

ORIGINAL

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Decision No. \_\_\_\_\_

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
SOUTHWEST WATER COMPANY, a corpo-  
ration, for authority to increase  
its rates for water service in its  
La Sierra District.

Application No. 40273  
Amended

Arthur D. Guy, Jr., attorney, for applicant.  
A. N. Durrant, in propria persona; Loma Linda Food Company  
by A. A. Cree, production manager; Richard Seidler for  
Community Services Board and in propria persona;  
Hugh W. Williams for Seventh-Day Adventist Church of  
La Sierra Heights; Mrs. Esther Slater, Bill Savage,  
Lenore B. Laho, and Mrs. Homer Miller, in propria personae;  
Stanton Parker and Erby N. Davidson, each for a group of  
interested parties; protestants.  
William H. Compton for La Sierra District; Ellis W. Cline  
for the Alford School District; Mrs. De Wayne Irwin for  
self and husband; and Irene Maanum; interested parties.  
William R. Roche, Gustave B. Weck and Richard Entwistle for  
the Commission staff.

## O P I N I O N

Southwest Water Company, a corporation, by the above-entitled application filed July 21, 1958, as amended August 21, 1958, seeks authority to increase its rates for water service in its La Sierra District near Arlington, Riverside County, by the gross annual amount of approximately \$60,000 based on operations for the estimated year 1958, a gross increase of approximately 44 percent.

Public hearings were held before Examiner Stewart C. Warner on November 19 and 20, 1958, and January 12 and 13, 1959, at La Sierra. About 200 customers attended the November 19 hearing and many of them protested not only the magnitude of the proposed rate

increase, but the quality of water service furnished by the applicant, particularly with respect to low pressure, frequent outages of water, hardness of water, and foreign particles in the water.

Petitions containing some 84 names and several letters protesting the application were filed for the Commission's consideration. Late-filed Exhibit No. 12 was received on January 22, 1959, and the matter submitted for decision on that date.

General Information

The applicant was organized in 1954 and by Decision No. 51192, dated March 15, 1955, in Application No. 36678, was authorized to acquire the facilities of La Mirada Water Company, a public utility water corporation, which served the western portion of La Mirada's then service area, and was granted a certificate of public convenience and necessity for one-half of the original area. On June 1, 1955, the applicant acquired the facilities of Crystal Mutual Water Company serving 543 customers, and in its first year of operation the applicant grew from 100 to 1500 customers. At the present time water service is being furnished to about 4000 customers in the La Mirada District.

By Decision No. 54160, dated December 4, 1956, in Application No. 38246, the applicant was authorized to acquire the properties of Citizens Domestic Water Company in La Sierra, and by Decision No. 54649, dated March 12, 1957, in Application No. 38576, the applicant was authorized to acquire the stock of Daly Water Company, a mutual water company furnishing water service in La Sierra, and applicant, by Decision No. 55498, dated September 3, 1957, in Application No. 39297, was authorized to acquire certain

distribution facilities from the City of Riverside in La Sierra. At the present time water service is being furnished to about 3,200 customers, all of whom are metered, in the La Sierra District.

In 1956 the applicant was granted a certificate of public convenience and necessity, and rates were established for its Etiwanda District which comprises about 25 square miles of agricultural and potential industrial area, including the proposed Vina Vista industrial community near Etiwanda, San Bernardino County, and water service is being furnished to about 250 customers located in the northern portion of the Etiwanda District.

Applicant's officers are: Camille A. Garnier, president; Sherwood Field, vice president; and Carr H. Deitz, secretary and treasurer; who are also directors and officers of Suburban Water Systems, a public utility water corporation furnishing water service to approximately 40,000 customers in West Covina, Covina, La Puente, and in the vicinity of Whittier, in Los Angeles County.

Description of La Sierra District Water System

Applicant's sources of water supply in the La Sierra District comprise seven wells: the Hole wells Nos. 1 and 2 and the Polk well, which are company-owned; the Rancho La Sierra well, from which water is purchased; the Daly Water Company's Walton well, which furnishes water to the distribution system purchased from the City of Riverside and serves tracts located south of Magnolia Avenue; and the Daly wells, which furnish water to the Riverside Water Company. Prior to October 1958, water was also purchased from the City of Riverside. During 1957, company wells produced 93.9 percent of the total water produced for that year for the applicant's use and sale.

Storage facilities comprise three reservoirs located together on Reservoir Hill, and a balancing reservoir located near the northwest corner of the service area known as Twin Buttes Reservoir. A fourth reservoir at a lower elevation on Reservoir Hill formerly supplied water to customers in a lower pressure zone. These customers are now supplied from the three reservoirs which are located at the top of Reservoir Hill. The facilities acquired from the City of Riverside included a steel tank known as the Alvord Reservoir.

The locations of applicant's production, storage, booster, and chlorination facilities are shown on the chart following page 10 on Exhibit No. 2, a report on applicant's La Sierra District submitted by applicant's manager.

Applicant's distribution system comprises two separate 12-inch lines from its three company-owned wells and the Rancho La Sierra well to the three reservoirs on Reservoir Hill. The grid system consists of 16- to 8-inch pipe lines in Tyler Avenue, 14-, 12- and 10-inch pipe lines in Wells Avenue and Pierce Place, a 10-inch pipe line in Mitchell Avenue, and an 8-inch pipe line in Cypress Avenue. The remainder of the grid system consists of 8-inch and smaller pipe. Exhibit No. 4 is a list of 1½ and 2-inch mains which applicant's witness testified should be replaced. Said exhibit contains 30 items which total 43,100 feet of pipe line. Until recently, no fire hydrants were installed in the area but, upon the formation of the Community Services District, applicant entered into an agreement with said District for the installation of fire hydrants pursuant to which 12 fire hydrants were installed during 1957, and the applicant planned to install 12 additional hydrants in 1958 and 12 additional hydrants in 1959. Chlorination of the sources of water supply was commenced in 1959 pursuant to instructions of the State Department of Health.

Generally, the applicant's La Sierra District water system area is widespread and sparsely settled and covers about 15 square miles of territory which originally comprised the W. J. Hole Ranch and now includes the community of La Sierra with the La Sierra College, Loma Linda Food Company (which manufactures Loma Linda foods), four elementary schools, and residential areas in La Sierra Heights and south of Magnolia Avenue in new subdivisions. Most of the economy is based on moderate income from rural and semisuburban residents.

The applicant's general offices are located at 16340 East Maplegrove Street, La Puente, where offices for general administrative personnel, accounting and billing are maintained. Engineering, new business services, and testing and repairing of meters performed by Suburban Water Systems are conducted at this office, together with a mobile radio communication transmitter situated there. Said radio service is operated by Mobile Communications Company, a nonprofit organization used by the applicant, Suburban Water Systems and several other concerns, and the applicant has equipped seven mobile two-way radio units of which four are maintained in the La Sierra District.

The address of the applicant's local office for its La Sierra District is 9535 Magnolia Avenue, Arlington. Said local office is at least six or seven miles distant from portions of the applicant's service area and the applicant has planned to establish its La Sierra District office in La Sierra.

#### Rates

Applicant's present rates applicable to the La Sierra District were established for Citizens Domestic Water Company,

applicant's predecessor in interest, by Decision No. 42308, dated December 14, 1948, in Application No. 29419, and also pursuant to the provisions of Decision No. 56316, dated March 3, 1958, in Application No. 39515, which authorized applicant to apply its then-filed Zone No. 1 rates to all customers in the La Sierra District. The following tabulation is a comparison of applicant's present and proposed rates for general metered service with those authorized hereinafter:

Comparison of Present, Proposed, and  
Authorized Metered Service Rates

Quantity Rates:	<u>Per Meter Per Month</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
First 1,000 cu. ft., or less .....	\$ 1.85		
Next 9,000 cu. ft., per 100 cu. ft. ..	.16		
Over 10,000 cu. ft., per 100 cu. ft. ..	.15		
First 800 cu. ft., or less .....		\$ 2.50	
Next 1,700 cu. ft., per 100 cu. ft. ..		.25	
Next 2,500 cu. ft., per 100 cu. ft. ..		.20	
Over 5,000 cu. ft., per 100 cu. ft. ..		.16	
First 800 cu. ft., or less .....			\$ 2.30
Next 2,200 cu. ft., per 100 cu. ft. ..			.20
Next 7,000 cu. ft., per 100 cu. ft. ..			.17
Next 10,000 cu. ft., per 100 cu. ft. ..			.15
Over 20,000 cu. ft., per 100 cu. ft. ..			.12

Alvord School District and Loma Linda Food Company through their respective representatives each requested the establishment of a lower rate for large monthly water usage.

At the present rates the monthly charge for water usage of 1800 cubic feet is \$3.13. At the proposed rates such charge would be \$5.00, an increase of \$1.87 or 60 percent. At the authorized rates such charge would be \$4.30, an increase of \$1.17 or 37 percent.

Earnings

Exhibit No. 2, supra, shows applicant's earnings for the year 1957 recorded and adjusted at present and proposed rates, and for the year 1958 estimated at present and proposed rates. Exhibit No. 7, a report on applicant's results of operations in the La Sierra District for the year 1957 recorded, the year 1957 adjusted at present and proposed rates, and the year 1958 estimated at present and proposed rates, shows applicant's earnings as such earnings were calculated and estimated by Commission staff engineering and accounting witnesses. The following tabulation summarizes the earnings' data shown in Exhibits Nos. 2 and 7:

## SUMMARY OF EARNINGS

Item	:Year 1957:		Year 1958 Estimated		
	:Recorded :		Present Rates		Proposed Rates
	: Per Co. :	Per Co. :	Per P.U.C. :	Per Co. :	Per P.U.C. :
	: Ex. 2 :	Ex. 2 :	Ex. 7 :	Ex. 2 :	Ex. 7 :
Operating Revenue	\$ 124,137	\$ 136,457	\$ 142,670	\$ 196,683	\$ 203,560
Operating Expenses	87,249	94,745	84,220	95,080	84,440
Depreciation	16,363	19,021	20,340	19,021	20,340
Taxes	6,658	7,002	11,170	31,816	43,880
Total Oper. Exp.	\$ 110,270	\$ 120,768	\$ 115,730	\$ 145,917	\$ 148,660
Net Revenue	13,867	15,689	26,940	50,766	54,900
Rate Base	500,716	612,198	597,760	612,198	597,760
Rate of Return	2.77%	2.56%	4.51%	8.29%	9.18%

Analysis of the preceding tabulation indicates no significant differences in the estimates of operating revenues, operating expenses, depreciation, taxes, and resultant net revenue for the year 1958 estimated at the proposed rates between the estimates submitted by the applicant and by the staff, except that the staff

estimated \$2,900 less administrative and general salaries expense chargeable to Account No. 791 than the applicant, and \$3,660 more administrative expenses transferred under Account No. 812 than did the applicant. The applicant did not dispute the staff estimates.

In the staff rate base for the year 1958 estimated, modifications totaling \$37,300 were recommended by the staff as contrasted to a total of such modifications of \$17,795 submitted by the applicant. The principal difference was in the amount proposed to be included for the value of Daly Water Company stock owned by the applicant which the staff included as \$34,450 whereas the applicant included \$52,500 for this item. The record shows that applicant claimed the total amount for which applicant was authorized, by Decision No. 54649, to issue stock for the acquisition of Daly stock, whereas the staff amount represented depreciated historical value of Daly's water system plant.

Exhibit No. 4, supra, shows the location and length of 1½ and 2-inch mains which the applicant contends should be replaced, together with the estimated cost of such replacement which totals \$129,300.

Exhibit No. 5 is a copy of applicant's capital budget for the year 1959 as revised January 9, 1959. Said budget includes seven items totaling \$112,000 which were included in Exhibit No. 2 as nonrevenue producing capital but were not included in the applicant's rate base for the year 1958 estimated as shown in the preceding tabulation. To have included them therein would have reduced applicant's estimated rate of return from 8.29 percent, as shown in said tabulation, to 7.13 percent. Items Nos. 8 through 11,



inclusive, of Exhibit No. 5, supra, are additive to such subtotal of \$112,000 in the amount of \$45,500, making a grand total of \$157,500 for applicant's 1959 budget. The testimony of applicant's manager, with respect to the budget, was that it had not been approved by the Board of Directors; that it was subject to further revision; that only the first four items totaling \$22,000 had been made the subject of issued work orders; and that the scheduling and construction of other items would be dependent, in certain instances, on engineering studies of the relative importance and urgency of the needs for such construction and were, in all instances, dependent on applicant's financial ability to raise the necessary capital.

A staff accounting witness testified with relation to Chapter 4 of Exhibit No. 7 in paragraph 31 thereof that applicant's bondable utility plant at present has nearly been exhausted through the issuance of Series B and Series E bonds; that the applicant's proposed current expenditure of \$113,000 for nonrevenue producing plant in the La Sierra District could not be met from internal funds; that the applicant proposed to issue additional bonds to obtain the necessary funds; and that, in his opinion, the issuance of such bonds should be accompanied by additional issuances of common stock.

#### Service Complaints

Service complaints were manifold. The record shows that the applicant's water system originally was primarily built for and devoted to agricultural irrigation purposes and, consequently, its water system installations were far below minimum standards prescribed by General Order No. 103, with the gross inadequacies of water service resulting therefrom. The record shows that since

acquiring the water system from Citizens Domestic Water Company in December, 1956, the applicant has spent in excess of \$200,000 on water system installations in the La Sierra District, including nearly \$150,000 for distribution mains, some of which sum was for new subdivisions but much of which was for the improvement of the water system. Despite such expenditures and improvements, however, as shown in Exhibit No. 4, supra, a total of 43,100 feet of sub-standard mains still remain in the system and should be replaced. Additionally, the record shows that a pressure system costing \$7,000 should be installed for the Western Hills area; a pressure problem in an area northwest of La Sierra College should be corrected at a cost of \$7,000; automatic controls costing \$2,000 should be installed for the Polk pumping plant; and a booster pump costing \$6,000 should be installed for the Cook plant.

Most customers' service complaints concerned low pressure and interruption of service caused by breakages of water mains and unannounced repairs thereto. Hardness of water was also a major complaint and applicant offered no immediate solution to this problem. Applicant's witness testified that the existence of such hardness was recognized by applicant, but that such hardness was within and below maximum potability and water usage standards of the State and County Health Departments and the American Water Works Association.

Some customers complained that main extensions to their water service connections had been effected by applicant without applicant's having secured competitive bids for such main extension construction.

With respect to the replacement of standard distribution pipe lines, applicant's manager testified that the pipe line on Jones Street from its northerly termination to Stover Avenue (Item

No. 2 of Exhibit No. 4) would be replaced before the summer of 1959, together with any additional work necessary to alleviate low pressure in this area, and that other replacements would be effected when applicant could complete a study of their relative needs and importance.

Findings and Conclusions

After a careful review of the record, it is found as a fact that applicant is in need of financial relief in the La Sierra District and that the gross operating revenues for the year 1958 estimated which would be produced by the applicant's presently filed rates for water service in the La Sierra District would be deficient. It is found as a fact, however, that the rates proposed in the application would produce an excessive rate of return based on the applicant's operations for the year 1958 estimated.

It is further found as a fact and concluded that the public interest requires that the applicant be directed by the ensuing order to proceed immediately with its tentatively budgeted program to replace its substandard distribution mains and to postpone, temporarily at least, all other capital budget items not specifically designed to improve water service conditions and to eliminate present water service complaints.

In order that the applicant may at once proceed to improve its water system and domestic water service, an amount of \$102,240 will be added to the rate base for the year 1958 estimated as submitted by the Commission staff. Said additive amount plus the \$40,370 included by the staff for the year 1958 estimated will total \$142,610 of additions to plant and construction work in progress in the rate base hereinafter found to be reasonable for this proceeding.

Based on the record before us it is concluded that the application should be granted in part and denied in part. The order which follows will authorize the applicant to file new schedules of rates which, it is estimated, will produce \$179,900 of gross operating revenue. This represents an increase of \$37,230, 26.1 percent, over the estimated gross operating revenues at the present rates but is \$23,660 less than the amount sought by the applicant in its application as amended. The remaining 38 percent of the requested increase will be denied.

When estimated operating expenses, depreciation, and taxes amounting to \$135,800 are deducted from the estimated gross revenues heretofore set forth, net revenue of \$44,100 will result, and when such net revenues are related to an estimated rate base of \$700,000, hereby found to be reasonable, a rate of return of 6.3 percent will result. Such rate of return and its components are found to be just and reasonable for the test year 1958 as adjusted herein. The record, as developed by the staff, shows an increasing trend in rate of return due to customer growth and density of the area. Thus, the rate of return may be expected to increase during the year 1959.

The requests of Alvord School District and Loma Linda Food Company for a lower rate for large water usage have been considered and are found to be reasonable. The granting of their requests is reflected in the new schedules of rates authorized to be filed.

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 prescribed herein will, for the future, be unjust and unreasonable, subject, however, to applicant's complying with the provisions of the order following.

The order hereinafter will provide that the applicant shall proceed immediately to carry out its water system and service improvement program for the La Sierra District as indicated in Exhibit No. 5 and shall within thirty days after the effective date of said order, and every thirty days thereafter until completed, report in writing to the Commission its progress in carrying out such improvement program. Such reports should include detailed statements of the programs which have been constructed and will be constructed and their costs. Such programs should include as items of highest priority those items designed to improve the present water system.

The order hereinafter will provide further that applicant shall make a comprehensive engineering and economic study of the La Sierra District water system to determine the requirements and costs thereof to bring all portions and elements of the La Sierra water system, including sources of water supply, storage, distribution, and transmission facilities, up to and in accordance with at least the minimum standards prescribed by General Order No. 103, and shall, within 180 days after the effective date of the order, submit such report in writing to the Commission.

The order hereinafter will provide further that upon the receipt of such progress report and engineering and economic report, heretofore referred to, the Commission may issue its further order or orders in this proceeding.

It is concluded that, unless applicant proceeds to substantially improve its water system and water service in the

La Sierra District pursuant to the programs outlined on and indicated in the record herein, the public interest might require the Commission, by subsequent order in this proceeding, to adjust the applicant's rates to a lower level.

Applicant is put on notice that it is expected to expeditiously and diligently proceed with the water system improvement construction program, the dollar amounts for which have been included in the rate base herein found to be just and reasonable as outlined hereinbefore. Further, applicant is put on notice that such improvement construction program should be carried out according to sound business practices, including the letting, in every instance, of competitive bids for contracts exceeding \$1,000 and the public advertising of invitations therefor. Any failure by the applicant to follow acceptable contract bidding procedure may require the Commission to review the herein adopted rate base as to its reasonableness.

O R D E R

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

IT IS HEREBY ORDERED as follows:

1. That Southwest Water Company, 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 schedules of rates applicable to the La Sierra District, shown in Appendix A attached hereto, and upon not less than five days' notice to the Commission and to the public

to make such rates effective for service rendered on and after May 1, 1959.

2. That in all other respects the application of Southwest Water Company to increase its rates for water service in the La Sierra District be and it is denied.

3. That applicant shall, within sixty days after the effective date of this order, file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96, sample copies of printed forms used in connection with customers' services. Such sample copies of printed forms shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

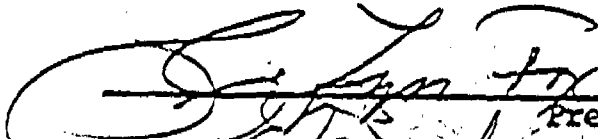


4. That applicant shall proceed immediately to carry out its water system and service improvement program for the La Sierra District as indicated in Exhibit No. 5 and shall, within thirty days after the effective date hereof and every thirty days thereafter until completed, report in writing to the Commission its progress in carrying out such improvement program. Such program shall include as items of highest priority those items designed to improve the present water system. Such program shall be carried out according to sound business practices, including the letting, in every instance, of competitive bids for contracts exceeding \$1,000, and the public advertising of invitations therefor.

5. That applicant shall make a comprehensive engineering and economic study of the La Sierra District water system to determine the requirements and costs thereof to bring all portions and elements of the La Sierra District water system, including sources of water supply, storage, distribution, and transmission facilities up to and in accordance with at least the minimum standards prescribed by General Order No. 103 and shall, within one hundred and eighty days after the effective date hereof, submit such report in writing to the Commission.

6. That upon the receipt of the progress report and the engineering and economic report referred to in paragraphs 4 and 5 hereof, the Commission may issue its further order or orders in this proceeding. ✓

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

Dated at San Francisco, California,  
this 17th day of March, 1959.

  
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President  
  
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Commissioners

Theodore H. Jenner  
Commissioner S. Everett C. McKenna being  
necessarily absent, did not participate  
in the disposition of this proceeding.



APPENDIX A

Schedule No. LS-1

La Sierra Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of La Sierra and vicinity, Riverside County.

RATES

		<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:		
First	800 cu.ft. or less .....	\$ 2.30
Next	2,200 cu.ft., per 100 cu.ft. ....	.20
Next	7,000 cu.ft., per 100 cu.ft. ....	.17
Next	10,000 cu.ft., per 100 cu.ft. ....	.15
Over	20,000 cu.ft., per 100 cu.ft. ....	.12

Minimum Charge:

For	5/8 x 3/4-inch meter .....	\$ 2.30
For	3/4-inch meter .....	3.00
For	1-inch meter .....	4.50
For	1 1/2-inch meter .....	7.00
For	2-inch meter .....	10.00
For	3-inch meter .....	15.00
For	4-inch meter .....	40.00
For	6-inch meter .....	70.00

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