

ORIGINAL

Decision No. 57219

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of SUBURBAN WATER SYSTEMS, a corpo-
ration, for authority to increase
its rates for water service in its
Whittier District.

Application No. 39299
Amended

Arthur D. Guy, Jr., attorney, and John C. Luthin, manager,
for applicant.
R. John Moreno, councilman, for the City of Santa Fe Springs;
Daniel Hochmann, for Greening Avenue Association;
Harry H. Johnson, for Domestic Services Committee, Sungold
Home Owners; Herbert W. Smith, for groups from Kentucky,
Grasaldo, Mikinda and Russell Streets; Darlene J. Siemsen,
for Roy J. Siemsen, Jr., president Whittwood Center
Residents Association (375 homes); William M. Weiss, for
Security Engineering Division; Mrs. Clarence Benskin, for
South Friends Avenue; Reverend J. A. Pfeiffer, for Mrs.
Williams and Mrs. Ollie Williams; Mr. V. W. Popovich, for
Margaret Isabel Jones; John C. Stuart, in propria persona
and for 84 residents of his neighborhood at 8509 Santa Fe
Springs Road; William Burke Snyder; Harold H. Blumberg;
Mrs. Charles Overton; Lois M. Parise; Mrs. Marjorie M.
Lawrence; Mrs. Marie D. Paolo; Mrs. Neal R. Carson;
Mrs. Richard W. Wood; Mrs. W. E. Bonenberger; Mrs. Margaret
Petterz; Emil Alexander; George W. Coleman; J. D. Brannon;
Mrs. C. F. Tunis; Antonio Bullara and Eva Bullara, in
propria personae; protestants.
Ray L. McCoy, for Southern California Water Company, interested
party.
Franklin G. Campbell, John Gillanders and Theodore Stein, for
the Commission staff.

INTERIM OPINION

Suburban Water Systems, a corporation, by the above-
entitled application filed August 3, 1957, seeks authority to in-
crease its rates for water service in its Whittier District, consist-
ing of its Whittier and Orchard Dale tariff areas, by approximately
\$176,000 over the gross annual revenues for the year 1958 at present

rates; an over-all requested increase of approximately 30 percent. By its First Amendment, filed July 2, 1958, applicant made certain allegations with respect to its financial condition purporting to indicate an emergency financial condition and sought the earliest possible hearing date on its application. By its Second Amendment, filed July 21, 1958, the applicant sought a further increase in rates which would constitute a 17 percent increase in the rates proposed in the application as originally filed, or a 46 percent increase in the present rates for metered service. By a motion of applicant's counsel on August 27, 1958, applicant requested authorization to immediately place in effect, on an emergency interim basis, its originally proposed rates for its Whittier District.

Public hearings on the application, as originally filed, were held before Examiner Stewart C. Warner on December 18 and 19, 1957, at Whittier, and before Commissioner Matthew J. Dooley and Examiner Warner on May 5, 1958, at Whittier, and on May 19, 1958, at Los Angeles. A public hearing on the original application, and the First Amendment thereto, was held before Commissioner Dooley and Examiner Warner on August 27, 1958, at Los Angeles, and the First Amendment to the application and the motion requesting emergency interim rate relief were submitted for decision on said date. An adjourned hearing on the original application was held on August 28, 1958, and hearings on the matter of said original application, and the Second Amendment thereto, were continued to November 5, 1958, at Los Angeles. No evidence was received on the Second Amendment at any of said hearings, and the receipt of said evidence was deferred to the November, 1958, hearings pending applicant's noticing of all its customers and possible interested parties of the further increases in rates proposed in said Second Amendment.

General Information

Applicant is a California corporation and is successor, in its Whittier District, to Whittier Water Company and Orchard Dale Service Company; in its San Jose Hills District, to San Jose Hills Water Company; and, in its Rivera District, to Rivera Water Company. Applicant furnishes water service in its San Jose Hills District to approximately 20,000 customers in West Covina, in a portion of La Puente, and in several areas in the vicinity of Glendora, Covina Knolls, and South La Puente; in its Whittier District to approximately 13,000 customers; and in its Rivera District to about 4,740 customers. The instant application for increases in rates applies only to the Whittier District, although the basis for the request for emergency rate relief contained in the First Amendment is the alleged over-all deficient financial condition of applicant resulting from its operations in all of its districts.

By Decision No. 54532, dated February 11, 1957, in Application No. 34829, applicant was authorized to increase its rates for water service on an interim basis in its San Jose Hills District. A final decision on said application is pending a determination by the Commission of applicant's rate base for said District.

Applicant's present rates applicable to the Whittier tariff area of its Whittier District were established by Decision No. 46782, dated February 19, 1952, in Applications Nos. 32350 and 32362, and its present rates for its Orchard Dale tariff area of said District, were established by Decision No. 44165, dated May 16, 1950, in Application No. 30808. The instant application proposes that the present differences in rates between the Whittier tariff area and the Orchard

Dale tariff area be eliminated and that the proposed general metered rates be applied throughout the Whittier District.

Basis of Request for Emergency Interim Rate Relief

Applicant based its request for emergency interim rate relief, as contained in its First Amendment, on its allegations that it has reached a seriously critical economic impasse; that its overall company rate of return on its substantial investment has constantly diminished despite every effort to effect economies within its operations which, at the same time, would not impair service to its consumers; that it is facing a serious emergency condition which can only be alleviated by the immediate granting of the instant application as originally filed; that its construction program and refunds on consumers' advances for construction have compelled substantial increased investment resulting in increased rate base and a reduction in its rate of return; that its rate of return has been further reduced by increased costs from inflation; that the source of capital for these necessary capital investments has been through the sale of its Class A preferred stock, retained earnings, and through the sale of its secured bonds; that to date it has sold \$5½ million of its secured bonds pursuant to its original indenture and supplements thereto; that through its own personnel, it is continuing to sell its equity shares but that its basic economy continues to be dependent upon the sale of its secured bonds; that it has a remaining right with its present bondholders to draw down \$500,000 in exchange for the issuance of \$500,000 principal amount of its Series D (5½%) bonds; that, however, it must qualify under its earnings requirement prior to December 31, 1958; and that, under the pro forma

statement of its income and expenses, as shown on page 6 of its First Amendment and in Exhibit No. 15 and as such income and expenses are related to its known interest charges on its funded debt, it will be impossible for it to qualify for the drawing down of said \$500,000 in exchange for the issuance of its bonds in that amount at any time on or before December 31, 1958, nor, for that matter, thereafter.

Applicant estimated, on page 6 of the First Amendment, that its earnings before interest on funded debt and before federal income tax, for the period December 1, 1957 to December 1, 1958, would be \$445,829; that the 2-times interest earned requirement to draw down the \$500,000 would be \$497,826; and that the amount short of requirement would be \$51,997. As shown in Exhibit No. 15, supra, said estimated earnings for the year ending December 31, 1958, would be \$464,007, and the estimated amount short of requirement as of that date would be \$33,819.

A witness for applicant testified that if applicant were unable to meet its 2-times interest earnings requirement, its present bondholders might refuse to buy any additional bonds, and that its credit standing in all other respects might be impaired. An accounting witness for the staff testified that the 2-times interest earnings requirement was a normal financial requirement. The record shows that applicant has not made application to the Commission for authority to issue any additional bonds nor has any such authority been granted by the Commission.

The following tabulation shows applicant's capital structure as of May 31, 1958, as set forth in Exhibit C attached to the First Amendment:

Capital Structure as of May 31, 1958

<u>Item</u>	<u>Amount</u>	<u>Percent of Total</u>
Capital Stock:		
Common stock	\$ 433,550	4.4
Preferred stock:		
Class A 5 1/2%	1,153,625	
Class B 3%	<u>1,878,565</u>	30.5
	3,032,190	
Surplus:		
Capital surplus	\$ 543,260	
Paid-in surplus	274,344	
Earned surplus	<u>256,213</u>	10.5
	1,046,817	
Long-Term Debt		
Series A - 4 7/8% bonds	\$1,940,000	
Series B - 4 1/8% bonds	739,000	
Series C - 4 1/4% bonds	1,750,000	
Series D - 5 1/4% bonds	<u>1,000,000</u>	54.6
	5,429,000	
Total capital	\$9,941,557	100.0%

Applicant's current assets, total assets, current liabilities, and total liabilities, capital, and surplus, as of May 31, 1958, are shown in Exhibit C attached to the First Amendment as follows:

<u>Item</u>	<u>Amount</u>
Current Assets:	
Cash in banks	\$ 41,548
Temporary cash investment	1,350
Notes receivable	2,000
Accounts receivable - consumers	121,464
Miscellaneous accounts receivable	75,390
Materials and supplies	73,388
Prepayments	<u>34,519</u>
Total current assets	\$ 349,659
Total Assets	<u>\$13,207,264</u>
Current Liabilities:	
Notes payable - bank	\$ 200,000
Accounts payable	223,343
Dividends payable	163
Customers' deposits	10,932
Accrued taxes	11,062
Accrued payroll taxes	2,805
Federal income tax payable	48,797
Accrued interest - long term debt	33,242
Accrued interest - other	1,807
Other current and accrued liabilities	<u>20,128</u>
Total current liabilities	\$ 552,279
Total liabilities, capital, and surplus	<u>\$13,207,264</u>

This tabulation shows that applicant's current liabilities exceeded its current assets, as of May 31, 1958, by \$202,620.

Exhibit No. 14, applicant's report on the results of its operations in its Whittier District, shows, in Chapter XIV, that applicant estimated its rate of return in its Whittier District, for the year 1958 at the present rates, to be 3.39 percent, and at the rates proposed in the original application, to be 5.71 percent. Said exhibit also shows that applicant estimated its rate of return for its company-wide operations for the year 1957, utilizing 1957 recorded figures at present rates, to be 4.762 percent. Said exhibit containing such estimated rates of return and their components were submitted at the hearing of August 27, 1958, and testimony with respect thereto was not subjected to cross-examination pending preparation and submission of a report, or reports, of an independent investigation of applicant's results of operation in its Whittier District and its company-wide operations by Commission staff accountants and engineers. Such staff report, or reports, might or might not reveal different estimated operating results based either on the rates originally proposed or on the rates proposed in the Second Amendment. These matters will be fully made of record in these proceedings at the hearings of November 5, 1958, et seq.

Rates

As noted hereinbefore, applicant's present Whittier tariff area rates were established by Decision No. 46782, dated February 19, 1952, in Applications Nos. 32350 and 32362, and its present Orchard Dale tariff area rates were established by Decision No. 44165, dated May 16, 1950, in Application No. 30808. The following tabulation compares applicant's presently filed rates for its Whittier District

with those proposed in the instant application as originally filed and as requested to be authorized in the First Amendment thereto:

General Metered Service Rates

Quantity Rates:		<u>Per Meter</u>	<u>Per Month</u>
		<u>Present</u>	<u>Proposed</u>
<u>Whittier Tariff Area</u>			
First	800 cu. ft., or less	\$1.75	\$2.30
Next	1,200 cu. ft., per 100 cu. ft. ....	.16	.21
Next	1,000 cu. ft., per 100 cu. ft. ....	.13	-
Over	3,000 cu. ft., per 100 cu. ft. ....	.11	-
Next	3,000 cu. ft., per 100 cu. ft.	-	.17
Next	15,000 cu. ft., per 100 cu. ft.	-	.14
Over	20,000 cu. ft., per 100 cu. ft.	-	.11
<u>Orchard Dale Tariff Area</u>			
First	800 cu. ft., or less	\$1.75	Same
Next	700 cu. ft., per 100 cu. ft. ....	.15	as
Next	3,500 cu. ft., per 100 cu. ft. ....	.10	for
Next	13,000 cu. ft., per 100 cu. ft. ....	.075	Whittier
Over	18,000 cu. ft., per 100 cu. ft. ....	.055	tariff area

Under the present rates in the Whittier tariff area, the charge for a monthly consumption of 1,500 cubic feet is \$2.87 and in the Orchard Dale tariff area, \$2.80. Such charge under the rates proposed in the original application would be \$3.77.

Service Complaints

Many customers entered appearances at the hearing in Whittier on December 18, 1957, to protest the granting of the application as originally filed, and such protests were primarily based on complaints of inadequate water service pressure conditions and excessive hardness of water served. The latter complaint related especially to a portion of applicant's service area in which the record shows applicant utilizes local well supplies during summer peak-demand periods to supplement its major sources of supply from its Bartolo and Bassett wells. It was admitted by applicant that

its local wells produce hard water, but applicant's witness testified that such hard water was introduced into its water system at infrequent intervals and for short periods, only, when the demands on its water system so required.

As to the inadequate pressure conditions, the record shows that during 1958 all customers from Colima Road to Parise Drive, by the manipulation of valves, have been transferred from a low pressure zone to a higher pressure zone, and that applicant had planned, in its budget, to transfer all customers in an area between Colima Road and Mills Avenue to a higher pressure zone but that, because of its financial condition, such transfer had necessarily been deferred.

Findings and Conclusions

After a review of the record, so far, it is evident that applicant's allegations of an emergency financial condition have been substantiated. It is clear that applicant's cash position has so deteriorated that it should be replenished immediately and that such replenishment, under the present circumstances of applicant's capital structure, may only be accomplished through an increase in applicant's rates for water service. Further, it is clear that if applicant were to continue to charge its present rates for water service in its Whittier District, and that if applicant were not immediately authorized to increase said rates, its credit standing would be seriously impaired.

The Commission finds as a fact that applicant is in need of immediate emergency financial relief; that the public interest requires that the motion by applicant's counsel for emergency interim rate relief should be granted and that applicant be authorized to file the schedules of rates for water service in its Whittier District as proposed in the original application, on an interim

basis, and the order hereinafter will so provide. The Commission concludes that such interim rates should remain in effect until the final determination of this matter. Upon such final determination, of course, the interim rate relief herein granted may be subject to upward or downward adjustment, or may be made permanent, depending on the effect on such final determination of any additional evidence submitted by the applicant; of the report of the results of the staff investigation; and of any other evidence of record which may be received at subsequent hearings.

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

The Commission concludes that applicant should investigate each and every complaint of service conditions entered in this proceeding and submit, as Exhibit No. 16, at the next hearing in this matter, a report of the results of such investigation, together with a statement of the steps taken by it, or planned to be taken, to eliminate each and every service condition complained of.

INTERIM ORDER

Application as above entitled, as amended, having been filed, public hearings having been held, the First Amendment to the application and a motion by applicant's counsel requesting emergency interim rate relief having been submitted, and now being ready for decision,

IT IS HEREBY ORDERED as follows:

(1) That the motion made by applicant's counsel at the hearing of August 27, 1958, requesting emergency interim rate relief be and it is granted.

(2) a. That Suburban Water Systems, a corporation, be and it is authorized to file in quadruplicate with the Commission, after the effective date of this order, in conformity with the Commission's General Order No. 96, the schedule of rates shown in Appendix A attached hereto, and on not less than three days' notice to the Commission and to the public to make such rates effective for service rendered on and after September 24, 1958.

b. That concurrent with the schedule of rates shown in Appendix A becoming effective, the tariff schedules enumerated below be and they hereby are canceled:

- Schedule No. WH-1, Whittier Tariff Area, General Metered Service
- Schedule No. WH-1A, Orcharddale Tariff Area, General Metered Service
- Schedule No. WH-2, Whittier Tariff Area, General Flat Rate Service
- Schedule No. WH-3, Whittier Tariff Area, Metered Irrigation Service
- Schedule No. WH-9CM, Whittier Tariff Area, Construction and Tank Truck Service
- Schedule No. WH-9MI, Whittier Tariff Area, Industrial Metered Service

(3) That applicant shall investigate each and every complaint of service entered at the December 18, 1957 hearing and shall, on the date of the next hearing herein, submit to the Commission in writing, as Exhibit No. 16, a report of the results of such investigation together with a statement of the steps taken by it, or planned to be taken, to eliminate each and every service condition complained of.

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

Dated at San Francisco, California, this 10th day of September, 1958.

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

APPENDIX A

Schedule No. WE-1

Whittier Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Certain unincorporated areas in the vicinity of the City of Whittier, Los Angeles County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 800 cu.ft. or less	\$ 2.30
Next 1,200 cu.ft., per 100 cu.ft. ....	.21
Next 3,000 cu.ft., per 100 cu.ft. ....	.17
Next 15,000 cu.ft., per 100 cu.ft. ....	.14
Over 20,000 cu.ft., per 100 cu.ft. ....	.11
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 2.30
For 3/4-inch meter	2.90
For 1-inch meter	4.60
For 1 1/2-inch meter	7.50
For 2-inch meter	15.00
For 3-inch meter	35.00
For 4-inch meter	60.00
For 6-inch meter	125.00

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