

ORIGINAL

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Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
INVESTMENT WATER CORPORATION, LTD.,
a corporation, for authority to
increase its rates for service.

Application No. 43634

Flint & MacKay, by William K. Flint and
Philip M. Battaglia, for applicant.
Jerry Facht, for Citizen Consumers; Mrs. Ida
Reissig Ernst; Mrs. Ray Kovitz; Charlotte M.
Paskil; Mrs. Henry I. Graham; Eather Meyers;
Mrs. John R. Maluvius; Mrs. Albert Cahn;
Mrs. Edward D. Arend, for Mr. Edward D. Arend;
Mrs. Elizabeth Loshoney; Al Fisher; Frank W.
Neill; Erwin P. Tuppan; James Padden; L. Earl
James; Jirair N. Sarian and Jessie E. Sarian,
for Brenden Family, protestants.
William J. Robinson; Ray Kovitz; and Louis L.
Farnsworth, interested parties.
Donald B. Steger, for the Commission staff.

O P I N I O N

By the application herein, filed on July 27, 1961, Investment Water Corporation, Ltd. (applicant) requests authority to increase its rates. Public hearings on the matter were held in Los Angeles, California, before Examiner Kent C. Rogers on November 30 and December 1, 1961. Evidence was adduced and the matter was submitted. Prior to the first day of hearing, notice thereof was mailed to consumers and published as required by this Commission. Twenty consumers or representatives of consumers appeared as protestants or as interested parties. In addition, a group of protests, allegedly containing the names of

approximately 700 consumers, was filed opposing the proposed rates as inequitable and excessive (Exhibit No. 1). Several consumers also wrote letters to the Commission protesting the rate increase and at least one complained about fire protection. In addition, several complained about the pressure. A utility is entitled to an opportunity to earn a reasonable return on its investment. The Commission has the power to require that a utility system be adequately maintained. The Commission will do this by requiring reports which can be checked by its engineers. If recommendations by the staff are not complied with, the Commission can enforce its requirements by appropriate action.

The Commission staff reported that it made a field investigation in October 1961 and found that the pressures and services generally were satisfactory, but that there had been a high incidence of leaks in certain localized areas requiring substantial repairs in recent years. It recommended that applicant study the experience in leak repairs of mains and develop a program for replacement of defective mains.

Applicant is a wholly owned subsidiary of Los Angeles Investment Company, a California corporation, and the officers of each company are the same. The investment company subdivided and is presently subdividing tracts in the service area, located in Los Angeles County and adjacent to the City of Los Angeles,

which area is bounded by Crenshaw Boulevard on the east and Stocker Street on the north. There are no other subdividers therein. Homes are constructed by the individual lot owners and not by the investment company.

As of June 1959, applicant had approximately 6,050 consumers, but at that time the City of Los Angeles purchased the water distribution system within the city and applicant lost approximately 1,181 consumers and the distribution mains and meters necessary therefor. The staff estimates that during the year 1961 applicant had an average of 5,148 consumers, all of which were metered, including a Standard Oil Company plant, which receives its water pursuant to a special contract. Applicant's records show that at the end of 1960, it had 5,065 consumers.

As of September 1961, applicant obtained its water from six wells equipped with electrically operated turbine pumps and two Metropolitan Water District main taps. There are four pressure zones. The capacity of the wells is approximately 3,500 gallons per minute, and the Metropolitan Water District taps have a combined capacity of approximately 7,000 gallons per minute. Water is stored in six reservoirs having a total capacity of 4,200,000 gallons.

The present rates have been in effect since March 24, 1958, and include Commercial Sales-Metered; Industrial Sales-Metered; Commercial Sales-Flat; and public fire protection. Applicant requests authority to increase the Commercial Sales-Metered rates only and not to disturb the other rates.

The present and proposed commercial metered rates are as follows:

PRESENT AND PROPOSED RATES

| Quantity Rates: | | Per Meter Per Month | |
|-----------------|--|--------------------------|---------------------------|
| | | <u>Present Rates</u> | <u>Proposed Rates</u> |
| First | 600 cubic feet, or less | \$1.40 | \$2.25 |
| Next | 1,400 cubic feet per 100 cubic feet . . | .20 | .30 |
| Next | 2,000 cubic feet per 100 cubic feet . . | | .25 |
| Next | 8,000 cubic feet per 100 cubic feet . . | .15 | |
| Over | 4,000 cubic feet per 100 cubic feet . . | | .20 |
| Over | 10,000 cubic feet per 100 cubic feet . . | .12 | |

| Minimum Charge: | | <u>Present Rates</u> | <u>Proposed Rates</u> |
|-----------------|--------------------------------|--------------------------|---------------------------|
| | | | |
| For | 5/8 x 3/4-inch meter | \$1.40 | \$ 2.25 |
| For | 3/4-inch meter | 1.75 | 3.00 |
| For | 1-inch meter | 3.00 | 6.00 |
| For | 1 1/2-inch meter | 4.00 | 10.00 |
| For | 2-inch meter | 6.00 | 15.00 |
| For | 3-inch meter | 12.00 | 30.00 |
| For | 4-inch meter | 24.00 | 45.00 |
| For | 6-inch meter | 36.00 | 90.00 |
| For | 8-inch meter | 48.00 | 180.00 |

Applicant estimates that for the year 1961, at present rates, it will have a net income of \$33,025, which will result in a rate of return of 2.6% on a rate base of \$1,310,053. It claims that if the rates proposed by it had been in effect in 1961, it would have had a rate of return of 7.6% on said rate base with a net revenue of \$100,404, and that for the year 1962, at the proposed rates, it would have net income of \$98,033, which would result in a rate of return of 7% on a rate base of \$1,402,923.

A study by the staff resulted in estimated figures varying substantially from those presented by applicant.

A comparison of the applicant's and the staff's estimates of the results of operation for the test year 1962 at present and proposed rates is as follows:

| 1 9 6 2 | | | | |
|---------------------------------------|---------------|------------|----------------|------------|
| Item | Present Rates | | Proposed Rates | |
| | Company | Staff | Company | Staff |
| <u>Operating Revenues</u> | \$ 290,720 | \$ 291,700 | \$ 437,965 | \$ 441,100 |
| <u>Operating & Maint. Expense</u> | | | | |
| Source of Supply | 26,030 | 24,460 | 26,030 | 24,460 |
| Pumping | 52,670 | 41,650 | 52,670 | 41,650 |
| Water Treatment | 700 | 900 | 700 | 900 |
| Transmission & Distribution | 49,500 | 22,960 | 49,500 | 22,960 |
| Customer Account & Coll. | 22,075 | 25,500 | 22,075 | 25,500 |
| Administrative & General | 38,205 | 37,000 | 38,205 | 37,000 |
| Total Operating & Maint. Expense | 189,180 | 152,470 | 189,180 | 152,470 |
| Taxes Other Than Income | 33,075 | 32,320 | 33,075 | 32,320 |
| Taxes Based on Income | 1,241 | 18,540 | 76,957 | 100,130 |
| Total Taxes | 34,316 | 50,860 | 110,032 | 132,500 |
| Depreciation Expense | 40,720 | 38,650 | 40,720 | 38,650 |
| Total Operating Expenses | 264,216 | 241,980 | 339,932 | 323,620 |
| Net Revenue | 26,504 | 49,720 | 98,033 | 117,480 |
| Depreciated Rate Base | 1,402,923 | 1,205,855 | 1,402,923 | 1,205,855 |
| Rate of Return | 1.9% | 4.1% | 7.0% | 9.7% |

Revenues

Applicant has several types of water sales revenues, namely, metered commercial, metered industrial, flat commercial and stand-by fire protection. The only rates that applicant seeks to increase are its commercial metered rates. Its metered service revenues, excluding industrial sales, totaled \$252,350 in 1960, and its metered industrial sales totaled \$10,919. The latter sales are to Standard Oil

Company, only, and are at a special contract rate. It is not proposed to be changed, nor is the fire protection rate proposed to be changed. In 1960, adjusted total revenues from all but commercial metered sales totaled \$21,454 out of a total of \$273,804. In calculating the rates to be charged, applicant's engineer considered 1960 a normal year, and estimated that the average annual revenue per commercial consumer that year was \$50.43. There were 5,065 consumers of all types at the end of the year 1960. The engineer estimated that the average number of customers will be 5,140 in 1961 and 5,307 consumers in 1962. He extended the rate base for 1961 and 1962 to include estimated additions to mains, pumping-equipment, services and meters, and the improving of its wells so that it would have facilities to serve the assumed additional customers and then calculated rates based on a 7 percent return. Such return would, according to the engineer, require an increase of 55 percent over the existing 1960 revenues and would require gross revenues of \$437,965 in 1962. The proposed rates will allegedly result in the stated gross revenues, which would include \$414,825 in revenues from the commercial metered sales, and \$12,200 in revenues from the Standard Oil Company.

The staff engineer, on the other hand, considered 1960 an unusual year in that it was much hotter and drier than normal. For this reason he reduced the 1960 water consumption by 3.2 percent and estimated an average of 5,283 consumers in 1962. He calculated gross revenues in 1962 of \$441,100 at the proposed rates, including \$417,600 from commercial metered sales, and \$12,200 in revenues from Standard Oil Company. The commercial

metered sales revenue is \$2,775 more than estimated by applicant, although applicant estimated 3.2 percent higher water usage than the staff in 1960. Applicant's estimates are reasonable. Applicant's estimate of \$437,965 for 1962 will be used herein.

Operating and Maintenance Expenses

Applicant estimated in 1962 total operating and maintenance expenses will be \$139,180. The staff estimated \$152,470, a difference of \$36,710. The staff estimates exceeded those of the applicant in only two major categories, i.e., water treatment (Account 741), which the staff estimated at \$900 and the applicant at \$700, and customers' accounting and collection expense (Accounts 772-775, inclusive), which the applicant estimated at \$22,075 and the staff estimated at \$25,500. The staff's estimates for these two accounts are reasonable and will be used herein.

Source of Supply Expense

The staff estimated that in 1962 the source of supply expense would be \$24,460, and the applicant estimated the expense would be \$26,030. Included is water from applicant's six wells on which a replenishment district tax of \$5.75 per acre foot is levied. The applicant estimated that in 1962 it will need a total of 3,519 acre feet of water of which 3,354 acre feet would come from its wells and will be subject to said district tax which will total \$19,290. In addition, it will use 165 acre feet of water from its Metropolitan Water District connections. This

water will cost \$27.50 per acre foot for a total cost of \$4,540. These two items will total \$23,830. Applicant estimates an additional \$2,200 in expenses to maintain and deepen its wells to increase the production due to dropping water levels.

The staff assumed a reduction in water requirements of 3.2 percent on the 1960 recorded consumption due to the dry year and projected its 1961 and 1962 figures from this modified base. It estimated that in 1962 applicant will secure 3,248.61 acre feet from its wells, on which the replenishment district tax will amount to \$18,680, and that it will require an additional 150 acre feet of water from the Metropolitan Water District, which, at \$27.50 per acre foot, will cost \$4,125. The total estimated cost of water, plus the tax, is \$22,805. The staff estimated cost of maintenance of wells and labor will add \$1,655 to the source of supply expense making the total cost \$24,460, or \$1,570 less than applicant's estimate. The staff's figures are reasonable and will be used.

Pumping Expenses

Applicant estimated the 1962 pumping expenses at \$52,670. The staff estimated they will be \$41,650, a difference of \$11,020.

Applicant based its estimates on the 1960 recorded figures with no adjustments, except for the estimated increased number of consumers and increased pumping costs due to the expectation that new consumers will be in the higher levels of the service area. The staff based its 1961-1962 estimates on the 1960 recorded figures adjusted by reducing consumption 3.2 percent, and

the staff also adjusted estimated costs on the basis of its expert knowledge of the normal cost of operating a system of this size.

Applicant estimated that the cost of pumping labor and pumping expenses (Accounts 722 and 724) will be \$16,100. The staff broke this total down to Account 721, operation supervision and engineering, and Account 724, pumping labor and expense. The estimates for 1962 were not itemized by the staff, but for 1961 they were estimated at, respectively, \$1,300 and \$4,380, a total of \$5,680. The staff engineer testified that the \$1,300 represented the salary of one man at \$5.00 per hour for 260 hours, checking the efficiency of the pumping units and maintaining records and operational plans of the pumps, and that Account 724, pumping labor and expense, was based on an estimated requirement of an average of three man-hours per day, 365 days per year, at \$4.00 per hour. This, in his judgment, was ample to cover the cost of this item. The 1962 figures would necessarily be slightly increased to allow for the added consumers.

Applicant estimated power purchased in 1962 will cost \$34,570. The staff figured that it costs .022 cents per 100 cubic feet to pump water, calculated the amount of water to be pumped in 1961, and estimated that the cost of power to pump this water will be \$30,900 in 1961, and in excess of \$31,000 in 1962. After consideration of the various factors involved, we will use applicant's estimate of power purchased, i.e., \$34,570.

Applicant's estimate of the cost to maintain pumps and structures is less than the staff's and will be used. We find that a fair and reasonable figure for the pumping expenses for 1962 is \$45,220, which figure will be used herein.

Transmission and Distribution Expense

Applicant estimated these expenses in 1962 will be \$49,500. The staff estimated they will be \$22,960, a difference of \$26,540.

The staff broke the costs down according to the Uniform System of Accounts and gave the following estimates for the year 1961:

| | |
|--|------------|
| Account 751 - Operation Supervision and Engineering | \$ 400 |
| Account 752 - Storage Facilities Operation Expenses | 2,920 |
| Account 753 - Transmission and Distri- bution Lines Operational Expenses | 1,900 |
| Account 754 - Meter Repair Labor | 1,000 |
| Account 756 - Miscellaneous Transmission and Distribution Expenses | 200 |
| Account 758 - Maintenance Supervision and Engineering | 800 |
| Account 760 - Maintenance of Reservoirs and Tanks | 1,800 |
| Account 761 - Maintenance of Transmission and Distribution Mains | 4,000 |
| Account 763 - Maintenance of Services | 1,030 |
| Account 764 - Maintenance of Meters | 7,300 |
| Account 765 - Maintenance of Hydrants | <u>120</u> |
| Total 1961 | \$21,470 |
| Estimated Total 1962 | \$22,960 |

The staff engineer stated that the difference between his estimates and applicant's estimates is principally in the

following accounts: maintenance of transmission and distribution mains and maintenance of meters.

The engineer stated he analyzed the company's records for the last five years on its leaks in mains and plotted each of the leaks on a map of the system. He found that over this period the leaks occurred in a very concentrated area; that at some of the locations repairs would be made as often as every three months. It was his opinion that this should have indicated to good management that the mains should have been replaced and that the company was spending as much each year in maintenance as it would have spent to replace the mains. These recurring amounts were taken out of recorded expenses.

Applicant estimated \$3,500 as the cost of inspection of the storage operation and recording the operation of such facilities (Account 752). The staff estimated \$2,920 for this in 1961 based on two hours a day, 365 days a year, at \$4.00 an hour.

Applicant estimated \$4,000 for reservoir maintenance in 1961.

The staff estimated \$1,800 based on six reservoirs requiring \$1,500 each in maintenance over a five-year period.

Applicant estimated service maintenance expense (Account 763) to be \$1,500 in 1961. The staff engineer reviewed the records and determined that for the past five years the average cost of maintaining services was 20 cents per year per service. He multiplied this figure by the estimated number of services in 1961 of 5,148 and arrived at the figure of \$1,030.

Applicant estimated meter repair expense in 1961 to be \$8,000. The staff checked meter repair expenses for 14 public utility companies and arrived at an average cost of \$14.60 per meter. This amount was multiplied by 500 meters per year.

From the explanations by the staff engineer, it appears that the staff estimates are the more reasonable and we so find; its estimated transmission and distribution expenses of \$22,960 will be used.

General and Administrative Salaries

The applicant estimated this expense at a total of \$38,204 for 1962, and the staff estimated this at \$37,000. These expenses have been increased from a recorded total of \$29,253 in 1960. Thirteen hundred and fifty dollars of this increase is attributable to the increases in officers' salaries, including the addition of one officer, and \$4,000 is attributable to increased costs of a franchise, rental of office space and rental of reservoir sites. The reservoir sites and the office are owned by the investment company. It appears that the staff's estimates are more realistic and provide adequate allocation as between the companies inasmuch as the water company is a wholly owned subsidiary of the investment company. We find that the sum of \$37,000 is reasonable, and it will be allowed for these items.

Rate Base

Applicant's 1962 estimated rate base is \$1,402,923. The staff's estimated rate base is \$1,205,855. For 1962 applicant estimated its average utility plant at \$1,754,417 and the staff estimated

an amount of \$1,632,900. The staff's figure appears correct except for one item. Applicant has two Metropolitan Water District taps. The record is clear that both taps are needed and are in use. The staff estimated that only one tap was necessary and deducted one-half the total cost of both taps or \$30,095. This amount should be added to the staff's estimate of utility plant in 1962, which will give an average utility plant in 1962 of \$1,662,995. We find this amount to be reasonable. The depreciation reserve deduction in determining rate base will be correspondingly increased by \$2,900.

In figuring its Working Cash Allowance, the staff's estimate is reasonable and adequate. Its estimate of materials and supplies is also reasonable. Both estimates will be used herein.

The major difference in deductions is the item of advances for construction, the staff estimating \$56,927 and applicant \$7,396. The record shows that the staff figure is proper. The investment company has been installing mains in the new tracts for applicant pursuant to a filed main extension rule, but applicant has been adding the full cost of such facilities to the rate base with no deduction.

We find the reasonable average depreciated rate base for the purpose of this decision is \$1,233,050.

Depreciation Expense

There appear to be minor differences between applicant and the staff relative to depreciation expense, each calculating it on the straight line remaining life basis. The staff estimated the 1962 depreciation expense at \$38,650 and applicant at \$40,720. We find that the staff estimate of depreciation expense is reasonable and it will be used, with an appropriate adjustment for our inclusion in

utility plant of both Metropolitan Water District taps. We will adopt an amount of \$39,520 for this item of expense.

Taxes

The staff estimated 1962 taxes, other than income taxes, at \$32,320, whereas the company estimated them at \$33,075. We will use the staff estimate, which we find to be reasonable.

Giving effect to the foregoing determinations concerning revenues and expenses, we find that State and Federal taxes based on income for 1962 will be \$96,035.

Summary of Operations

In view of the evidence and the foregoing findings and conclusions, the Commission adopts the following as a summary of operations of applicant for the estimated year 1962:

| <u>Item</u> | <u>Proposed Rates</u> |
|--------------------|-----------------------|
| Operating Revenues | \$ 437,965 |
| Operating Expenses | <u>323,915</u> |
| Net Revenue | \$ 114,050 |
| Rate Base | \$1,233,050 |
| Rate of Return | 9.2% |

In this proceeding the evidence is clear and convincing that the proposed rates should produce a rate of return of 9.2% in 1962 on the adopted rate base. This rate of return, and the rates proposed by the applicant, we find to be unreasonably high. The order which follows will authorize the applicant to file new schedules of rates which will produce gross annual revenues of \$359,900. This represents an increase of \$69,180, or approximately 24%, over present revenues as estimated by the applicant for 1962, but \$78,065 less than the increase in revenues requested by the applicant. When total operating expenses are deducted from such estimated gross

annual revenues, net revenues of \$75,750 will result. When such net revenue is related to the rate base of \$1,233,050, heretofore adopted, a rate of return of 6.1% will result. Said rate of return is found as a fact to be just and reasonable. Further, the Commission finds that the increases in water rates authorized herein are justified and that existing rates, insofar as they differ therefrom, are for the future unjust and unreasonable.

Both the presently effective rates and the herein authorized revenues include revenues for construction water, public fire protection, and property rentals, none of which are affected by the order herein. These items are estimated to comprise \$10,940 of the 1962 estimated income, which leaves gross revenues of \$348,960 estimated to be derived in 1962 from the Commercial Sales-Metered and Industrial Sales-Metered. This latter item concerns metered revenue only from Standard Oil Company served pursuant to a special contract. Applicant did not propose to modify the rates for this company which, applicant estimates, will pay \$12,200 in 1962 for water. Applicant's records show that in 1961, at present rates, approximately 4.46% of its total metered revenues were derived from this customer. The same ratio should be maintained in the future. Therefore, applicant will have the option of renegotiating the contract with Standard Oil Company to secure approximately \$15,560 in revenues therefrom in 1962, or of absorbing the difference between that amount and the \$12,200 it estimated it will secure from this company in 1962 under the existing contract. Deducting the \$15,560 for Standard Oil Company revenues and the \$10,940 of unaffected revenue items, applicant's Commercial Sales-Metered rates will be adjusted to produce \$333,400 of gross revenues. A typical monthly bill for 2,000 cubic feet of water will increase from \$4.20 to \$5.25.

The staff made several recommendations relative to service, contracts, and methods of operation and accounting. Said recommendations are reasonable and will be added to the requirements of the order herein.

C R D E R

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

IT IS ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order and in conformity with the provisions of General Order No. 96-A, the schedule of rates and charges attached to this order as Appendix A and on not less than five days' notice to the public and this Commission to make said rates and charges effective for service rendered on and after June 1, 1962.
2. Applicant may renegotiate its existing contract for water service with Standard Oil Company of California to provide for a total gross additional annual revenue of approximately \$3,360. Such renegotiated contract shall be submitted to this Commission for approval, in accordance with General Order No. 96-A, within thirty days after its renegotiation.
3. Applicant shall study the experience in leak repairs of mains and shall develop a program for the replacement of mains in the areas of high frequency of repairs. This program shall set forth the locations, estimated costs, and approximate timing of such replacements. This program shall be submitted to the Commission in writing not later than August 1, 1962.

4. Applicant shall, within thirty days after the effective date of this order, submit to the Commission for approval, in accordance with the provisions of Section X-A of General Order No. 96-A, copies of all contracts in effect relating to utility service, including all main extension agreements entered into prior to April 19, 1961, and all main extension agreements entered into on or after said date which do not conform to applicant's filed forms of main extension agreements.

5. Applicant shall, within thirty days after the effective date of this order, file in quadruplicate with the Commission, in conformity with the provisions of General Order No. 96-A and in a manner acceptable to the Commission, rules governing customer relations revised to reflect present-day operating practices, including sample copies of all forms used in connection with customers' services. Such rules and forms shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

6. Applicant shall, within sixty days after the effective date of this order, file four copies of a comprehensive map drawn to an indicated scale not smaller than 600 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 system properties of applicant.

7. Applicant shall determine the accruals for depreciation by multiplying the original cost of depreciable plant by the rates set forth in Table 5-C of Exhibit No. 3 in this application by accounts. These rates shall be reviewed, using the straight line remaining life method, when major changes in depreciable plant composition occur and for each plant account at

intervals of not more than five years beginning with the next review of January 1, 1963. Results of these reviews shall be submitted to this Commission in writing.

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

Dated at San Francisco, California, this 8th day of MAY, 1962.

Carroll A. Borge
President
W. L. Borge
E. L. Borge
George G. Hoover
Fredrick B. Hobbhoff
Commissioners