

ORIGINAL

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Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHERN CALIFORNIA WATER COMPANY)
 for authority to increase rates)
 charged by it for water service in)
 its Southwest District.)

Application No. 40675

O'Melveny and Meyers, attorneys, by Lauren M. Wright,
and C. T. Mess, consulting engineer, for applicant.
Paul A. Rowley, city administrator, for the City of
Gardena; Mrs. Mildred A. Winfree, president, and
David C. Rabin, vice president, for Gardena Hollypark
Home Owners Association; interested parties.
Cyril M. Sarovan, Jean B. Balcomb, and Harold Grondahl, Jr.,
for the Commission staff.

O P I N I O N

Southern California Water Company, a corporation, by the above-entitled application filed December 15, 1958, seeks authority to increase its rates for general metered service and for optional special metered service in its Southwest District which includes portions of the Cities of Hawthorne, Inglewood, Compton, and Torrance, and all of the City of Gardena, and certain intervening unincorporated territory of Los Angeles County, by the gross annual amount of \$614,000 based on the year 1959 estimated; an over-all increase of about 34 percent.

Public hearings were held before Examiner Stewart C. Warner on March 30 and 31, and April 6 and 7, 1959, at Los Angeles. Exhibit No. 1 is a copy of a press release to seventeen newspapers and wire services which circulate in the applicant's Southwest District. Said

release was mailed on February 10, 1959, and the record shows that many of the newspapers in the area published accounts of the application and the scheduled hearing dates as announced in said exhibit. Formal notices of the hearing were published on March 26, 1959, in five newspapers circulating in the District as required by the Commission. Two petitions containing the signatures of 81 property owners and subscribers to applicant's water service in Lemox were received and noted on the record. Said petitions protested any proposed increase in water rates on the grounds, as stated by a customer who submitted the petitions, that the signatures were those of working people and pensioners who simply could not afford the increase.

Basis of Application

Applicant alleged that the additional revenue, on an annual basis, resulting from the proposed rates contained in the instant application as Exhibit A attached thereto, was necessary to allow it to earn a fair, just and reasonable return on its capital invested in facilities used and useful in rendering water service in its Southwest District, and that the revenue derived from the proposed rates would not yield in the future more than a fair return on its investment in the Southwest District, and would result in a return below a fair return on its total utility operations as well as in its Southwest District in 1959. The record shows that the net additions by the applicant in its Southwest District to fixed capital for the year 1958 amounted to \$1,089,410, and, in its application, the applicant alleged that its construction budget for capital expenditures for this District for the year 1959 was \$920,915. The

majority of each of these two construction items was for the replacement and improvement of transmission and distribution mains, but additional amounts were expended and budgeted for new land and wells, pumping equipment, water treatment equipment, services, hydrants, transportation equipment, the equipping of a booster station, the installation of telemetering and regulator controls, additions to operating headquarters, and miscellaneous items including auto equipment and tools. Increases in costs of water purchased from Metropolitan Water District, in electric pumping power rates, in salaries and wages, in costs of materials for maintenance and repair, and in ad valorem tax assessments and rates, all since the year 1954 when the present rates were established, comprised the major bases of the application herein being considered.

General Information

The applicant was furnishing water service to 107,732 customers at December 31, 1958, plus 4,095 electric customers, and operates in 21 separate water districts in Los Angeles, San Bernardino, Orange, and Imperial Counties in Southern California, and in Sacramento County in Northern California. As of December 31, 1958, its total utility plant amounted to \$33,665,836, with a related depreciation reserve of \$5,129,402. Its gross water operating revenue for the year 1958 was \$5,069,193, and other revenue including electric and ice revenue amounted to \$388,399. A financial witness for applicant, who is a vice president and director, testified that it was his opinion that in order to meet the applicant's over-all financial requirements the applicant should have a rate of return of 6.75 percent. His testimony and data relating thereto are contained in Exhibits Nos. 6 and

7. A general report of applicant's over-all operations was submitted by the applicant, as Exhibit No. 5, which showed that the applicant's total utility operations for the year 1959 estimated at present rates would produce a rate of return of 5.45 percent; that at the proposed rates in the Southwest District for a full year a rate of return on total utility operations of 6.48 percent would result; and that with six months at the present rates and six months at the proposed rates for the Southwest District, the rate of return on total utility operations would be 6.04 percent.

Southwest District Operations

Applicant's Southwest District comprises approximately 21 square miles in the aforementioned incorporated and unincorporated territories of Los Angeles County. Four district offices are maintained in the Southwest District in Gardena, Lawndale, Lennox, and Normandie. The Southwest District service area is delineated on Chart 3-B of Exhibit No. 9, a report submitted by applicant's witnesses of its operations in the Southwest District. Said chart, among other things, shows the locations of the general offices, Metropolitan Water District connections, wells, booster stations, storage facilities, and storage facilities and booster stations.

Applicant's sources of water supply in the Southwest District comprise 30 company-owned wells of which 24 are located in the West Coastal Basin and the balance in the Central Basin. The pumping from the West Basin wells is restricted by a water conservation agreement between water-producing agencies located within said Basin. The total production of all wells in the year 1958 amounted to 4,712,210 (00) cubic feet. The average cost to produce water from

said wells was \$16.00 per acre-foot. Water is also purchased from the Metropolitan Water District through an agency thereof at a cost of \$25.50 per acre-foot, and from the City of Inglewood for \$.11 per 100 cubic feet. The rate for Metropolitan Water District water was raised \$3.00 per acre-foot in July, 1958, and, for the City of Inglewood, \$.04 per 100 cubic feet in the same month. Total MWD water purchased amounted to 3,969,331 (00) cubic feet, and City of Inglewood water purchased amounted to 61,689 (00) cubic feet, for a total of water purchased during the year 1958 of 4,031,020 (00) cubic feet. Thus, total water pumped or purchased from all sources amounted to 8,743,230 (00) cubic feet, of which 54 percent was pumped and 46 percent was purchased. All pumped water is treated with chlorine, and water produced from two wells is treated with chlorine and ferric chloride and run through rapid sand filters before delivery into the distribution system.

Storage facilities consist of 33 tanks and reservoirs with a combined storage capacity as of December 1, 1958, of 7,639,000 gallons. The record shows that an additional 1 million-gallon steel storage reservoir was expected to be completed before the end of April, 1959, and that said reservoir would store MWD water, principally, and would be utilized to meet system peak demands.

As of November 30, 1958, water service was being furnished to 37,906 general metered and optional special metered customers; flat rate fire protection service was being furnished to 81 customers; and 1,732 fire hydrants were connected to the system in the Southwest District. The applicant estimated it would be serving approximately 39,016 customers in the District on December 31, 1959.

The record shows that applicant's Southwest District territory is primarily residential in character with a small amount of industry in the commercial section of the City of Gardena. The area is substantially saturated with little area left for growth and expansion of the water system.

Rates

The present rates for general metered service became effective August 23, 1954, pursuant to Decision No. 50404, and the optional special metered service rate became effective March 1, 1957 on an advice letter filed with the Commission. The latter scheduled rate offers a reduction for water used in excess of 150,000 cubic feet per month provided this excess water, as well as the first 150,000 cubic feet, is delivered between the hours of 10 p.m. and 5 a.m.

The following tabulation is a comparison of the present general metered service rates with those proposed in the application and those authorized hereinafter:

COMPARISON OF PRESENT, PROPOSED, AND AUTHORIZED
GENERAL METERED SERVICE RATES

Quantity Rates:	Per Meter Per Month		
	Present	Proposed	Authorized
First 700 cu. ft. or less	\$ 1.80	\$ 2.45	\$ 2.35
Next 1,800 cu. ft., per 100 cu. ft. ..	.19	.26	.25
Next 7,500 cu. ft., per 100 cu. ft. ..	.16	.21	.19
Next 40,000 cu. ft., per 100 cu. ft. ..	.14	-	-
Next 50,000 cu. ft., per 100 cu. ft. ..	.12	-	-
Next 90,000 cu. ft., per 100 cu. ft. ..	-	.17	.15
Over 100,000 cu. ft., per 100 cu. ft. ..	.10	.13	.12

Under the present rates, the charge for a monthly water usage of 1,500 cubic feet is \$3.32. At the proposed rates such charge would be \$4.53, an increase of 36.4 percent, and at the authorized rates such charge will be \$4.35, an increase of 31.0 percent. Bills are rendered to residential customers on a bimonthly basis.

Earnings

Exhibit No. 9, supra, contains earnings data on the Southwest District for the year 1958 recorded, the year 1958 adjusted at the present and proposed rates, and the year 1959 estimated at present and proposed rates, and for actual operations based on six months at present rates and six months at proposed rates. A Commission staff engineering report on the results of applicant's operations in its Southwest District for the year 1958 recorded, for the year 1958 adjusted at present and proposed rates, and for the year 1959 estimated at present and proposed rates, was submitted in Exhibits Nos. 14 and 14-A. The following tabulation summarizes the earnings data for the year 1958 recorded and for the year 1959 estimated at present and proposed rates as shown in Exhibits Nos. 9 and 14-A:

SUMMARY OF EARNINGS

: Item	:Year 1958:		Year 1959 Estimated		
	:Recorded :		Present Rates		Proposed Rates
	:Per P.U.C.:	Per Co.	:Per P.U.C.:	Per Co.	:Per P.U.C.:
: Ex. 14-A:	Ex. 9	: Ex. 14-A :	Ex. 9	: Ex. 14-A :	
Operating Revenue	\$1,807,824	\$1,823,780	\$1,822,800	\$2,437,500	\$2,433,900
Operating Expenses	807,006	870,750	858,110	872,310	858,110
Depreciation	168,656	237,520	235,170	237,520	235,170
Taxes	a	341,030	326,580	673,520	660,120
Total Oper. Expenses \$	a	\$1,449,300	\$1,419,860	\$1,783,350	\$1,753,400
Net Operating Revenue	a	\$ 374,480	\$ 403,000	\$ 654,150	680,500
Rate Base	a	9,731,600	9,423,150	9,731,600	9,423,150
Rate of Return	a	3.85%	4.28%	6.72%	7.22%

a. Not available

Analysis of the preceding tabulation indicates no substantial difference in the estimates of operating revenues as submitted by the applicant and the staff.

Applicant's estimates of purchased water and purchased power expenses for the year 1959 were significantly greater than those estimated by the staff principally because the staff engineer estimated greater usage of applicant's Central Basin pumping plants which, as heretofore noted, operate at less cost than the cost of water purchased from the MWD, and, further, for the reason that the staff utilized 7 percent unaccounted-for water in its estimate whereas the applicant utilized 9 percent. The percentages adopted by the applicant and the staff were based on different trending methods as applied to actual past years' experience. The staff also estimated lower transmission and distribution maintenance expense than the applicant due to the extensive program of main replacement and repair included in the applicant's 1958 construction budget and also included in the estimated rate base for the year 1959.

The applicant's estimate of ad valorem tax expense for the year 1959 was based on an increased trend in tax rates plus the taking into account of the removal from the tax assessment roles of Los Angeles County, by a recent Supreme Court decision, of privately owned plants engaged in national defense production. The staff utilized current tax rates and applied them to estimated assessable fixed capital.

The difference in state and federal income tax expense for the year 1959 estimated, both at present and proposed rates, as submitted by the applicant and by the staff on the record, is largely attributable to a higher depreciation expense deduction computed by the staff, and higher interest and miscellaneous deductions claimed by the staff in its computation. The staff based its calculated depreciation expense deduction on total average capital for the year

1958, whereas its calculated depreciation expense for rate-making purposes was based on estimated gross depreciable plant as of June 30, 1959. The staff trended interest and miscellaneous deductions to arrive at its claimed amount, whereas the applicant calculated its claimed amount for these items according to the amount of bond interest on 4½ percent subordinate notes which are convertible into common stock, interest on 5 percent debentures, 4 percent bank loans, other interest, and amortization of debt discount and expense, all for the company as a whole and prorated to the Southwest District.

Working cash accounts for about one half the difference between the rate base of the applicant and that of the staff, and most of the remaining difference is due to the staff estimate's being based on later information than that of the applicant.

In its estimate of working cash capital, the applicant developed a time-lag study and submitted testimony and evidence in Exhibits Nos. 9-A and 9-B in support of its calculations. The working cash requirement was calculated at three months' operating expenses with no adjustment for federal income taxes accrued ahead of payment. The staff utilized the formula heretofore adopted by the Commission in many other rate proceedings. The record shows that such formula was based on studies of tax accruals in advance of payment according to tax laws, particularly federal income tax laws, which have been changed since such formula was developed. Whereas, formerly, federal income tax was paid commencing in the month of March following the calendar year of federal income tax liability over the next twelve months in four quarterly installments, corporations with net taxable income in excess of \$100,000 are now required to pay fifty percent of their estimated federal income tax in two equal installments in September and December of the taxable year. Exhibit No. 9-A contains a set of tabulations showing the accrued monthly balances for the year 1958 for each type of taxes paid by the applicant, as recorded on its books of account.

Findings and Conclusions

After a careful review of the record it is evident that the rate of return for the test year 1959 estimated, which would be produced by applicant's present rates for its Southwest District, is deficient and that applicant is in need of and entitled to financial relief therein.

It is concluded, with respect to certain components of the rate of return which would be produced by the rates for water service proposed in the application, that the staff estimates of purchased water and purchased power expenses, and transmission and distribution maintenance expenses, are sound and they will be and hereby are adopted for this proceeding. It is noted that the staff estimated higher water treatment, and transmission and distribution operating expenses, than did the applicant. It is also concluded that the staff estimate of depreciation expense for income tax deduction is reasonable. Ad valorem tax expense submitted by the staff, the record indicates, should be increased moderately, and interest and miscellaneous deductions included by the staff in its state and federal income tax computations should be reduced to conform more nearly to anticipated actual 1959 conditions. Likewise, working cash capital included in the 1959 estimated rate base, as submitted by the staff, should be increased to conform to present-day federal income tax payment requirements as heretofore noted.

Other components of the rate of return at the proposed rates, as submitted by the staff, are concluded to be sound and reasonable and are adopted for this proceeding.

Depreciation for federal income tax purposes has been computed by applicant on two bases: (1) using accelerated

depreciation by the double declining balance method for plant installed since 1953 and (2) using straight-line depreciation. Accelerated depreciation was claimed by applicant in its federal income tax returns for the years 1954, 1955, and 1956, and the accumulated tax differentials due to the use of accelerated depreciation for such years is shown in Exhibit No. 5 on applicant's balance sheet as of December 31, 1958 as a reserve for deferred federal income tax amounting to \$310,000. The record shows that applicant has not elected to claim accelerated depreciation for the tax years 1958 and 1959, and does not intend to claim it in the future.

The question as to what rate treatment should be accorded to accelerated depreciation tax accruals and reserves for deferred taxes is being investigated by the Commission under Case No. 6148. Until such case is decided, applicant should keep the Commission advised as to its election for the years subsequent to 1959 by January 1st of each year until a final decision has been issued in said case. The applicant has been ordered in Decision No. 58367 dated May 5, 1959 in Application No. 40380 to advise the Commission as to its election on depreciation for income tax purposes. For the purposes of this decision only, and pending final decision in Case No. 6148, the tax expense for rate-making purposes herein will be determined after crediting to the federal income tax account interest calculated on the reserve for income taxes at the rate of return on applicant's rate base herein adopted. Since approximately 34 percent of this reserve, or about \$105,400, is chargeable to applicant's Southwest District, the interest credited in this proceeding will be \$6,800.

After giving weight to the variation in the expenses being adopted herein, and the deferred tax interest credit, an income tax

figure of \$462,200 is computed for the year 1959 estimated at the proposed rates.

The following tabulation summarizes the effect on the rate of return for the year 1959 estimated at the rates for water service proposed in the application of the components of such rate of return heretofore concluded to be and adopted as reasonable:

<u>Year 1959 Estimated</u>	<u>Adopted Results</u> <u>Proposed Rates</u>
Operating Revenue at Proposed Rates	\$2,434,000
Operating Expenses adopted as Reasonable:	
Operating Expenses:	
Source of Supply	
Purchased Water	241,500
Other	2,500
Pumping	
Purchased Power	104,000
Other	45,000
Water Treatment	38,000
Transmission & Treatment	57,000
Customer Account	108,000
Sales	1,000
Maintenance Expenses:	
Source of Supply	6,000
Pumping	16,000
Water Treatment	3,300
Transmission & Distribution	94,700
Total Operation & Maintenance Expenses	\$ 717,000
Adopted as Reasonable	
Administrative and General Expenses	\$ 144,000
Depreciation	236,000
Taxes (Other than State and Federal Income)	200,000
Taxes Based on Income	462,200
Total Operating Expenses Adopted	\$1,759,200
as Reasonable	
Net Operating Revenue at Proposed Rates	\$ 674,800
Rate Base Adopted as Reasonable	9,450,000
Rate of Return at Proposed Rates	7.14%

It is found as a fact that the hereinbefore indicated rate of return of 7.14 percent would be excessive; that the proposed rates

for water service would be unreasonable and therefore should not be authorized to be filed in their entirety; and 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 will produce estimated gross annual revenues amounting to \$2,321,500 which is \$498,800 in excess of the revenues which, it is estimated, would be produced during the year 1959 at the present rates but is approximately \$112,000 less than the amount sought by the applicant in the instant application. When total operating expenses, including the effect on local franchise taxes and state and federal taxes based on income, of \$1,697,900 are deducted from such operating revenues, net operating revenues of \$623,700 will result. When such net operating revenues are related to a rate base of \$9,450,000, hereby adopted as reasonable, a rate of return of 6.6 percent will result. Such rate of return is found to be just and reasonable after taking into account an estimated annual downward trend of 0.1 percent for the future.

The Commission further finds 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.

Service Conditions

The record shows that applicant's water system operations in its Southwest District are satisfactory, and that although an abnormal number of leaks was reported to the company by customers during 1958 (the record shows this number to be 2,814), the extensive transmission and distribution water main replacement and repair program carried out during 1958 and proposed to be carried out during

1959 is expected to greatly reduce this number. No complaints of water service, as such, were entered at the hearing by any customer.

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,

IT IS HEREBY ORDERED as follows:

(1) That Southern California 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 its Southwest 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 water service rendered on and after July 1, 1959.

(2) That applicant shall, within sixty days after the effective date of this order, file four copies of a comprehensive map drawn to an indicated scale not smaller than 1,000 feet to the inch, delineating by appropriate markings various tracts of land and territory served; the principal water production, storage and distribution facilities, and the location of the various water system properties of applicant in its Southwest District.

(3) That in all other respects this application be and it is denied.

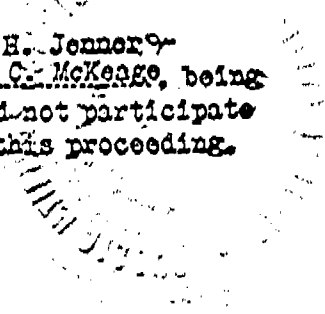
The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California,
this 2nd day of June, 1959.

[Signature]
President
[Signature]
[Signature]

Commissioners

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



Appendix A
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Schedule No. SW-1

Southwest Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the Cities of Gardena, Hawthorne, and Inglewood, the communities of Athens, Lawndale, Lennox, and Moneta, and vicinity, Los Angeles County.

RATESPer Meter
Per Month

Quantity Rates:

First	700 cu.ft. or less	\$ 2.35
Next	1,800 cu.ft., per 100 cu.ft.25
Next	7,500 cu.ft., per 100 cu.ft.19
Next	90,000 cu.ft., per 100 cu.ft.15
Over	100,000 cu.ft., per 100 cu.ft.12

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 2.35
For	3/4-inch meter	3.00
For	1-inch meter	4.00
For	1 1/2-inch meter	8.50
For	2-inch meter	13.00
For	3-inch meter	25.00
For	4-inch meter	40.00
For	6-inch meter	65.00
For	8-inch meter	100.00

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

Schedule No. SW-9M

Southwest Tariff Area

OPTIONAL SPECIAL METERED SERVICE

APPLICABILITY

Applicable to all optional special metered water service.

TERRITORY

Portions of the Cities of Gardena, Hawthorne, and Inglewood, the communities of Athens, Lawndale, Lennox, and Moneta, and vicinity, Los Angeles County.

RATES

		<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:		
First	22,600 cu.ft. or less	\$ 40.00
Next	77,400 cu.ft., per 100 cu.ft.15
Next	50,000 cu.ft., per 100 cu.ft.12
Over	150,000 cu.ft., per 100 cu.ft.09
Minimum Charge:		
For	4-inch meter	\$ 40.00
For	6-inch meter	65.00
For	8-inch meter	100.00

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

(Continued)

APPENDIX A
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Schedule No. SW-9M

Southwest Tariff Area

OPTIONAL SPECIAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. Service under this schedule will be furnished only between the hours of 10 p.m. and 5 a.m. The utility will provide adequate controls to prevent use of water at any other time.

2. This schedule applies only to service furnished through 4-inch or larger meters.