

ORIGINAL

Decision No. 60209

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

Application No. 41295

O'Melveny & Myers, by Lauren M. Wright, and C. T. Mess,
for applicant.
Donald W. Mansfield and Carlton H. Casiens, for the
City of Bell; and Almeda Krejci, for Florence Firestone
Community Protective Association, protestants.
L. C. Wayne, Metropolitan State Hospital, for State of
California Department of Mental Hygiene, and William
L. Knecht, for California Farm Bureau Federation,
interested parties.
Cyril M. Saroyan and J. B. Balcomb, for the Commission
staff.

O P I N I O N

Southern California Water Company, a corporation, by the
above-entitled application, filed July 10, 1959, seeks authority to
increase its rates for water service in its Artesia-South Artesia,
Bell-Belldale, Florence-Graham, Norwalk "A", and Norwalk "B" (former
Sunshine) areas which comprise its Central Basin District. The
gross annual increase would amount to approximately \$347,600, based
on adjusted operations for the year 1959. Applicant seeks to con-
solidate its tariffs for each of the aforementioned areas into a
tariff applicable uniformly to the Central Basin District.

Original and adjourned public hearings were held before
Examiner Stewart C. Warner on September 8 and 9, and October 27 and
28, 1959, at Bell. By a copy of the minutes of a meeting of the
City Council of the City of Downey, held on July 28, 1959, said City
protested the instant application. The City of Bell also protested

the application on the grounds that the proposed increase in rates would bear inordinately heavily on the residents of Bell and Bell-dale, and on the further grounds that the applicant did not furnish adequate fire protection service for the City to receive a rating other than Class 5 by the Board of Fire Underwriters of the Pacific. The Florence Firestone Community Protective Association's president protested the granting of the application on behalf of the said Association but personally supported the applicant. Notices of the hearings were published in 9 newspapers of general circulation throughout the service area and all city clerks and chambers of commerce were notified. No other protests were entered. The matter was submitted for decision upon the receipt of late-filed Exhibit No. 13 on November 2, 1959.

On December 29, 1959, an order was issued by the Commission setting aside submission and reopening the proceedings for further hearing. The purpose of said further hearing was to complete the record and to remove the deficiency as to the showing of the applicant of its estimated earnings for the year 1959 at the present and proposed rates by the individual tariff areas proposed by the applicant to be consolidated into a single tariff area for its Central Basin District. A further hearing was held before Examiner Warner on April 4, 1960, at Bell and the matter was then submitted for decision.

General Information

The applicant furnishes water service in 16 operating districts, of which Central Basin is one. It also furnishes electric service in the Big Bear Lake area, and operates a nonutility ice plant at Barstow.

Basis of Application

Applicant alleged, in its application, that its total utility operations for the year 1958 recorded produced a rate of return of only 5.77 percent, which was the same recorded rate of return for the Central Basin District. It estimated that at the present rates, total utility operations for the year 1959 would produce a rate of return of 5.85 percent, with a rate of return of 4.04 percent on operations of the Central Basin District. Said estimate of total utility operations was modified by Exhibit No. 9 to reflect the revenues for Barstow, South San Gabriel, and Southwest Districts as if rate increases granted and applicable to said Districts had been in effect since January 1, 1959. Said modification showed a rate of return for the year 1959 estimated of 6.20 percent for total utility operations at present rates.

The rate of return at present rates for the Central Basin District was alleged to have been less than a fair rate of return for the year 1958 and it was alleged that after considering applicant's construction budget for the year 1959 of approximately \$666,000, the reduced rate of return of 4.04 percent was less than fair.

Applicant alleged that utility operations for the year 1959 estimated at proposed rates would produce a rate of return of 6.43 percent with a rate of return of 6.71 percent in the Central Basin District.

Exhibit No. 14, prepared by applicant and received at the April, 4, 1960 hearing is a report on the results of applicant's operations for the year 1959 adjusted at present and proposed rates for each of the areas now comprising said District, and for the

District as a whole. The following tabulation summarizes the rates of return shown in said exhibit. Also shown are the increases in gross annual revenues for each of the areas which would result from the proposed rates.

Area	<u>RATES OF RETURN</u>		<u>Proposed Increase in Gross Annual Revenues</u>
	<u>Year 1959 Adjusted*</u> <u>Present Rates</u>	<u>Proposed Rates</u>	
Artesia-South			
Artesia	4.31%	5.65%	\$ 23,470
Bell-Belldale	3.76%	8.34%	187,665
Florence-Graham	5.39%	7.40%	66,200
Norwalk "A"	4.08%	5.45%	38,508
Norwalk "B"	2.13%	5.90%	<u>31,756</u>
Central Basin Dis- trict as a whole	4.22%	6.93%	\$347,599

* Based on 11 months' recorded data with the month of December estimated.

Central Basin District Operations

Water service was being furnished by the applicant in its Central Basin District to 3,011 active consumers in Artesia, 9,128 in Bell-Belldale, 6,430 in Florence-Graham, 5,188 in Norwalk "A", and 2,157 in Norwalk "B", for a total of 25,914 active consumers on December 31, 1958. Said total includes 25,856 general metered service, 4 flat rate, and 54 private flat rate fire protection service consumers. In addition, 1,233 fire hydrants for public fire protection were connected to the system as of that date. The total number of consumers was estimated to increase to 26,527 by the end of the year 1959.

The relation of each of the operating areas affected by the instant application is shown on Chart 3B of Exhibit No. 7. Said Chart shows that the 5 operating areas are not interconnected. They comprise portions of the general area south of Anaheim-Telegraph Road, and Vernon and Slauson Avenues, east of Central Avenue, north of Carson Street, and west of Valley View.

The Artesia area includes portions of Artesia and Dairy Valley. The Bell-Belldale area, a consolidation of the company's Bell, Bell Gardens and Hollydale systems, includes a major portion of the City of Bell, a portion of the area known as Bell Gardens between the Los Angeles Flood Control on the west, the City of Downey on the east, the City of South Gate on the south, and Florence and Gage Avenues on the north, and also includes portions of the Cities of Downey, South Gate, and Paramount. The Bell-Belldale area is served under two different tariff schedules. The Florence-Graham area includes a portion of the City of Vernon, and the Norwalk "A" area includes portions of the Cities of Norwalk and Santa Fe Springs. All other areas are in unincorporated territory of Los Angeles County. The territory covered is approximately 11.7 square miles and the majority of the service is residential with a small amount of industrial service in the Cities of Bell, Vernon, and Norwalk. Of the total customers served as of December 31, 1958, approximately 98.7 percent were commercial and residential.

Applicant maintains 6 district offices within the Central Basin District where all matters relating to customers' service, such as service applications, collections, meter records, complaints, and local matters, are handled. In addition, the applicant maintains 4 collection service offices on East Florence Avenue in Los Angeles, Carmenita Road in Whittier, East 77th Street in Los Angeles, and on Norwalk Boulevard in Artesia. A division manager, who is also a vice president, is assigned to the Central Basin District which also has a district superintendent of operations, a commercial manager, and a foreman for Bell-Belldale, Florence-Graham, and Norwalk-Artesia, each, with 21 pumpers, service men and meter readers, and 11 cashier-clerks, all as shown on Chart 3A of Exhibit No. 7.

The sources of water supply for the Central Basin District comprise 46 company-owned wells, together with 4 connections to the facilities of Metropolitan Water District through the Central Basin Municipal Water District. Storage facilities consist of 17 tanks and reservoirs, four of which are elevated steel tanks with a combined capacity of 560,000 gallons, two of which are concrete tanks with a combined capacity of 430,000 gallons, and eleven of which are steel tanks with a combined capacity of 2,173,000 gallons. Total water produced from applicant's wells in 1958 amounted to 6,223,993 hundred cubic feet, and water purchased from Metropolitan Water District amounted to 573,946 hundred cubic feet. The water produced from 31 of applicant's wells requires no treatment; the water from 7 wells is treated with chlorine; the water from 3 wells is discharged into sand traps; and the water from one well requires aeration before being chlorinated.

The record shows that the 5 operating areas comprising applicant's Central Basin District are substantially built up, with the possible exception of Norwalk "B", the so-called Sunshine area, in which there is some possibility of further subdivision. The water systems have been in place for many years and about 36 percent of the distribution mains are steel, with the balance cast iron and asbestos-cement. Most of applicant's budgeted expenditures for distribution mains are for the replacement of the steel mains in areas where water service may tend to be below standard, and the 1959 estimated construction program, included in the capital construction budget for said year, includes about \$354,000 for distribution system replacements and improvements consisting of cast iron and asbestos-cement pipe, and the cement-lining of riveted steel pipe. Other

major items of the 1959 budget are \$44,750 for the drilling and equipping of the Hawaiian well, \$72,215 for the construction of Centralia tank and appurtenances, and \$22,000 for land for future plant.

Rates

Applicant's present rates for general metered service for the Artesia-South Artesia area became effective September 10, 1954, by Decision No. 50442; for the Bell area, on March 1, 1952, by Decision No. 46703; for the Bell Gardens area of the Belldale tariff area, on October 22, 1954, by Decision No. 50564; for the Hollydale area of the Belldale tariff area, on May 1, 1941, by Resolution W-75; for the Florence-Graham and Norwalk "A" areas, on November 16, 1956, by Decisions Nos. 53912 and 53911, respectively; and for the Norwalk "B" area, on August 25, 1954, by Decision No. 50340. The following tabulation compares applicant's present rates for general metered service with those proposed in the application and the rates authorized hereinafter.

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

		<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
Quantity Rates:		<u>Per Meter Per Month</u>		
<u>Artesia - South Artesia</u>				
First	700 cu. ft. or less		\$2.10	\$2.10
First	800 cu. ft. or less	\$1.80		
Next	1,800 cu. ft., per 100 cu. ft. ....		.20	.20
Next	2,200 cu. ft., per 100 cu. ft. ....	.18		
Next	7,000 cu. ft., per 100 cu. ft. ....	.16		
Next	7,500 cu. ft., per 100 cu. ft. ....		.17	.17
Next	90,000 cu. ft., per 100 cu. ft. ....		.15	.15
Next	50,000 cu. ft., per 100 cu. ft. ....		.14	.14
Over	10,000 cu. ft., per 100 cu. ft. ....	.14		
Over	150,000 cu. ft., per 100 cu. ft. ....		.12	.12

COMPARISON OF PRESENT, PROPOSED, AND AUTHORIZED
GENERAL METERED SERVICE RATES
(Continued)

		Present	Proposed	Authorized
Quantity Rates:		Per Meter Per Month		
<u>Bell</u>				
First	600 cu. ft. or less	\$1.25		
First	700 cu. ft. or less		\$2.10	\$1.80
Next	1,800 cu. ft., per 100 cu. ft. ....		.20	.18
Next	1,900 cu. ft., per 100 cu. ft. ....	.14		
Next	7,500 cu. ft., per 100 cu. ft. ....	.12	.17	.17
Next	90,000 cu. ft., per 100 cu. ft. ....		.15	.15
Next	50,000 cu. ft., per 100 cu. ft. ....		.14	.14
Over	10,000 cu. ft., per 100 cu. ft. ....	.10		
Over	150,000 cu. ft., per 100 cu. ft. ....		.12	.12
<u>Belldale</u>				
First	700 cu. ft. or less		\$2.10	\$1.80
First	800 cu. ft. or less	\$1.25		
Next	1,800 cu. ft., per 100 cu. ft. ....		.20	.18
Next	5,200 cu. ft., per 100 cu. ft. ....	.125		
Next	7,500 cu. ft., per 100 cu. ft. ....		.17	.17
Next	44,000 cu. ft., per 100 cu. ft. ....	.10		
Next	90,000 cu. ft., per 100 cu. ft. ....		.15	.15
Next	50,000 cu. ft., per 100 cu. ft. ....		.14	.14
Over	50,000 cu. ft., per 100 cu. ft. ....	.08		
Over	150,000 cu. ft., per 100 cu. ft. ....		.12	.12
<u>Florence-Graham</u>				
First	700 cu. ft. or less	\$1.50	\$2.10	\$1.80
Next	1,800 cu. ft., per 100 cu. ft. ....	.18	.20	.18
Next	7,500 cu. ft., per 100 cu. ft. ....	.16	.17	.17
Next	40,000 cu. ft., per 100 cu. ft. ....	.14		
Next	50,000 cu. ft., per 100 cu. ft. ....	.13		
Next	90,000 cu. ft., per 100 cu. ft. ....		.15	.15
Next	50,000 cu. ft., per 100 cu. ft. ....		.14	.14
Over	100,000 cu. ft., per 100 cu. ft. ....	.11		
Over	150,000 cu. ft., per 100 cu. ft. ....		.12	.12
<u>Norwalk "A"</u>				
First	700 cu. ft. or less		\$2.10	\$2.10
First	800 cu. ft. or less	\$2.05		
Next	1,700 cu. ft., per 100 cu. ft. ....	.16		
Next	1,800 cu. ft., per 100 cu. ft. ....		.20	.20
Next	2,500 cu. ft., per 100 cu. ft. ....	.14		
Next	5,000 cu. ft., per 100 cu. ft. ....	.12		
Next	7,500 cu. ft., per 100 cu. ft. ....		.17	.17
Next	40,000 cu. ft., per 100 cu. ft. ....	.10		
Next	90,000 cu. ft., per 100 cu. ft. ....		.15	.15
Next	50,000 cu. ft., per 100 cu. ft. ....		.14	.14
Over	50,000 cu. ft., per 100 cu. ft. ....	.06		
Over	150,000 cu. ft., per 100 cu. ft. ....		.12	.12

COMPARISON OF PRESENT, PROPOSED, AND AUTHORIZED
GENERAL METERED SERVICE RATES
 (Continued)

		<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
Quantity Rates:		<u>Per Meter Per Month</u>		
<u>Norwalk "B"</u>				
First	700 cu. ft. or less		\$2.10	\$2.10
First	1,000 cu. ft. or less	\$1.75		
Next	1,800 cu. ft., per 100 cu. ft. ....		.20	.20
Next	2,000 cu. ft., per 100 cu. ft. ....	.15		
Next	7,500 cu. ft., per 100 cu. ft. ....		.17	.17
Next	90,000 cu. ft., per 100 cu. ft. ....		.15	.15
Next	50,000 cu. ft., per 100 cu. ft. ....		.14	.14
Over	3,000 cu. ft., per 100 cu. ft. ....	.10		
Over	150,000 cu. ft., per 100 cu. ft. ....		.12	.12

At the present rates, the charge for a monthly consumption of 1500 cubic feet in Artesia-South Artesia would be \$3.06; in Bell, \$2.51; in Belldale, \$2.12; in Florence-Graham, \$2.94; in Norwalk "A", \$3.17; and in Norwalk "B", \$2.50. At the proposed rates the charge for such consumption would be \$3.70, and at the rates authorized hereinafter, such charge will be \$3.24 for Bell-Belldale and Florence-Graham; and \$3.70 for the other three tariff areas.

Applicant also seeks authority to file an optional special metered service rate for large-quantity users which would be applicable to service furnished only during the hours of 9 p.m. to 5 a.m. through a 4-inch or larger meter. This service was intended to apply to the Metropolitan State Hospital in Norwalk. It appears from the record that a special contract will be negotiated between the applicant and the hospital; that the filing of the optional special metered service rate will not be necessary; and that the public interest requires that that portion of the application should be denied.

No change in applicant's presently filed rates for flat rate service, public fire hydrant service, fire sprinkler service,

construction and other temporary flat rate service, or service to company employees, is proposed in the application.

Earnings

Exhibit No. 7 is a report submitted by the applicant of its operations in the Central Basin District, and Exhibit No. 11 is a report on the results of applicant's operations in its Central Basin District for the year 1958 recorded, and the years 1958 adjusted and 1959 estimated at present and proposed rates submitted by Commission staff engineering witnesses. The earnings' data contained in Exhibits Nos. 7 and 11 are summarized as follows:

SUMMARY OF EARNINGS

Item	Year 1958:		Year 1959 Estimated		
	Recorded :		Present Rates		Proposed Rates
	Per Co. :	Per Co. :	Per P.U.C. :	Per Co. :	Per P.U.C. :
	Ex. 7 :	Ex. 7 :	Ex. 11 :	Ex. 7 :	Ex. 11 :
Operating Revenue	\$1,093,235	\$1,107,660	\$1,118,400	\$1,456,360	\$1,458,300
Operating Expenses	437,159	537,510	525,538	538,280	525,538
Depreciation	125,737	146,800	147,730	146,800	147,730
Taxes	225,894	191,511	183,620	382,975	370,870
Total Oper. Expenses	\$ 788,790	\$ 875,821	\$ 856,888	\$1,068,055	\$1,044,138
Net Operating Revenue	304,445	231,839	261,512	388,305	414,162
Rate Base	5,267,700	5,842,300	5,759,440	5,842,300	5,759,440
Rate of Return	5.78%	3.97%	4.54%	6.65%	7.19%

No significant differences between the estimates submitted by the applicant and the staff of operating revenues for the year 1959 at present and proposed rates are evident.

The principal differences between the estimates of operating expenses submitted by the applicant and the staff for the year 1959 are those associated with unaccounted for water wherein the staff estimated water losses at 7.5 percent as a percentage of production, and the applicant estimated such losses at 12.2 percent;

the applicant claimed \$1,600 per year in Account 797, Regulatory Commission Expenses, to recoup such expenses amortized over a 5-year period for the Florence-Graham and Norwalk "A" rate cases in Applications Nos. 37374 and 37379; the applicant claimed \$3,400 additional allocated administrative and general expenses by using the allocation formula developed for Application No. 40675, a rate increase proceeding of the applicant's Southwest District; and the applicant claimed a reduction of income tax depreciation of \$26,600 by applying a method it had used in the proceeding on said Application No. 40675.

The applicant submitted an estimate of working cash capital to be included in the rate base of \$46,900, as contrasted to the staff estimate of \$41,000; the record shows, however, that both of these amounts were computed on a Commission staff formula which did not take into account the current requirement that the applicant pay one-half of its estimated tax liability for the year 1959 in September and December, 1959, rather than in equal quarterly installments after December 31, 1959. This current requirement was recognized by the Commission in Decision No. 58530, dated June 2, 1959, in Application No. 40675, *supra*.

The record shows that as to the difference in depreciation claimed for income tax purposes, the staff based its calculated depreciation expense deduction on total average capital for the year 1959 in the same manner that the applicant paid its taxes for the year 1958, whereas the applicant computed this item using a weighted average balance of fixed capital by accounts; also, different income tax depreciation rates were used by the applicant than it used in paying its 1958 federal income tax. This principally accounts for the difference in estimated federal income tax expense as submitted by the applicant and the staff.

Exhibit No. 18, submitted by the applicant, is a copy of a letter dated March 17, 1960, from Central Basin Municipal Water District to applicant notifying the applicant that by action of the Board of Directors of the Metropolitan Water District of Southern California, at its meeting held March 8, 1960, new rates were established for water sold and delivered by that District, to be effective on certain specified dates. The effective rate for softened Metropolitan Water District water purchased by the applicant through and from Central Basin Municipal Water District will become \$24.00 per acre-foot on July 1, 1960, \$26.00 on January 1, 1961, \$28.00 on January 1, 1962, and \$30.00 on January 1, 1963. Said rates include a \$1.00 per acre-foot charge by Central Basin Municipal Water District which is added by said District to the basic charge by the Metropolitan Water District.

Applicant's president testified, at the April, 1960 hearing, that in November, 1959, the Central and West Basin Water Replenishment District was formed; that said District's function is to purchase water from the Metropolitan Water District and spread it underground throughout the Central and West basins; and the Replenishment District is authorized to levy a so-called pumping tax which, for the fiscal year beginning July 1, 1960, is predicted to be at a rate in excess of \$3.00 per acre-foot of water pumped from the basins. This witness further testified that applicant pumps approximately 15,000 acre-feet per year from the Central Basin, the majority of which is pumped in the applicant's Central Basin District.

Neither the effect of the announced increased rates after 1961 for Metropolitan Water District water nor that of the pumping tax on applicant's earnings was included in the earnings' data submitted by the applicant or the staff heretofore set forth.

Findings and Conclusions

We have carefully considered the applicant's proposal to consolidate its rates for the five separate operating areas of its Central Basin District, comprising six separate tariff areas, into a single, universally applicable schedule of rates. As shown in Exhibit No. 14, supra, the rates of return for the test year 1959 in applicant's Bell-Belldale and Florence-Graham areas are 8.34 percent and 7.40 percent, respectively. We find as a fact that these rates of return are excessive and that the proposed rates for said two areas are unreasonable. The order hereinafter, therefore, will authorize the filing of a schedule of rates applicable to said areas different and less than the proposed rates applicable thereto.

It is found as a fact and concluded that the rate of return for applicant's Central Basin District as a whole for the test year 1959 estimated which would be produced by the present rates is deficient and that the applicant is in need of and entitled to financial relief in said district.

It is concluded that certain of the applicant's claims with respect to differences between its estimates of operating expenses and those submitted by the staff are meritorious and unaccounted for water will not be reduced to the 7.5 percent claimed by the staff inasmuch as applicant's meter testing and repair program for the year 1959 will not have produced its full benefits in reducing water losses. On the other hand, the applicant's meter

maintenance expenses will not be as great as estimated by the staff. It is further concluded that the applicant's claim to a recoupment of Regulatory Commission Expenses in connection with prior proceedings and its claim of additional allocated administrative and general expenses due to the use of the formula developed for the Southwest District rate proceeding are justified. It is also concluded that an additional allowance should be made for working cash capital due to the change in income tax payment requirements as heretofore noted. Otherwise the estimates of operating revenues, expenses, including depreciation and taxes, net revenues, and depreciated rate base for the year 1959 submitted by the staff are found to be reasonable and they hereby are adopted for this proceeding.

Depreciation for federal income tax purposes has been computed by the staff 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, 1956 and 1957, and the accumulated tax differentials due to the use of accelerated depreciation for such years is shown 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.

In conformity with Decision No. 59926, dated April 12, 1960, specifying the proper treatment of accelerated tax depreciation for rate-making purposes, the federal income taxes herein are computed on an "as paid" basis in our adopted results. Deducted therefrom are the annual charges to that portion of the deferred federal income tax reserve allocated to the applicant's Central Basin District, amounting to approximately \$3,400, and interest calculated on the average deferred income tax reserve at the rate of return on the rate base adopted herein, amounting to about \$4,000.

After giving weight to the variation in the expenses being adopted herein, an income tax figure of \$238,000 is computed for the year 1959 estimated at the proposed rates.

The following tabulation shows the rate of return which will be produced by the rates proposed in the application when the adopted results of operation are utilized:

Year 1959 EstimatedAdopted Results
Proposed Rates

Operating Revenue	\$1,458,000
Operating Expenses	
Operating Expenses:	
Source of Supply	
Purchased Water	67,000
Water Pumpage Assessment	2,000
Other	2,000
Pumping	
Purchased Power	94,000
Other	59,000
Water Treatment	8,000
Transmission & Distribution	
Meter	44,000
Maintenance of Trans. & Dist. Mains	26,000
Other	40,000
Customer Account	80,000
Sales	1,000
Administrative & General	110,000
Depreciation	147,000
Taxes (Other than State and Federal Income)	129,000
Taxes Based on Income	238,000
Total Operating Expenses	<u>238,000</u>
	\$1,047,000
Net Operating Revenue at Proposed Rates	\$ 411,000
Rate Base Adopted as Reasonable	\$5,770,000
Rate of Return at Proposed Rates	7.12%

It is found as a fact that the hereinbefore shown rate of return of 7.12 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 \$1,378,000 which is \$259,600 in excess of the revenues which, it is estimated, would be produced during the year 1959 at the present

rates but is approximately \$80,000 less than the amount sought by the applicant in the instant application. Said lesser amount is the result of a lesser amount of increase authorized in Bell-Belldale of \$54,000, and in Florence-Graham of \$26,000. When total operating expenses, including the effect on local franchise taxes and state and federal taxes based on income, of \$1,003,000 are deducted from such operating revenues, net operating revenues of \$375,000 will result. When such net operating revenues are related to a rate base of \$5,770,000 hereby adopted as reasonable, a rate of return of 6.5 percent will result. Such rate of return is found to be just and reasonable.

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 herein prescribed, will, for the future, be unjust and unreasonable.

Service Conditions

Representatives of the City of Bell protested the application partly on the grounds that the applicant's water system in the City of Bell was furnishing inadequate fire protection to the City as disclosed by the Board of Fire Underwriters of the Pacific Fire Protection Report for the year 1956, Exhibit No. 1. The record in this proceeding shows, however, that since 1956 the applicant has replaced and enlarged many of its water mains in the City of Bell, has increased operating pressures where such pressures were formerly below standard, and has effected an interconnection with its Belldale water system of its Central Basin District which provides a Metropolitan Water District water supply to the City of Bell. Despite such improvements, which the record shows the applicant intends to

increase, it is concluded that the applicant should be required to submit to the Commission, in writing, a report of its operating pressures at representative points on its Bell-Belldale systems; such points to be designated for testing purposes by the fire chief of the City of Bell; such report to be filed within ninety days after the effective date of the order herein, and the order which follows will so provide.

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 schedule of rates applicable to its Artesia-South Artesia, Norwalk "A", and Norwalk "B" areas, as Schedule No. CBA-1 and the schedule of rates applicable to its Bell-Belldale area and its Florence-Graham area as Schedule No. CBB-1, as 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 June 27, 1960.

(2) That should applicant elect to take accelerated depreciation for the year 1959, or any future year, it shall immediately report such election to the Commission and the Commission will promptly move to adjust the rates herein authorized in such manner as it may then find to be appropriate.

(3) That applicant shall, within ninety days after the effective date hereof, submit to the Commission in writing a report of its operating pressures at representative points on its Bell-Belldale systems, such points to be designated for testing purposes by the fire chief of the City of Bell. Upon the receipt of such report, the Commission may issue a supplemental order or orders as appropriate.

(4) 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 21st day of May, 1960.

Ernest B. King
President
Edith E. Hall
Theodore Jenner

Commissioners

I dissent
Monday
I dissent - will write
dissent later
E. Lyn Fox

APPENDIX A
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Schedule No. CBA-1

Central Basin Tariff Area
Artesia-Norwalk ZoneGENERAL METERED SERVICEAPPLICABILITY

Applicable to all general metered water service.

TERRITORY

Portions of the cities of Artesia, Dairy Valley, Santa Fe Springs, Norwalk and certain unincorporated territory located two miles northwesterly of the City of Norwalk, and vicinity of each, Los Angeles County.

RATESPer Meter
Per Month

Quantity Rates:

First	700 cu.ft. or less	\$ 2.10
Next	1,200 cu.ft., per 100 cu.ft. ....	.20
Next	7,500 cu.ft., per 100 cu.ft. ....	.17
Next	90,000 cu.ft., per 100 cu.ft. ....	.15
Next	50,000 cu.ft., per 100 cu.ft. ....	.14
Over	150,000 cu.ft., per 100 cu.ft. ....	.12

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 2.10
For	3/4-inch meter	2.75
For	1-inch meter	3.50
For	1 1/2-inch meter	7.50
For	2-inch meter	12.00
For	3-inch meter	22.50
For	4-inch meter	35.00
For	6-inch meter	60.00
For	8-inch meter	90.00
For	10-inch meter	130.00

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

APPENDIX A
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Schedule No. CBB-1

Central Basin Tariff Area
Bell-Florence ZoneGENERAL METERED SERVICEAPPLICABILITY

Applicable to all general metered water service.

TERRITORY

Portions of the cities of Bell, Downey, Southgate, Huntington Park, Paramount, Vernon and the communities of Bell Gardens, Hollywood and Florence, and vicinity of each, Los Angeles County.

RATESPer Meter
Per Month

Quantity Rates:

First	700 cu.ft. or less	\$ 1.80
Next	1,800 cu.ft., per 100 cu.ft. ....	.18
Next	7,500 cu.ft., per 100 cu.ft. ....	.17
Next	90,000 cu.ft., per 100 cu.ft. ....	.15
Next	50,000 cu.ft., per 100 cu.ft. ....	.14
Over	150,000 cu.ft., per 100 cu.ft. ....	.12

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 1.80
For	3/4-inch meter	2.35
For	1-inch meter	3.00
For	1 1/2-inch meter	7.00
For	2-inch meter	12.00
For	3-inch meter	22.50
For	4-inch meter	35.00
For	6-inch meter	60.00
For	8-inch meter	90.00
For	10-inch meter	130.00

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

I DISSENT.

The treatment accorded Federal income taxes for the test year violates Commission policy as set forth in Decision No. 59926 in Case No. 6148.

In Decision No. 59926, the Commission majority enunciated a policy of allowing as an operating expense Federal income taxes as paid; found "there is created no income tax deferral and no deferred tax liability", and upon such finding denied to California utilities authority to normalize Federal income taxes for rate-making purposes.

In the instant proceeding, applicant took liberalized depreciation for the years 1954, 1955, 1956 and 1957, but stated that, it had not elected to claim accelerated depreciation "for the tax years 1958 and 1959, and does not intend to claim it in the future". In this decision the Commission majority states that applicant's Federal income taxes are computed on an "as paid" basis, however, it then proceeds to deduct from the Federal income taxes actually accrued and to be paid an amount equal to the difference between taxes computed on a straight-line basis and taxes that would have accrued for the test year had applicant not used accelerated depreciation in the years above enumerated. The majority also deducts from the Federal income tax due and payable for the test year an amount equal to interest on "the deferred tax reserve" computed at the rate of return allowed applicant in the decision, thus, in effect, removing the deferred tax reserve from the rate base.

Although, in the majority decision, taxes have been "computed" on an "as paid" basis, the taxes actually allowed as an expense are those remaining after the above deductions have been made, despite the fact that applicant will be required to pay more taxes than the amount allowed as an expense; thus, in effect, for the purposes of this decision, the Commission majority has normalized Federal income taxes for the test year of this applicant.

For the Commission to deny, on the one hand, the existence of a deferred tax liability for the purpose of depriving California utilities and their ratepayers the benefits of liberalized depreciation as provided by The Congress, while on the other hand, to recognize a deferred tax liability for the purpose of reducing the Federal income tax allowed to be charged to operating expenses of a utility, appears to be inconsistent. If there is no deferred tax liability resulting from a utility's taking accelerated depreciation, as was declared to be the case in Decision No. 59926, to saddle a utility with such a deferred liability, which actually has resulted in higher taxes, is discriminatory and unjust.



C. LYN FOX
Commissioner

I CONCUR.



MATTHEW J. DOOLEY
Commissioner