

In general, the company seeks a 34% increase in revenues in 1952 in this district in order to raise the rate of return from an estimated 3.01% to 6.10% 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. Applicant's construction budget for its Claremont District is approximately \$19,800 for the year 1951 and approximately \$63,000 for the year 1952.

Domestic water rates in the Claremont District were decreased by informal negotiation in 1941 and further reductions were made in 1944 by Decision No. 36931, dated March 7, 1944. The rates authorized in Decision No. 36931 are the rates presently in effect.

Applicant's Exhibit No. 2 shows that the cost of some 20 common items of material used in the system has increased, ranging to as much as 163%, during the 10-year period from 1940 to 1950, inclusive. Applicant also claims that the pay per hour has increased sharply in this period, and for the past five and one-half years has increased at an average rate of 10.8% per year.

The rate of return under present rates, as computed by the company, indicates the following downward trend:

1949 recorded*	- 4.44%
1950 recorded*	- 4.12
1951 normalized	- 3.81
1952 estimated	- 3.01

\* After adjustment for credit against expenses due to exchange of water with Pomona College.

#### Customer Representations

The City Council of the City of Claremont was not opposed to such rate increases as the Commission found to be reasonable. A representative of the League of Women Voters pointed out that there was a large group of residents in Claremont who had fixed incomes, and she expressed concern about the proposed increase in the minimum charge. She also questioned the lack of uniformity in the increases proposed in the various blocks of usage, and suggested that the increase in minimum charge should be held to as low a level as possible with further possible increases, if necessary, in the charges for additional use of water. The company's answer to these suggestions was that a reasonable minimum charge was required in view of the necessity for covering the cost on the fixed capital, and, in fact, represented a readiness to serve charge. The company's witness stated that he felt the increases proposed were on a reasonable basis and that the schedule proposed by the company provided for reasonable reductions in the quantity charge in relation to increases in usage.

Evidence of Earnings

The company and the Commission staff presented analyses of earnings under the present rates for the year 1950 and estimates for the year 1951 and 1952. The following table briefly presents results for the estimated years 1951 and 1952, as testified to by the witnesses.

CLAREMONT DISTRICT - EARNINGS ON PRESENT RATES

	<u>Company-Exhibit No. 2</u>		<u>Staff - Exhibit No. 8</u>	
	<u>Year 1951</u>	<u>Year 1952</u>	<u>Year 1951</u>	<u>Year 1952</u>
Revenues	\$ 83,470	\$ 86,980	\$ 93,400	\$ 97,750
Expenses and Taxes	68,350	73,620	77,044	82,287
Net Revenues	15,120	13,360	16,356	15,463
Rate Base (Deprec.)	397,010	443,630	368,552	416,339
Rate of Return	3.81%	3.01%	4.44%	3.71%

The principal difference between the revenues and expenses, as estimated by the company and by the staff, results from the difference in treatment of the water delivered to Pomona College under the special contract. The staff included the estimated normal credits to the utility in 1951 and 1952 under "Miscellaneous Earnings from Operations", in the amount of \$8,290 for 1951 and \$8,100 for 1952. Consistent with this, credits to the college in the same amount are shown as operating expenses on the basis that in a normal year the amount of water pumped could be regulated so as to balance out the college account and eliminate any exchange of cash, as contemplated under the contract.

The principal difference in the rate bases as developed by the company and the staff results from a difference in the valuation of the water-bearing lands. The company contended, and presented a witness who testified, that the present market value of water rights in the Claremont area is between \$750 and \$2,500 per miner's inch and that the company's rights would average from 230 to 240 miner's inches. The company rate base includes costs of water-bearing lands as taken from the books of predecessor

companies. The witness, however, testified that the company had been unable to trace back the original cost of water rights. The staff's rate base included the adjustment of \$23,161 for water-bearing lands which was reflected in C.R.C. Decision No. 7802, dated June 28, 1920. We are of the opinion that the adjustment made to this account in said decision was reasonable and proper.

In developing the rate bases, both the company and the staff treated donations in aid of construction and consumer's advances for construction as deductions from fixed capital. The staff also adjusted the depreciation expense and reserve so as to eliminate the expense and the reserve associated with advances and donations. However, in accordance with past Commission practice, the depreciation expense in connection with consumer's advances will be allowed as an operating expense and the corresponding reserve will be deducted from fixed capital in determining the rate base.

#### Conclusions on Earnings

It is evident that the company will fail to earn a reasonable return at present rates on its investment for the year 1951 and, unless rate relief is granted, it will also fail to earn a reasonable return in 1952. Present inflated costs of labor and material require increased revenues to earn a fair return. Furthermore, the tax and wage increases, imposed or permitted by the federal government must be considered in establishing rates if the utility is to receive a fair rate of return.

Having given consideration to all estimates of revenues and expenses for the years 1951 and 1952, we find that for the year 1952 the company will realize net revenues of approximately \$27,800 assuming applicant's proposed rates in effect throughout the entire year. When tested against a rate base of \$419,700,

which we hereby adopt, a rate of return of 6.7% results. In our opinion, increases in rates sufficient to produce a rate of return of 6% for the future should be authorized, and we find such rate of return to be fair and reasonable. On the basis of this finding we conclude that additional gross revenues of \$24,800 for the year 1952 are required, and increased rates to produce such gross revenues will be authorized in the following order.

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 cost of service among the various customers having usage of various quantities. The company's rate blocking has been changed and the proposed rate levels modified to meet the finding of this order. The rates at present, in effect, as proposed by the company; and as authorized herein are as follows:

<u>Present Rates</u>	<u>Per Meter per Month</u>
First 700 cu.ft. or less . . . . .	\$1.25
Next 1,300 cu.ft., per 100 cu.ft. . . . .	.15
Over 2,000 cu.ft., per 100 cu.ft. . . . .	.10
 <u>Company Proposed Rates</u>	
First 700 cu.ft. or less . . . . .	\$1.60
Next 1,800 cu.ft., per 100 cu.ft. . . . .	.20
Next 2,500 cu.ft., per 100 cu.ft. . . . .	.15
Over 5,000 cu.ft., per 100 cu.ft. . . . .	.13
 <u>Authorized Rates</u>	
First 500 cu.ft. or less . . . . .	\$1.25
Next 2,000 cu.ft., per 100 cu.ft. . . . .	.18
Next 7,500 cu.ft., per 100 cu.ft. . . . .	.15
Over 10,000 cu.ft., per 100 cu.ft. . . . .	.12

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 3

Schedule No. 1

METERED WATER SERVICE

APPLICABILITY

Applicable to all metered water service except the special irrigation service covered by Schedule No. 3

TERRITORY

In and about the incorporated City of Claremont, Los Angeles County, as delineated on the map included in the tariff schedules.

RATES

Quantity Rates:	Per Meter Per Month
First 500 cu.ft. or less .....	\$ 1.25
Next 2,000 cu.ft., per 100 cu.ft. ...	.18
Next 7,500 cu.ft., per 100 cu.ft. ...	.15
Over 10,000 cu.ft., per 100 cu.ft. ...	.12

Minimum Charge:

For 5/8 x 3/4-inch meter .....	\$ 1.25
For 3/4-inch meter .....	1.70
For 1-inch meter .....	2.25
For 1 1/2-inch meter .....	3.25
For 2-inch meter .....	5.00
For 3-inch meter .....	12.00
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.

Schedule No. 2

CONSTRUCTION AND OTHER TEMPORARY FLAT RATE SERVICE

Present rates and special conditions are continued in effect.

Schedule No. 3

SPECIAL IRRIGATION SERVICE

APPLICABILITY

Applicable only to Wiley Ranch and Johnson Brothers.

TERRITORY

Lands of Wiley Ranch and Johnson Brothers located near the company's reservoirs in Claremont, Los Angeles County.

RATE

Quantity Rate:	<u>Per Meter</u> <u>Per Month</u>
All water used, per 100 cu.ft. ....	\$ 0.09

SPECIAL CONDITIONS

1. Irrigation service shall be considered a secondary service and only such surplus water as may be available over that required for domestic consumption shall be furnished. Quantities used shall be determined by meters of standard manufacture. A record of water used will be kept by the Company for each consumer and bills will be computed and rendered monthly, based on the total quantity of water used.
2. Each consumer shall notify the Company in advance indicating the date and hours when water will be required or used.
3. Irrigation service will be rendered only to Wiley Ranch and Johnson Brothers, and at the location where service is presently rendered. If service is discontinued for a period of 12 consecutive months or more, service will not be renewed under this schedule.
4. Service will be rendered only from Company reservoirs and will require no distribution facilities.

Schedule No. 4

MUNICIPAL FIRE HYDRANT SERVICE

Present rates and special conditions are continued in effect.



Schedule No. 5

FIRE SPRINKLER SERVICE

APPLICABILITY

Applicable to service for fire protection other than Municipal Fire Hydrant Service covered by Schedule No. 4.

TERRITORY

In and about the incorporated City of Claremont, Los Angeles County, as delineated on the map included in the tariff schedules.

RATE

For Service  
Per Month

Per inch diameter of 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 not be 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.

O R D E R

Southern California Water Company having applied to this Commission for authority to increase water rates in its Claremont 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 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 furnished on and after February 18, 1952.

IT IS HEREBY FURTHER ORDERED that all rate schedules other than those set forth herein be and are hereby cancelled.

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

Dated at San Francisco, California, this 22nd day of

January, 1952.

Commissioner Kenneth Potter, being necessarily absent, did not participate in the disposition of this proceeding.

A. J. [Signature]  
President.  
Justice F. [Signature]  
Harold [Signature]  
[Signature]

Commissioners.