

Decision No. 61517**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of JUNIOR WATER COMPANY, INC., a
California corporation, for
authority to raise its rates charged
for its metered and flat rate water
service.)

) Application No. 42401
) (Amended)

George C. Gillette and Richard Soll, for
applicant.
Ray L. McCoy, for Southern California Water
Co., interested party.
Donald B. Steger, for the Commission staff.

O P I N I O N

Junior Water Company, Inc., requests by amended application filed September 15, 1960, authority to increase its water rates, and to make a charge for nonpayment of bills.

After due notice, a public hearing was held before Examiner Martin J. Porter on November 30, 1960, at Los Angeles.

Junior Water Company, Inc., is a California corporation providing water service as a public utility in the vicinity of the City of Norwalk, Los Angeles County.

By this application, Junior Water Company, Inc., alleges that the requested increase is necessary in order to meet the expenses of furnishing water service to its customers, to enable it to continue to render adequate water service, and to earn a fair and reasonable rate of return on its investment.

On December 31, 1959, there were 1,139 general customers, of which 12 received service on a metered basis and the balance were served in accordance with flat rate schedules. The area served by Junior Water Company is fully occupied and no new customers will be

added in the foreseeable future. The company will continue to provide service principally on a flat rate basis and no substantial increase in the number of metered customers will occur in the immediate future.

The average revenue per customer per month for flat rate service is \$2.05 at present rates and at proposed rates would be \$3.46. This represents an increase of \$1.41 per month, or 68 percent, compared to present rates.

Three schools served on a metered basis produce more than 80 percent of the annual revenue in this classification. An analysis of these accounts shows an average monthly consumption of 56,300 cubic feet, with an average monthly bill of \$47.00 at present rates and \$81.82 per month at proposed rates. This represents an increase of \$34.82 per month, or 74 percent, compared to present rates.

It was stipulated by the parties that for the purpose of this proceeding the rate base and operating revenue developed by the staff are correct.

For the year 1960 estimated under present rates the following tabulation shows a comparison of staff and company summary of earnings:

	<u>Summary of Earnings</u> <u>For Year 1960 Estimated</u> <u>Under Present Rates</u>	
	<u>Staff</u>	<u>Company</u>
Operating Revenue	\$ 30,130	\$ 30,324
Total Expenses	<u>27,180</u>	<u>35,383</u>
Net Revenue	2,950	(3,799)
Rate Base	145,800	147,214
Rate of Return	2.0%	-

(Red Figure)

For the year 1960 estimated under proposed rates the following tabulation shows a comparison of staff and company summary of earnings:

Summary of Earnings
For Year 1960 Estimated
Under Proposed Rates

	<u>Staff</u>	<u>Company</u>
Operating Revenue	\$ 50,410	\$ 50,949
Total Expenses	34,050	41,910
Net Revenue	16,360	10,299
Rate Base	145,800	147,214
Rate of Return	11.1%	7.0%

The two major differences between the staff and the company in the development of expenses were in the treatment of taxes and the amount paid as salaries to the officers of the company.

The stockholders of record for Junior Water Company, Inc., at December 31, 1959, were George Ponty and Katherine V. Kerr. At this same date the principal officers were George Ponty, President, Allen F. Kerr, Vice President, and Margaret K. Ponty, Secretary.

The major portion of the utility plant was installed in connection with the subdivision development of Ponty Junior, Inc., Ponticopulos, Inc., and Tima Corporation. The officers of Junior Water Company, Inc., are closely associated with the three other companies listed above.

By resolution dated August 18, 1959, this Commission authorized the transfer of \$129,574 from the classification of contributions in aid of construction to the capital surplus account, the Commission holding that the applicant had in fact intended to record the receipt of utility properties from its affiliated interests as a donation of capital rather than as contributions in aid of

construction. The Internal Revenue Service in computing the depreciation allowance which may be deducted when computing taxes based on income does not allow depreciation on this \$129,574 of plant because the subdivider has already taken this item as an expense for tax purposes and the utility having acquired the properties without payment of a consideration has not established a cost basis for tax purposes.

The staff takes the position that the ratepayer should not be penalized because of the affiliation of the applicant and the subdivider and in order to eliminate the effect of such affiliation is of the opinion that the amount of taxes based on income to be considered in determining rates should be based on a calculation which includes, as an allowable expense for tax purposes, depreciation on the \$129,574 of plant. The procedure recommended by the staff results in a lower expense allowance for income taxes than would be the case if taxes were computed on a strict "as paid" basis.

Mr. George Ponty and Mr. Allen F. Kerr are each paid at the current rate of \$500 per month for a total of \$12,000 per year as President and Vice President of the company, respectively. This sum represents a substantial portion of the operation and maintenance expenses recorded by the company for the year 1959 in the amount of \$23,845.

The staff, after a detailed study of the operations of Junior Water Company, Inc., considering the complexity of operations, a study of work performed and a comparison of the expenses of other water companies of a similar size, developed the figure of \$17,830 as the adjusted total operation and maintenance expenses.

The applicant requested authority to charge \$0.50 in the event that a customer is twenty days late in payment of bills for service and a \$5.00 turn-off/turn-on charge for bills paid 40 days

late. Commission practice in this regard has been to allow a charge of \$2.50 for reconnection of service during regular working hours or \$5.00 for reconnection of service at other than working hours, when the customer has requested that the reconnection be made at other than regular working hours.

Junior Water Company, Inc., has no filed agreement or tariff with this Commission for fire protection service although it obtains revenues for this service from the Los Angeles County Unified Fire Protection District. The order herein will require applicant to seek, in accordance with the provisions of this Commission's General Order No. 96, authorization to carry out the terms of such agreement.

In accordance with the staff analysis contained in this record, applicant should review the depreciation rates using the straight-line remaining life method. The order will so provide.

Findings and Conclusions

The Commission finds and concludes that the estimates of operating revenues, expenses, including taxes and depreciation, and the rate base as submitted by the Commission staff for the year 1960 reasonably represent the results of applicant's operations and they will be and hereby are adopted for the purposes of this proceeding.

The results of operations in the foregoing tabulation clearly show that the present rates are deficient and that the rates proposed by applicant are somewhat excessive. An estimated rate of return of 7.0 percent based on the staff's calculations is hereby found to be reasonable for the utility at this time. The authorized rates will result in an average monthly bill of about \$2.82 for residential flat rate service, an increase of 37.6 percent. The authorized meter rates when applied to the 12 existing meter customers produces an increase of approximately 27 percent when compared with the present water rates.

It is hereby found as a fact that the increase in rates and charges authorized herein is justified and that the present rates, insofar as they differ from those herein prescribed, for the future are unjust and unreasonable.

O R D E R

Based upon the evidence and the findings contained in the foregoing opinion,

IT IS ORDERED as follows:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, the schedules of rates attached to this order as Appendix A and, upon not less than five days' notice to this Commission and to the public, to make said rates effective for all water service rendered on and after March 16, 1961.

2. Within forty-five days after the effective date of this order, applicant shall file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96 and acceptable to the Commission, rules governing customer relations revised to reflect present-day operating practices, a revised tariff service area map and current sample copies of printed forms normally used in connection with customers' services. Such rules, tariff service area map and sample forms shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

3. Within sixty days after the effective date of this order, applicant shall file with this Commission four copies of a comprehensive map, drawn to an indicated scale not smaller than 300 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 utility properties of applicant.

4. Beginning with the year 1961, applicant shall determine depreciation expense by multiplying depreciable utility plant by a rate of 2.1 percent. This rate shall be used until review indicates it should be revised. Applicant shall review the depreciation rate using the straight-line remaining life method when major changes in utility plant composition occur and at intervals of not more than five years, and shall revise the above rate in conformance with such reviews. Results of these reviews shall be submitted to this Commission.

5. Within thirty days after the effective date of this order, applicant shall file with this Commission, in conformity with Section X of the Commission's General Order No. 96, three copies of the existing agreement between the utility and the Los Angeles County Unified Fire Protection District covering the fire protection service to said district.

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.

Ernest Allaway
 President

John E. Mitchell

C. Lynn Fox

Fredrick B. Holmoff
 Commissioners

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated areas known as Tracts Nos. 14761, 16200, 16245, 16478 and 16775 located adjacent to the City of Norwalk, Los Angeles County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 1,200 cu.ft. or less	\$ 2.40
Next 1,800 cu.ft., per 100 cu.ft.17
Next 2,000 cu.ft., per 100 cu.ft.15
Over 5,000 cu.ft., per 100 cu.ft.10
Minimum Charges:	
For 5/8 x 3/4-inch meter	\$ 2.40
For 3/4-inch meter	3.50
For 1-inch meter	5.00
For 1-1/2-inch meter	7.50
For 2-inch meter	12.00
For 3-inch meter	20.00
For 4-inch meter	30.00

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

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

The unincorporated areas known as Tracts Nos. 14761, 16200, 16245, 16478 and 16775 located adjacent to the City of Norwalk, Los Angeles County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
For a single family residence, including premises not exceeding 6,000 sq. ft. in area	\$2.75
a. For each additional residence on the same premises and served from the same service connection	1.40
b. For each 100 sq. ft. of area in excess of 6,000 sq. ft.	0.025

SPECIAL CONDITIONS

1. The above residential flat rate charges apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer for above classification, in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service. When a meter is installed at option of customer, metered service must be continued for at least 12 months before service will again be furnished at flat rates.