

Decision No. 53941**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 COAST WATER COMPANY, a corporation,)
 for an order authorizing a change of) Application No. 37458
 water rates and tariff schedules.)

W. L. Arnold, for applicant
Charles W. Drake, Theodore Stein and
Richard R. Entwistle, for the Commission Staff

O P I N I O N

Applicant is a public utility water company furnishing water pursuant to authority from this Commission ^{1/} to consumers in a tract of land, comprising approximately 320 acres, in Bell Gardens, Los Angeles County, California. Its presently authorized rates are set forth in this Commission's Decision No. 42300, dated December 7, 1948, in Application No. 29593.

By the application herein, filed on November 1, 1955, applicant seeks an order authorizing it to increase its rates, with the exception of fire hydrant and private fire protection rates, to produce additional revenue of approximately \$6,000.00 per year.

Public hearings were held in Los Angeles on May 1, June 8 and June 12, 1956, before Examiner Kent C. Rogers. Prior to the first day of hearing, notice thereof was published and posted as required by this Commission. There were no protests.

^{1/} Decision No. 37203, dated July 11, 1944, in Application No. 26108 (45 C.P.R.C. 410).

At the conclusion of the last day of hearing the matter was submitted subject to the filing by applicant of Exhibit No. 6. This exhibit was filed on June 24, 1956, and the matter is ready for decision.

General Information

Applicant, a corporation, acquired the water system of The East Bell Land Company by Decision No. 37203, referred to above. The service area comprises approximately 320 acres in Bell Gardens, an unincorporated community in Los Angeles County, and, due to the fact it is completely surrounded by other water companies, cannot be enlarged. *Plm*

On October 1, 1947, Irene York Brown and Melville L. Brown acquired all of the outstanding stock of the Coast Water Company, amounting to 10,000 shares, at \$1.00 per share, its par value. On December 7, 1948, by Decision No. 42300 in Application No. 29593, applicant was authorized to establish its present rates. On March 2, 1954, the Commission dismissed an application for an increase in rates when the application was withdrawn. The proposed increase was to have been based largely on an expected loss of customers due to freeway construction, which event had not taken place at the time the application was withdrawn. The freeway is now in the course of construction and the customers have been lost. The service area is nearly 100 percent occupied, and applicant can only secure new customers through the construction of additional dwellings at the existing services.

As of December 31, 1955, there were 343 metered connections serving a total of 761 houses and businesses, and a total of 509 flat rate connections, serving a total of 927 houses and businesses. It proposes to meter all services.

Basis of Application

Applicant based its application upon the propositions:
 (1) that it is necessary to immediately make repairs to wells, pumps, engines and tanks in the total amount of \$15,990; (2) that it intends to meter services at the rate of 70 per year at an annual cost of \$3,475; (3) that it is necessary to make capital additions in the amount of \$14,589; and (4) that it has lost approximately 119 consumers due to freeway construction.

Rates

The following is a comparison of the present and proposed rates.

Present

<u>Monthly Flat Rates</u>	<u>Per Month</u>
For each 3/4-inch service connection to a single family residence on one lot.....	\$ 1.80
For each additional single family residence on the same lot, or single family living quarters in a duplex, flat or apartment building.....	1.00

General Metered Service Rates

<u>Quantity Charge</u>	<u>Per Meter Per Month</u>
First 1,000 cubic feet or less.....	\$ 1.50
Next 2,000 cubic feet, per 100 cu ft.....	.12
Next 47,000 cubic feet, per 100 cu ft.....	.10
Next 150,000 cubic feet, per 100 cu ft.....	.08
Next 200,000 cubic feet, per 100 cu ft.....	.07

Minimum Charge

For 5/8 x 3/4-inch meter.....	\$ 1.50
For 3/4-inch meter.....	1.50
For 1-inch meter.....	3.00
For 1 1/2-inch meter.....	4.00
For 2-inch meter.....	6.00
For 3-inch meter.....	9.00

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

Proposed

Monthly Flat Rates

Per Month

For each 3/4-inch service connection to a single family residence on one lot.....	\$ 2.00
For each additional single family residence on the same lot, or single family living quarters in a duplex, flat, court or apartment building.....	1.00

General Metered Service Rates

Quantity Charge

Per Month

First 700 cubic feet or less	\$ 1.75
Next 1,300 cubic feet, per 100 cubic feet.....	.17
Next 1,000 cubic feet, per 100 cubic feet.....	.15
Next 2,000 cubic feet, per 100 cubic feet.....	.12
Over 5,000 cubic feet, per 100 cubic feet.....	.10

Minimum Charge

For 5/8 x 3/4-inch meter.....	\$ 1.75
For 3/4-inch meter.....	2.50
For 1-inch meter.....	4.50
For 1 1/2-inch meter.....	9.00
For 2-inch meter.....	15.00
For 3-inch meter.....	25.00

The minimum charge will entitle the customer to the quantity of water which that monthly minimum charge will purchase at the quantity rates.

Fire Protection

Applicant's rates include fire hydrant and private fire protection rates. The rates were established pursuant to an advice letter. No change is contemplated therein.

Earnings

Applicant's accounting witness submitted as Exhibit No. 3 a report on applicant's earnings for the actual recorded and adjusted years 1953, 1954 and 1955, and for the estimated normal year 1956 at present and proposed rates. Commission staff accounting and engineering witnesses submitted a report, Exhibit No. 5, on applicant's results of operation for the recorded years 1954 and 1955, for the adjusted year 1955 at the present and proposed rates, and for the estimated year 1956 at present and proposed rates. The following tabulation summarizes the earnings information in Exhibits Nos. 3 and 5 for the recorded year 1955 and for the estimated year 1956 at present and proposed rates:

SUMMARY OF EARNINGS

Item	Year 1955 Recorded Per PUC Exhibit 5	Year 1956		Estimated	
		Present	Rates	Proposed	Rates
		Exhibit 3	Exhibit 5	Exhibit 3	Exhibit 5
Oper. Revenues	\$30,254	\$29,700	\$29,422	\$35,516	\$36,132
Oper. Expenses	17,702	23,677	20,331	23,677	20,331
Depreciation	3,583	4,141	3,624	4,141	3,624
Taxes (+ un- collectibles)	2,255	1,605	2,206	2,555	4,417
Total Expenses	23,540	29,423	26,161	30,373	28,372
Net Income	6,714	277	3,261	5,143	7,760
Aver. Depreciated Rate Base	48,457	69,802	68,920	69,802	68,920
Rate of Return	13.9%	0.4%	4.7%	7.37%	11.3%

The applicant assumed the addition of 38 metered services and a loss of 38 flat rate services in 1956, the total number of consumers remaining the same. The total reflects a loss over previous years due to freeway construction. Applicant estimates gross revenues in 1956 at the present

rates to be \$29,700 and at the proposed rates to be \$35,516 (page 8 of Exhibit No. 3). Such figures are based on a metering program whereby all services will be metered in seven years.

The staff assumed very little additional metering. Its estimated revenues for 1956 are \$29,422 at the present rates and \$36,132 at the proposed rates (page 36 of Exhibit No. 5). The staff pointed out that the applicant is in no financial position to enter into a metering program at present.

In view of the fact that the applicant's estimated revenues are based on a complete metering program, the staff's estimates appear to be more realistic and will be adopted hereinafter.

Operating Expenses

The applicant based its estimated expenses for 1956 on the expenses incurred in 1955, on assumed metering as hereinbefore referred to, plus a part-time employee at \$2,400 per year, an amortization of the costs of improvements to bring the plant into reasonable repair, a company-owned car expense and the costs of this proceeding. Applicant proposes to rehabilitate the plant at a cost of \$15,990. This cost, to be amortized over a period of years, includes the cleaning of a well at a cost of \$535; repairing pumps at a cost of \$950; repairing a booster pump at a cost of \$200; overhauling two gas engines at a total cost of \$1,200; and reconditioning tanks at a cost of \$13,105. These costs are estimated to average \$2,800 per year. The applicant included in its expenses an amortization of the cost of the present rate proceeding, \$1,400 total, plus 3/5 of the 1953 rate proceeding estimated cost of \$1,075 (claimed by applicant to have actually cost \$1,791), a total of \$2,475, amortized over five years at \$495 per year.

The staff's estimate for expenses for the year 1956 was \$20,331. It allowed \$2,000 to cover a part-time employee, and a total of \$1,500, amortized over five years at \$300 per year, for the costs of this proceeding. It allowed nothing for the costs of the former proceeding. The staff estimated that the amortized rehabilitation of the plant would cost \$2,380 per year.

Depreciation Expense

Exhibit No. 3 and cross-examination relating thereto indicate that applicant calculated its annual depreciation expense according to the straight-line total life method and included in its calculation an amount of \$979 as depreciation on transportation equipment, the majority of which applied to the company-owned Buick automobile.

The staff estimate of annual depreciation expense for the year 1955 of \$3,147 was calculated according to the straight-line remaining life method, and excluded the depreciation expense attributable to the company-owned car.

Rate Base

Fixed Capital

The applicant and the staff have stated the fixed capital as of December 31, 1954, to be \$100,106. The staff adjusted the balance by excluding therefrom the value of the president's car in the sum of \$4,328, leaving a balance as of January 1, 1955, of \$95,778. In 1955 the applicant recorded net additions of \$3,098. In 1956 the applicant estimates it will make fixed capital additions totaling \$25,615, with retirements of \$5,495; or net additions of \$20,120; leaving a balance as of December 31, 1956, of \$123,325.

Said proposed additions include \$7,200 for a concrete block pump house, \$7,608 for a pump and engine, \$300 for an electrode, \$7,032 for distribution mains to replace those removed by the state for freeway purposes, \$840 for 70 meter setups, and \$2,635 for water meters. The staff estimates the net additions for 1956 at a total of \$18,444. The principal difference in the estimates is that the staff included a corrugated iron pump house at a cost of \$6,200 in place of the concrete block house at a cost of \$7,200, estimated \$7,000 for pumping equipment instead of \$7,608 as estimated by the applicant, and allowed only \$150 for new services in place of the total of \$3,475 allowed by the applicant. On the other hand, the applicant estimated the refund from the state for replaced mains at \$7,032, but the staff allowed \$9,100 for this item.

Depreciation Reserve

The applicant's depreciation reserve at the inception of service in 1945, was set up pursuant to order of this Commission (Decision No. 37203, referred to supra) at \$15,298. Thereafter depreciation accruals were determined by the straight-line total life method. As of December 31, 1954, the recorded reserve amounted to \$47,826. The applicant alleges that the condition of the plant does not warrant such a large reserve accumulation (see Exhibit No. 4) and as of the said date recalculated its reserves to reflect a total reserve of \$37,377. As so recalculated and allowing for additions and retirements in 1955 and 1956, its average depreciation reserve for the estimated year 1956, will be \$41,930 (see Exhibit No. 3, pages 24 and 25).

The staff was of the opinion that the depreciation reserve, as reflected on the company's books, is overstated. It calculated a weighted average depreciation reserve requirement for the estimated year 1956 of \$40,584 (Exhibit No. 5, page 35).

With the adjusted plant values and the depreciation reserve adjusted to the middle of the year 1956, including the additions and retirements, the applicant's estimated rate base is \$69,802 (Exhibit No. 3 page 25), and the staff's estimated rate base is \$68,920 (Exhibit No. 5 page 35).

Conclusion

It appears from the record herein that applicant is in need of financial relief. However, it appears that the rate of return which would be produced by the rates proposed in the application would be excessive.

After carefully reviewing the record it is concluded that the staff's estimate of expenses, depreciation, and rate base is reasonable.

The following tabulation summarizes the revenues, expenses, depreciation, taxes, rate base and rate of return which are adopted and are hereby found to be reasonable :

Operating Revenue	\$31,700
Operating Expenses	20,331
Depreciation	3,624
Taxes	<u>2,903</u>
Total Expenses	26,858
Net Revenue	4,842
Rate Base	68,920
Rate of Return	7.0%

It should be noted that the foregoing calculations exclude the ownership and operation of the company-owned Buick hereinbefore discussed.

The Commission finds as a fact that the charges herein authorized are justified, and that present rates, in so far as they differ from those herein prescribed, for the future are unjust and unreasonable.

In authorizing an increase in rates the Commission is of the opinion that it is desirable to reduce the quantity of water included in the minimum charge for metered rates in order to spread more equitably the cost of service among the various customers. The company's rate blocking has been changed and the proposed rate levels modified to meet the findings of this order.

After reviewing all of the evidence brought before the Commission in this matter, it is concluded that an order should be issued increasing the rates in accordance with the findings herein.

The use of a reserve requirement as a basis for transferring amounts to and from the depreciation reserve is questionable because it is only a guide subject to the frailties of estimates of the future and likely to change as unforeseen conditions arise subsequent to the time of the study. In this case it appears the depreciation reserve is overstated. The only equitable approach to the problem appears to be one of adjusting the depreciation reserve to a reasonable level and allowing rates to cover the depreciation expense and to give a reasonable return on the adjusted depreciated plant. Future accruals to the depreciation reserve will be based on the straight-line remaining life method and the company will be ordered to use the depreciation rates shown on Table 7-A of Exhibit No. 5.

The authorization herein given and the findings herein made are for the purpose of rate-fixing only, and are not to be construed as indicative of amounts to be included in the books of account.

O R D E R

Application having been filed, public hearings having been held, the matter having been submitted and based upon the testimony and the evidence of record and the findings herein.

IT IS HEREBY ORDERED as follows:

- 1a. That applicant is authorized to file in quadruplicate with the Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96, the schedules of rates attached to this order as Appendix A and, on not less than five days' notice to the public and to this Commission, to make said rates effective for all service rendered on and after November 16, 1956.
- b. Within thirty days after the effective date of this order, applicant shall file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96, rules and regulations revised to reflect present day practices and relations with its customers, together with four copies of a tariff service area map acceptable to this Commission. Such rules and tariff service area map shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.
2. That applicant shall file, within sixty days after the effective date of this order, four copies of a comprehensive service and facilities map drawn to an indicated scale not smaller than 600 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 the various properties of the applicant.
3. That applicant shall make the necessary transfers between the earned surplus account and the depreciation reserve account to restate the depreciation reserve at \$40,540 as of January 1, 1956,

substantially as shown in Table 7-A of Exhibit No. 5, and shall submit in writing a copy of the necessary journal entries to this Commission within sixty days after the effective date of this order.

- 4. That applicant shall base the accruals to depreciation reserve upon spreading the original cost of the plant, less estimated net salvage and depreciation reserve over the estimated remaining life of the property; applicant shall use the depreciation rates set forth in Table 7-A of Exhibit No. 5. These rates shall be reviewed when major changes in plant occur and for each plant account at intervals of not more than five years, and shall revise the above indicated rates in conformance with such reviews. Results of these reviews shall be submitted to the Commission.

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

Dated at San Francisco, California, this 16th day of OCTOBER, 1956.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Bell Gardens, Los Angeles County.

RATES

	<u>Per Meter per Month</u>
Quantity Rates:	
First 500 cu.ft. or less	\$ 1.50
Next 1,500 cu.ft., per 100 cu.ft.....	.12
Next 3,000 cu.ft., per 100 cu.ft.....	.10
Over 5,000 cu.ft., per 100 cu.ft.....	.09
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 1.50
For 3/4-inch meter	1.50
For 1-inch meter	3.00
For 1-1/2-inch meter	4.50
For 2-inch meter	6.50
For 3-inch meter	10.00

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

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

The unincorporated community of Bell Gardens, Los Angeles County.

RATES

	<u>Per Service Connection per Month</u>
For a single family residential unit including premises	\$1.85
For each additional residential unit on the same premises and served through the same service connection	1.00

SPECIAL CONDITIONS

1. The above residential flat rate charges apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. A meter may be installed at option of utility or customer for above classification, in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service.

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Bell Gardens, Los Angeles County.

RATE

Per Month

For each inch of diameter of service connection \$1.50

SPECIAL CONDITIONS

1. The customer will pay, without refund, the entire cost of installing the fire protection service.

2. The minimum diameter for fire protection service will be 2 inches and the maximum diameter will be not more than the diameter of the distribution main to which the service is connected.

3. The customer's installation must be such as to effectively separate the fire protection 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 utility which will indicate the use of water. Any unauthorized use will be charged for at the regular established rate for General Metered Service, and may be grounds for the utility's discontinuing the fire protection service without liability to the utility. ✓

4. There shall be no cross-connection between the fire protection system supplied by water through the utility's fire protection service to any other source of supply without the specific approval of the utility. This specific approval will require, at the customer's expense, a special double check valve installation or other device acceptable to the utility. Any such unauthorized cross-connection may be the grounds for immediately discontinuing fire protection service without liability to the utility. ✓

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to fire hydrant service furnished to duly organized or incorporated fire districts or other political subdivisions of the State.

TERRITORY

The unincorporated community of Bell Gardens, Los Angeles County.

RATE

Per Month

For each fire hydrant installed on any size main \$1.50

SPECIAL CONDITIONS

1. Hydrants will be furnished, installed and maintained at the expense of the fire district or other public agency applying for fire hydrant service.
2. Water use is limited to that required for fire fighting purposes and as may be used during scheduled fire drills, except that the utility may use the fire hydrants for the periodic flushing of its water mains.
3. 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.