

ORIGINAL

Decision No. 61581

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 CALIFORNIA WATER SERVICE COMPANY,)
 a corporation, for an order author-)
 izing it to increase rates charged)
 for water service in Hermosa Beach,)
 Redondo Beach, Torrance and vicinity.)

Application No. 42329

McCutchen, Doyle, Brown & Enersen, by
 Robert Minge Brown and A. Crawford
 Green, Jr., for applicant.
Cyril M. Saroyan and John R. Gillanders,
 for the Commission staff.

O P I N I O N

By this application, filed June 8, 1960, California Water Service Company, a California corporation, seeks an order of this Commission authorizing increased rates on its system supplying water service to Hermosa Beach, Redondo Beach, Torrance and vicinity.

After due notice, public hearings in the matter were held on December 1, 1960, at Los Angeles and on December 16, 1960, at San Francisco. The matter is submitted and ready for decision.

The water rates presently in effect on applicant's system were authorized by this Commission on May 10, 1955, in order to offset increased costs of operations then arising from the necessity of curtailing pumping from its wells and providing purchased water in lieu thereof. Approximately 70 per cent of the water requirements of the system are now met by purchases from the West Basin Municipal Water District. Since the last rate proceeding, charges for purchased water have been increased in each of the years 1957, 1958 and 1960. Further increases of \$2 per acre foot for purchased water have been announced for 1961, 1962 and 1963.

Property taxes, on a utility plant investment which increased 30 per cent between 1955 and 1959, have increased by approximately 65 per cent. Wages have increased by about 5 per cent each year. The costs of materials have also continued to increase.

These four major classifications of costs and expenses (purchased water, taxes, wages and materials) have lowered applicant's earnings to a rate of return of slightly over 5 per cent on a depreciated rate base of over \$4,400,000. Applicant seeks to arrest declining earnings and to obtain a just and reasonable return on its investment. It points to the fact that additions to plant during the past five years have averaged approximately \$261,000 each year and that service for prospective new customers will require similar additions on an annual basis in the future, as showing that its earnings will continue to decline.

The water rates which applicant requests would increase the annual bill of the typical average water user approximately 19½ per cent. The City of Torrance, within the limits of which applicant provides a small portion of this system's service, has expressed opposition to the granting of any increase.^{1/}

The results of operations of this system, as presented by applicant, are tabulated below:

Summary of Earnings
Applicant

Item	Year 1959 Adjusted	Year 1960 Estimated
<u>Existing Rates</u>		
Operating Revenues	\$1,053,380	\$1,078,140
Operating Expenses	818,420	842,990
Net Revenue	234,960	235,150
Rate Base (Depreciated)	4,363,200	4,478,400
Rate of Return	5.39%	5.25%
<u>Requested Rates</u>		
Operating Revenues	\$1,237,710	\$1,266,700
Operating Expenses	919,320	946,200
Net Revenue	318,390	320,500
Rate Base (Depreciated)	4,363,200	4,478,400
Rate of Return	7.30%	7.16%

^{1/} Resolution No. 3998, adopted June 21, 1960.

The Commission staff undertook a complete review of applicant's exhibits and work papers and investigated the underlying data. To the extent that the staff found applicant's information to be complete and applicant's estimates to be accurate or reasonable, the staff did not duplicate such presentation. In a number of details the staff study shows results at variance with those of applicant. In the main and in end results, however, the differences are within acceptable limits of accuracy in estimating. In fact, in most components the staff and applicant differ by only about 2 per cent while differences in end results are less than 2/10 of one per cent. Both applicant and staff computed federal income tax expense on the basis of liberalized depreciation.

Based upon the record, the Commission finds and concludes that applicant has demonstrated its need for and entitlement to increased revenues. The water rates which applicant has proposed, however, would produce a net revenue somewhat in excess of that needed to provide a fair and reasonable return on this system's operations. Lesser rate increases will be authorized, based upon a prospective rate of return, after due allowance for the declining trend, of 6.25 per cent and after an allowance of \$2,689 allocable to net revenue as the net income effect of applicant's sale of operative systems and after the deduction of the December 31, 1959 accrued income tax differential from the rate base. Using the test year 1960 as a base, an initial rate of return of 6.5 per cent will produce such a prospective rate of return during the first full year in which new rates may be in effect. The Commission finds these rates of return to be fair and reasonable when applied to the adopted rate base of \$4,413,000.

In view of the evidence, the Commission finds as a fact that the increases in rates and charges herein authorized are justified and that existing rates and charges, in so far as they differ from those authorized herein, are for the future unjust and unreasonable.

The effect of this order is to provide applicant with \$113,000 in additional gross revenues annually. The average water user, who presently is billed \$3.64 for his average monthly usage, will be billed \$4.06 under the new rates; an increase of 11½ per cent.

O R D E R

Based upon the evidence and the findings and conclusions herein,

IT IS HEREBY ORDERED that California Water Service Company is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96, the schedules of rates set forth in Appendix A attached to this order and, on not less than five days' notice to the public and to this Commission, to make said schedules effective for water service rendered on and after April 1, 1961.

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

Dated at San Francisco, California, this 28th day of FEBRUARY, 1961.

Charles W. Page
 President

Ed. L. Mitchell

E. Leo Fox

George A. Johnson

Fredrick B. Hallock
 Commissioners

APPENDIX A

Schedule No. HR-1

Hermosa-Redondo Tariff Area
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Within the cities of Hermosa Beach and Redondo Beach, a portion of the City of Torrance, and certain adjacent unincorporated territory in Los Angeles County.

RATES

Service Charge:	<u>Per Meter</u> <u>Per Month</u>
For 5/8 x 3/4-inch meter	\$1.65
For 3/4-inch meter	1.90
For 1-inch meter	2.20
For 1 1/2-inch meter	3.50
For 2-inch meter	4.80
For 3-inch meter	9.00
For 4-inch meter	13.00
For 6-inch meter	19.00
For 8-inch meter	26.00
For 10-inch meter	37.00
 Quantity Rate:	
For all water delivered, per 100 cu. ft.	0.169

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rate.