

Decision No. 61954

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application  
of Southern California Water  
Company for authority to increase  
rates charged by it for water ser-  
vice in its Claremont District.

Application No. 42375

Amended

O'Melveny & Myers, by Donn B. Miller, for the  
applicant.  
Edward J. Dittmer, for the City of Claremont,  
protestant.  
William R. Roche, Robert W. Beardslee, and  
Richard R. Entwistle, for the Commission  
staff.

O P I N I O N

Southern California Water Company, a corporation, by the above-entitled application, filed June 20, 1960, as amended at the hearing and by the filing of an amendment on December 15, 1960, seeks authority to increase its rates charged for water service in its Claremont District by a gross annual amount of \$83,540 based on its 1960 estimated operations; an over-all proposed increase of 28.8 percent.

Public hearings were held before Examiner Stewart C. Warner on December 7 and 8, 1960, at Claremont. The City of Claremont protested the granting of the application, and filed Exhibit No. 1 in support of such protest. Also a protest was filed through the testimony of a director of the Rancho Santa Ana Botanic Garden of Claremont. The matter was submitted subject to

the receipt of late-filed exhibit by December 21, 1960, and briefs by counsel on or before February 7, 1961. The matter is now ready for decision.

General Information

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

Decision No. 61088, dated November 22, 1960, in Application No. 42251 of the applicant to increase its rates for water service in its South Arcadia District, contains an expression by the Commission of its opinion on expenses incurred by the applicant in connection with outside services employed, particularly with reference to the applicant's contract with Stone & Webster Corporation. Insofar as such expenses have been prorated to the Claremont District in the instant proceeding, the Commission's opinion in Decision No. 61088 is reaffirmed.

Claremont District

The area covered by the applicant's Claremont District is property in the City of Claremont and unincorporated areas of Los Angeles and San Bernardino Counties adjacent to the City of Claremont. It comprises approximately five square miles and is primarily a residential area with a few industrial customers and the business area of the City of Claremont. The applicant also provides water service to the Associated Colleges of Claremont.

Applicant's water supplies are obtained from 16 company-owned wells and one leased well located in or adjacent to the District. The applicant purchases untreated Metropolitan Water District water from the Pomona Valley Municipal Water District, and the locations of its three interconnections to M.W.D. are shown on the map, Exhibit No. 5, filed at the hearing, two of which are located in the extreme northern portion of the service area along Baseline Avenue at Mills and Mountain Avenues, respectively, and the third is located in the southeast portion, at Ramona Avenue. The current price of untreated M.W.D. water is \$20.00 per acre-foot delivered at the northerly locations and \$15.50 at the southerly location. Water is also purchased from Claremont Cooperative Water Company, this source of water supply being available by virtue of applicant's ownership of stock in the Cooperative.

As of December 31, 1959, the applicant was providing water service in its Claremont District to 4,006 customers, 3,995 of which were metered and 11 were served at a flat rate. In addition, 384 hydrants for public fire-protection service were connected to the system.

Rates

The applicant's present rates were established by Decision No. 46678, dated January 22, 1952, in Application No. 32186. The following tabulation compares the present rates with those proposed in the application and with those authorized hereinafter:

GENERAL METERED SERVICE

QUANTITY RATES

	<u>Quantity Blocks</u>		<u>Per Meter Per Month</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
First 500		700 cu.ft. or less	¢ 1.25	¢ 2.15	\$2.10
Next 2,000		1,800 cu.ft., per 100 cu.ft.	.18	.24	.21
Next 7,500		7,500 cu.ft., per 100 cu.ft.	.15	.19	.17
Next		90,000 cu.ft., per 100 cu.ft.	-	.15	.14
Over 10,000		100,000 cu.ft., per 100 cu.ft.	.12	.13	.12

At the present rates the charge for a monthly consumption of 1,500 cubic feet is \$3.05. At the proposed rates such charge would be \$4.07, an increase of 33.4 percent, and at the authorized rates, \$3.78 an increase of 23.9 percent.

In the amendment, the applicant requested that Schedule CL-3MZ, Special Irrigation Service, Schedule CLD-3ML, Limited Metered Irrigation Service, and so much of Schedule CL-3ML, Special Irrigation Service as relates to individuals and parcels numbered 2 through 12, be canceled.

Earnings

Exhibit No. 4 is a report submitted by the applicant on its operations in its Claremont District for the year 1959 recorded, for the year 1959 adjusted and the year 1960 estimated at present and proposed rates. Exhibit No. 7 is a report submitted by Commission staff accounting and engineering witnesses on the applicant's operations in its Claremont District for the year 1960 estimated at present and proposed rates. The following tabulation summarizes and compares the earnings data in Exhibits Nos. 4 and 7:

SUMMARY OF EARNINGS

Item	Year 1959		Year 1960 Estimated		
	Recorded	Present Rates	Proposed Rates		
	Per Co.	Per Co.	Per PUC	Per Co.	Per PUC
	Exh. #4	Exh. #4	Exh. #7	Exh. #4	Exh. #7
Operating Revenues	\$ 311,312	\$ 290,060	\$ 293,340	\$ 373,600	\$ 379,310
Operating Expenses	143,555	149,755	143,828	149,870	143,938
Depreciation	36,656	46,330	45,470	46,330	45,470
Taxes	55,480	39,720	47,007	85,405	94,017
Subtotal	\$ 235,691	\$ 235,805	\$ 236,305	\$ 281,605	\$ 283,425
Net Revenues	75,621	54,255	57,035	91,995	95,885
Rate Base	1,155,100	1,361,800	1,189,200	1,361,800	1,189,200
Rate of Return	6.55%	3.98%	4.80%	6.76%	8.06%

There are no significant differences between the estimates of operating revenues, operating expenses, depreciation, and taxes, either at the present or the proposed rates, submitted by the applicant and by the staff.

There is a substantial difference amounting to \$172,571 between the 1960 estimated weighted average depreciated rate base; the staff estimate being lower by that amount.

The applicant ceased using double declining balance liberalized depreciation for federal income tax purposes in its 1958 return. The use of liberalized depreciation for years 1954 through 1957 results in an accumulated tax differential of approximately \$12,200 allocable to the Claremont District as of January 1, 1960, and \$11,200 as of December 31, 1960 estimated.

The federal income taxes have been computed on an "as-paid" basis. The total federal income taxes were adjusted to reflect estimated charges to the deferred federal income tax account for the test year, representing the portion of the accumulated tax differential applicable to the year 1960.

An amount of \$52,392 in the difference in estimated rate base for 1960 is accounted for by the treatment accorded advances for construction since the Commission has not adopted the applicant's contention in recent prior rate proceedings involving other of

applicant's districts that the next two or three years' pay-off of advances be included in the 1960 test year rate base.

Another rate base adjustment by the staff and difference between the applicant's estimated rate base and that of the staff was a deduction by the staff from recorded utility plant of \$23,161 for water-bearing land originally reflected in Decision No. 7802, dated June 20, 1920, in Application No. 5356, as a result of a difference between a company and a market appraisal of such land and the adoption by the Commission of the staff appraisal, and reaffirmed in Decision No. 46678, dated January 22, 1952, in Application No. 32186 of the applicant to increase its rates for water service in its Claremont District.

Another major difference between the applicant and the staff in rate base estimates for the test year 1960 is a deduction by the staff from recorded utility plant of \$23,490, reflecting the market value of certain landed capital owned and held for future use in utility service, but the use of which, in the opinion of the staff, is not imminent. Such land is as follows:

<u>Location</u>	<u>Amount</u>
Margarita Pumping Station	\$13,560
Green Street Pumping Station	2,640
Del Monte Pumping Station	<u>7,290</u>
Total	\$23,490

A staff engineer testified that in each instance he had reduced, for rate-making purposes, the lot sizes of the landed properties to proportionately reflect the lot sizes which could reasonably be expected to be put to public use by the applicant within the next three years.

Another major difference between the rate base estimates for the test year 1960 submitted by the applicant and the staff is an adjustment of \$66,268 representing the residue pertaining to the

accounting for the acquisition of several mutual irrigation companies. The applicant, as shown under the item of "Water Rights" in the tabulation in paragraph 7., on page 3-3 of Exhibit No. 7, had included this amount in its rate base as the price paid for water rights to an entity not theretofore having dedicated such rights to public use. This item was argued in the briefs of counsel.

The record shows that in acquiring water-system properties from Pomona Ranch Water Company in 1955; the Dreher Well in 1956; the Harrison Avenue Water Company in 1957; and the Del Monte Irrigation Company in 1958; the cost thereof was \$147,946, including the aforementioned amount of \$66,268 for water rights. The water-rights amount was determined by first appraising properties, other than lands, at historical cost and land at fair value, and deducting from the total purchase price the sum of these two items; the residual sum being assigned to the value of water rights purchased.

Staff accounting work papers show that the net book value of properties acquired from Claremont Cooperative Water Company, a mutual, was recorded in December 31, 1958, in the amount of \$14,258.78, but that the cost thereof was \$2,123.76, including a nominal recorded amount of \$1. The applicant has included the net book value of these properties in its estimated rate base for 1960.

#### Service

Field investigations of the applicant's operations, service, and facilities were made by the staff in August and September 1960. Also, results of bacteriological tests made by the

applicant, independently, and made by the Los Angeles County Health Department, and informal complaint records on file at the applicant's office and with the Commission, were reviewed. No complaints of service of a serious or chronic nature, either as to pressure or quality of water, were found, and none were entered on the record.

Findings and Conclusions

From the review of the record the Commission finds as a fact and concludes that the rate of return which would be produced by the revenues received from the applicant's present rates, based on estimated operations for the test year 1960, is deficient, and that the applicant is in need of and entitled to financial relief. It is further found as a fact and concluded, however, that the rates proposed in the application would produce revenues which would produce an excessive rate of return for the same test period, and that the application should be granted in part and denied in part.

It is further found as a fact and concluded that the estimates of operating revenues and expenses for the test year 1960 estimated, submitted by the staff, are reasonable and they are hereby adopted.

The item of \$52,392, included by the applicant in its estimated rate base as accumulated refunds on advances for the years 1960 through 1962, is not adopted pursuant to the opinion expressed in Decision No. 61088.

It is further found as a fact and concluded that the items deducted by the staff from the recorded utility plant of \$23,161



for water-bearing land and \$23,490 for landed capital owned and held for future use, respectively, in the rate base are reasonably deductible.

The Commission staff recommended that the sum of \$66,268 termed Acquisition Residue be eliminated from the rate base for the estimated year 1960. The applicant clearly attempted for accounting purposes to spread a total purchase price of \$147,946 over certain accounts on certain bases. The spreading of the purchase price for accounting purposes is not controlling for rate-making purposes. There is no dispute that the properties were acquired, and that the expenditures were made in good faith and at bona fide, arms-length bargaining. The properties are now used and useful in the conduct of the applicant's business; and there is no evidence that the total amounts of money expended were unreasonable or are unreasonable for rate-making purposes. The evidence is clear that additional supplies of water were needed in the Claremont District, and that the acquisitions were reasonable and prudent methods of augmenting the water supply. It is clear that it would not be practicable to sink another well except for replacement purposes. It is found as a fact that the amount of \$66,268 should reasonably be restored to the test year 1960 estimated rate base submitted by the staff; it having heretofore been deducted therefrom by the staff in Exhibit No. 7 and in the summary of earnings tabulation hereinbefore set forth. The treatment for rate-making purposes of these acquisitions of water systems are based upon the particular facts in this proceeding, as each case must be decided upon its merits.

It is further found as a fact and concluded that a net amount of \$12,135.02 should be deducted from recorded utility plant to reasonably reflect the excess recorded net book value over the

actual cost of Claremont Cooperative Water Company properties recorded on the applicant's books in the amount of \$14,258.78; they having cost the applicant only the sum of \$2,123.76.

After making the above noted rate-base adjustments heretofore outlined it is found as a fact and concluded that a rate base of \$1,244,000 is reasonable, and further, that a rate of return of 6.5% thereon is reasonable. The order which follows will authorize the applicant to file new schedules of rates which will produce estimated gross annual revenues, based on the test year 1960 estimated, of \$348,000. This is an increase of \$54,660 over the applicant's present rates, but \$31,310 less than the increase in rates requested in the application.

The applicant's request in its amendment that it be authorized to cancel Schedule CL-3M2, Special Irrigation Service, Schedule CLD-3ML, Limited Metered Irrigation Service, and so much of Schedule CL-3ML, Special Irrigation Service, as relates to individuals and parcels 2 through 12, is found as a fact and concluded to be reasonable, and the order hereinafter will so provide.

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.

#### 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 schedules of rates applicable to its Claremont 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 June 2, 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. CL-3MZ - Special Irrigation Service
- Schedule No. CLD-3ML - Limited Metered Irrigation Service.

Such cancellation shall become effective upon five days' notice to the Commission and to the public after filing of the advice letter as hereinabove provided.

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 9th day of May, 1961.

[Signature]  
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 President

[Signature]  
 \_\_\_\_\_  
 Commissioner

[Signature]  
 \_\_\_\_\_  
 Commissioner

APPENDIX A  
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Schedule No. CL-1

Claremont Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service, except the special irrigation service covered by Schedule No. CL-3ML.

TERRITORY

The City of Claremont, Los Angeles County, and adjacent unincorporated territory in Los Angeles and San Bernardino Counties.

RATES

Per Meter  
Per Month

Quantity Rates:

First	700 cu. ft. or less .....	\$ 2.10
Next	1,800 cu. ft., per 100 cu. ft. ....	.21
Next	7,500 cu. ft., per 100 cu. ft. ....	.17
Next	90,000 cu. ft., per 100 cu. ft. ....	.14
Over	100,000 cu. ft., per 100 cu. ft. ....	.12

Minimum Charge:

For	5/8 x 3/4-inch meter .....	2.10
For	3/4-inch meter .....	2.65
For	1-inch meter .....	3.40
For	1 1/2-inch meter .....	7.25
For	2-inch meter .....	12.00
For	3-inch meter .....	22.50
For	4-inch meter .....	35.00
For	6-inch meter .....	60.00
For	8-inch meter .....	90.00

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. CL-3ML  
Claremont Tariff Area

SPECIAL IRRIGATION SERVICE

APPLICABILITY

Applicable only to irrigation service to certain property owned by B. F. Abbott as of January 4, 1956.

TERRITORY

Property of B. F. Abbott, consisting of approximately two acres located east of Alexander Avenue and approximately 560 feet north of San Jose Avenue, in the City of Claremont, Los Angeles County.

RATE

Quantity Rate:

For all water delivered, per miner's inch hour ..... \$0.03

SPECIAL CONDITIONS

1. Quantities delivered shall be determined by meters of standard manufacture. A record of the water delivered will be kept by the company and bills will be computed and rendered monthly based on the total quantity of water used.
2. The customer when desiring service shall notify the company at least 24 hours in advance, indicating the date and hour of commencement of the service.
3. This service will be rendered only from water produced from the well acquired by the company from the Pomona Ranch Water Company.
4. Service will be rendered only to the above named individual or his several successors in ownership of the parcel of land hereinabove referred to, and only for irrigational use on that parcel. If service to said parcel is not taken for a period of twelve consecutive full calendar months, it will not be renewed under this schedule.