

ORIGINAL

Decision No. 57542

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 authoriz-)
ing it to increase rates charged)
for water service in the East Los)
Angeles district.)

Application No. 39887

McCutchen, Doyle, Brown & Enersen, by Robert Minge
Brown and A. C. Greene, Jr., for applicant.
Cyril M. Saroyan and Jean B. Balcomb, for the
Commission staff.

O P I N I O N

Nature of Proceeding

By the above-entitled application, filed March 10, 1958, California Water Service Company, a California corporation, seeks an order of this Commission authorizing it to increase rates for water service rendered by it in its East Los Angeles district.

Public Hearing

After due notice to municipal and other public officials and to the public in general in the East Los Angeles district of applicant, public hearing in the matter was held before Examiner F. Everett Emerson on September 17, 1958 at Los Angeles. The matter was submitted on such date. No public official nor any customer of applicant attended the hearing.

Applicant's Position

The present rates for water service in this district were authorized by this Commission in 1951. In the period of seven years since that time, the levels of wages and the prices of materials have risen several times. Property tax assessments and tax rates

have also risen markedly. Maintenance and replacement costs have increased and freeway construction through the district has occasioned considerable rearrangement of facilities. Applicant's costs for electric power have also increased. In short, inflationary influences continue and produce declining earnings in the East Los Angeles district each year. Applicant alleges that its rate of return has been reduced to the point where rate relief has become imperative. Applicant seeks a rate of return which over a three-year period will approximate 6 per cent.

Rates, Present and Proposed

Applicant proposes to increase rates for General Metered Service, Private Fire Protection Service and Service for Construction Purposes.

The proposed increase in General Metered Service rates would, for the average customer usage in this district, increase the annual billings from \$35.70 at present rates to \$48.40 at proposed rates, an increase of approximately 36 per cent.

The increase proposed for Private Fire Protection Service is to place the charges for such service at the same level prevailing in applicant's other districts.

The increases proposed for Service for Construction Purposes is to place the charges for such service at an increased level proportionate to the proposed charges for general service.

Nature of Evidence

Applicant and the Commission staff presented evidence respecting all phases of applicant's East Los Angeles district operations. Also, evidence respecting applicant's over-all operations, presented on September 10 and 11 during the hearing on Application No. 39888, is part of this record by reference. Thus,

the Commission has before it in this proceeding evidence respecting all of applicant's operations and the results thereof as it pertains to the company's financial position.

The following tabulation will serve to summarize the evidence respecting applicant's operations for the estimated year 1958:

EAST LOS ANGELES DISTRICT
SUMMARY OF EARNINGS - ESTIMATED YEAR 1958

At Existing Water Rates

| <u>Item</u> | <u>Applicant</u> | <u>CPUC Staff</u> |
|-------------------------|------------------|-------------------|
| Operating Revenues | \$1,383,100 | \$1,380,200 |
| Operating Expenses | 1,150,050 | 1,139,930 |
| Net Revenue | 233,060 | 240,270 |
| Rate Base (Depreciated) | 5,945,400 | 5,938,400 |
| Rate of Return | 3.92% | 4.05% |

At Applicant's Proposed Water Rates

| <u>Item</u> | <u>Applicant</u> | <u>CPUC Staff</u> |
|-------------------------|------------------|-------------------|
| Operating Revenues | \$1,732,120 | \$1,728,900 |
| Operating Expenses | 1,340,620 | 1,330,120 |
| Net Revenue | 391,500 | 398,780 |
| Rate Base (Depreciated) | 5,945,400 | 5,938,400 |
| Rate of Return | 6.58% | 6.72% |

Findings and Conclusions

The foregoing tabulation is based on straight-line depreciation for income tax purposes. Applicant elected to use accelerated depreciation for income tax purposes in 1957 and has not yet determined to make such an election for the year 1958. Applicant is placed on notice that the matter of the treatment to be accorded depreciation for tax expense purposes has not finally been determined by this Commission. It is appropriate, therefore, that applicant promptly notify this Commission of its election, under Section 167 of the 1954 Internal Revenue Code, for the year 1958. Upon receipt of such notice and upon final determination of the over-all depreciation matter, the Commission may reopen this proceeding in order to adjust water rates accordingly.

As may be determined from the foregoing tabulation, the difference between the respective revenue estimates is on the order of two tenths of one per cent. Such difference is well within the limits of accuracy in any estimating process. We find that applicant's revenue estimates are reasonable and they are adopted herein.

The difference in estimated operating expenses arises from an accumulation of a number of minor items. However, the major differences concern the estimates of purchased and "unaccounted for" water and the maintenance expenses associated with distribution facilities. Essentially, the staff and applicant had the same recorded data and used the same starting point. In view of the evidence on this subject we conclude that applicant's estimates in this regard are reasonable and they will be adopted herein.

The staff analysis of direct maintenance expenses associated with distribution facilities included a "roll back" of present-day labor and material costs into prior years in order to determine the activity in the account. The method used has some merit, but cross-examination of the witness revealed that the projection of the 1957 results into the year 1958 was deficient. In view of the evidence respecting this analysis as well as the evidence respecting recent increases in material costs, we find that the reasonable estimated total expense for this account for the year 1958 is \$126,000 rather than the amount of \$119,900 calculated by the staff.

In view of all of the evidence respecting operating expenses, we find that reasonable estimates of the totals of such

expenses are \$1,150,000 under existing water rates and \$1,340,000 under applicant's proposed water rates for the year 1958.

With respect to a determination of a fair and reasonable depreciated rate base, it is noted that applicant and the staff differ by only 12/100 of one per cent. While such difference is of itself of little significance, it arises essentially in the treatment accorded contributed plant and in the calculation of an allowance for working cash. In our opinion, the staff calculation of these items is preferable and produces a reasonable result. In view of the evidence we find that a fair and reasonable depreciated rate base for the estimated year 1958 is \$5,938,400.

To summarize, the Commission finds the following to be fair and reasonable estimates, for the year 1958, of the items hereinbelow set forth.

ADOPTED RESULTS OF OPERATIONS
ESTIMATED YEAR 1958

| Item | <u>Present Rates</u> | <u>Proposed Rates</u> |
|-------------------------|----------------------|-----------------------|
| Operating Revenues | \$1,383,000 | \$1,732,000 |
| Operating Expenses | 1,150,000 | 1,340,000 |
| Net Revenue | 233,000 | 392,000 |
| Rate Base (Depreciated) | 5,938,400 | 5,938,400 |
| Rate of Return | 3.92% | 6.60% |

Both applicant and the Commission staff analyzed the trend in rate of return for this district. Applicant's calculations indicate an average annual decline of 0.39 per cent, while the staff calculation indicates a decline of 0.25 per cent. It is reasonable to assume that the decline to be experienced in the immediate future will lie between these extremes.

In view of the evidence, the Commission finds that applicant has conclusively demonstrated its need for and entitlement to increased revenues in the East Los Angeles district. Further, the

Commission finds that the water rates which applicant has proposed will produce earnings and a rate of return for the immediate future which are fair and reasonable. It follows, therefore, that applicant should be authorized to increase water rates as requested. Accordingly, we further find as a fact that the increases in water rates and charges authorized herein are justified and that present rates and charges, in so far as they differ from those herein prescribed, are for the future unjust and unreasonable.

O R D E R

California Water Service Company, having applied to this Commission for an order authorizing increases in rates and charges for water service rendered in its East Los Angeles district, public hearing having been held, the matter having been submitted and now being ready for decision based on the evidence and the findings and conclusions contained in the foregoing opinion; therefore,

IT IS HEREBY ORDERED that California Water Service Company is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96, rate schedules as shown in Appendix A attached hereto and, on not less than five days' notice

to the public and to this Commission, to make said schedules effective for water service rendered on and after December 1, 1958.

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

Dated at San Francisco, California, this 28th day of October, 1958.

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

APPENDIX A
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Schedule No. EL-1

East Los Angeles Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of East Los Angeles and vicinity, located adjacent to the cities of Los Angeles, Montebello and Monterey Park, Los Angeles County.

RATES

| | <u>Per Meter</u> <u>Per Month</u> |
|--|--------------------------------------|
| Service Charge: | |
| For 5/8 x 3/4-inch meter | \$ 1.90 |
| For 3/4-inch meter | 2.10 |
| For 1-inch meter | 2.30 |
| For 1 1/2-inch meter | 3.80 |
| For 2-inch meter | 5.70 |
| For 3-inch meter | 10.50 |
| For 4-inch meter | 13.00 |
| For 6-inch meter | 21.00 |
| For 8-inch meter | 28.00 |
| For 10-inch meter | 38.00 |
| Quantity Rates: | |
| For the first 30,000 cu.ft., per 100 cu.ft. | \$ 0.155 |
| For all over 30,000 cu.ft., per 100 cu.ft. | 0.145 |

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 Rates.

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Schedule No. EL-4

East Los Angeles Tariff AreaPRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

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

TERRITORY

The unincorporated community of East Los Angeles and vicinity, located adjacent to the cities of Los Angeles, Montebello and Monterey Park, Los Angeles County.

RATES

| | <u>Per Month</u> |
|-----------------------------------|------------------|
| For each 1½-inch connection | \$ 2.25 |
| For each 2-inch connection | 3.00 |
| For each 3-inch connection | 4.50 |
| For each 4-inch connection | 6.00 |
| For each 6-inch connection | 9.00 |
| For each 8-inch connection | 12.00 |
| For each 10-inch 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.
2. If a distribution system 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

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Schedule No. EL-4

East Los Angeles Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

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. EL-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.

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Schedule No. EL-9C

East Los Angeles Tariff Area

CONSTRUCTION FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service for construction purposes.

TERRITORY

The unincorporated community of East Los Angeles and vicinity, located adjacent to the cities of Los Angeles, Montebello and Monterey Park, Los Angeles County.

RATES

| | |
|---|---------|
| For concrete walks, per 100 sq.ft. | \$ 0.33 |
| For concrete curbs, per 100 lineal feet | 0.66 |
| For concrete streets or gutters, per 100 sq.ft. | 0.66 |
| For street grading, oiling and asphalt paving, per 100 lineal feet | 0.09 |
| For settling dirt backfill in trenches four feet in depth or less, per 100 lineal feet | 2.50 |
| For each additional depth of four feet or fraction thereof, per 100 lineal feet | 2.50 |

SPECIAL CONDITION

All service not covered by the above classifications will be furnished only on a metered basis.