

Decision No. 59646

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

Application No. 39299
 and First and Second
 Amendments

Arthur D. Guy, Jr., attorney, Camille A. Garnier, president, and John C. Luthin, vice president, 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, Graslado, 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. 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; Daniel A. Brophy; Mrs. Helen Dougherty; Mrs. John Sgobba; Rufus A. Baker; William H. Jackson; and Floyd A. Knuffke; in propria personae, protestants.
Ray L. McCoy, for Southern California Water Company; John E. Skelton, vice president and secretary, for San Gabriel Valley Water Company; and Robert Flotten, city clerk, for the City of West Covina; interested parties.
Franklin G. Campbell and John Gillanders for the Commission staff.

O P I N I O N

On September 10, 1958, following a public hearing on August 27, 1958, at Los Angeles, before Commissioner Matthew J. Dooley and Examiner Stewart C. Warner, an Interim Opinion and Interim Order by Decision No. 57319 on the First Amendment to the above-entitled

application was issued. By said Decision, the applicant was authorized to make effective, on and after September 24, 1958, on an interim basis; the schedule of general metered service rates applicable to Whittier tariff area as proposed in said First Amendment. The gross annual increase in revenues for the year 1958 was estimated to amount to approximately \$176,000. The basis for the granting of the applicant's interim request was the finding by the Commission of a financial emergency as set forth in said Decision.

An adjourned public hearing on the original application was held on August 28, 1958, before Commissioner Dooley and Examiner Warner at Los Angeles, and hearings on the Second Amendment were held before Examiner Warner on November 5, 6, and 7, 1958, at Whittier, on January 6, 7, and 8, 1959, in Los Angeles, and on June 17, 1959 before Commissioner Dooley and Examiner Warner at Whittier, and June 18 and 19, 1959 at Los Angeles. The matters were consolidated for adjourned hearings with Application No. 34829, Amended, of San Jose Hills Water Company, now Suburban Water Systems, an Interim Opinion and Interim Order which latter matter had been issued by the Commission as Decision No. 54532, dated February 11, 1957, authorizing the applicant to increase its rates in its Puente-South Covina tariff area by approximately \$54,000 per year of the \$120,000 gross annual revenue increase requested in said application as amended. The purpose of consolidating the matters was to resolve on the record certain rate base questions more or less common to each application. The matters were submitted for decision on the last-named hearing date subject to the filing of briefs by counsel

for the applicant and counsel for the Commission staff. The closing staff brief was filed on September 8, 1959, and by applicant's counsel on September 10, 1959. On October 14, 1959, the applicant filed a Motion to Strike certain portions of the staff closing brief, which said Motion was denied by an order issued October 27, 1959. The matters are now ready for decision. A separate decision will be issued in Application No. 34829, Amended.

Rates

In its Second Amendment, filed July 21, 1958, the applicant alleged that during the period subsequent to the filing of the original application on August 3, 1957, its operating costs continued to increase; that, on the basis of 1958 results of operations at the rates proposed in the original application, there was an indicated need for an additional \$98,000 gross income before income taxes; and that in order to provide this additional income, a 13 percent increase in the rates proposed in the original application for general metered service, which said rates were as noted hereinbefore authorized to be placed into effect by Decision No. 57319, supra, was required.

The following tabulation is a comparison of applicant's prior, interim, and proposed general metered service rates for its Whittier and Orchard Dale tariff areas:

COMPARISON OF PRIOR,* INTERIM,# AND PROPOSED Ø
GENERAL METERED SERVICE RATES

Quantity Rates:	<u>Prior*</u>	<u>Interim#</u>	<u>ProposedØ</u>
	<u>Per Meter Per Month</u>		
<u>Whittier Tariff Area</u>			
First 800 cu. ft. or less	\$1.75	\$2.30	\$2.60
Next 1,200 cu. ft., per 100 cu. ft. ....	.16	.21	.24
Next 1,000 cu. ft., per 100 cu. ft. ....	.13		
Next 3,000 cu. ft., per 100 cu. ft. ....		.17	.19
Next 15,000 cu. ft., per 100 cu. ft. ....		.14	.16
Over 3,000 cu. ft., per 100 cu. ft. ....	.11		
Over 20,000 cu. ft., per 100 cu. ft. ....		.11	.12
<u>Orchard Dale Tariff Area</u>			
First 800 cu. ft. or less	\$1.75	Same as for	
Next 700 cu. ft., per 100 cu. ft. ....	.15		
Next 3,500 cu. ft., per 100 cu. ft. ....	.10	Whittier Tariff	
Next 13,000 cu. ft., per 100 cu. ft. ....	.075		
Over 18,000 cu. ft., per 100 cu. ft. ....	.055	Area	

* Authorized by Decision No. 46782, dated February 19, 1952 in Applications Nos. 32350 and 32362 for Whittier tariff area, and by Decision No. 44165, dated May 16, 1950, in Application No. 30808 for Orchard Dale tariff area.

Per First Amendment - Authorized by Decision No. 57319, dated September 10, 1958, in Application No. 39299 Amended.

Ø Per Second Amendment.

Under the prior rates in the Whittier Tariff Area, the charge for a monthly consumption of 1500 cubic feet was \$2.87, and in the Orchard Dale Tariff Area, \$2.80. Under the interim rates the charge applicable to each tariff area is \$3.77. Such charge would be \$4.28 under the rates proposed in the Second Amendment.

Earnings

Exhibits Nos. 14 and 14-A submitted by the applicant, and Exhibit No. 20 submitted by Commission staff accounting and engineering witnesses, contain earnings' data of the Whittier District for the year 1958 estimated at applicant's prior, interim, and proposed rates as summarized in the following tabulation:

SUMMARY OF EARNINGS

Item	Year 1958 Estimated	
	Per Co.	Per P.U.C.
	Exs. 14 & 14-A	Ex. 20#
	<u>At Prior Rates*</u>	
Operating Revenue	\$ 590,886	\$ 596,800
Operating Expenses	302,950	277,750
Depreciation	108,208	100,430
Taxes	62,287	81,140
Total Operating Expenses	\$ 473,445	\$ 459,320
Net Operating Revenue	117,441	137,480
Rate Base	3,464,450	3,048,100
Rate of Return	3.39%	4.51%
	<u>At Interim Rates^Ø</u>	
Operating Revenue	\$ 767,262	\$ 775,200
Operating Expenses	305,158	279,270
Depreciation	108,208	100,430
Taxes	156,119	176,510
Total Operating Expenses	\$ 569,485	\$ 556,210
Net Operating Revenue	197,777	218,990
Rate Base	3,464,450	3,048,100
Rate of Return	5.71%	7.18%
	<u>At Proposed Rates**</u>	
Operating Revenue	\$ 863,935	\$ 875,100
Operating Expenses	306,381	280,090
Depreciation	108,208	100,430
Taxes	207,586	229,940
Total Operating Expenses	\$ 622,175	\$ 610,460
Net Operating Revenue	241,760	264,640
Rate Base	3,464,450	3,048,100
Rate of Return	6.98%	8.68%

* Per Decisions Nos. 46782 and 44165 (supra).

Ø Per First Amendment - Authorized by Decision No. 57319 (supra).

Per Finance & Accounts and Utilities' staff.

** Per Second Amendment.

No significant dispute is evident in the record over the estimates of operating revenues, expenses, depreciation, and taxes,

as submitted by the staff. The record shows that the applicant's estimates were, for the most part, based on the recorded amounts unadjusted for abnormal nonrecurring items of expense, and the staff estimates were based on analyses of applicant's operating practices and trends of such operations in the Whittier District, and for the company over-all.

Exhibit No. 19 is a report on a study of construction costs involving companies associated with the applicant, submitted by a Commission staff accounting witness. This study shows that an examination was made of 50 construction jobs performed by Garnier Construction Company for Suburban Water Systems on a cost-plus basis during the years 1952-1957, inclusive. After comparing the cost of such jobs with costs which might have been incurred had such jobs been contracted by applicant to Hood Construction Company, Ace Pipeline Construction Company, Royal Pipeline Construction Company, or Sam B. Pearce, the study concludes that the cost of said 50 jobs might well have been \$674,401.50 instead of the \$754,663.80 billed to applicant by Garnier Construction Company, a difference of \$80,262.30, or 10.64 percent of \$754,663.80. If this percentage were applied to the total charges for Whittier District installations by Garnier Construction Company to the applicant on a cost-plus basis for the period January 1, 1951 to December 31, 1957 of \$2,371,167.81, less a minor adjustment of \$2,784.15, a calculated adjustment of \$251,996 would result.

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.

After developing a rate base in an orthodox manner in Exhibit No. 18, staff engineers in Exhibit No. 20 calculated total adjustments to the Whittier District rate base, including an adjustment for mutual water company stocks of \$97,200, and assuming 6 percent and 7 percent returns on affiliate transactions for the year 1958 estimated, in the total amount of \$337,500 and \$330,800, respectively, and \$375,200 when the Finance and Accounts adjustment is substituted for the period of January 1, 1951 to December 31, 1957.

Service Complaints

As noted in Decision No. 57319, supra, many customers complained, both verbally and in writing, of inadequate water pressure conditions and excessive hardness of water served.

The record shows that during the year 1957, the applicant spent \$464,000 for gross additions to its utility plant in its Whittier District of which \$200,000 represented facilities other than new business mains, services, and meters. Said additions included the construction of the 1,500,000-gallon Sungold reservoir, and boosters and additions in capacity to the Murphy reservoir and relocated Washington Booster. Net additions to utility plant for the year 1958 estimated amounting to approximately \$281,000 are shown on Table 11-B of Exhibit No. 18, and the principal amount, totaling \$196,000, is therein shown to be for transmission and distribution mains.

As to the complaints of excessive hardness of water, the applicant has recognized the taste problems associated with water produced from the Painter-Mystic, Gilliland, Scott-A, Scott-B, and First and Leffingwell-B wells. It has recognized the existence of unrecommended maximum concentrations of sulphates at the Scott-B and Gilliland wells and has restricted the pumping from such wells to the meeting of peak demand periods only.

Staff Recommendations

Chapter 16 of Exhibit No. 18 contains seven paragraphs of recommendations by staff engineers that the applicant be required to conform to standard tariff provisions and to improve its service conditions.

Findings and Conclusions

The Commission, after carefully reviewing and considering the record herein, finds and concludes that the estimates of operating expenses, depreciation, taxes, net operating revenue, and rate base after adjustments, submitted by the staff engineers for the test year 1958 estimated, are reasonable and they will be and hereby are adopted for this proceeding. The adopted rate base of \$3,085,800 reflects the adjustment as developed by the Utilities Division staff. As such it represents the exclusion of unreasonable charges and profits by the affiliated companies of the utility for the years 1949 through the test year 1958 in the amount of \$241,300. Additionally it reflects an exclusion of \$97,200 representing the staff's uncontroverted adjustment for mutual stock transactions.

When estimated gross revenues of \$775,200, and estimated total operating expenses of \$556,970 with resultant net operating revenues of \$218,230 are related to the adjusted estimated rate base of \$3,085,800, a rate of return of approximately 7.1 percent for the test year will be produced by the rates proposed in the original application and the First Amendment thereto; said rates being those

authorized on an interim basis by Decision No. 57319, supra. Said rate of return and its components, after considering the downward trend in rate of return, are hereby found to be just and reasonable. The original application will be granted; Decision No. 57319 on the First Amendment thereto will be made final; and the interim rates authorized by said decision will be made permanent by the order which follows. The Second Amendment will be denied, it being found as a fact that the rate of return which would be produced by the rates proposed therein is excessive.

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

The record shows that applicant has taken many steps to improve its service conditions and proposes to take others, and it is found as a fact and concluded that the public interest requires that the applicant be directed to carry out those staff recommendations which have not heretofore been accomplished and which are set forth in Chapter 16 of Exhibit No. 18, and the order which follows will so provide.

O R D E R

Application, as amended, as above entitled having been filed, public hearings having been held, the matters having been submitted subject to the filing of briefs, said briefs having been received, and based on the record and the findings of fact and conclusions hereinabove set forth,

IT IS HEREBY ORDERED as follows:

(1) That the original application of Suburban Water Systems, a corporation, to increase its rates for water service in its Whittier District be and it is granted; that Decision No. 57319, dated September 10, 1958, on the First Amendment to the application, be and it is made final; and that the schedules of rates authorized by said Decision No. 57319 be and they are made permanent.

(2) That the Second Amendment to this application be and it is denied.

(3) That the applicant shall, within thirty days after the effective date hereof, file with the Commission four copies of a comprehensive map drawn to an indicated scale not smaller than 600 feet to the inch, delineating by appropriate markings the 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.

(4) That the applicant shall revise its cash deposit receipt and bill forms in conformity with its filed rules and shall, within 90 days after the effective date hereof, file said revised forms in accordance with the procedure prescribed by General Order No. 96.

(5) That the applicant shall restrict water production at the Gilliland, Painter-Mystic, and Scott-B wells to emergency standby use only.

(6) That the applicant shall curtail the water production at the Scott-A well to peak operating conditions only.

(7) That the applicant shall make a study of dead-end flushing frequency requirements needed to maintain proper quality of service from numerous dead-ends in the distribution system; shall institute

a comprehensive main-flushing program; and shall within sixty days after the effective date hereof, report such program to the Commission.

(8) That the applicant shall survey distribution system pressures periodically as outlined in Paragraph II, 3, c, of General Order No. 103.

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.

Gerrit Allread
President
E. P. ...
Matthew ...
Theodore ...
Commissioners

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