

ORIGINALDecision No. 61485

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Quality Development Co.,
Complainant,

vs.

Southwest Water Co.,
Defendant.

Case No. 6253

La Mirada Gardens,
Complainant,

vs.

Southwest Water Co.,
Defendant.

Case No. 6254

Monarch Gardens,
Complainant,

vs.

Southwest Water Co.,
Defendant.

Case No. 6255

William W. Leavitt, for the complainants.
Arthur D. Guy, Jr., and Carr H. Deitz, for the
defendant.
R. E. Nicholson, Jr., for San Gabriel Valley Water
Company, interested party.
Martin Abramson, C. O. Newman, and R. R. Entwistle,
for the Commission staff.

O P I N I O N

The above-entitled complaints were filed April 10, 1959,
and public hearings were held before Examiner Stewart C. Warner on
June 16, 1959, and March 23, 28 and 29, April 6 and 7, and May 2,
1960, on which said latter date the matters were submitted for
decision subject to the filing of briefs. Defendant's answering

brief was filed September 14, 1960, and complainants' answering brief on November 15, 1960. Defendant, on November 30, 1960, petitioned that the submission of the matters be set aside and that they be reopened for further hearing, and said petition was opposed by complainants on December 6, 1960.

Decision upon motion made by defendant on April 6, 1960 to dismiss the proceeding was reserved. Such motion is denied.

Defendant's petition for further hearings and the answer thereto have been duly considered; no good cause appears for the granting of such petition; and the order hereinafter will provide that it be denied.

Complainants are subdividers of Tract No. 21563 owned by Monarch Gardens, Tract No. 21564 owned by Quality Development Co., and Tract No. 21565 owned by La Mirada Gardens, in unincorporated territory of Los Angeles County, and such tracts are within defendant's La Mirada District water system. The defendant also operates water systems in its La Sierra District in Riverside County, and Etiwanda District in San Bernardino County.

The defendant's La Mirada District comprises about 5,000 customers, and the tracts involved in the instant complaints comprise 258 lots.

The complainants allege that on or about May 22, 1958, they paid a total of \$40,000 in consideration of the installation of a complete domestic water system in their tracts and the issuance of a refund contract; that on February 27, 1959, defendant billed them in the total amount of \$12,492.62, which said amount was changed

by the evidence herein to a total of \$12,515.43 as of July 13, 1959, for additional charges representing the difference between the actual cost of the water system installation and the estimated amount of \$40,000 originally paid.

The complainants seek an order of this Commission determining the nature of the charges billed them and to determine if they were overcharged.

Exhibits Nos. 1, 2, and 3, are final maps of the water system installations in Tracts Nos. 21563, 21564, 21565, respectively, submitted by the defendant, and Exhibits Nos. 17 and 19 are maps showing the design of the water system serving the three tracts as designed by the defendant and as designed by an engineering witness for the complainants.

Exhibit No. 6 is a copy of refund agreements executed in 1958 between the complainants and the defendant, for water service to their tracts, providing for the original advance by them of \$40,000 to cover the estimated cost of the water system installations in said tracts. Said agreements contain as paragraph 6 the required statement subjecting the contracts at all times to the jurisdiction of this Commission. They were executed as main extensions to subdivisions under defendant's Main Extension Rule providing for refunds, and were, as such, subject to a determination by the Commission, if so requested by either party, of the reasonableness of the costs or charges involved, which is now the issue.

Exhibit No. 4 is a copy of a unit price contract executed by the defendant with E. C. Lesch Co., Inc., for the first six

months of the calendar year 1958, during which period the water system was constructed and in pursuance to which said contract the water system was installed in complainants' tracts.

Complainants called defendant's vice president and general manager, under Section 2055 of the Code of Civil Procedure, to testify regarding the circumstances surrounding the execution of the contracts, Exhibit No. 6; to explain the general operations of the defendant; to explain the circumstances surrounding the execution of the unit price contract, Exhibit No. 4; and to explain not only the responsibility of the design of the water system, but the reasons underlying such design.

Another witness for complainants, a vice president of S. E. Pipe Line Construction Co., located in Whittier, California, testified regarding, and submitted as Exhibit No. 13, an estimate of the costs of installing the water system in complainants' tract, had his company bid thereon.

Another witness for the complainants testified that no refunds under the refund contract had been received by them.

Another witness for the complainants, a consulting engineer, submitted as Exhibit No. 17, a report on the distribution system in the tracts involved herein. Said Exhibit shows the dollar effect of the design of the system which, in this witness' opinion, was adequate and reasonable to provide water service to the three subdivisions in accordance with the minimum requirements of General Order No. 103. It sets forth the amounts of overcharge calculated by him based on the prices of E. C. Losch Co., Inc., and the defendant. The principal items of difference are in the

substitution by this witness of the costs of 6-inch mains, in place of certain 8-inch mains actually installed, and the costs of 4-inch mains, in place of certain 6-inch mains actually installed. This witness testified that if he had been the utility he most probably would have installed an 8-inch line and paid for the differential between the 8-inch and 6-inch, and charged the subdivider for the 6-inch so that he could expand his system in the future and enable him to take water from the two interconnections of Suburban Water Systems and defendant into the remainder of the defendant's area.

The last-named witness further testified that the effect of applying the S. E. Pipe Line Construction Co. prices against his design of the water system would be a total of \$38,628.22, which is \$1,371.78 less than the amount advanced by complainants, which said latter amount is the amount sought by the complainants to be refunded as representing the difference between the reasonable actual cost and the amount advanced.

Defendant's principal witness, its vice president and general manager, testified primarily on his calculations of the water system design requirements to provide adequate flow of water for domestic customers' demands, plus fire protection requirements, and he arrived at a total requirement for the 258 customers of 850 gallons per minute, contrasted to the calculation of the witness for the complainants of 567.6 gallons per minute.

As to the unit price contract, Exhibit No. 4, the defendant's witness disclosed that the contract had been executed following the invitation of sealed proposals to bid for the furnishing and installation of water distribution facilities in all

of the defendant's operating districts; that said unit price contract included, among other things, transportation costs applicable to all parts of the defendant's water systems which at some places were separated as widely as 38 miles; and that defendant's charges to complainants included overhead charges for the operations of the defendant's water system as a whole rather than by specific job cost analysis. Such overheads included an apportionment to complainants of charges for engineering and supervision applicable to the defendant's total operations.

Another witness for the defendant, a bookkeeper of E. C. Losch Co., Inc., testified as to the composition of the actual costs to said company of the water system installations billed to defendant, which said billed costs were invoiced to complainants after the application of defendant's charges for overheads.

Findings and Conclusions

Based on the record before us, the following findings and conclusions are made:

- (1) That the defendant's filed tariffs, including its Main Extension Rule, clearly provide for the determination by the Commission of the reasonable actual cost, when disputed.
- (2) That the contracts, Exhibit No. 6, clearly provide for change or modification by the Commission as the Commission may decide in the exercise of its jurisdiction.
- (3) That the extension of mains in preparation for actual delivery of water is no less a public utility service than the water deliveries themselves.
- (4) That the water system installed in Tracts Nos. 21563, 21564, 21565, as designed by the defendant, is of excess capacity

for the requirements of said Tracts. The extent of the difference in the costs of such excess capacity is set forth in Exhibit No. 18 and is an excess cost billed to complainants of \$7,486.87.

(5) That the costs of the water system installation under the unit price contract, Exhibit No. 4, are excessive and unreasonable to the extent that they differ from the costs as set forth in the estimate submitted by S. E. Pipe Line Construction Co. as Exhibit No. 13. The extent of such excess costs billed to complainants is an additional \$6,400.34.

(6) That the cost of \$38,628.22, which is the result of eliminating the excess and unreasonable costs of design and construction heretofore found to exist, is the reasonable actual cost of the water system installation in complainants' tracts which should be borne by the said complainants.

(7) That the defendant should be directed to refund to the complainants the amount of \$1,371.78, which is the difference between the \$40,000 advanced by the complainants under the contracts, Exhibit No. 6, and the reasonable actual cost of \$38,628.22.

O R D E R

Complaints having been filed, public hearings having been held, the matters having been submitted, and now being ready for decision,

IT IS ORDERED as follows:

(1) That defendant's motion to dismiss the complaints be and it is denied.

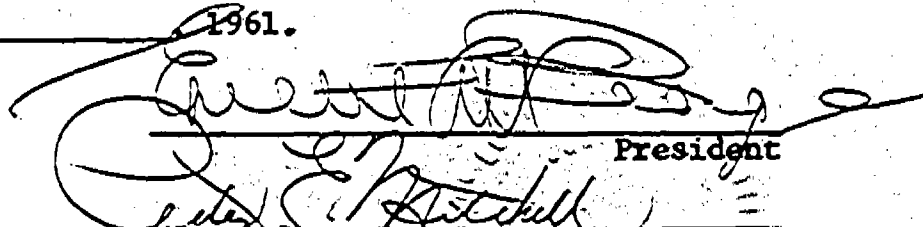
(2) That defendant's petition to set aside submission and reopen matters for further hearing, filed November 30, 1960, be and it is denied.

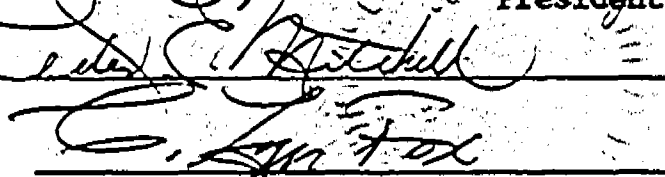
(3) That Southwest Water Company, a corporation, shall, within ten days after the effective date hereof, refund to the complainants the amount of \$1,371.78, and shall, within five days thereafter, report to the Commission in writing of its compliance herewith.


(4) That the defendant shall, within ten days after the effective date hereof, refund to the complainants the amounts due under the agreements, Exhibit No. 6, filed at the hearing, as such refund agreements are hereby modified to total \$38,628.22, in place of the face amount of said agreements totaling \$40,000, and shall, within five days thereafter, report to the Commission in writing of its compliance herewith.

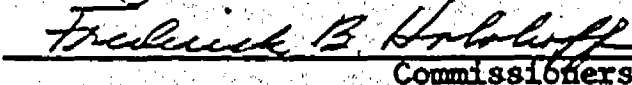
The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 14th day of
FEBRUARY 1961.



President






Commissioners