

ORIGINAL

Decision No. 62641

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
Orange County District.

Application No. 42778
(Amended)

O'Melveny & Myers, by Donn B. Miller, and G. T. Mess, for applicant.
Fred D. Johnston, for the City of Stanton,
protestant.
Cyril M. Saroyan, William V. Caveney and A. L. Gielegem, for the Commission staff.

O P I N I O N

Southern California Water Company, by the above-entitled application filed October 20, 1960, as amended December 28, 1960, seeks authority to increase its rates for water service in its Orange County District, including its Huntington Beach, Placentia, Olive, and West Orange (Cypress-Los Alamitos-Stanton, Ideal, Park Lane and Rancho) tariff areas by the gross annual amount, based on its 1960 estimated year of approximately \$153,000. The proposed increase in rates in Huntington Beach, according to Commission staff calculations for the year 1960, estimated, would approximate \$37,250; in Placentia-Olive \$8,580; and in West Orange \$113,710. The total estimated increase according to the staff would be \$159,540.

Authority was also requested to file a single tariff for Orange County applicable uniformly and universally throughout the District.

Public hearings were held before Commissioner Frederick B. Holoboff and Examiner Stewart C. Warner on April 17, 1961, at Los Alamitos; April 18, 1961, at Huntington Beach; and April 19, 20, and 21, 1961, at Santa Ana; and before Examiner Warner on May 3, 1961, at Los Angeles.

Notices of the hearings were widely published and mailed to each of the applicant's approximately 13,000 customers in Orange County. About 100 consumers appeared in protest at Los Alamitos, 50 in Huntington Beach and 50 in Santa Ana. Most of the protests in Los Alamitos and Santa Ana were by the applicant's customers in Clover Park, a subdivision in Stanton. The Commission received formal protests from the cities of Westminster, Los Alamitos, and Placentia, and from Los Alamitos Chamber of Commerce, Inc., and the Taxpayers' League of Huntington Beach. The Savanna School District inquired by letter regarding the application. The School District's business manager also testified, and submitted as Exhibit No. 9 a comparison of costs for water used during the 1960 calendar year under the applicant's present and proposed rates. A witness for the Magnolia School District testified, and submitted as Exhibit No. 10 a statement of average monthly costs of water to Disney, Pyles and Salk schools for the period January 1959 through March 1961. The City of Stanton protested the application and actively participated in the hearings, and the City of Huntington Beach was afforded an opportunity to file a statement, but declined the taking of any specific position with respect to the matter. Several letters protesting the application were received from customers, and Exhibit No. 12 is a summary of the results of an investigation by the

applicant of each complaint lodged at the hearing, together with the reply by the applicant to each complainant. The matter was submitted subject to the receipt of briefs to be filed fourteen days after receipt of transcript. Said briefs were received on June 27, 1961, and the matter is now ready for decision.

General Information

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 a description of the applicant's operations in all of its districts, its electric system, and its nonpublic utility ice business in Barstow. Such description is not repeated herein.

Both the applicant and the Commission staff offered to submit for the record in the instant proceeding reports on the general operations of the applicant as Exhibits Nos. 6 and 7, respectively, which said reports had been introduced in the hearings on Application No. 42251. The reports and the testimony with respect thereto were incorporated by reference in the record hereon, and the said exhibits were withdrawn from the instant record.

Decision No. 61088 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 various tariff areas comprising the applicant's Orange County District, said opinion is reaffirmed.

Orange County District

The applicant's Orange County District is made up of three operating areas that are currently operated as individual districts,

i.e. Huntington Beach, Placentia-Olive, and West Orange. The Huntington Beach area consists of a portion of the City of Huntington Beach, and adjacent county territory. The Placentia-Olive area covers the City of Placentia, and adjacent county territory, and the community of Olive, portions of the City of Orange, and adjacent county territory. The West Orange area covers generally the area west of Dale Street to the Orange County boundary line lying south of the cities of Anaheim and Buena Park and bounded by Garden Grove Boulevard on the south. This area includes the cities of Cypress, Los Alamitos and Stanton and portions of the cities of Westminster, Dairyland, and Garden Grove, and adjacent county territory. It also includes three island water systems which formerly belonged to Park Lane Water Company, Rancho Water Company, and Ideal Petroleum Corporation. The Los Alamitos area includes the large Rossmoor subdivision of approximately 4,000 occupied homes and adjacent territory.

The majority of the service rendered in the Orange County District is residential, with some commercial and industrial services in the cities of Cypress, Huntington Beach, Los Alamitos, Placentia, and Stanton. The Commission staff estimated that there were an average of 12,096 metered customers and 358 flat rate private and public fire protection services, for a total of 12,454 active services, in the year 1960 in the applicant's Orange County District.

Exhibit No. 4, a report on the applicant's operations for its Orange County District, submitted by the applicant, contains Chart 3-A, an organization chart as of October 15, 1960. Said chart

shows that the District is managed by a vice president and division manager, a division superintendent for the Huntington Beach, West Orange, and Placentia-Olive areas, and a district superintendent for the Placentia-Olive area. As of said date, the Huntington Beach area employed one foreman, two servicemen, and one cashier-clerk; the West Orange area employed one foreman, five servicemen, and three cashier-clerks; and the Placentia-Olive area employed two servicemen, one cashier-clerk, and one part-time pump operator.

The water supply for the Orange County District is obtained from 31 company-owned wells and water purchased from the Metropolitan Water District of Southern California through facilities of the Orange County Municipal Water District, and from Bradford Brothers, Inc. The location of the applicant's Metropolitan Water District connection is shown on Sheet 4 of 4 of Chart 3-B of Exhibit No. 4, at the corner of Katella Avenue and Dale Street in the West Orange area. The purchase and use of Metropolitan Water District water is at the present time limited to the immediate vicinity of the connection at the aforesaid intersection at Dale and Katella, but an extension of transmission facilities from said connection into the Cypress-Los Alamitos-Stanton areas is contemplated by the applicant to meet the demands of anticipated customer growth in those areas.

Water storage facilities for the Orange County District consist of six ground storage tanks with a combined capacity of 1,556,000 gallons and two elevated steel tanks with a combined capacity of 100,000 gallons.

Basis of Application

The applicant alleged that the present charges for water service in its Orange County District were insufficient, unjust, and unreasonable, and that they would not produce adequate revenue to yield a fair, just and reasonable return on capital invested in its plant, property, and other equipment devoted to public use. It alleged that its construction budget for capital expenditures for this district for the year 1960 was \$908,800. Exhibit No. 4 shows that the weighted average net additions to plant in primary accounts and construction work in progress in the Orange County District for the recorded and adjusted year 1959 amounted to \$304,405, and for the estimated year 1960 amounted to \$335,182.

Rates

The applications for and decisions thereon authorizing the applicant's present rates applicable to its seven Orange County tariff areas, together with the effective dates thereof, are set forth as follows:

<u>Tariff Area</u>	<u>Decision- No.</u>	<u>Application No.</u>	<u>Effective Date.</u>
Huntington Beach	50574	34191	Oct. 13, 1954
Cypress Los Alamitos Stanton	50573	34191	Oct. 22, 1954
Ideal	54800	38876	June 9, 1957
Park Lane	52834	37167	May 16, 1956
Rancho	56183	38238	May 4, 1958
Placentia	46511	32108	Jan. 7, 1952
Olive	43840	30361	(See below)

Rates for the Olive system were voluntarily reduced by applicant and the present rates became effective March 25, 1959.

The following tabulation compares the present rates for each of the applicant's seven Orange County District tariff areas with the uniform rates applicable to all areas proposed in the application:

COMPARISON OF PRESENT AND PROPOSED
GENERAL METERED SERVICE RATES
ORANGE COUNTY DISTRICT

		<u>ALL AREAS</u>	<u>Per Meter Per Month</u>
			<u>Present</u> <u>Proposed</u>
<u>Quantity Rates:</u>			
First	700 cu.ft., or less	.....	\$2.70
Next	1,300 cu.ft., per 100 cu.ft.	.....	.31
Next	7,500 cu.ft., per 100 cu.ft.	.....	.25
Next	40,000 cu.ft., per 100 cu.ft.	.....	.18
Next	50,000 cu.ft., per 100 cu.ft.	.....	.14
Over	100,000 cu.ft., per 100 cu.ft.	.....	.10
<u>HUNTINGTON BEACH</u>			
First	500 cu.ft., or less	.....	\$1.65
Next	2,000 cu.ft., per 100 cu.ft.	.....	.26
Next	7,500 cu.ft., per 100 cu.ft.	.....	.20
Next	40,000 cu.ft., per 100 cu.ft.	.....	.17
Next	100,000 cu.ft., per 100 cu.ft.	.....	.13
Over	150,000 cu.ft., per 100 cu.ft.	.....	.10
<u>PLACENTIA</u>			
First	500 cu.ft., or less	.....	\$1.80
Next	2,000 cu.ft., per 100 cu.ft.	.....	.30
Next	7,500 cu.ft., per 100 cu.ft.	.....	.20
Over	10,000 cu.ft., per 100 cu.ft.	.....	.12
<u>OLIVE</u>			
First	700 cu.ft., or less	.....	\$3.50
Next	4,300 cu.ft., per 100 cu.ft.	.....	.30
Next	10,000 cu.ft., per 100 cu.ft.	.....	.27
Next	10,000 cu.ft., per 100 cu.ft.	.....	.20
Over	25,000 cu.ft., per 100 cu.ft.	.....	.16
<u>CYPRESS-LOS ALAMITOS-STANTON</u>			
First	600 cu.ft., or less	.....	\$2.00
Next	1,400 cu.ft., per 100 cu.ft.	.....	.26
Next	3,000 cu.ft., per 100 cu.ft.	.....	.22
Next	15,000 cu.ft., per 100 cu.ft.	.....	.19
Over	20,000 cu.ft., per 100 cu.ft.	.....	.16
<u>IDEAL (TRACT No. 1098 & VICINITY)</u>			
First	800 cu.ft., or less	.....	\$1.50
Next	4,200 cu.ft., per 100 cu.ft.	.....	.15
Over	5,000 cu.ft., per 100 cu.ft.	.....	.10
<u>PARK LANE (TRACTS Nos. 1552 & 1773 & VICINITY)</u>			
First	1,000 cu.ft., or less	.....	\$2.50
Next	1,000 cu.ft., per 100 cu.ft.	.....	.15
Next	1,000 cu.ft., per 100 cu.ft.	.....	.14
Over	3,000 cu.ft., per 100 cu.ft.	.....	.12
<u>RANCHO (CITY OF WESTMINSTER)</u>			
First	1,000 cu.ft., or less	.....	\$2.50
Next	1,000 cu.ft., per 100 cu.ft.	.....	.15
Next	1,000 cu.ft., per 100 cu.ft.	.....	.13
Next	7,000 cu.ft., per 100 cu.ft.	.....	.11
Over	10,000 cu.ft., per 100 cu.ft.	.....	.09

Uniform Rate Proposal

As part of its request for increased rates, applicant seeks authority to file a single general metered service tariff for Orange County, applicable uniformly and universally throughout the district. Applicant contends that such uniform rates are required in the interest of eliminating duplication in record keeping, accounting and reporting. Assertedly, such rates are justified by relative uniformity in rates of return which would result under proposed rates in each of its three operating districts, i.e., Huntington Beach, Cypress-Los Alamitos-Stanton, and Placentia-Olive (Exhibit 5-A, Table 11-B revised, sheet 1 of 2). It should be noted that the record does not disclose rates of return which would result in each of the seven tariff areas. In view of the ensuing order, however, it becomes unnecessary to further consider the issue of uniform rates.

Earnings

Commission staff engineering witnesses submitted in Exhibit No. 5-A summaries of earnings tabulations of the applicant's Orange County District, by operations areas, for the year 1960 estimated at both present and proposed rates. The applicant submitted in Exhibit No. 4-A a summary of earnings tabulation for the year 1960 estimated at the proposed rates for its Orange County District. The earnings data contained in Exhibits Nos. 4-A and 5-A are set forth as follows:

SUMMARY OF EARNINGS
ORANGE COUNTY DISTRICT
YEAR 1960 ESTIMATED

Item	Huntington Beach	Placentia- Olive	West Orange	Total Orange County
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At Proposed Rates

Per Company Exhibit No. 4-A

Operating Revenue	\$195,600	\$132,070	\$ 540,950	\$ 868,620
Oper. & Maint. Exp.	49,430	33,430	99,820	182,680
Adm. & General Exp.	13,940	11,090	24,940	49,970
Taxes Other Than on Income	20,370	13,770	48,920	83,060
Depreciation	21,065	14,880	59,095	95,040
Income Taxes	<u>34,395</u>	<u>22,095</u>	<u>120,740</u>	<u>177,230</u>
Subtotal	139,200	95,265	353,515	587,980
Net Revenue	56,400	36,805	187,435	280,640
Rate Base	301,900	529,200	2,729,400	4,060,500
Rate of Return	7.03%	6.95%	6.37%	6.91%

* * * * *

At Proposed Rates

Per PUC Exhibit No. 5-A

Operating Revenue	\$205,750	\$137,530	\$ 543,160	\$ 886,440
Oper. & Maint. Exp.	49,690	32,060	89,420	171,170
Adm. & General Exp.	12,520	10,010	22,520	45,050
Taxes Other Than on Income	20,900	12,840	46,370	80,110
Depreciation	19,990	15,290	48,880	84,160
Taxes on Income	<u>38,040</u>	<u>25,540</u>	<u>138,770</u>	<u>202,350</u>
Subtotal	141,140	95,740	345,960	582,840
Net Revenue	64,610	41,790	197,200	303,600
Rate Base	754,600	495,600	2,239,100	3,489,300
Rate of Return	8.56%	8.43%	8.81%	8.70%

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(Continued)

SUMMARY OF EARNINGS

(Continued)

Item	Huntington Beach	Placertia- Olive	West Orange	Total Orange County
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At Present Rates

Per PUC Exhibit No. 5-A

Operating Revenue	\$168,500	\$128,950	\$ 429,450	\$ 726,900
Oper. & Maint. Exp.	49,620	32,010	88,860	170,490
Adm. & General Exp.	12,520	10,010	22,520	45,050
Taxes Other Than on Income	20,780	12,750	44,730	78,260
Depreciation	19,990	15,290	48,880	84,160
Income Taxes	<u>17,790</u>	<u>20,930</u>	<u>77,840</u>	<u>116,560</u>
Subtotal	120,700	90,990	282,830	494,520
Net Revenue	47,800	37,960	146,620	232,380
Rate Base	754,600	495,600	2,239,100	3,489,300
Rate of Return	6.33%	7.66%	6.55%	6.66%

* * * * *

Exhibit No. 5-A includes a comparison of staff and company summary of earnings of the applicant's Orange County District for the years 1959 adjusted and 1960 estimated at present and proposed rates. Such summary comparison is shown as follows:

COMPARISON OF STAFF AND COMPANY SUMMARY OF EARNINGS
ORANGE COUNTY DISTRICT
Years 1959 Adjusted and 1960 Estimated

(Per PUC Exhibit No. 5-A)

Item	Staff		Company 1960 Estimated	Staff Exceeds Company	
	1959 Adjusted	1960 Estimated		Amount	Percent
<u>Present Rates</u>					
Operating Revenues	\$ 605,460	\$ 726,900	\$ 715,240	\$ 11,660	1.6%
<u>Operating Expenses</u>					
Operating & Maint. Exp.	148,160	170,490	181,745	(11,255)	(6.2)
Adm. & General Exp.	44,340	45,050	49,970	(4,920)	(9.8)
Taxes Other Than on Income	65,420	78,260	81,405	(3,145)	(3.9)
Depreciation	69,260	84,160	95,040	(10,880)	(11.4)
Income Taxes	80,590	116,560	94,840	21,720	22.9
Total Oper. Exp.	407,770	494,520	503,000	(8,480)	(1.7)
Net Revenue	197,690	232,380	212,240	20,140	9.5
Depreciated Rate Base	2,857,200	3,489,300	4,060,500	(571,200)	(14.1)
Rate of Return	6.92%	6.66%	5.23%	1.43%	-
<u>Proposed Rates</u>					
Operating Revenues	\$ 739,150	\$ 886,440	\$ 868,620	\$ 17,820	2.1%
<u>Operating Expenses</u>					
Operating & Maint. Exp.	148,710	171,170	182,680	(11,510)	(6.3)
Adm. & General Exp.	44,340	45,050	49,970	(4,920)	(9.8)
Taxes Other Than on Income	66,910	80,110	83,060	(2,950)	(3.6)
Depreciation	69,260	84,160	95,040	(10,880)	(11.4)
Income Taxes	152,530	202,350	177,230	25,120	14.2
Total Oper. Exp.	481,750	582,840	587,980	(5,140)	(.9)
Net Revenue	257,400	303,600	280,640	22,960	8.2
Depreciated Rate Base	2,857,200	3,489,300	4,060,500	(571,200)	(14.1)
Rate of Return	9.01%	8.70%	6.91%	1.79%	-

(Red Figure)

Operating Revenues

It is evident from a review of the preceding tabulations that there are no significant differences between the estimates of operating revenues for the year 1960, at either the present or proposed rates, as submitted by the applicant and the staff.

Operating and Maintenance Expenses

Percentagewise, as shown in the last preceding tabulation, the accumulated differences between the applicant's estimates of operating expenses for the year 1960, at both present and proposed rates, and those submitted by the Commission staff are not significant in amount, but, individually, the differences in estimates of certain of the groups of expenses are of somewhat significant magnitude. For that reason the following tabulation comparing staff and company estimates of operating and maintenance expenses by operating expense account groups, and administrative and general expenses by accounts for the year 1960 is set forth as follows:

COMPARISON OF STAFF AND COMPANY
OPERATING AND MAINTENANCE AND
ADMINISTRATIVE AND GENERAL EXPENSES
ORANGE COUNTY DISTRICT
YEAR 1960 ESTIMATED

(Per PUC Exhibit No. 5)

Operating Expense Account	Staff	Company	Staff Exceeds Co.	
Group or Account	Staff	Company	Amount	Per Cent.
Source of Supply	\$ 3,440	\$ 3,175	\$ 265	8.3 %
Pumping	79,370	82,845	(3,475)	(4.2)
Water Treatment	10,340	11,520	(1,180)	(10.2)
Transmission & Distribution	34,160	36,410	(2,250)	(6.2)
Customer Accounts	39,680	43,410	(3,730)	(8.6)
Sales	360	525	(165)	(31.4)
Uncollectibles - Present Rates	3,140	3,860	(720)	(18.7)
" - Proposed Rates	3,820	4,795	(975)	(20.3)
Subtotal - Present Rates	170,490	181,745	(11,255)	(6.2)
" - Proposed Rates	171,170	182,680	(11,510)	(6.3)
Admin. & Gen. Salaries	6,020	6,015	5	0.1
Office Supplies & Exp.	4,020	4,015	5	0.1
Injuries & Damages	2,300	1,610	690	42.9
Emp. Pensions & Benefits	5,880	5,905	(25)	(0.4)
Franchise Requirements	20	25	(5)	(20.0)
Regulatory Comm. Exp.	3,400	5,705	(2,305)	(40.4)
Misc. Gen. Exp.	2,600	3,345	(745)	(22.3)
Maint. of Gen. Plant	300	295	5	1.7
Gen. Off. Exp. Allocated	20,510	23,055	(2,545)	(11.0)
Subtotal	45,050	49,970	(4,920)	(9.8)
Total - Present Rates	215,540	231,715	(16,175)	(7.0)
" - Proposed Rates	216,220	232,650	(16,430)	(7.1)

(Red Figure)

Operating and Maintenance Expenses (continued)

Generally speaking, the applicant's estimates of operating and maintenance expenses are based on an adjustment of wages to the 1960 level and a normalization of maintenance expenses.

Of the total difference of \$3,475 of pumping expenses, the amount of \$2,305 is represented by the difference in the estimates submitted for Account No. 726, Fuel and Power for Pumping. The record shows that the staff engineering witness based his estimate on the cost of natural gas and electric energy for pumping adjusted to reflect normal customer use of water and the application of currently effective electric rates and gas rates which became effective August 25, 1960. The applicant made individual estimates for each source of fuel or power and included additional costs for lowering water tables to a six-year level of time. The record shows, however, that certain of the water tables in Orange County have increased, rather than decreased, due to replenishment of ground water supplies through importation and spreading of Metropolitan Water District water by Orange County Water District.

The total difference of \$1,180 of Water Treatment Expense is attributable to the fact that the applicant included certain of the start-up costs of its chlorination program in estimating Water Treatment Expenses for a normal year's operation in the future. These, the staff engineering witness excluded as non-recurring items.

The major difference in estimates of Transmission and Distribution Expenses, totaling \$2,250, is in Account No. 760, Maintenance, Reservoirs & Tanks, a difference of \$1,015. The applicant included the costs of painting and repairing an elevated

tank in Los Alamitos and of repairing a reservoir in 1954 in trending this account for estimating purposes, whereas the staff engineering witness normalized these expenses and excluded the expense in 1954 in his estimated normal expense trending as a non-recurring item.

The major difference in Customer Accounts Expense is in Account No. 773, Customer Records and Collection Expense, amounting to \$3,845. The staff engineering witness contended that economies effected by the consolidation of the seven tariff areas justified his estimates.

Administrative and General Expenses

The total difference between the estimates of Administrative and General Expenses submitted by the staff engineering witness and the applicant is \$4,920, the staff being lower by that amount. There are two principal differences.

The first principal difference is in Account No. 797, Regulatory Commission Expense, amounting to \$2,305, in which the staff prorated the expense of the current rate proceeding over a 5-year period, whereas the applicant prorated this expense over a 3-year period.

The second major item of difference is in General Office Expense-Allocated, amounting to \$2,545, the staff being lower by that amount. This is attributable to the difference in the treatment by the applicant and the staff of the costs of the employment of outside services discussed in Decision No. 61088, supra, and hereinbefore referred to.

Taxes Other Than On Income

The principal difference amounting to \$3,145 between the staff estimate of Taxes Other Than On Income and the estimates submitted by the applicant for the year 1960, the staff being lower by that amount, is attributable to the fact that the staff utilized actual 1960-61 assessment ratios and tax rates applied not only to the applicant's recorded plant, but to the plant modifications made by the staff in determining its weighted average utility plant for the year 1960 estimated.

Depreciation

The difference of \$10,830 between the staff estimate of depreciation expense for the year 1960 and that submitted by the applicant resulted from the staff's estimate of net plant additions, trending modifications, and development of depreciation accrual based on the applicant's method of calculating and recording depreciation accruals for all districts. Such method is based on a June 30 amount of depreciable utility plant. The applicant, for rate-making purposes, did not follow the above method, but based its estimate of depreciation accrual on its 1960 estimated weighted average plant additions, rather than the June 30, 1960 estimated balance.

Income Taxes

The staff estimate of Income Taxes was \$25,120 higher than the applicant's estimate for the year 1960. This is based on higher estimated taxable income determined by the staff. The staff made an adjustment of \$1,630 for charges to the deferred

federal income tax account resulting from the fact that the applicant had utilized liberalized depreciation in prior years and had accumulated a tax differential allocable to the Orange County District of \$22,440 as of January 1, 1960.

The record shows that the applicant ceased using double declining balance liberalized depreciation for federal income tax purposes in its 1958 return.

Depreciated Rate Base

The principal differences in the estimated weighted average depreciated rate bases for the year 1960, totaling \$571,200 are two-fold and are set forth as follows:

Item	Staff : 1959 Adj.	Staff : 1960 Est.	Company : 1960 Est.	Staff : Exceeds : Company
Plant not directly related to customer growth and/or normal years' additions	\$42,810	\$19,300	\$247,588	\$ (228,288)
Accumulated refunds on advances 1960-62	-	-	298,549	(298,549)
Total	\$42,810	\$19,300	\$546,137	\$ (526,837)

(Red Figure)

The differences in estimates of plant not directly related to customer growth and/or normal years' additions amounting to \$228,288 are: (1) the result of the staff having used 12-months' recorded data for weighting, whereas the applicant had available at the time of its estimate only seven months of recorded data; and (2) the assumption by the staff that only certain plant additions were nonrevenue producing, abnormal, and nonrecurring in a normal year's operation, whereas the applicant assumed that all

estimated utility plant additions, excepting those relating to new business, should be given full years' weighting.

The difference in Accumulated Refunds on Advances 1960-62, amounting to \$298,549, is attributable to the fact that the staff did not include in the rate base an accumulation of estimated refunds on advances for construction for years subsequent to the test year, whereas the applicant projected such accumulated refunds on advances through the year 1962. It did not project revenues and expenses through the same period.

A consulting engineering witness for the applicant testified that, in his opinion, Refunds on Advances for Construction for the period ending June 30, 1961, amounting to approximately \$63,000, should be included in the test year 1960 rate base, but that the amount of \$298,000 originally submitted by the applicant should not be so included. This witness did not project estimated revenues and expenses beyond the test year 1960.

Findings and Conclusions

The Commission has scrutinized the evidence of record, and the briefs by counsel have been carefully considered. The following findings and conclusions are made:

- 1.(a) That no good reason is shown on the instant record for changing our opinions or policies expressed in Decision No. 61088 and reaffirmed in Decisions Nos. 61582 and 61954 regarding the proper treatment of the expenses associated with the applicant's contract with Stone & Webster Corporation, a major item of general office expense allocable to Orange County District.
- (b) That the estimates for the test year 1960 of operating revenues, of operating expenses, including taxes other than on income, depreciation and income tax, and of depreciated rate base, together with the resultant rate of return of 5.23% at present rates and 6.91% at proposed rates, submitted by the applicant for its Total Orange County District are unreasonable and should not be, and are not, adopted for this proceeding.

- (c) That the proper treatment of ad valorem taxes for the instant proceeding is to utilize actual assessment ratios and tax rates adjusted to reflect modifications to utility plant made by the staff.
 - (d) That the treatment by the staff of the estimated charges to the applicant's deferred federal income tax account for the test year is in accord with Decisions Nos. 60614 and 60615 and is properly treated herein by the staff.
 - (e) That it would be improper to include in the estimated rate base for the test year 1960 the estimated refunds on advances for construction for years subsequent to the test year, as advocated by the applicant's engineering witness, either in whole or in part, particularly if revenues and expenses are not projected beyond such test year and such proposal of applicant is not adopted.
2. (a) That as to the major items of operating expenses wherein the staff engineer's estimates for the normal test year 1960 for rate-making purposes differed from the estimates submitted by the applicant, it is reasonable for the staff engineering witness to have estimated costs of fuel and power for pumping on the basis of normal customer use of water; to have excluded from his estimate as a nonrecurring item of expense, the replacement of a collapsed reservoir roof which occurred in 1954; to have allowed \$830 per year for the painting of reservoirs and for normal years' reservoir maintenance expenses for rate-making purposes; to have excluded the cost of starting up and initiating a chlorination program upon the basis that such a cost is not a normal operating expense; and to have assumed that if the applicant diligently pursues and effects the economies which should accrue to it from combining its Orange County District operations, the costs of billing customers and collecting their accounts should decrease rather than increase.
- (b) That generally and specifically the staff engineer's estimates of the amounts of plant not directly related to customer growth and/or normal years' additions, based upon the assumption that certain plant additions of the applicant for the test year 1960 rate base determination were nonrevenue producing, abnormal, and nonrecurring in the normal year's utility operation, are supported in the record and are reasonable.
 - (c) That the estimating procedures, methods, and techniques utilized by the Commission staff engineers in arriving at their estimates of total operating expenses and rate base are recognized

realistic, sound, reliable, and acceptable as reasonable as an over-all guide to and estimate of the normal future operations of the applicant in its Orange County District, combined.

- (d) That the estimates for the year 1960 of operating revenues amounting to \$726,900 for the applicant's Total Orange County District at present rates, and the estimates of total operating expenses amounting to \$494,520, with resultant net revenue amounting to \$232,380, submitted by the Commission staff engineering witnesses as hereinbefore set forth, together with the estimated depreciated rate base amounting to \$3,489,300 and the resultant rate of return of 6.66%, are reasonable and should be, and are, adopted for this proceeding.
- 3. That the estimates for the test year 1960 of operating revenue, and of operating expenses, net revenue, rate base and resultant rates of return of 7.03% for Huntington Beach, 6.95% for Placentia-Olive, 6.87% for West Orange, and 6.91% for Total Orange County, at proposed rates, submitted by the applicant are unreasonable and should not be, and are not, adopted for this proceeding.
- 4.(a) That the estimates for the year 1960 of operating revenues, expenses, and rate base for the applicant's Orange County District tariff areas for the year 1960 submitted by the staff engineering witnesses are realistic, sound, reliable, and acceptable as reasonable, and are in accord with recognized engineering rate-making estimating practices.
- (b) That the rates of return by tariff areas for the year 1960, calculated by the staff which show a rate of return of 6.33% for Huntington Beach; of 7.66% for Placentia-Olive; of 6.55% for West Orange; and of 6.66% for Total Orange County, all at present rates, are reasonable and should be, and are, hereby adopted for this proceeding.
- 5.(a) That the applicant has failed to, and has not, by clear and convincing evidence on the record herein, overcome the presumption of law that its present rates for water service in its Orange County District comprising the seven tariff areas in said District are just and reasonable.
- (b) That no adequate showing has been made by the applicant justifying the granting of its application to increase its rates for water service in its Total Orange County District comprising the seven tariff areas in said District.
- 6. That the application to increase rates should be denied. ✓

O R D E R

Application as above-entitled and as amended having been filed, public hearings having been held, briefs having been received, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED that the application of Southern California Water Company, a corporation, to increase its rates for water service in its Orange County District 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 3rd day of October, 1961.

George W. Page
President
E. L. Fox
Fredrick B. Holbeuff

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.