

ORIGINAL

Decision No. S10SS

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 South Arcadia District.

Application No. 42251  
Amended

O'Melveny & Myers, attorneys, by Donn B. Miller, and C. T. Mess, consulting engineer, for the applicant.

Ellen V. Peterson with Al Roberts as a Citizen's Committee from Bell Gardens; Carl E. Johnson; Lt. Commander Joseph G. Freiburger, in propria personae; protestants.

Mrs. Richard Schlueter; Mrs. R. H. Greer; Irene Dalley; Mrs. Helen Rodenbeck; Mrs. Francis Gallagher; and Mary K. Kaplan, in propria personae; protestants and interested parties.

Rev. Stanley B. Andersen for Bethlehem Lutheran Church; interested party.

Cyril M. Saroyan and Robert W. Beardslee, for the Commission's staff.

O P I N I O N

Southern California Water Company, a corporation, by the above-entitled application filed May 13, 1960, as amended May 26, 1960, seeks authority to increase its rates for water service in its South Arcadia District by a gross annual amount of approximately \$75,200, based on its estimated operations in said District for the year 1960. The proposed increase would amount to 32.8 percent overall.

Public hearings were held before Examiner Stewart C. Warner on October 5 and 6, 1960, at Arcadia. Several customers

appeared in protest and some complained of low water pressure in the Temple City area and others complained of sand in their domestic water supplies. Late-filed Exhibits Nos. 9 and 11, received October 13, 1960, are reports by the applicant, made at the direction of the Commission, on the results of investigations of the low pressure and sand conditions. The matter was submitted for decision upon the receipt on or before October 17, 1960, of a reply memorandum brief of counsel for the applicant. Said brief has been received and the matter is now ready for decision.

General Information

The applicant furnishes water service in sixteen operating districts in Sacramento, Ventura, Los Angeles, San Bernardino, Orange, and Imperial Counties, and electric service at Big Bear Lake in San Bernardino County. It also operates a nonutility ice plant at Barstow in San Bernardino County. As of December 31, 1959, water service was being furnished by the applicant to 112,046 customers and electric service to 4,396 customers. Total utility plant, less depreciation reserve, as of the same date was \$31,103,353, and water department operating revenue for the year 1959 amounted to \$6,116,705.

South Arcadia District Operations

As of December 31, 1959, the applicant was furnishing water service to 6,062 customers in its South Arcadia District, and 251 fire hydrants were connected to the system therein. The number of customers was estimated to increase to 6,098 by the end of the year 1960. During 1960, the applicant installed meters on all customers' service connections, there having been 2,689 unmetered residential customers as of January 1, 1960.

The service area of the South Arcadia District is shown on the maps, Exhibits Nos. 7 and 7-A, filed at the hearing, and includes portions of the City of Arcadia and the newly incorporated City of Temple City. The balance, and major portion, of the service area is in unincorporated territory of Los Angeles County south of the City of Arcadia. The service area is bounded on the west of Rosemead Boulevard by another agency, on the north by the Water Department of the City of Arcadia, on the east by the Water Department of the City of Monrovia, and on the south by the Water Department of the City of El Monte, in which said latter two cities the applicant furnishes no water service. As shown on the map, Exhibit No. 7, the applicant's service area is bisected by a service area of California Water and Telephone Company. However, the applicant has interconnected its two service areas by the installation of a 10-inch cast-iron main along Lower Azusa Road, and water service is furnished throughout the service area, without storage facilities except pressure regulating tanks, from applicant's seventeen wells located within the South Arcadia District. All of the wells are equipped with deep-well turbine pumps three of which are driven by natural gas engines, the others being driven by electric motors.

The record shows that the growth in the number of applicant's customers in its South Arcadia District is nearly static, with little or no undeveloped area for future growth.

Exhibit No. 6, applicant's report on its operations in its South Arcadia District, contains in Chart 3-A an organization chart of the South Arcadia District of the applicant's Eastern Division as of May 1, 1960. Said Chart shows that the district is managed by a vice president, with an assistant division manager, a district superintendent, a foreman, and five additional employees.

Rates

Applicant's present rates for its South Arcadia District were authorized by Decision No. 51802, dated August 9, 1955, in Application No. 36525. The instant application proposes that the applicant's presently filed rate for flat rate service be cancelled and proposes no increases in other filed tariffs other than the tariff for general metered service. The following tabulation compares applicant's present rates for general metered service with those proposed in the application, and with those authorized by the order hereinafter:

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

Quantity Rates:	Per Meter Per Month		
	Present	Proposed	Authorized
First 800 cu.ft. or less .....	\$1.70	\$1.70	\$1.70
Next 1,200 cu.ft., per 100 cu.ft. ..	.09	.16	.14
Next 1,000 cu.ft., per 100 cu.ft. ..	.09	.14	.12
Next 2,000 cu.ft., per 100 cu.ft. ..	.06	.14	.12
Next 5,000 cu.ft., per 100 cu.ft. ..	.06	.12	.10
Over 10,000 cu.ft., per 100 cu.ft. ..	.06	.08	.08

Although nearly one-half of applicant's customers have been furnished water service on a flat rate basis until the year 1960, applicant's experience with its other general metered service customers indicates that the average water usage on a metered basis in the South Arcadia District approximates 2,000 cubic feet per month. Under the present rates the charge for such usage is \$2.78. Under the proposed rates such charge would be \$3.62, an increase of 30.2 percent. Under the authorized rates such charge would be \$3.38, an increase of 21 percent.

Earnings

Exhibit No. 6, supra, contains a summary of applicant's earnings in its South Arcadia District for the year 1959 recorded,

and for the year 1959 adjusted and the year 1960 estimated at present and proposed rates. Exhibit No. 14, a report submitted by Commission staff engineers and an accountant, contains a summary of applicant's earnings in the South Arcadia District for the year 1960 estimated at present and proposed rates. The following tabulation compares the earnings data contained in Exhibits Nos. 6 and 14:

SUMMARY OF EARNINGS

Item	Year		Estimated Year 1960			
	1959		Present Rates		Proposed Rates	
	Recorded	Per Co.	Per Co.	Per PUC	Per Co.	Per PUC
	Ex. 6	Ex. 6	Ex. 14	Ex. 6	Ex. 14	
Oper. Revenues	\$232,868	\$ 229,000	\$ 233,900	\$ 304,200	\$ 308,310	
Oper. Expenses	97,266	107,590	105,113	107,650	105,173	
Depreciation	30,780	35,860	35,800	35,860	35,800	
Taxes	50,251	42,710	45,375	84,320	86,503	
Subtotal	\$178,297	\$ 186,160	\$ 186,288	\$ 227,830	\$ 227,476	
Net Revenues	\$ 54,571	\$ 42,840	\$ 47,612	\$ 76,370	\$ 80,834	
Rate Base	\$941,000	\$1,125,300	\$1,099,059	\$1,125,300	\$1,099,059	
Rate of Return	5.80%	3.81%	4.33%	6.78%	7.35%	

An analysis of the earnings data hereinbefore set forth and compared, and the testimony and evidence of record with respect thereto, discloses no significant or substantial difference between the components of the rates of return submitted by the applicant and by the staff for the estimated year 1960.

A slight difference in the percentage of unaccounted-for water utilized by the company of 15 percent and by the staff of 7½ percent is disclosed in the record, but the record shows that neither percentage can be well supported due to the applicant's inability to measure water service furnished on a flat rate basis.

The differences in the estimates of operating expenses are only 0.4 percent. The record shows no reason for any large amounts of unaccounted-for water in the South Arcadia District; no abnormal maintenance problems which might indicate abnormal water losses are disclosed; and the staff estimate will be adopted as reasonable.

A staff engineer recommended in Exhibit No. 13 that an annual amount of \$60,000 charged by the applicant to Account No. 798.3, covering a contract with Stone and Webster Service Corporation for the year ending February 28, 1961, be reduced to \$27,700 for the estimated year 1960 for rate-making purposes. He based this recommendation on the fact, among others, that the applicant had paid Stone and Webster approximately \$42,000 for a study of the advisability of acquiring another water system, which said acquisition had not been effected. Also, this witness testified that many of the services covered by the contract were being performed and could be performed by applicant's own management and other consultants. Applicant's president testified that the contract substituted, in part, for services that would have to be performed by newly hired officers or managers and that the contract costs were lower than the salaries of such additional management personnel would be. Exhibit No. 15 is a schedule of the annual amounts paid by the applicant to its officers, managers and consultants.

Applicant based its estimate of ad valorem taxes for the year 1960 on an estimated average tax rate covering its properties in its South Arcadia District for the fiscal year 1960-61 of \$8.60 per \$100 of assessed valuation, and estimated the assessed valuation of said properties for said fiscal year to be \$260,273. The

staff based its estimate on the 1959-60 fiscal tax year average tax rate of \$8.09. The actual assessed valuation of applicant's South Arcadia District properties was \$212,230.

At the close of the hearing the applicant submitted a memorandum brief in support of its treatment of advances for construction. The adjustment for advances for construction in the rate base submitted by the applicant is reduced by the amount of refunds of such advances the applicant is presently obligated to make during the test period and the succeeding two years. Counsel for the staff in his reply pointed out that the applicant's proposed treatment of refunds of customers' advances would not give effect to additional customers' advances which might take place in subsequent years and which might produce additional revenue. Counsel for the applicant in his reply contended that the staff position was inconsistent and that the applicant's recommended treatment of advances was justified by the static character of applicant's South Arcadia District service area.

A financial consultant witness for the applicant submitted, as Exhibits Nos. 5 and 5-A, financial statistics and data as of May, 1960. Said Exhibits contain comparative earnings statistics for the year 1959 of ten gas companies, ten electric companies, and eleven water companies throughout the United States, together with extensive financial data relating to the applicant's operations for the years 1945 through 1959. The testimony of this witness was that, in his opinion, the applicant would require a rate of return on capital approximating 7 percent in order to pay an annual dividend of one dollar per share on common stock with a 70 percent of earnings pay out and thus attract necessary capital for improvements and expansion of applicant's over-all water systems.

Findings and Conclusions

From a review of the record it is found as a fact and concluded that the applicant's present rates for water service in its South Arcadia District will produce an inadequate rate of return based on the operations for the test year 1960 and that the applicant is in need of financial relief. It is further found as a fact and concluded, however, that the rate of return which would be produced by the rates proposed in the application of 7.35 percent is excessive, and that the application should be granted in part and denied in part.

As to the applicant's contract with Stone and Webster Service Corporation, the Commission is of the opinion and finds as a fact and concludes that the amount recommended by the staff engineer is reasonable. As to the estimate of ad valorem taxes, the last-known, most-current, announced, and fixed tax rate is the only reliable rate, and the staff estimate thereof is found as a fact and concluded to be reasonable.

The record as to testimony is silent on the applicant's proposed treatment of advances for construction in developing its estimated rate base for the test year 1960, and the Commission is not persuaded by the arguments in its memorandum briefs that the applicant's position with respect thereto is reasonable.

Applicant will be authorized by the order which follows to file a new schedule of general metered service rates which will produce estimated gross annual revenues of \$287,275, an increase of \$53,375 over the gross revenues which would be produced for the estimated test year 1960 at the present rates but \$21,035 less than



the gross revenues which would be produced by the rates proposed in the application. When such gross annual revenues estimated to be produced by the authorized rates are related to the estimated expenses, depreciation, taxes and rate base as submitted by the staff and hereby found to be reasonable, after taking into account the effect on taxes based on income, a rate of return of 6.5 percent will result. Such rate of return and its components are found as a fact to be just and reasonable.

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.

O R D E R

Application, as amended, 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. (a) 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 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 December 17, 1960.
- (b) That concurrently with the filing authorized herein, Southern California Water Company be and it is authorized to withdraw and cancel by appropriate advice letter its presently effective South Arcadia District rate schedules as follows:

Schedule No. SA-1, General Metered Service  
Schedule No. SA-2, Flat Rate Service.

- 2. 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 22nd day of NOVEMBER, 1960.

[Signature]  
President  
[Signature]  
[Signature]  
[Signature]  
Theodore J. Jernier  
Commissioners

## APPENDIX A

Schedule No. SA-1

South Arcadia Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the area lying generally between the Cities of Arcadia and El Monte, east of Rosemead Boulevard, Los Angeles County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 800 cu.ft. or less .....	\$ 1.70
Next 1,200 cu.ft., per 100 cu.ft. ....	.14
Next 3,000 cu.ft., per 100 cu.ft. ....	.12
Next 5,000 cu.ft., per 100 cu.ft. ....	.10
Over 10,000 cu.ft., per 100 cu.ft. ....	.08
Minimum Charge:	
For 5/8 x 3/4-inch meter .....	\$ 1.70
For 3/4-inch meter .....	2.50
For 1-inch meter .....	4.00
For 1 1/2-inch meter .....	7.50
For 2-inch meter .....	10.00
For 3-inch meter .....	20.00
For 4-inch meter .....	30.00
For 6-inch meter .....	50.00
For 8-inch meter .....	75.00

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