

Decision No. 56133**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 CALIFORNIA WATER & TELEPHONE COMPANY )  
 to increase rates for water service )  
 in its San Gabriel Valley Division. )

Application No. 38812

Bacigalupi, Elkus & Salinger, attorneys, by Claude N. Rosenberg and William G. Fleckles, for applicant.

Charles R. Martin, city attorney; Charles E. Martin, city manager; and A. P. Hughes, fire chief, for the City of San Marino; and C. Donald D'Amico, for water consumers in the Euclid area; protestants.

Ray L. McCoy, for Southern California Water Company; interested party.

Mary Moran Pajalich, Carol T. Coffey, and John F. Donovan, for the Commission staff.

O P I N I O N

California Water & Telephone Company, a corporation, by the above-entitled application, filed February 11, 1957, seeks authority to increase its rates for water service in its San Gabriel Valley Division which includes domestic, industrial, and public and private fire hydrant service in the City of San Marino and surrounding unincorporated territory of Los Angeles County comprising approximately 15 square miles, of which 8 square miles are in the so-called upper system and approximately 7 square miles are in the so-called lower system. The requested increases in rates were estimated to produce \$148,500 of additional gross annual revenues.

Public hearings were held before Commissioner Rex Hardy and Examiner Stewart C. Warner on September 18, and November 6 and 7,

1957, at Los Angeles. Five telegrams and a petition containing 58 signatures accompanying a letter were received from residents of the Euclid area in the northwest portion of applicant's service area complaining about inadequate service. One letter in protest was received from a customer in Temple City and a letter in protest was received from the City of San Marino regarding fire flow, fire protection, and hydrant rental charges. A letter was received from a customer in San Marino supporting the application. ✓

General Information

Applicant's corporate headquarters are in San Francisco, and applicant furnishes telephone service through its Telephone Department in Monrovia and San Fernando Valley in Los Angeles County, and in Redlands, Palm Springs, Hemet, San Jacinta, and Perris in San Bernardino and Riverside Counties. As of June 30, 1957, the total undepreciated telephone plant amounted to \$42,811,437. Applicant also furnishes water service through its Water Department in the San Gabriel Valley, in San Diego, including its Coronado and Sweetwater Districts, and in its Monterey Peninsula Divisions. As of June 30, 1957, the total undepreciated water department plant amounted to \$26,040,692. Total depreciated utility plant of applicant's Telephone and Water Departments and its General Office amounted to \$64,873,978 as of said date. Total Telephone Department operating revenues were \$11,857,419 and Water Department operating revenues were \$4,505,342, for a total of \$16,362,761 for the twelve months ended June 30, 1957. As of that date applicant's funded debt, including notes payable, was 48.07 percent, preferred capital stock was 13.42 percent, reserves other than depreciation were .08 percent, and common stock, surplus and other equity items were 38.43 percent of applicant's net investment in assets amounting to \$66,004,690.

Basis of Application

In its application, applicant alleged as follows: that, during the years 1954 through 1956, applicant had made a total of \$514,202 of net additions to its San Gabriel Valley Division plant, and that during the year 1957, it would make \$302,944 of net additions to such plant. Applicant's present rates for water service in its San Gabriel Division were established by Decision No. 50445, dated August 17, 1954, in Application No. 34395; that 3 successive wage and salary increases had occurred in the San Gabriel Valley Division; that the cost of materials and supplies had increased; that other developments had occurred which had resulted in a substantial increase in the annual operating expenses in said Division, in consequence of which applicant had not realized the rate of return that was contemplated when the existing rates were authorized by the Commission; and that, in fact, the rate of return had declined, and applicant estimated that it would continue to decline due to increased costs. Applicant further alleged that very material changes in financing costs had occurred in the last four years in that interest rates on debt securities had increased approximately one percent, and dividend rates on preferred stock had also increased substantially; and that the present rates had been, are, and would continue to be inadequate and insufficient to allow a reasonable return to applicant on the cost of applicant's properties and facilities.

Rates

As noted, applicant's present rates were established by Decision No. 50445 (supra) in 1954. The following tabulation is a comparison of applicant's present rates in its upper and lower systems with those proposed in the instant application.

General Metered Water Service Upper System

Quantity Rates:	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
	<u>Schedule</u>	<u>Schedule</u>
	<u>No. 1</u>	<u>No. 1</u>
First 800 cu. ft. or less .....	\$ 1.45	\$ 1.85
Next 4,200 cu. ft., per 100 cu. ft. ....	.17	.20
Next 5,000 cu. ft., per 100 cu. ft. ....	.14	.17
Next 5,000 cu. ft., per 100 cu. ft. ....	.12	.15
Over 15,000 cu. ft., per 100 cu. ft. ....	.10	.12

General Metered Water Service Lower System

Quantity Rates:	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
	<u>Schedule</u>	<u>Schedule</u>
	<u>No. 2</u>	<u>No. 2</u>
First 800 cu. ft. or less .....	\$ 1.45	\$ 1.85
Next 700 cu. ft., per 100 cu. ft. ....	.15	.19
Next 1,500 cu. ft., per 100 cu. ft. ....	.12	.15
Next 7,000 cu. ft., per 100 cu. ft. ....	.10	.13
Over 10,000 cu. ft., per 100 cu. ft. ....	.09	.11

The monthly charge for a typical annual consumption of 36,000 cubic feet in the upper system is \$5.19 per month at the present rates, and would be \$6.25 at the proposed rates; an increase of 20.4 percent. In the lower system, the charge for a typical annual consumption of 24,000 cubic feet is \$3.10 per month at the present rates, and would be \$3.93 per month at the proposed rates; an increase of 26.8 percent.

Applicant proposed to increase its charge for public fire hydrant service from \$2 per hydrant per month to \$2.50 per hydrant per month, but proposed to continue the present monthly charge of \$1.50 per inch of diameter of service connection for private fire protection service.

Earnings

Applicant's vice president and assistant to the president, an engineering witness, and its general manager submitted as Exhibits Nos. 1, 2, 3, 4 and 5, a report on the results of applicant's operations in its San Gabriel Valley Division for the years 1955 and 1956, actual; for the year 1956, adjusted, and the year 1957, estimated, at present and proposed rates, together with testimony relating thereto. Commission staff engineering and accounting witnesses submitted as Exhibit No. 11 a report on applicant's results of operations in the San Gabriel Valley Division for the year 1956, recorded and adjusted at present rates, and for the year 1957, estimated, at present and proposed rates. Exhibit No. 13, submitted by the Commission staff, is a comparative summary of the earnings data contained in Exhibits Nos. 1 and 11, as revised by oral testimony. The following tabulation is a summary of the earnings data contained in Exhibits Nos. 1 and 13.

SUMMARY OF EARNINGS

Item	Year 1956		Year 1957 Estimated			
	Recorded Present Rates Per Co. Exh. 1		Present Rates		Proposed Rates	
			Per Co.	Per PUC	Per Co.	Per PUC
			Exh. 1	Exh. 13	Exh. 1	Exh. 13
Operating Revenues	\$ 617,647	\$ 608,700	\$ 623,900	\$ 757,200	\$ 768,000	
Operating Expenses	257,257	285,000	285,600	285,000	285,600	
Taxes	152,857	124,600	132,900	205,800	211,500	
Depreciation	64,067	70,100	70,000	70,100	70,000	
Total Oper. Exp.	\$ 474,175	\$ 479,700	\$ 488,500	\$ 560,900	\$ 567,100	
Net Oper. Rev.	143,472	129,000	135,400	196,300	200,900	
Rate Base	2,744,715	2,887,000	2,832,000	2,887,000	2,832,000	
Rate of Return	5.23%	4.47%	4.78%	6.80%	7.09%	

Analysis of the estimated earnings data for the year 1957, submitted by applicant and by the staff, reveals that the staff's estimate of operating revenues was based on an adjustment for average precipitation and temperature conditions, and that the staff's estimate of operating expenses for 1957 included the increased cost of electric power for pumping, attributable to increased charges by Southern California Edison Company as a result of a recent electric rate increase granted by the Commission to said company.

Otherwise, and despite the divergent estimates of operating expenses noted hereinbefore, no significant differences between applicant's estimates of its earnings at the present and proposed rates and those submitted by the staff are evident.

The tax figures shown in the preceding summary reflect the use of the straight-line method in computing the depreciation deduction for income taxes. The staff also presented alternate tax figures reflecting the use of accelerated depreciation for federal income taxes as permitted by Section 167 of the Internal Revenue Code, which passed on the benefit of lower taxes to the ratepayer. The record shows that the applicant has filed its federal income tax return for 1956 on the basis of accelerated depreciation and has claimed refunds for 1954 and 1955 on this basis. However, the applicant's general manager testified that the applicant would discontinue taking accelerated depreciation if the Commission did not permit the normalization of federal income taxes and authorize the establishment of a deferred tax reserve. In view of this testimony and the traditional policy of the Commission to allow as an expense of operation the federal income taxes computed on an as paid basis, the matter of allowing accelerated depreciation is not now an issue and the taxes as estimated by the staff on the

straight-line depreciation method will be adopted. Should applicant elect to accelerate its depreciation expense for income tax purposes for the year 1957, applicant is directed to notify the Commission within three days after such election has been made, in which event the Commission may take appropriate further action with respect to the rates for water service in applicant's San Gabriel Valley Division authorized hereinafter to be filed.

Complaints of Service

The group of consumers from the Euclid area who complained submitted, through a witness, testimony relating to a lack of water at times and to insufficient water pressure. Applicant's engineering witnesses and its division manager admitted these poor service conditions, but testified that their plans to secure a zoning variance from the City of Pasadena for the construction of a storage tank at an elevation above the Euclid area and within the boundaries of the City of Pasadena had been opposed by some of the protestants themselves, and by residents of the City of Pasadena in the area, on the grounds that the planned storage tank would be unsightly and would constitute a hazard in the event of an earthquake. The requested zoning variance was denied by the Planning Commission of the City of Pasadena in the late summer of 1957.

Complaint of the City of San Marino

The record shows that, through consultations between representatives of applicant and the officials of the City of San Marino, negotiations have been conducted which were directed toward the settlement of the complaint of the City of San Marino regarding fire flow, fire protection, and hydrant rental charges. By a letter dated December 5, 1957, the City informed the Commission that no agreement had as yet been reached.

Findings and Conclusions

It is evident from the record herein that applicant is in need of financial relief in its San Gabriel Valley Division and that the present rates will not produce an adequate rate of return. It is found as a fact and concluded that the rate of return of 7.09 percent, together with its components, as estimated by the staff for the year 1957 at the proposed rates, will be reasonable when it reflects the costs to applicant of improving the service conditions complained of.

The utility is under a continuing obligation to work in close cooperation with the officials of the City of San Marino toward the end of improving public fire protection service within economic limitations and has indicated that it will so do.

*Formerly  
single  
advised*

The proposed increase of 25 percent in a monthly hydrant charge is generally consistent with the proposed over-all increase in revenues of 23 percent and since Exhibit No. 15 indicates that even at the proposed fire hydrant rates the service will be rendered practically without return, the utility's proposed rate will be authorized.

The order hereinafter will authorize applicant to file the rates proposed in the application subject to the condition, precedent thereto, that applicant formulate and submit to the Commission a plan for the elimination of the lack of water and low pressure conditions in the Euclid area, and that applicant satisfies the Commission that such a plan has been initiated. The Commission finds as a fact and concludes that the rates and charges hereinafter authorized are justified and that present rates insofar as they differ from those herein prescribed will, for the future, be unjust and unreasonable.



O R D E R

Application as above-entitled having been filed, public hearings having been held, the matter having been submitted and now being ready for decision,

*Correctly  
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IT IS HEREBY ORDERED that:

(1) California Water & Telephone Company will be authorized to file the schedules of rates shown in Appendix A attached hereto, applicable to its San Gabriel Division, as provided for in the conditions hereinafter set forth.

(2) That if applicant elects to accelerate its depreciation for federal income tax purposes for the year 1957, or for any year subsequent thereto, applicant shall notify the Commission, in writing, within three days after such election has been made and the Commission may issue its appropriate further order with respect to the authorization herein.

(3) That applicant shall file, within sixty days after the effective date of this order, four copies of a comprehensive map drawn to an indicated scale not smaller than 500 feet to the inch, delineating by appropriate markings the various tracts of land and territory served, rate zones, the principal water production, storage, transmission, and distribution facilities and the location of the various properties of applicant in the San Gabriel Valley Division.

IT IS HEREBY FURTHER ORDERED, as a condition precedent to the authorization to file a new schedule of rates, that applicant shall, within ninety days after the effective date hereof, submit to the Commission, in writing, a plan for the elimination of lack of water and low pressure conditions in its Euclid area, and report to

the Commission in writing, its progress in connection therewith every thirty days thereafter until such program is completed. When the Commission shall have been satisfied that such plan has been initiated, the Commission will issue its further order setting the dates upon which the rates authorized may be filed and placed in effect.

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The effective date of this order shall be the date hereof.

Dated at San Francisco, California, this 21<sup>st</sup> day of January, 1958.

[Signature]  
President  
[Signature]  
[Signature]  
[Signature]  
Commissioners

APPENDIX A  
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## Schedule No. SGL-1

San Gabriel Valley Tariff AreaLower Rate ZoneGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Certain unincorporated territory, including Rosemead and a portion of Temple City, Los Angeles County.

RATES

Per Meter  
Per Month

## Quantity Rates:

First	800 cu. ft. or less .....	\$ 1.85
Next	700 cu. ft., per 100 cu. ft. ....	.19
Next	1,500 cu. ft., per 100 cu. ft. ....	.15
Next	7,000 cu. ft., per 100 cu. ft. ....	.13
Over	10,000 cu. ft., per 100 cu. ft. ....	.11

## Minimum Charge:

For	5/8 x 3/4-inch meter .....	\$ 1.85
For	3/4-inch meter .....	2.50
For	1-inch meter .....	3.80
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 .....	55.00

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

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Schedule No. SGJ-1  
San Gabriel Valley Tariff Area  
Upper Rate Zone

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of San Marino, and a portion of the City of San Gabriel, and vicinity, Los Angeles County.

RATES

Per Meter  
Per Month

Quantity Rates:

First	800 cu. ft. or less .....	\$ 1.85
Next	4,200 cu. ft., per 100 cu. ft. ....	.20
Next	5,000 cu. ft., per 100 cu. ft. ....	.17
Next	5,000 cu. ft., per 100 cu. ft. ....	.15
Over	15,000 cu. ft., per 100 cu. ft. ....	.12

Minimum Charge:

For	5/8 x 3/4-inch meter .....	\$ 1.85
For	3/4-inch meter .....	2.50
For	1-inch meter .....	3.80
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 .....	55.00

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

Schedule No. SG-4

San Gabriel Valley Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service rendered for private fire protection purposes.

TERRITORY

The City of San Marino and a portion of the City of San Gabriel, and vicinity, and certain unincorporated territory, including Rosemead and a portion of Temple City, Los Angeles County.

RATE

	<u>Per Month</u>
For each inch of diameter of fire protection service .....	\$ 1.50

SPECIAL CONDITIONS

1. The minimum diameter for fire protection service will be 4 inches, and the maximum diameter will be the diameter of the main to which the service is connected.

2. All water used for other than fire extinguishing purposes shall be paid for at general metered service rates.

3. Connections for private fire protection systems shall be equipped with standard detector type meters approved by the Board of Fire Underwriters and the cost of the meter and appurtenant structure shall be paid, without refund, by the applicant.

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

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Schedule No. SG-4 (cont'd.)

San Gabriel Valley Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS (Cont'd.)

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

6. The customer shall indemnify the utility and save it harmless against any and all claims arising out of service under this schedule and shall further agree to make no claim against the utility for any loss or damage resulting from the services hereunder.

7. Service under this schedule will be furnished only for fire protection systems which are completely isolated from all other water pipes and services of the customer.

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Schedule No. SG-5

San Gabriel Valley Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The City of San Marino and a portion of the City of San Gabriel, and vicinity, and certain unincorporated territory including Rosemead and a portion of Temple City, Los Angeles County.

RATE

Per Month

For each hydrant ..... \$ 2.50

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under the applicable general metered service schedule.

2. The cost of installation and maintenance of hydrant heads will be borne by the public authority. All other cost of installation and maintenance of hydrants will be borne by the utility.