

ORIGINAL

Decision No. 51452

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. 36323
 it to increase rates charged for)
 water service in Hermosa Beach,)
 Redondo Beach, Torrance and vicinity.)

McCutchen, Thomas, Matthew, Griffiths & Greene,
 by Robert Minge Brown, for applicant.
 Grant Community League, Inc., by Mary L. Peeler
 and Kathrine True, protestants.
Mary Moran Pajalich, John F. Donovan and
Carol T. Coffey, for the Commission staff.

O P I N I O N

By the above-entitled application, filed November 23, 1954, California Water Service Company, a California corporation, seeks an order of this Commission authorizing increased rates on its system supplying water to Hermosa Beach, Redondo Beach, Torrance and vicinity.

Public hearings in the matter were held before Commissioner Ray E. Untereiner and Examiner F. Everett Emerson on April 20, 1955, at Los Angeles and on April 21, 1955, at Redondo Beach.

Nature of Proceeding

This proceeding, in essence, is but a continuation of the last application on this system and results from a substantial curtailment of the supply of water from wells, and the substitution of purchased water therefor, in accordance with an agreement among those drawing well water from the West Basin. This situation, together with a history of applicant's system, its rates and other pertinent data pertaining thereto, was discussed at some length in

our Decision No. 47673 in Application No. 32885, issued September 2, 1952. At that time the amount of pumping cutback was indeterminable. Nor could the magnitude of additional expenses that applicant would incur in purchasing water to replace the amounts theretofore pumped be foreseen.

The litigation mentioned in Decision No. 47673 is not yet adjudicated. The extent of the ultimate cutback to be ordered by the court is not yet known. However, under the terms of an interim agreement designed to protect the underground water situation against further deterioration during the period of litigation, parties who withdraw more than three fourths of the total water production from the West Basin will curtail production effective June 1, 1955. Applicant's curtailment will approximate a 49 per cent reduction in the amount of water which it produces by pumping from wells. It must replace such well water with water purchased from the Metropolitan Water District commencing the same date. Pending completion of the litigation applicant's cutback and purchases are determined by formula and the additional costs are therefore known.

In the instant proceeding applicant is seeking an adjustment in rates which would offset the curtailment of pumping and the resulting increase in its costs arising from the necessity of supplying purchased water. It proposes that this be done by increasing the commodity charge by 3 cents per 100 cubic feet of water delivered to its customers. Overall, such increase would amount to a 13 per cent increase in the average customer's bills.

Results of Operations

The results of operations of this system, as presented by applicant in this proceeding, are tabulated below:

Summary of Earnings
Applicant

Item	: Year 1953 : : Recorded :	: Year 1954 : : Estimated : Adjusted :		: Year 1955 : : Estimated :
EXISTING RATES				
Operating Revenues \$	680,313	\$ 729,782	\$ 705,810	\$ 740,340
Operating Expenses	505,890	549,909	543,116	578,993
Net Revenue	174,423	179,873	162,694	161,347
Rate Base (Depr.)	2,851,600	3,118,300	3,520,300	3,772,000
Rate of Return	6.12%	5.77%	4.62%	4.28%
PROPOSED RATES				
Operating Revenues			797,059	836,201
Operating Expense			592,395	630,759
Net Revenue			204,664	205,442
Rate Base (Depr.)			3,520,000	3,772,000
Rate of Return			5.81%	5.45%

As is customary in rate proceedings of this nature, the Commission staff undertook a complete review of applicant's exhibits and investigated the underlying data. To the extent that the staff found applicant's information to be complete and applicant's estimates to be accurate or reasonable, the staff did not duplicate such presentation. In a number of particulars the staff study shows results at variance with those of applicant. In the main and in end results, however, the differences are within acceptable limits of accuracy in estimating. In fact, in most components the staff and applicant differ by less than 1 per cent while differences in end results are less than 2/10 per cent. In the element of rate base there are two components of landed capital in which the differences between the staff and applicant are significant and a considerable portion of the record in this proceeding concerns the land accounts of applicant.

Applicant designated six parcels of land, at a total cost of \$11,900 as being nonoperative and reflected an adjustment for such

an amount in its rate base calculations. The staff excluded one additional parcel and made a further deduction of \$22,266 in rate base for such parcel. This additional parcel constitutes a portion of a well field. The wells are scattered over the parcel in question and applicant has leased a portion of the ground to the Little League Baseball group. Under such circumstances it is apparent that the entire property is not devoted to public utility usage. For the purposes of this proceeding the adjustment made by the staff will be accepted for rate base determination. Should applicant later turn the parcel to utility usage, it may then be included in rate base.

Of little significance to total amount of fixed capital, dollarwise or percentagewise, but of major issue as a matter of principle in this proceeding is a deduction of \$21,000 made by the staff from the land account of applicant because it is asserted that applicant's books do not reflect the original cost of all of the utility's lands. The recorded investment in lands questioned by the staff relates to lands acquired by predecessor companies prior to 1913.

It is the position of the staff that the opening entries for landed capital recorded on applicant's books, following applicant's acquisition of the properties in 1927, were based upon the then existing market values and that the historical cost of lands (original cost, estimated if unknown) should be substituted therefor for the purposes of rate fixing. While it is generally the policy of this Commission to arrive at a rate base which reflects the original cost of the operative properties, it is clear from the evidence in this proceeding that the original cost of all of applicant's operative lands cannot now be determined and that the finding of a reasonable rate base herein necessarily will reflect some value other than the original cost of the lands in question.

With respect to the land account, it appears that for the recorded balances, which represent the appraised market values for certain lands as of 1927 as estimated by one engineer, the staff has substituted other appraised market values for the same lands as estimated at an earlier date by other engineers. Neither the recorded balances nor the earlier estimated market values represent original cost but the staff has adopted the earlier figure, as being more nearly a true indication of original cost. There is no evidence, only conjecture, that such might be the fact.

In the last rate proceeding on this system no adjustment was made to the recorded balances in the land account. Nor was any adjustment of recorded balances recommended by any of the parties therein, although such proceeding was a contested one. Since the opening entries were placed upon applicant's books in 1927^{1/} applicant has been before this Commission in more than 90 separate formal proceedings involving its financing, its rates and related problems.^{2/} In all of the proceedings prior to the one now before us the Commission has adhered to and recognized the appropriateness of applicant's book figures. They have met the test of review over a long period of time. At no time has applicant been directed to revise or otherwise adjust its landed capital accounts on this or on any other of its systems. There is a very real virtue in maintaining, and it is in the public interest to have, stability in rate making.

^{1/} Stemming from this Commission's Decision No. 19467 in Application No. 13514 issued March 12, 1928.

^{2/} Of these, 39 proceedings have concerned the issue of \$78,182,888 worth of securities of which \$30,952,200 relate to the issuance of securities for the purpose of refunding other issues previously authorized by the Commission.

On the evidence before us we are convinced that applicant's recorded balances in its land accounts are reasonable and should be left undisturbed.

In view of the evidence, we adopt as reasonable depreciated rate bases for this system the sums of \$3,498,000 and \$3,750,000 respectively for the years 1954 and 1955.

Conclusions

Relating net revenues to the above-adopted rate bases indicates the following:

Item	Adjusted Year 1954		Estimated Year 1955	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Net Revenue	\$ 162,694	\$ 204,664	\$ 161,347	\$ 205,442
Rate Base	3,498,000	3,498,000	3,750,000	3,750,000
Rate of Return	4.65%	5.85%	4.30%	5.48%

We conclude that applicant is entitled to the rate relief sought and find that the rates proposed are reasonable.

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

In view of the fact that applicant must meet substantially increased charges for water purchases on June 1, 1955 and in view of the evidence respecting applicant's need for increased revenues with which to meet such increased costs, the order herein will make the new water rates effective on such date.

Applicant now accords a 50 per cent discount to its employees. In accordance with the established policy of this Commission, a discount of 25 per cent will be authorized and such reduced-rate service will be made a regular tariff.

At present water rates the charge for a consumption of 1,500 cubic feet is \$3.30. At the authorized rates such charge would be \$3.75 or an increase of 13.6 per cent.

Quality of Water

This Commission is aware, and the present as well as the prior record shows, that over a long period of time the water served in this system has engendered consumer complaints with respect to its color, taste, odor and sand content. The validity of most of these complaints is admitted. Both the Commission's engineers and the engineers of applicant have attempted to devise economically justifiable means whereby the over-all quality of the water might be improved.

The slowly, though continual, worsening of water quality during the years may be attributed to several factors; but all stem primarily from over-withdrawals of water from the underground supply in the West Basin. As all well users, and particularly large industrial users, have increased their pumping in the basin, the water table has steadily declined and sea water has entered the underground supply. As the result of such salt water intrusion the quality of the underground waters has deteriorated and applicant has had to abandon wells along the coast and drill new wells several miles inland. The combination of such situation with the necessity that existing usable wells have had to be overworked in order to meet the water demands of the consuming public has directly produced the results complained of. The facts are that whereas about 68,000 acre feet of water are pumped from the basin each year, nature provides a replenishment of only about 33,000 acre feet. This serious deficiency or overdraft brought about the litigation, heretofore mentioned, whereby court action has been sought to force the amount of pumping of over 500 well users in the West Basin to be curtailed. Applicant herein, the City of Torrance and the Palos Verdes Water Company are those that instituted the litigation in an endeavor to protect the available supply of the underground waters.

The taste, odor and discoloration complained of, arise from Crenothrix, an iron bacteria. A relatively high concentration of

iron and manganese in water provides food upon which the bacteria thrive. Such water, while of undesirable characteristics, is not harmful from the standpoint of health, however. The very fine sand particles enter the water when pumping is heavy or wells are over-worked. All of these disagreeable characteristics will be gradually lessened as pumping is curtailed and more and more of the purchased water enters applicant's system. Applicant will continue its regular flushing program and over a reasonable period of time a considerable improvement should be realized. The matter, however, will continue to have the attention of this Commission and our staff.

O R D E R

California Water Service Company having applied to this Commission for an order authorizing an increase in rates for water service rendered in its Hermosa-Redondo District, Los Angeles County, public hearings thereon 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 authorized herein are justified and that the existing rates, in so far as they differ therefrom, are for the future 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 and in conformity with the provisions of General Order No. 96, the tariffs set forth in Appendix A attached to this order and, upon not less than one day's notice to the public and to this

Commission, to make such tariffs effective for all service rendered on and after June 1, 1955.

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

Dated at San Francisco, California, this 10th day of May, 1955.

[Signature]
President

[Signature]

[Signature]

[Signature]

Commissioners

APPENDIX A
Page 1 of 5

Schedule No. 1

Hermosa-Redondo Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Within the Cities of Hermosa Beach and Redondo Beach, a portion of the City of Torrance, and certain adjacent unincorporated territory, Los Angeles County.

RATES

Per Meter
Per Month

Service Charge:

For 5/8 x 3/4-inch meter	.....	\$ 1.50
For 3/4-inch meter	.....	1.70
For 1-inch meter	.....	2.15
For 1 1/2-inch meter	.....	3.35
For 2-inch meter	.....	4.50
For 3-inch meter	.....	15.25
For 4-inch meter	.....	22.50
For 6-inch meter	.....	31.00
For 8-inch meter	.....	44.50
For 10-inch meter	60.00

Quantity Rate:

For all water delivered, per 100 cu.ft.15
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The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rate.

APPENDIX A
Page 2 of 5

Schedule No. 2

Hermosa-Redondo Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all water service rendered for public fire protection to municipal, county, or other political subdivisions of the State.

TERRITORY

Within the Cities of Hermosa Beach and Redondo Beach, a portion of the City of Torrance, and certain adjacent unincorporated territory, Los Angeles County.

RATES

	<u>Per Month</u>
For each hydrant owned by the fire protection agency	\$1.50
For each hydrant owned by the utility	2.50

SPECIAL CONDITIONS

1. The above rates include use of water for fire protection and for no other purpose. For all other use by public agencies or for water delivered through fire hydrants for any other purpose, charges will be made therefor under Schedule No. 1, General Metered Service.
2. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

APPENDIX A
Page 3 of 5

Schedule No. 3

Hermosa-Redondo Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service rendered for privately owned fire protection systems.

TERRITORY

Within the Cities of Hermosa Beach and Redondo Beach, a portion of the City of Torrance, and certain adjacent unincorporated territory, Los Angeles County.

RATES

	<u>Per Month</u>
For each 1½-inch service connection	\$ 2.25
For each 2-inch service connection	3.00
For each 3-inch service connection	4.50
For each 4-inch service connection	6.00
For each 6-inch service connection	9.00
For each 8-inch service connection	12.00
For each 10-inch service connection	15.00

SPECIAL CONDITIONS

1. The fire protection service connection will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.

Schedule No. 3

Hermosa-Redondo Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.

3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water.

4. For water delivered for other than fire protection purposes, charges will be made therefor under Schedule No. 1, General Metered Service.

5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

APPENDIX A
Page 5 of 5

Schedule No. 4

Hermosa-Redondo Tariff Area

SERVICE TO COMPANY EMPLOYEES

APPLICABILITY

Applicable to water service furnished for domestic use at the place of residence of the employee.

TERRITORY

Within the Cities of Hermosa Beach and Redondo Beach, a portion of the City of Torrance, and certain adjacent unincorporated territory, Los Angeles County.

RATE

The filed rate or rates applicable to the type of service in the territory where service is supplied, less 25% discount.