

**ORIGINAL**Decision No. 49984

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. 34191
water rates charged by it for )	(Amended)
water service. )	

O'Melveny & Myers, by Lauren M. Wright and Everett Clary, attorneys, and C. T. Mess, consulting engineer, for applicant.

Jack L. Weaver, superintendent, for Los Alamitos School District, interested party with respect to Cypress-Los Alamitos-Stanton District.

Mrs. C. A. Dewitt and Mrs. Jack Rose, for Center Avenue Coordinating Council, interested parties with respect to Lennox District.

J. T. Phelps, Theodore Stein, James F. Wilson and E. Ronald Foster, for the Commission staff.

INTERIM OPINION

Southern California Water Company, a corporation, by the above-entitled application filed March 27, 1953, seeks authority to increase rates for general metered and flat rate water service by approximately \$327,000, based on 1953 operations, in 12 of its districts in Los Angeles, Orange and San Bernardino Counties. On November 19, 1953, the company filed an amendment to the application to request a further increase for its Gardena-Lawndale-Normandie and Lennox Districts only:

Public hearings in this matter were held before Commissioner Craemer and Examiner Warner on January 13 and 14, 1954 and March 17 and 18, 1954 at Los Angeles. At the January hearings general information with respect to the over-all results of operations, earnings and financial requirements of applicant was received. In addition, applicant made its direct showing regarding its Gardena-Lawndale-Normandie and Lennox Districts, Los Angeles County. At the March hearings applicant's showing underwent cross-examination and the staff submitted evidence and was cross-examined

with respect to the company's over-all operations and earnings and results of operations in the particular above-named districts. The matter with respect to these districts has been submitted for decision.

General Information

Southern California Water Company operates public utility water systems in 25 districts, the locations of which are shown on the map included in Exhibit No. 2. It furnishes water service to nearly 89,000 customers and water department fixed capital as of December 31, 1953 amounted to \$18,739,000. Gross revenues from water department operations for the year 1953 were \$3,127,000. The company also operates a public utility electric system at Bear Valley and a nonutility ice plant at Barstow.

General Information re Gardena-Lawndale-Normandie and Lennox Districts

As of December 31, 1953 applicant was furnishing water service in its Gardena-Lawndale-Normandie District to 22,535 consumers and it estimated that by the end of 1954 this number would increase to 24,100. In its Lennox District there were approximately 7,100 consumers and the company estimated that this number would increase to 8,170 by the end of 1954. The territory comprising the Gardena-Lawndale-Normandie and Lennox systems is shown on the map Exhibit No. 1. This map shows that these districts include the City of Gardena and are immediately adjacent to the City of Inglewood, on the south thereof, east of El Segundo and Redondo Beach. The areas are substantially built up except an area known as the Johnson Ranch which is being developed and subdivided. The location of said ranch is shown in red and green slant-hatching on Exhibit No. 1. Applicant estimates that approximately 1,500 new consumers will be added due to this subdivision development during 1954.

Applicant requests that it be authorized to file identical rate schedules for Gardena-Lawndale-Normandie and Lennox Districts and to consolidate such districts for rate and all other purposes into a district to be called the Southwest District. The record shows that the water systems in the present Gardena-Lawndale-Normandie and Lennox Districts are completely interconnected and are being operated and administered as one water system.

Water Supply and Metropolitan Water District Water

The Gardena-Lawndale-Normandie and Lennox Districts lie within the West Basin Municipal Water District which is a member of the Metropolitan Water District and, in accordance with such membership, is entitled to Metropolitan Water District water.

By Decision No. 48550 dated April 28, 1953 in Application No. 33508 (Amended), the Commission recognized the contingency against the operation of Dominguez Water Corporation, a public utility water company operating in the west basin, of litigation in the Superior Court<sup>1/</sup> involving public utility water companies and municipalities which draw substantial amounts of water from and depend to a large extent for their sources of water supply on the west coast basin.

In anticipation of a possible court order which might drastically reduce its pumping from the west basin by two thirds, applicant has supported and attempted to effect a stipulated agreement with other parties to the court action to reduce applicant's pumping by approximately one third. In further anticipation, applicant's president testified that the company's pumping operations have been and would continue to be curtailed to the so-called one-third reduction level. Such curtailment will require applicant to purchase very substantially larger quantities of water from the Metropolitan

<sup>1/</sup> California Water Service Company, et al., vs City of Compton, et al., Case No. 506806, in the Superior Court in and for the County of Los Angeles.

Water District at \$21.00 per acre foot, a very substantially greater cost per acre foot than cost of water pumped from applicant's well sources. The additional costs of water and additions to fixed capital required by the greater utilization of Metropolitan Water District water comprise, for the most part, the basis of the instant application.

Rates

Applicant's present rates for its Gardena-Lawndale system were established by Decision No. 45068, dated November 28, 1950, in Application No. 31376.<sup>2/</sup> Its present rates for its Normandie system were established by Decision No. 45061, dated November 28, 1950, in Application No. 31306.<sup>2/</sup> The present rates for the Lennox District were established by Decision No. 48011, dated December 9, 1952, in Application No. 33126. The following tabulation is a comparison of the present and proposed rates for the afore-mentioned districts.

GENERAL METERED SERVICE

Quantity Rates:		<u>Per Meter per Month</u>		
		<u>Present Rates</u>		<u>Proposed Rates</u>
		<u>Gardena-Lawndale District</u>	<u>Lennox District</u>	
First	800 cu.ft. or less .....	\$1.60	\$1.65	
Next	1,700 cu.ft., per 100 cu.ft.....	.15	.15	
First	700 cu.ft. or less .....			\$1.80
Next	1,800 cu.ft., per 100 cu.ft.....			.19
Next	7,500 cu.ft., per 100 cu.ft.....	.13	.13	.16
Next	40,000 cu.ft., per 100 cu.ft.....	.11	.12	.14
Next	50,000 cu.ft., per 100 cu.ft.....	.09	.12	.12
Over	100,000 cu.ft., per 100 cu.ft.....	.08	.12	.10
		<u>Normandie District</u>		
First	700 cu.ft. or less .....	\$1.70		\$1.80
Next	1,800 cu.ft., per 100 cu.ft.....	.19		.19
Next	7,500 cu.ft., per 100 cu.ft.....	.16		.16
Over	10,000 cu.ft., per 100 cu.ft.....	.14		
Next	40,000 cu.ft., per 100 cu.ft.....			.14
Next	50,000 cu.ft., per 100 cu.ft.....			.12
Over	100,000 cu.ft., per 100 cu.ft.....			.10

<sup>2/</sup> Present rates for the South Los Angeles portion of the Gardena-Lawndale and Normandie Districts were authorized by Decision No. 46929 dated April 1, 1952 in Application No. 32727.

The record shows that the average monthly consumption per consumer in these districts is approximately 1,500 cubic feet. At the present rates for the Gardena-Lawndale District the charge for such consumption is \$2.65. In the Normandie District it is \$3.22, and in the Lennox District it is \$2.70. Under the proposed rates the charge for such consumption in the Gardena-Lawndale-Normandie and Lennox Districts (proposed Southwest District) would be \$3.32.

### Earnings

The following tabulation is a comparison of earnings information for the Gardena-Lawndale-Normandie and Lennox Districts combined as contained in Exhibits Nos. 6 and 8 submitted by applicant and Exhibits Nos. 16A and 19 submitted by the Commission's staff.

#### SUMMARY OF EARNINGS

	Gardena-Lawndale-Normandie			Gardena-Lawndale-Normandie-Lennox		
	Lennox	Combined	Lennox	Combined	Combined	Combined
	Per PUC Exhibit No. 19	Per PUC Exhibit No. 16A	Per Co. Exhibit No. 8	Per Co. Exhibit No. 6	Per Co. Exhibit No. 8	Per Co. Exh. No. 22
<u>1953 Estimated at Present Rates</u>						
Oper. Rev.	\$ 233,265	\$ 800,550	\$ 1,033,815	\$ 794,810	\$ 235,600	\$1,030,410
Oper. Exp.	182,875	597,460	780,335	589,219	183,711	772,930
Net Revenue	50,390	203,090	253,480	205,591	51,889	257,480
Rate Base	1,011,100	4,108,300	5,119,400	3,787,600	1,019,100	4,806,700
Rate of Ret.	4.98%	4.94%	4.95%	5.42%	5.09%	5.36%
<u>1954 Estimated at Present Rates</u>						
Oper. Rev.	\$ 260,720	\$ 896,950	\$1,157,670	\$ 861,000	\$ 264,400	\$1,125,400
Oper. Exp.	204,160	670,530	874,690	648,228	210,078	858,306
Net Revenue	56,560	226,420	282,980	212,772	54,322	267,094
Rate Base	1,259,600	4,698,900	5,958,500	4,548,300	1,281,500	5,829,800
Rate of Ret.	4.49%	4.82%	4.75%	4.68%	4.24%	4.58%
<u>1954 Estimated at Proposed Rates (Using 52% Income Tax Rate)</u>						
Oper. Rev.	\$ 313,750	\$1,045,030	\$1,358,780	\$1,005,000	\$ 315,300	\$1,320,300
Oper. Exp.	232,990	751,360	984,350	726,760	237,752	964,512
Net Revenue	80,760	293,670	374,430	278,240	77,548	355,788
Rate Base	1,259,600	4,698,900	5,958,500	4,548,300	1,281,500	5,829,800
Rate of Ret.	6.41%	6.25%	6.28%	6.12%	6.05%	6.11%
<u>Using 47% Income Tax Rate</u>						
Net Revenue	\$ 85,570	\$ 309,890	\$ 395,460	\$ 289,730	\$ 81,050	\$ 370,780
Rate Base	1,259,600	4,698,900	5,958,500	4,548,300	1,281,500	5,829,800
Rate of Ret.	6.79%	6.59%	6.64%	6.37%	6.32%	6.36%
<u>Using 48.23% Income Tax Rate</u>						
Net Revenue	\$ 85,570	\$ 309,890	\$ 395,460	\$ 289,730	\$ 81,050	\$ 370,780
Rate Base	1,259,600	4,698,900	5,958,500	4,548,300	1,281,500	5,829,800
Rate of Ret.	6.79%	6.59%	6.64%	6.37%	6.32%	6.36%

No significant differences in estimated rate of return components for the year 1954 appear between those submitted by applicant and the staff. The record contains substantial testimony and cross-examination regarding the elimination by the staff from the rate base of certain fixed capital designated by the staff as nonoperative. It is evident that, although having maintained its Wadsworth Well No. 2 in a nonoperating condition for three years, this well was placed in operation on March 12, 1954 in a limited capacity. It should be restored to the rate base on an average year basis. The effect on the rate base of such restoration will, however, be nil since the record shows that a full deduction from the depreciation reserve of this capital was made by the staff engineer.

As shown in the preceding tabulation, in addition to submitting earnings estimates based on a federal income tax rate of 52 per cent, the staff submitted estimates of earnings for the year 1954 in each of the districts based on a federal income tax rate of 47 per cent, and applicant submitted estimates based on a federal income tax rate of 48.23 per cent. On April 1, 1954 the federal income tax rate became 47 per cent. Although the President has recommended that Congress enact legislation restoring the 52 per cent rate, congressional action on such recommendation is conjectural and the present rate of 47 per cent will be adopted for the purpose of this proceeding. However, if Congress acts to restore any or all of the reduced federal income tax rates, applicant may seek authority by supplemental application herein to thereafter correspondingly increase Schedule No. 1 - General Metered Service. By such procedure applicant and its customers will be accorded treatment consistent with that provided in other utility rate increases authorized by this Commission.

Exhibits Nos. 15 and 18 are the staff's reports on the results of applicant's operations in the Gardena-Lawndale-Normandie District and Lennox District, respectively, based on pumping operations without curtailment. Since applicant voluntarily instituted

curtailment of pumping from the west basin in January, 1954 to a total of 5,910 acre-feet as shown on Exhibit No. 9, it appears that this scale of pumping operations is representative of future operations. The staff's Exhibits Nos. 16A and 19 show the results of operations in the two districts, based on the company's stated pumping program which assumes that approximately 3,770 acre-feet of water would be pumped from the west basin for the Gardena-Lawndale-Normandie District and 2,140 acre-feet for the Lennox District, making a total of 5,910 acre-feet. The rates authorized to be filed by the order which follows will be based on such curtailment.

#### Financial Requirements

Applicant's financial witness testified that over-all earnings of the company for the year 1953 and estimated earnings for the year 1954 were inadequate to attract capital and to induce the purchase by investors of a proposed bond issue of \$1,400,000 for company-wide capital expenditures. He testified that a rate of return of 6.39 per cent would be required to produce net earnings which would be sufficiently attractive. The staff's financial witness testified that applicant's capital ratios would be more favorable after the proposed bond issue, which would be followed by increased conversions of preferred to common stock, than at present.

#### Conclusion

Applicant's request that it be authorized to consolidate its present Gardena-Lawndale-Normandie and Lennox Districts into its Southwest District does not require specific authorization of this Commission and will therefore not be included in this order.

From a review of the record it is evident that applicant is experiencing and will continue to experience a less than reasonable rate of return at the present rates and that it is entitled to rate relief. However, the estimated rate of return of 6.6 per cent, which would be produced by the gross annual increase in revenues of \$201,000, which would result from the proposed rates, is considered excessive. The order which follows will authorize the filing of

rates which will produce gross annual revenues of approximately \$1,318,000 for the combined Gardena-Lawndale-Normandie and Lennox Districts or a gross annual increase of about \$160,000 over present rates. When such gross revenues are related to a rate base of \$5,959,000, which we hereby adopt as reasonable, an estimated rate of return of 6.3 per cent will result. After taking into account annual decline in rate of return attributable to the growth factor it is estimated that applicant's rate of return at the authorized rates will approximate 6 per cent. We find such estimated rate of return to be fair and reasonable. The filing of new schedules of rates for employees' service and public fire hydrant service will also be ordered.

INTERIM ORDER

Amended application as above-entitled having been filed, public hearings having been held, the matter of the application for increase in rates in the Gardena-Lawndale-Normandie and Lennox Districts having been submitted, the remainder of the subject matter of the above proceeding having been continued and the portion under submission 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 are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that:

1. a. Applicant be, and it 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 schedules of rates applicable to the Southwest District shown in Appendix A attached hereto, and on not less than five days' notice to the Commission and to the public to make such rates effective for service rendered on and after May 21, 1954.
- b. Within thirty days after the effective date of this order, applicant shall file with this Commission four copies of a tariff service area map in conformity with the provisions of the Commission's General Order No. 96.



- c. Within forty days after the effective date of this order, applicant shall file four copies of a comprehensive map drawn to an indicated scale not smaller than 800 feet to the inch, delineating by appropriate markings the various tracts of land and territory served; the principal water production, storage and distribution facilities; and the location of various properties of applicant.
- 2. Applicant shall review annually the accruals to depreciation reserve which shall be determined for each primary plant account by dividing the original cost of plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the surviving plant of the account; and the results of the reviews shall be submitted annually to the Commission.

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

Dated at San Francisco, California, this 27th day of April, 1954.

A. J. [Signature]  
President

James F. [Signature]

Benjamin [Signature]

[Signature]

Gene [Signature]  
Commissioners

APPENDIX A  
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## Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Within the Southwest District in Los Angeles County, as delineated on the service area map filed herewith.

RATES

Quantity Rates:		<u>Per Meter per Month</u>
First	700 cu.ft. or less .....	\$ 1.70
Next	1,800 cu.ft., per 100 cu.ft.....	.19
Next	7,500 cu.ft., per 100 cu.ft.....	.16
Next	40,000 cu.ft., per 100 cu.ft.....	.13
Next	50,000 cu.ft., per 100 cu.ft.....	.12
Over	100,000 cu.ft., per 100 cu.ft.....	.10
Minimum Charge:		
For	5/8 x 3/4-inch meter .....	\$ 1.70
For	3/4-inch meter .....	2.40
For	1-inch meter .....	3.35
For	1-1/2-inch meter .....	6.50
For	2-inch meter .....	10.00
For	3-inch meter .....	20.00
For	4-inch meter .....	30.00
For	6-inch meter .....	50.00
For	8-inch meter .....	75.00

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

APPENDIX A  
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## Schedule No. 2

CONSTRUCTION AND OTHER TEMPORARY FLAT RATE SERVICEAPPLICABILITY

Applicable to unmetered water service for construction and other purposes of temporary nature, where the installation of a meter would not be feasible.

TERRITORY

Within the Southwest District in Los Angeles County, as delineated on the service area map filed herewith.

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, an estimate of the quantity of water used will be made by the Company. The charge for this water will be made at the quantity rate for General Metered 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.

Schedule No. 3

FIRE SPRINKLER SERVICE

APPLICABILITY

Applicable only for water service to privately owned fire sprinkler systems, where water is to be used only in case of fire.

TERRITORY

Within the Southwest District in Los Angeles County, as delineated on the service area map filed herewith.

RATE

Per Month

Per inch of 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 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 effectively separate 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.

Schedule No. 4

SERVICE TO COMPANY EMPLOYEES

APPLICABILITY

Applicable to water service rendered to employees of the Company who reside within the service area.

TERRITORY

Within the Southwest District in Los Angeles County, as delineated on the service area map filed herewith.

RATES

(To be inserted by applicant in accordance with rates presently being charged.)

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to public fire hydrant service to municipalities, county agencies and other political subdivisions.

TERRITORY

Within the Southwest District in Los Angeles County, as delineated on the service area map filed herewith.

RATES

(To be inserted by applicant in accordance with rates presently being charged pursuant to agreements between applicant and the several public fire protection agencies concerned.)