

Decision No. 59631

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of SAN JOSE HILLS WATER COMPANY
(Suburban Water Systems), a corpo-
ration, for authority to increase
rates for water service.

Application No. 34829
(Amended)

Arthur D. Guy, Jr., attorney, Camille A. Garnier,
president, and John C. Luthin, vice president
and manager, for applicant.
James Walter Kay, councilman, City of West Covina;
Myron Wigderson, in propria persona; Charles E.
Ripley, for residents of Leaf Avenue and Cherrywood
Avenue; Verne O. Austin, for citizens of West Covina;
and J. C. Chastain, for West Covina Citizens League;
protestants.
Robert Flotten, city clerk, for the City of West
Covina; Phillip F. Walsh, vice president, for
Southern California Water Company; and John E.
Skelton, vice president and attorney, for San
Gabriel Valley Water Company; interested parties.
Harold J. McCarthy, John F. Donovan and Richard R.
Entwistle, for the Commission staff.

O P I N I O N

On February 11, 1957, an Interim Opinion and Interim Order were issued by Decision No. 54532 in the above-entitled application of San Jose Hills Water Company, a corporation, now Suburban Water Systems, to increase its rates in its Puente, South Covina, and West Covina systems, which now, together with the Highlands, Glendora, and Covina Knolls tariff areas, comprise Suburban's San Jose Hills District. By said Decision, the applicant was authorized to file new schedules of rates for its Puente-South Covina tariff area which would provide estimated total gross revenue for the year 1955 of \$590,000, an increase of about \$54,000, or 10 percent over-

-all over the then presently effective rates. Applicant had requested an increase of approximately \$120,000 over the 1955 test year's estimated present rates. The basis of the Interim decision was a finding by the Commission of sufficient evidence of the applicant's immediate financial needs to support the increase authorized pending further consideration. No final rate base determination was made, but the rate base for the test year 1955 estimated submitted by Commission staff engineers was found to be reasonable for the purpose of the Interim decision. Said rate base was without adjustment by reason of the affiliated company relationships upon which subject considerable evidence had been submitted both by the Commission staff and by the applicant and upon which evidence considerable cross-examination had been conducted.

The rates for general metered service authorized by Decision No. 54532, supra, are the applicant's presently effective rates for the Puente-South Covina tariff area and are compared with the prior rates in the West Covina, South Covina, and Puente tariff areas, and with the rates proposed in the application as follows:

COMPARISON OF PRIOR, PROPOSED, AND INTERIM
GENERAL METERED SERVICE RATES

Quantity Rates:	<u>Prior</u>			<u>Proposed</u>	<u>Interim</u>
	<u>West Covina</u>	<u>South Covina</u>	<u>Puente</u>	<u>(1)</u>	<u>(2)</u>
First 1,000 cu. ft. or less	\$2.50	\$ -	\$1.75	\$2.50	\$1.90
First 1,000 cu. ft., per 100 cu. ft...	-	0.175	-	-	-
Next 2,000 cu. ft., per 100 cu. ft...	.15	-	-	.18	.14
Next 4,000 cu. ft., per 100 cu. ft...	-	.12	.12	-	-
Next 2,000 cu. ft., per 100 cu. ft...	.13	-	-	.15	-
Next 5,000 cu. ft., per 100 cu. ft...	-	.10	.10	-	-
Next 7,000 cu. ft., per 100 cu. ft...	-	-	-	-	.12
Over 5,000 cu. ft., per 100 cu. ft...	.12	-	-	.12	-
Over 10,000 cu. ft., per 100 cu. ft...	-	.08	.08	-	.09

- (1) No change proposed in rates for Highlands, Glendora, and Covina Knolls.
- (2) No change authorized in rates for West Covina.

Based on an average consumption of 2,000 cubic feet, the monthly charge under the prior rates in the Puente and South Covina areas was \$2.95, and in the West Covina area, \$4.00. Under the interim rates such charge in the Puente-South Covina area is \$3.30. Under the proposed rates the charge for the Puente-South Covina and West Covina areas would be \$4.30.

Further public hearings on the instant application were held on a consolidated record with Application No. 39299, and its First and Second Amendments of Suburban Water Systems for an increase in rates for its Whittier District, before Examiner Warner on November 5, 6, and 7, 1958 in Whittier; on January 6, 7 and 8, 1959 in Los Angeles; and on June 17, 1959 in Whittier, and June 18 and 19, 1959 in Los Angeles before Commissioner Dooley and Examiner Warner. The purpose of consolidating the matters was to resolve on the record certain rate base questions more or less common to each application, which said questions had been the subject of briefs by the applicant's counsel and counsel for the Commission staff which were filed June 25, 1956. Said briefs covered only the evidence submitted in connection with the instant application. Briefs filed by the same parties on the consolidated matters were filed on September 10 and 8, 1959, respectively, and more fully argued the subject of adjustments to rate base submitted by the Commission staff not only in Exhibit No. 14 of the instant proceeding, but in Exhibits Nos. 19 and 20 of the consolidated proceeding.

In Exhibit No. 14, supra, Commission staff engineers adjusted the operating expenses and utility plant for the years 1954 and 1955 on the basis of a calculation of excess charges of seven affiliated companies as shown on Table 3-C, page 61. The

total effect of such adjustment to operating expenses was a reduction thereof amounting to approximately \$11,000 for the year 1955 estimated, and a reduction in depreciated rate base of approximately \$300,000 for the same year.

Exhibit No. 19, supra, is a report on a study of construction costs involving companies associated with the applicant submitted by a Commission staff accounting witness. This study concluded that if water system installations in the Whittier District during the years 1952 to 1957, inclusive, performed by Garnier Construction Company on a cost-plus basis, had been contracted by applicant to any one of four other construction companies performing the general construction of water systems in the area, the charges by such other construction company to the applicant might well have been 10.64 percent less than the charges to applicant by Garnier Construction Company.

The record shows that 86.14 percent, or \$2,760,911.98, of applicant's water system in its San Jose Hills District was constructed by or acquired from Garnier Construction Company, Garnier Utility Service Company, Whittier Utility Supply Company, Valinda Engineering Company, and other affiliates, as of December 31, 1954. The record shows that Garnier Construction Company constructed and installed the major portion of pipe lines, pumping stations, reservoirs, and other large facilities, of the San Jose Hills system on a cost-plus contract basis using materials purchased from Whittier Utility Supply Company and utilizing machinery and equipment rented from Garnier Machinery and Equipment Company. The record further shows that weighted average net additions to the applicant's utility plant in its San Jose Hills District for the year 1955 estimated were approximately \$854,000.

For the protection of the public interest, this Commission is concerned with the prices paid by the utility to its affiliate companies for supplies, equipment and services. The Commission recognizes that these affiliates are entitled to include in such prices a reasonable margin of profit. However, the Commission will necessarily sedulously scrutinize the relations between a utility and its affiliates where the affiliate renders services or sells articles to the utility, in order to determine whether or not the profits inuring to the affiliate in such transactions are reasonable and, among other tests, commensurate with those which would result from strictly arm's length dealing between the utility and a non-affiliate.

Findings and Conclusions

After carefully reviewing and considering the record herein, it is found as a fact and concluded that an average depreciated rate base of \$1,847,300 for the year 1955 estimated, after the exclusion of excess charges and as shown on Table 9-B of Exhibit No. 14 is reasonable. Such adjustment was the effect of reducing the rate base for facilities which were constructed by or acquired from Garnier Construction Company and other affiliates, pursuant to the study developed by the staff.

It is further found as a fact that the estimated gross revenues of \$590,000 for the test year 1955 estimated, which would be produced by the interim rates authorized by Decision No. 54532, after deducting estimated operating expenses shown in Table 10-B of

Exhibit No. 14, and after taking into account the effect thereof on taxes based on income, would produce net revenues of \$127,000. When such net revenues are related to the adjusted estimated rate base of \$1,847,300, a rate of return of approximately 6.9 percent would result. Considering the availability of only a 1955 test year and taking notice from the consolidated record in this proceeding of the increase in expenses which have occurred, we find that a rate of return of about 6 percent is now being realized and we find that such rate of return for the future will not be unreasonable and therefore the interim rates will be made final. There is no showing which justifies any further increases in rates.

Decision No. 54532 on the original application, as amended, will be made final; the interim rates authorized by said decision will be made permanent by the order which follows; and the application in all other respects will be denied.

The Commission further finds as a fact that the increases in rates and charges authorized in Decision No. 54532 are justified, and that the rates in effect prior to the present interim rates, insofar as they differ from those herein prescribed, will, for the future be unjust and unreasonable.

O R D E R

Application, as amended, as above entitled having been filed, public hearings having been held, briefs having been filed and considered, Interim Opinion and Interim Order as Decision No. 54532 having been issued, further public hearings having been held, the matter having been submitted subject to the filing of additional briefs, said briefs having been filed and considered, and based on the record and findings of fact and conclusions as hereinabove set forth,

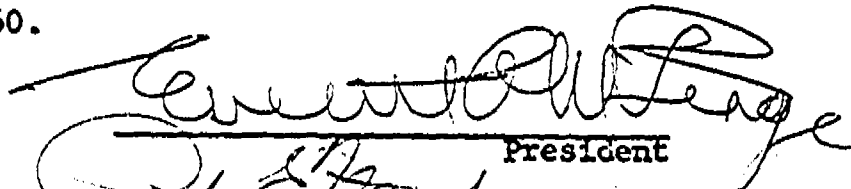
IT IS HEREBY ORDERED as follows:

1. That Decision No. 54532, dated February 11, 1957, be and it is made final, and that the schedules of rates authorized to be filed on an interim basis by said Decision No. 54532 be and they are made permanent.

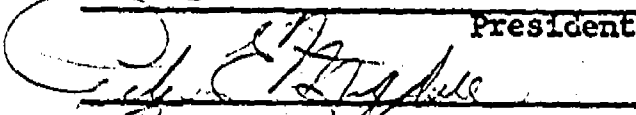
2. That in all other respects the application be and it is denied.


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

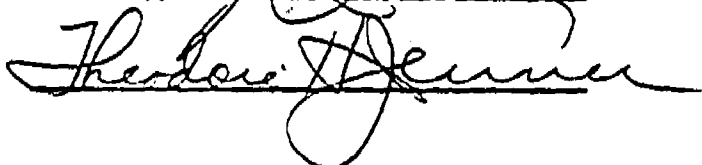
Dated at San Francisco, California, this 9th day of February, 1960.



 President







 Commissioners

Commissioner C. Lyn Fox, being necessarily absent, did not participate in the disposition of this proceeding.