

Decision No. 47673

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CALIFORNIA WATER SERVICE COMPANY, a)
corporation, for an order authorizing) Application No. 32885
it to increase rates charged for water)
service in Hermosa Beach, Redondo)
Beach and vicinity.)

McCutchen, Thomas, Matthew, Griffiths & Greene, by
Robert Minge Brown, for applicant; City of Hermosa
Beach, by M. Tellefson, city attorney, protestant;
City of Redondo Beach, by Auten F. Bush, deputy
city attorney, protestant; Bruce McKnight, for
protestant cities; John Powers, John F. Donovan
and C. G. Ferguson for the Commission staff.

O P I N I O N

By this application, filed November 8, 1951, California Water Service Company seeks authority to increase rates and charges for water service rendered the cities of Hermosa Beach, Redondo Beach, Torrance and vicinity, Los Angeles County. This application and proceeding is the first rate increase proceeding, involving the Hermosa-Redondo District of applicant, in over 30 years.

Public hearings in the matter were held before Examiner Emerson on June 25 and 26, 1952, at Redondo Beach.

Rates, Present and Proposed

By the Commission's Decision No. 18084, dated March 21, 1927, in Application No. 13514, California Water Service Company was authorized to acquire the properties and businesses of several corporations, including the Hermosa-Redondo Water Company. The latter company had previously consolidated the interests of the Hermosa Beach Water Company and the Redondo Water Company, operating public utility water systems in adjoining areas. The identities of

the two service areas have been retained as to rates filed and charged, even though applicant has unified the operations of its Hermosa-Redondo District serving the cities of Hermosa Beach and Redondo Beach and vicinity and also a portion of the City of Torrance.

At the time of acquisition, in 1927, the company adopted the schedules of rates and the rules and regulations then in effect. On February 3, 1937, the company refiled rates, rules and regulations for each of these two service areas in more up-to-date form, at the same time incorporating some minor reductions in rates, which were made effective March 5, 1937. Of those filings, some of the rules and all of the rate schedules have been superseded and supplemented by subsequent filings, some of which involved rates for additional types of usage and minimum charges for meters of larger size, while others effected a reduction in rates for large quantities of water consumption.

The rate schedule for general metered service now in effect for the Hermosa Beach area was filed October 17, 1947, and became effective November 1, 1947, as authorized by the Commission's Resolution No. W-268. In addition to monthly rates and charges, the schedule contains an optional annual rate, which the company plans to eliminate from its new schedules.

The presently effective rate schedule for general metered service in the Redondo Beach area was filed October 17, 1947, and became effective November 1, 1947, as authorized by the Commission's Resolution No. W-267.

The company desires to eliminate all differences in charges for service now existing between the Hermosa Beach and Redondo Beach areas. To accomplish this purpose, it proposes a single basic service charge type of schedule applicable to all

water service furnished on a metered basis in the entire Hermosa-Redondo District. The following tabulation shows the schedules of rates for general metered service as now in effect in the two service areas and the schedule proposed by the company for the entire Hermosa-Redondo District:

GENERAL METERED SERVICE

		Per Meter Per Month		
		<u>Present Rates</u>		
		<u>Hermosa Beach</u>	<u>Redondo Beach</u>	<u>Proposed Rates Hermosa-Redondo</u>
Quantity Rates:				
First	500 cu.ft. or less	\$ -	\$1.00	\$0.12
Next	200 cu.ft., per 100 cu.ft.	-	.18	.12
First	700 cu.ft. or less	1.35	-	-
Next	300 cu.ft., per 100 cu.ft.	.16	.18	.12
Next	1,500 cu.ft., per 100 cu.ft.	.16	.16	.12
Next	500 cu.ft., per 100 cu.ft.	.20	.14	.12
Next	27,000 cu.ft., per 100 cu.ft.	.10	.14	.12
Next	15,000 cu.ft., per 100 cu.ft.	.10	.14	.12
Next	45,000 cu.ft., per 100 cu.ft.	.09	.14	.12
Next	60,000 cu.ft., per 100 cu.ft.	.08	.14	.12
Over	150,000 cu.ft., per 100 cu.ft.	.07	.14	.12
Readiness-to-serve or Minimum Charge:				
		***	***	*
For	5/8 x 3/4-inch meter.....	\$1.35	\$1.00	\$1.50
For	3/4-inch meter.....	-	-	1.70
For	1-inch meter.....	2.00	1.25	2.15
For	1 1/2-inch meter.....	2.65	1.75	3.35
For	2-inch meter.....	3.75	3.00	4.50
For	3-inch meter.....	12.00	12.00	15.25
For	4-inch meter.....	18.00	18.00	22.50
For	6-inch meter.....	35.00	35.00	31.00
For	8-inch meter.....	50.00	50.00	44.50

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

* Readiness-to-Serve Charge. The charge at the quantity rate of \$0.12 per 100 cubic feet is to be added to the readiness-to-serve charge for the size of meter through which service is rendered.

Rate schedules for commercial irrigation service applicable to separate areas of 15,000 square feet, or more, and for municipal purposes were filed for each of the two service areas, on October 17, 1947, and became effective November 1, 1947, as authorized by the

Commission's Resolution No. W-268 for Hermosa Beach and No. W-267 for Redondo Beach. These four schedules are identical except in the monthly minimum charges for 1-inch, 1½-inch and 2-inch meters which are higher for Hermosa Beach than for Redondo Beach. The company proposes the elimination of these schedules and to charge for ~~such~~ such service under the General Metered Service schedule.

Presently in effect are the rate schedules filed on November 12, 1937, for both the Hermosa Beach and Redondo Beach service areas, for street paving, curb and sidewalk construction where service is temporary during the period of construction. The company proposes to eliminate these rate schedules and to charge for such service at the general metered service rates.

The present fire hydrant rate for municipal fire protection in the Hermosa Beach service area was filed November 12, 1937, and is \$2.50 per month per hydrant, including water used for fires. The corresponding rate schedule for municipal fire protection in Redondo Beach was filed October 17, 1947, and became effective November 1, 1947, and sets forth the following charges, including water used for fires:

<u>Hydrant Owned</u>	<u>Per Hydrant Per Month</u>
By City	\$1.50
By Company	2.50

The company proposes to continue these latter rates in effect for public fire protection service rendered in its entire Hermosa-Redondo District. For all other public uses of water, the general metered service rates will apply.

On November 17, 1937, the company filed identical rate schedules for its Hermosa Beach and Redondo Beach service areas for private fire extinguishing service, including rates for service through 4-inch, 6-inch and 8-inch connections. The company now proposes a schedule of rates for private fire protection service to

include additional sizes of connections and to increase the existing rates, applicable to its entire Hermosa-Redondo District.

At the proposed general metered rates the average residential customer would experience an average increase of about 75 cents in his monthly water bill.

The System, Its History and Growth

The water system for Redondo Beach originated in 1888 at the time lots in the Redondo townsite were first placed on sale. Ten years later, by reorganization, the system was taken over by the Redondo Improvement Company. In 1908, the Redondo Water Company was formed, owning and operating the water system until 1924, when Hermosa-Redondo Water Company purchased its stock.

Hermosa Beach was subdivided by a real estate firm of Los Angeles, about the turn of the century. To supply water to the property, Hermosa Beach Water Company was formed and a water system was constructed. From time to time the system was expanded to take in adjoining territory. In 1913, El Sobrante Land Company acquired all of the capital stock of the company and commenced a rehabilitation of part of the system where the service was poor. By that time, however, the City of Manhattan Beach had decided to install its own system. In 1914, the system discontinued service in Manhattan Beach.

Hermosa Beach Water Corporation was formed in 1914, taking over the properties of Hermosa Beach Water Company. This corporation retained ownership of the system until 1924, when it sold its stock to Hermosa-Redondo Water Company. At the same time Hermosa-Redondo Water Company bought the stock of Redondo Water Company and thereafter consolidated the two systems. California Water Service Company acquired the Hermosa Beach and Redondo Beach systems in 1927 by stock purchase and has subsequently operated the system as its Hermosa-Redondo District.

The Hermosa-Redondo District serves the entire cities of Hermosa Beach and Redondo Beach, a portion of the City of Torrance and a small unincorporated county area. The district comprises an area of approximately seven square miles and serves a population of about 50,000 persons. The principal water supply is obtained from 13 wells located in what is known as the West Coast Basin of Los Angeles County. For many years these local wells produced all of the water for applicant's district. Since the beginning of World War II, however, industrial pumping has been heavy in the basin and salt water intrusion has become noticeable along the coast. Applicant was forced to drill wells inland some 1½ miles in order to afford protection against loss of production.

In 1944, as a result of a study made by the United States Geological Survey, a conservation committee was formed which estimated that withdrawals of water from the basin totaled about 64,000 acre feet per year. Replacement was estimated at between 33,000 and 40,000 acre feet per year, thus indicating a serious overdraft. In 1945 applicant, together with the City of Torrance and the Palos Verdes Water Company, as coplaintiffs, instituted action against some 500 defendants seeking adjudication of water rights in the basin. The matter has not yet been determined by the courts. However, in anticipation of an adjudication which would curtail pumping by 75% to 80%, applicant, in 1950, made arrangements to purchase water from the West Basin Municipal Water District in order to supplement its well water and has installed approximately 8,400 feet of 24-inch transmission line from the Metropolitan Water District conduit to applicant's reservoir at Hermosa Beach. The project cost applicant approximately \$130,000.

Storage facilities consist of seven ground level tanks and reservoirs and two elevated tanks with a combined capacity of

3,450,000 gallons. Such capacity provides about 15½ hours of storage under normal water usage.

Applicant's transmission and distribution system consists of about 158 miles of mains ranging in size from 24 inches to 3/4 inch in diameter.

During the last six years the number of active customers served has increased about 70%. As of the end of 1951 there were 13,284 meter rate customers, 12 flat rate customers and 514 fire hydrants served through 836,280 feet of mains. During the past six years applicant has constructed over 260,000 feet of mains and installed 5,774 service connections. Gross capital additions during this period have exceeded \$1,338,000. It is expected that 1,420 customers will be added to the system in 1952 and the construction budget for 1952 will exceed \$443,000.

A witness for applicant testified that construction to meet growth and the demands of existing customers has been at ever increasing costs. For example, in 1941, 8-inch cast-iron main could be installed for \$2.24 per foot and 8-inch steel main for \$1.47 per foot. At today's prices these mains cost \$4.54 per foot and \$3.59 per foot, respectively. The average 3/4-inch service with meter cost \$25.30 in 1941. The cost today is \$61.50. According to applicant the over-all effect of these and other cost increases has resulted in present-day costs which are 120% above those of 1941.

Summary of Presentations

The tabulation below is a summary of the presentations respecting results of operations as made by applicant and the Commission staff. Protestants offered no comparable calculations. Specific items of the tabulation are discussed in succeeding paragraphs.

<u>Adjusted Year 1951</u>	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Applicant</u>	<u>Staff</u>	<u>Applicant</u>	<u>Staff</u>
Net Revenue	\$ 92,628	\$ 86,268	\$ 148,856	\$ 142,323
Rate Base (deprec.)	2,224,407	2,234,000	2,224,407	2,234,000
Rates of Return	4.2%	3.86%	6.7%	6.37%
<u>Estimated Year 1952</u>				
Net Revenue	97,324	89,241	159,011	150,857
Rate Base (deprec.)	2,596,155	2,559,000	2,596,155	2,559,000
Rate of Return	3.7%	3.49%	6.1%	5.90%

Rate Base

In developing a rate base on which applicant may be entitled to earn a return, applicant used as a starting point the same fixed capital and methods heretofore established or followed by the Commission's staff of engineers. Depreciated rate bases were developed from the weighted average undepreciated rate bases by deducting the adjusted depreciation reserve on a 4½% sinking fund basis. In this latter connection, applicant by letter agreement with the staff, dated March 20, 1952, adopted the 4½% sinking fund remaining life method of depreciation accounting and correspondingly altered its books of account thereto as of January 1, 1952.

Protestants' witness attempted to illustrate, by arithmetical calculations, the relation between a rate of return and the effect of that rate upon the common stockholder. In so doing, protestants arrived at total rate bases of \$2,197,022 for the year 1951 and of \$2,568,000 for the year 1952. On such 1952 base protestants' witness urged an allowable rate of return of 5.229%.

The method employed by protestants' witness consisted, basically, of accepting applicant's depreciated rate base and subtracting therefrom the entire allowance for working cash capital and one-half of applicant's allowance for average materials and supplies.

As above-mentioned, applicant and the Commission staff followed methods heretofore used by the staff in estimating a rate base. Such methods have long been recognized by this Commission. The differences in rate bases arise, therefore, not from differences in methods but from specific inclusions or exclusions of such items as the weighted capital additions affected by water supply problems arising from the West Basin adjudication proceedings. The staff, as well as applicant, included allowances for average materials and supplies and working cash capital on a basis which is reasonable and which has been and is recognized by this Commission as properly applicable to such calculations.

In view of the evidence we shall adopt as reasonable, for the purposes of this proceeding, average depreciated rate bases of \$2,230,000 for the adjusted year 1951 and \$2,580,000 for the estimated year 1952.

Operating Revenues and Expenses

Operating revenues and operating expenses as presented by applicant and the Commission staff are summarized in the following tabulation. Protestants presented no comparable figures.

:Adjusted :Year 1951	: Operating Revenues :		: Operating Expenses :	
	:Present Rates:	:Proposed Rates:	:Present Rates:	:Proposed Rates:
Applicant	\$406,897	\$528,916	\$314,269	\$380,060
Staff	406,594	528,480	320,326	386,157
<u>Estimated</u> <u>Year 1952</u>				
Applicant	\$445,840	\$579,709	\$348,516	\$420,698
Staff	444,440	578,419	355,199	427,562

The differences in adjusted and estimated revenues are minor and arise from differences in the number of customers used as

averages. For example, applicant anticipates an additional 1,420 customers in 1952 while the staff calculations were based on an additional 1,406 customers.

Expenses, as adjusted and estimated, differ primarily in the tax account. In this respect the staff was able to obtain later information on tax assessments than was available to applicant.

In view of the evidence we shall adopt as reasonable estimates of operating revenues, operating expenses and net revenues for the adjusted year 1951 and the estimated year 1952 the amounts set forth in the following tabulation for normal operations under present and proposed rates:

Item	Adjusted Year 1951		Estimated Year 1952	
	Pres. Rates	Prop. Rates	Pres. Rates	Prop. Rates
Operating Revenues	\$406,700	\$528,600	\$445,000	\$579,000
Operating Expenses	320,000	386,000	355,000	428,000
Net Revenues	86,700	142,600	90,000	151,000

Rate of Return and Conclusion

The above-adopted net revenues when related to the depreciated rate bases hereinabove found to be reasonable indicate rates of return as follows:

Item	Adjusted Year 1951		Estimated Year 1952	
	Pres. Rates	Prop. Rates	Pres. Rates	Prop. Rates
Net Revenues	\$86,700	\$142,600	\$90,000	\$151,000
Rate Base (Deprec.)	2,230,000	2,230,000	2,580,000	2,580,000
Rate of Return	3.89%	6.39%	3.49%	5.85%

It is apparent, from this tabulation, that applicant is not now earning a reasonable return and is faced with a declining trend in rate of return. Applicant is entitled to relief in the form of increased revenues. Any increased rates cannot be made effective for the full year 1952 and by the time a full year's operations will have been experienced under new rates the above indicated downward trend will have lowered the rate of return to less

than the 5.85% shown for the proposed rates. Estimates of the effect of such trend, made at the hearing in this proceeding, indicate a decline of between 2/10% and 3/10% for the immediate future. It would thus appear that operations under applicant's proposed rates will produce a rate of return of about 5.6% in the immediate future. We find such return to be within the zone of reasonableness and that applicant is entitled to rate relief in the total amount sought. Applicant's proposed rates are reasonable and will be authorized.

Initial billings under the new rates will be prorated on the basis of average daily consumption.

O R D E R

California Water Service Company having applied to this Commission for an order authorizing increases in rates and charges for water service rendered in its Hermosa-Redondo District, Los Angeles County, a public hearing thereon having been held and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that the existing rates, in so far as they differ therefrom, are unjust and unreasonable, therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission the schedules of rates set forth on pages 1 to 3, inclusive, of Table 2 of Exhibit No. 2 in this proceeding, in conformance with General Order No. 96, 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 October 15, 1952.

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

Dated at San Francisco California, this 24th day of September, 1952.

A. J. [Signature]
 President.

James J. [Signature]

Frederick [Signature]

Arthur E. [Signature]

Commissioners.