

Decision No. 61582**ORIGINAL**

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 Sacramento
District.

Application No. 42489

O'Melveny & Myers, by Donn B. Miller, for
applicant.

George A. Newmarch, Mrs. James M. Winter,
Mrs. Ruth McCamman, Amy Smith Porter,
Mrs. Florine Thompson, Minnie Helmer,
Roberta Mudgett, Grace H. Imoto, and
Paul Muller, in propria personae,
protestants.

Everett M. Glenn, and Harry G. Behrens, for
the City of Sacramento; and A. A. Sanders,
in propria persona, interested parties.

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

O P I N I O N

Southern California Water Company, a corporation, by the above-entitled application filed July 15, 1960, seeks authority to increase its rates for water service in its South Sacramento District in the City of Sacramento and in unincorporated territory in Sacramento County by a gross annual amount of \$29,440 based on estimated operations for the year 1960. The requested increase in gross revenues amounts to an increase of approximately 19.8% over the revenues which would be produced by the applicant's present rates.

A public hearing was held before Examiner Stewart C. Warner on December 14, 1960, at Sacramento. Several customers appeared to protest the application and complained of low pressure

in the summer months which, they alleged, would result in inadequate fire protection. They also protested a foul taste and odor, especially in early morning hours, presumably due to the excessive use of chlorine and other chemicals in the water. The matter was submitted subject to receipt of late-filed Exhibit No. 4-B and late-filed Exhibit No. 2-B. Said exhibits have been received and the matter is now ready for decision.

Item No. 1 is testimony incorporated in the instant record by reference given during the hearing on Application No. 42251 on October 5 and 6, 1960, by several of the applicant's witnesses on its over-all, company-wide operations, financial requirements, and outside services employed. The cross-examination applicable thereto is also incorporated by reference in said item. Item No. 2 in the instant proceeding is the testimony and cross-examination of Commission staff witnesses in Application No. 42251, covering the company's general over-all operations, its financial condition, and expenses incurred in connection with outside services employed with particular reference to the applicant's contract with Stone & Webster Corporation. An opinion of the Commission on said latter subject was expressed in Decision No. 61088, dated November 22, 1960.

General Information

Decision No. 61088, contains a description of the applicant's operations in all of its districts, its electric system, and its non-utility ice business in Barstow, and such description is not repeated herein.

South Sacramento District

As of December 31, 1959, the applicant was furnishing water service to a total of 4,399 customers. All of them, except 38, were served on a flat rate basis. In addition, 219 fire hydrants for public fire protection service were connected to the system as of that date. The source of water supply for the South Sacramento District is obtained from nine operating wells throughout the district, all of which, except the 44th Street well, are located within the City of Sacramento. The area served by the applicant lies generally between 14th Avenue on the north and 40th Avenue on the south, and between approximately 42nd Street on the west and Power Inn Road on the east, partly within the City and partly without. The total area comprises approximately 1.6 square miles and is delineated on Chart 3-B of Exhibit No. 2. The number of customers was estimated by the applicant and the Commission staff not to increase beyond an average of about 4,428 during the year 1960, although the record shows that one or two moderately-sized areas may be developed as subdivisions, eventually.

In November, 1960, on the recommendation of the State of California and Sacramento County health departments, the applicant instituted an intensive chlorination program at all of its wells, and a program of flushing dead end mains at least six hours per week in order to control crenothrix, a bacterial formation which is commonly found in the Sacramento Valley waters. An unpleasant odor and taste occur when water is first drawn from a tap or after it has remained in a pipe for any length of time, but disappear after exposure to air. The taste and odors do not

render the waters unhealthful or unpotable, but rather render them more potable. The record shows that because of the natural qualities of the water in the area the applicant must necessarily continue the chlorination and flushing programs indefinitely in order to meet health department standards.

Rates

The applicant's present rates were authorized by Decision No. 51793, dated August 9, 1955, in Application No. 36321.

The following tabulation compares the applicant's present flat rates with those proposed in the application and those authorized hereinafter; also compared are the present rates for general metered service with those proposed in the application and those authorized hereinafter.

COMPARISON OF PRESENT, PROPOSED,
AND AUTHORIZED RATES

FLAT RATE SERVICE

	Per Service Connection Per Month		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
For Single Family Residence			
3/4-inch Service Connection	\$2.20	\$2.66	\$2.55
1-inch Service Connection	2.35	2.84	2.70

GENERAL METERED SERVICE

Quantity Rates:	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
First 1,000 cu. ft. or less	\$2.10	\$2.55	\$2.40
Next 5,000 cu. ft., per 100 cu. ft.	.13	.15	.15
Next 4,000 cu. ft., per 100 cu. ft.	.09	.11	.11
Over 50,000 cu. ft., per 100 cu. ft.	.05	.06	.06

Earnings

Exhibit No. 2 is a report on the results of applicant's operations in its South Sacramento District submitted by the applicant, and Exhibit No. 4 is a report on the results of operations of the applicant in its South Sacramento District for the estimated year 1960 submitted by the Commission staff. The following tabulation summarizes and compares the earnings data contained in Exhibits Nos. 2 and 4.

SUMMARY OF EARNINGS

Item	Year 1959		Year 1960 Estimated		
	Recorded	Present Rates	Proposed Rates		
	Per Co. Exh. #2	Per Co. Exh. #2	Per PUC Exh. #4	Per Co. Exh. #2	Per PUC Exh. #4
Operating Revenues	\$142,963	\$148,520	\$146,050	\$177,960	\$174,930
Operating Expenses	54,937	62,535	58,863	62,535	58,893
Depreciation	17,432	18,560	18,440	18,560	18,440
Taxes	31,501	31,715	33,740	47,855	49,580
Subtotal	103,870	112,810	111,043	128,950	126,913
Net Operating Revenue	39,093	35,710	35,007	49,010	48,017
Rate Base	671,800	723,200	676,500	723,200	676,500
Rate of Return	5.82%	4.94%	5.17%	6.78%	7.09%

The principal difference between the applicant's estimates and those of the staff are in the estimated rate base for the year 1960, and the principal item in the difference in rate base is in the treatment of estimated refunds on advances for construction for years subsequent to the test year. The Commission's opinion on the treatment of this item was expressed in Decision No. 61088.

The staff modified the utility plant by an adjustment for plant held for future use in the amount of \$4,221. This adjustment reflected the cost of property owned and held for use in utility

service, but the use of which was not, in the opinion of the staff, imminent. It pertained to land properties at the applicant's Jansen, 28th Avenue and Manor pumping plants. In each instance, the staff divided the recorded book value of the pumping plant and well site lots in half after having reviewed the company's operations in the South Sacramento District, noted the size of lots and the location of pumps, reviewed special ordinances, and considered the possibility of the effect on the district operations if one lot were utilized instead of two. On this subject, the applicant's president testified that, in his opinion, two lots represented an adequate amount of land to develop a new supply, if necessary, and to properly maintain the wells and the presently installed pumping equipment. This witness testified that two lots at each pumping plant were necessary to store pipe when the well at each site was drilled; to provide room for a pit to receive the discharge from the well when being drilled and later when being sand pumped; and to provide the site for a possible new well at each location. The record shows that none of the other six well sites, except the main plant and the Colonial plant, comprises more than one lot.

No other significant differences between the estimates of the components of rate of return for the year 1960 submitted by the applicant and the staff are evident.

Findings and Conclusions

After careful review of the record, the Commission finds as a fact and concludes that the revenues which would be produced by the applicant's present rates for the year 1960 would result in an inadequate rate of return from its operations in its South

Sacramento District. 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 is excessive.

As to the treatment accorded estimates of operating expenses for the year 1960 by the staff, they are found as a fact to be reasonable, and they are hereby adopted as well as the treatment of estimated refunds on advances for construction in the rate base. However, the Commission is of the opinion that prudent management would dictate that in a relatively congested urban area, such as applicant's South Sacramento District, well site properties should be of ample size to assure adequate maintenance of wells and pumping plants. The lot sizes for the Jansen Street, 28th Avenue, and Manor Street pumping plants are found as a fact not to be unreasonably large, and the item of \$4,221 will be restored to the rate base submitted by the Commission staff, which said rate base in the amount of \$681,000 is hereby adopted as reasonable.

The order which follows will authorize the applicant to file new schedules of rates which will produce gross annual revenues of \$167,900. This represents an increase of \$21,850 over the present rates as estimated by the staff for 1960, but \$7,950 less than the increase in revenues requested in the application. When total operating expenses, after taking into account the effect of reduced revenues on taxes based on income, are deducted from such estimated gross annual revenues, net revenue of \$44,265 will result. When such net revenue is related to the rate base of \$681,000 heretofore adopted, a rate of return of 6.5% will result. Said rate of return and its components are found as a fact to be just and reasonable.

The Commission further finds as a fact and concludes 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.

The Commission staff, at the hearing, urged that the applicant consider simplification of its proposed schedule for flat rate service. The applicant objected to any change at this time, stating that there had not been sufficient time to evaluate the results with respect to revenues if categories other than residential were to be dropped from the flat rate schedule. The evidence indicates, however, that there are presently no customers other than residential taking service under the existing flat rate schedule. The Commission, therefore, finds as a fact and concludes that the schedule for flat rate service herein authorized should be limited to residential service and the rates herein prescribed will so provide. Applicant is advised that it should endeavor further to simplify its schedule for flat rate service, since rate simplification is generally of benefit to the utility and the water user alike.

O R D E R

Application as above entitled having been filed, a public hearing 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 on or after the effective date of this order, in conformity with the Commission's General Order No. 96, the schedule of rates applicable to its South Sacramento District 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 April 1, 1961. ✓

(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 rate schedules as follows:

Schedule No. SS-1 - General Metered Service
Schedule No. SS-2 - Flat Rate Service

2. That in all other respects the 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 28th day of FEBRUARY, 1961.

Ernest W. Page
President
Edith E. Mitchell
E. J. Fox
Frederick B. Hallock
Commissioners

APPENDIX A
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Schedule No. SS-1

South Sacramento Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Within portions of the City of Sacramento, south of 14th Avenue and generally east of Stockton Boulevard, and adjacent unincorporated territory, Sacramento County.

RATES

Quantity Rates:		<u>Per Meter</u> <u>Per Month</u>
First	1,000 cubic feet or less	\$ 2.40
Next	5,000 cubic feet, per 100 cubic feet15
Next	44,000 cubic feet, per 100 cubic feet11
Over	50,000 cubic feet, per 100 cubic feet06

Minimum Charge:

For	5/8 x 3/4-inch meter	2.40
For	3/4-inch meter	2.90
For	1-inch meter	3.60
For	1 1/2-inch meter	6.00
For	2-inch meter	9.00
For	3-inch meter	17.00
For	4-inch meter	29.00
For	6-inch meter	46.00
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.

APPENDIX A
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Schedule No. SS-2R

South Sacramento Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Within portions of the City of Sacramento, south of 14th Avenue and generally east of Stockton Boulevard, and adjacent unincorporated territory, Sacramento County.

RATES

	<u>Per 3/4-Inch Service Connection Per Month</u>	<u>Per 1-Inch Service Connection Per Month</u>
For a single family residential unit of five rooms or less, together with one bath, including premises, not exceeding 9,000 sq. ft. in area, on which residential unit is located	\$2.55	\$2.70
a. For each additional residential unit of five rooms or less, together with one bath, located on the same premises and served from the same service connection	1.45	1.60
b. For each additional room or bath, exclusive of pantries and closets17	.17

(Continued)

Schedule No. SS-2R

South Sacramento Tariff Area

RESIDENTIAL FLAT RATE SERVICE

RATES (Continued)

	<u>Per 3/4-Inch Service Connection Per Month</u>	<u>Per 1-Inch Service Connection Per Month</u>
c. For each 100 sq. ft., or fraction thereof, of area of premises on which residential unit is located, in excess of 9,000 sq. ft.02	.02
d. For each 100 sq. ft., or fraction thereof, of irrigable garden area not part of the same premises on which the residential unit is located but served from the same service connection that serves such unit06	.06

SPECIAL CONDITIONS

1. All service not covered by the above classifications will be furnished only on a metered basis.
2. Meters may be installed at option of utility or customer for above classifications, in which event service thereafter will be furnished only on the basis of Schedule No. SS-1 General Metered Service.