

ORIGINAL

Decision No. 65205

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation into the rates, rules and regulations of PARK WATER COMPANY.

Case No. 7305
(Filed March 27, 1962)

In the matter of the application of PARK WATER COMPANY, a California corporation, for authorization to increase its rates charged for water service.

Application No. 43659
(Filed August 3, 1961)

Amended August 7, 1961

In the matter of the application of PARK WATER COMPANY, a California corporation, for authorization to increase its rates charged for water service to offset the Replenishment District Assessments of the Central and West Basin Water Replenishment District.

Application No. 43685
(Filed August 18, 1961)

Roe and Reillas, by Chris S. Reillas and Richard P. Roe, for Park Water Company.
Carl H. Zeise and John F. Ransom, for the City of South Gate, interested party.
Sheldon Rosenthal, Robert W. Beardlee, and Richard R. Entwistle, for the Commission staff.

O P I N I O N

The above-entitled matters were consolidated for hearing and public hearings thereon were held before Commissioner Grover and Examiner Rogers in Los Angeles on April 18, May 31, June 1, 6, 7, and 8, 1962, and in San Francisco on June 13 and 14, 1962. On the latter day the hearings were concluded, subject to the receipt of certain interrogatories and answers thereto, and continued for oral argument. The

interrogatories and answers have been received and placed in the record and oral argument was held before Commissioner Grover and Examiner Rogers in Los Angeles on August 22, 1962, at the conclusion of which the matters were submitted. They are ready for decision. Prior to the first day of hearing, notices thereof were published and posted as required by this Commission. There were no protests.

By Application No. 43659, applicant seeks to increase its operating revenue in the year 1962 from an estimated \$1,430,180 at present rates to an estimated \$1,893,160 at proposed rates, thereby increasing its claimed rate of return from 3.05% to 8.18%.

By Application No. 43685, applicant seeks an interim rate increase to compensate for the increases starting July 1, 1961, of the Central and West Basin Water Replenishment District assessment from \$3.19 per acre-foot to \$5.75 per acre-foot (increased on July 1, 1962, to \$6.63 per acre-foot). In view of our action herein on Application No. 43659, the application for interim relief will be dismissed.

By Case No. 7305, the Commission seeks to determine, among other things, whether or not applicant's rates should be reduced.

General Information

Park Water Company (applicant) was incorporated on December 15, 1937, in California. Its officers are H. H. Wheeler, President, O. D. Collins and William S. Cook, Vice Presidents,

and V. E. Wheeler, Secretary. Its directors are H. H. Wheeler, O. D. Collins, and V. E. Wheeler. There are 80,000 shares of \$25 per share par value common stock issued, the majority of which are owned by H. H. Wheeler.

Applicant furnishes water to numerous noncontiguous areas in Los Angeles County in, and in the vicinity of, Garden Grove, Compton, Bellflower, Paramount, Downey, and Norwalk, plus some in San Bernardino County.

At the end of December, 1960, applicant had 31,387 commercial^{1/} metered customers and 9,593 commercial unmetered consumers, for a total of 40,980 consumers. Since its formation, applicant has not had a rate increase. It has, however, been converting commercial unmetered consumers to commercial metered consumers. In 1951, of a total of 24,296 customers, only 1,322 were metered. Applicant estimates there will be 41,360 customers at the end of 1962, of which 35,310 will be metered.

Applicant's Request

Applicant requests that the Commission establish rates for water service which will enable it to realize an 8.18% rate of return on its depreciated average rate base of \$4,072,250. To yield such a return, applicant proposes rates estimated to produce gross revenues of \$1,893,160 based on the contemplated level of revenue during 1962, an increase of \$462,980, or

^{1/} "Commercial" customers include those who take water for domestic use.

approximately 32% more than the \$1,430,180 gross revenues estimated as attainable for that year at the rates presently in effect.

Rates, Present and Proposed

The presently effective rates for all services are those authorized on February 14, 1938, by Decision No. 30620, in Application No. 21668. The following comparative tabulation summarizes the present rates and those proposed by applicant in Application No. 43659:

SCHEDULE NO. 1
GENERAL METERED SERVICE

		<u>Per Meter</u>	<u>Per Month</u>
		<u>Present</u>	<u>Proposed</u>
		<u>Rates</u>	<u>Rates</u>
Quantity Rates:			
First	2,000 cu. ft., per 100 cu. ft. . . .	\$ 0.15	\$ 0.19
Next	8,000 cu. ft., per 100 cu. ft. . . .	.125	.16
Next	90,000 cu. ft., per 100 cu. ft. . . .	.10	.13
Next	200,000 cu. ft., per 100 cu. ft. . . .	.08	.11
Over	300,000 cu. ft., per 100 cu. ft. . . .	.075	.10
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ -	\$ 1.90
For	3/4-inch meter	1.50	2.25
For	1-inch meter	1.50	4.00
For	1 1/2-inch meter	2.00	10.00
For	2-inch meter	3.00	16.00
For	3-inch meter	5.00	25.00
For	4-inch meter	10.00	40.00
For	6-inch meter	20.00	60.00
For	8-inch meter	40.00	100.00

The monthly minimum charges will entitle the customer to the quantity of water which that monthly minimum charge will purchase at the monthly quantity charges.

SCHEDULE NO. 2

GENERAL FLAT RATE SERVICE

<u>Rates</u>	<u>Per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
For 3/4-inch service, per single family unit on a single lot not in excess of 7,500 square feet	\$1.50	\$2.00
Additional for each 100 square feet in excess of 7,500 square feet . . . . .	.02	.027

Fire protection rates are not to be changed.

Summary of earnings

The showings of the applicant and the Commission's staff, relative to estimated results of operation at present and proposed rates for the year 1962, are summarized as follows:

COMPARISON OF STAFF AND COMPANY SUMMARY OF EARNINGS AT PRESENT AND PROPOSED RATES

<u>Item</u>	<u>Year 1962 Estimated</u>			
	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Staff</u>	<u>Company</u>	<u>Staff</u>	<u>Company</u>
Operating Revenues	\$1,527,900	\$1,430,180	\$2,013,500	\$1,893,160
Oper. & Maint. Exp.	509,200	633,290	510,700	635,490
Water Dist.Repl. Taxes	167,600	154,670	167,600	154,670
Admin. & Gen. Expenses	117,500	148,800	117,500	148,000
Taxes Other Than on Income	173,300	186,390	173,600	188,550
Taxes on Income	138,000	27,350	402,300	277,780
Depreciation	119,000	155,480	119,000	155,480
Total Expenses	\$1,224,600	\$1,305,980	\$1,490,700	\$1,559,970
Net Revenues	303,300	124,200	522,800	333,190
Depreciated Rate Base	\$3,986,000	\$4,072,250	\$3,986,000	\$4,072,250
Rate of Return	7.61%	3.05%	13.12%	8.18%

The results of operations for the year 1960, as adjusted, of the applicant and the staff at present and proposed rates are as follows:

COMPARISON OF STAFF AND COMPANY SUMMARY
OF EARNINGS AT PRESENT AND PROPOSED RATES

Item	Year 1960 Adjusted			
	Present Rates		Proposed Rates	
	Staff	Company	Staff	Company
Operating Revenues	\$1,400,000	\$1,341,030	\$1,845,900	\$1,764,400
Oper. & Maint. Exp.	604,600	543,970	605,900	546,030
Water Dist.Repl. Taxes*		161,360*		161,360*
Admin. & Gen. Expenses	114,300	171,800	114,300	171,800
Taxes Other Than on Income	158,800	171,220	159,100	171,480
Taxes on Income	131,900	41,080	374,600	271,150
Depreciation	104,300	136,690	104,300	136,690
Total Expenses	\$1,113,900	\$1,226,120	\$1,358,200	\$1,458,510
Net Revenues	286,100	114,910	487,700	305,890
Depreciated Rate Base	\$3,537,000	\$3,684,270	\$3,537,000	\$3,684,270
Rate of Return	8.09%	3.12%	13.79%	8.30%

* Included by staff as part of Oper. & Maint. Expenses

Staff Accounting Adjustments

A financial examiner of the Commission's staff examined the books and records of the applicant prior to the hearings and testified that past accounting records and procedures were found to be inadequate in many respects and not wholly in conformance with accounting prescribed by the Commission for water utilities. He further testified that in recognition of these deficiencies, applicant had already made many adjustments of large magnitude to its accounts reflecting plant investment, depreciation reserves, contributions in aid of construction, and earned and capital surplus, and that additional adjustments of almost equal magnitude to these

same accounts, and to operating results for the first nine months of 1961 would be required. Accordingly, in preparation for the hearing in this matter, he developed in Chapter 4 of Exhibit No. 10 an adjusted balance sheet as of September 30, 1961, giving effect to such additional adjustments.

During the hearings it developed that substantially all of the adjustments to the various accounts developed by the staff financial examiner had been entered on applicant's books by its accountants. Journal entries effecting such adjustments were submitted to the Commission in a letter from applicant dated January 30, 1962. We find that the effect on rate base component accounts of adjustments contained in that letter is reasonable for rate making purposes, but at this time withhold an opinion as to the technical accounting correctness of those adjusting entries affecting contributions in aid of construction and equity capital accounts. Because of a remaining lack of clarity in those transactions giving rise to adjustments to equity capital accounts, further adjustments as between capital stock and surplus accounts may be in order. Specific approval of such further adjustments will not be included herein, pending clarification of their basis by applicant and Commission staff accountants and submission to the Commission of the adjusting entries proposed.

Applicant will be expected at all times in the future to keep its books in strict compliance with the applicable Uniform System of Accounts prescribed by this Commission.

Rate Base

The components of the average depreciated rate base for the test year 1962, as developed by the staff and by applicant, as well as the amounts adopted as reasonable herein, are set forth below:

AVERAGE DEPRECIATED RATE BASE
TEST YEAR 1962 ESTIMATED

Item	: Applicant : Exhibit 7	: Staff : Exhibit 8	: Adopted
Average Utility Plant and Construction Work in Progress	\$8,361,710	\$8,403,591	\$8,379,916
Deduction for Depreciation	<u>1,873,090</u>	<u>1,797,478</u>	<u>1,840,105</u>
Average Net Utility Plant	\$6,488,620	\$6,606,113	\$6,539,811
<u>Modifications:</u>			
Advances for Construction	<u>(255,040)</u>	<u>(302,000)</u>	<u>(302,000)</u>
Contributions in Aid of Construction	<u>(2,330,460)</u>	<u>(2,354,020)</u>	<u>(2,354,020)</u>
Warehouse Site Adjustment	-	<u>(79,440)</u>	<u>(79,440)</u>
Subtotal, Modifications	<u>(\$2,585,500)</u>	<u>(\$2,735,460)</u>	<u>(\$2,735,460)</u>
<u>Working Capital:</u>			
Material and Supplies	\$ 95,510	\$ 25,000	\$ 50,000
Working Cash Allowance	<u>73,620</u>	<u>90,000</u>	<u>90,000</u>
Subtotal, Working Capital	\$ 169,130	\$ 115,000	\$ 140,000
Total, Modifications and Working Capital	<u>(\$2,416,370)</u>	<u>(\$2,620,460)</u>	<u>(\$2,595,460)</u>
Average Depreciated Rate Base	\$4,072,250	\$3,985,653	\$3,944,351

(Red Figure)

Average Utility Plant

Applicant estimated Utility Plant at the beginning of the year 1962 as having an undepreciated value of \$8,175,713. The staff valued this plant at the same time at \$8,187,719. These plant values each purport to reflect the adjustments ordered by the Commission in its Decision No. 52239, dated November 14, 1955, in Application No. 34699 (amended).

The staff's estimate of the Average Utility Plant and Construction Work in Progress in 1962 is \$41,881 higher than that of applicant.

The staff found numerous errors in accounting practices and adjusted Utility Plant accordingly. For example, as of the end of the year 1961, applicant, it is estimated, had failed to capitalize approximately \$35,500 of payroll overheads. In addition, as of the end of 1961, applicant had failed to record properly certain Construction Work in Progress with the result that \$7,000 was added by the staff to Utility Plant for 1961.

In 1962, there were additional payroll overheads not capitalized; these are estimated by the staff to total \$9,000. There is also an additional \$1,000 estimated for erroneously recorded Construction Work in Progress.

Applicant and the staff estimated net additions to Utility Plant in 1962 as, respectively, \$371,991 (with a mathematical average of \$185,995) and \$389,940 (with a weighted average of \$164,400). The major differences in the estimates are those relating to meters and transportation equipment. Applicant estimated \$73,400 for 1,240 meters to be installed during the year

and the staff estimated \$125,000 for 2,500 meters. We find that applicant's estimate of the number of meters installed is reasonable and proper. The staff estimated a cost of \$50 per meter, which we find is reasonable. The sum of \$31,000 is a reasonable amount for the weighted average cost of metering in 1962.

It also appears that applicant's estimates of \$28,000 for transportation equipment and \$4,150 for tools, shop, and garage equipment are reasonable and necessary for applicant in 1962, and that the staff's total allowance for such items of \$16,500 is unreasonably low. We find that weighted average of the undepreciated Utility Plant and Construction Work in Progress in 1962 in the amount of \$8,379,916 is reasonable for rate making purposes.

Deduction for Depreciation

At the beginning of the year 1962, applicant's reserve for depreciation was recorded as \$1,764,548. The staff estimated this figure as \$1,722,011. We find the company's figure to be reasonable and it will be used herein. Accruals, retirements and salvage during the year 1962 are judgment figures, and we find the staff's estimates to be reasonable, subject to adjustment of accruals to give consideration to 1962 estimated depreciable plant additions adopted herein. We find that the reasonable deduction for depreciation reserve for 1962 test year purposes is \$1,840,105.

Contributions in Aid of Construction

As of December 31, 1961, applicant's recorded net balance of Contributions in Aid of Construction was \$2,342,661. The staff estimated the weighted average for 1962 as \$2,354,020, while the applicant estimated such figure at \$2,330,460, based on an estimated beginning-of-the-year figure of \$2,342,661. We find the staff's figure of \$2,354,020 is reasonable for this item.

Advances for Construction

Applicant's figures agree with the book records for this item, i.e., \$260,977, as of January 1, 1962. However, as pointed out by the staff, during the years 1956 through 1960, a portion of the amounts due were not paid, but were shown on the books as accounts payable, having been removed from advances account. The staff has adjusted for this item. We find the staff's adjusted figure of \$302,000 is correct and is reasonable for rate making purposes.

Warehouse Site Adjustment

Applicant's Account 306, Land and Land Rights, is shown by applicant as \$173,895. A large part of this item is the value of a warehouse site sold by Mr. Wheeler to applicant for \$101,115, and allegedly purchased by him for \$20,530. The amount of land sold was not shown accurately, but the land appears to have been used by the company through Mr. Wheeler prior to the official dedication and sold at the inflated price. For this reason, this item of rate base has been adjusted downward by the staff by an amount of \$79,440. We find this adjustment is reasonable and it will be adopted.

Materials and Supplies

Applicant's estimate of \$95,510 for materials and supplies is based on a physical check of such items on hand on December 31, 1961, which amount was \$95,511. Applicant contends such supplies are necessary and that smaller companies have had similar amounts allowed. The staff estimated \$25,000 as adequate. Both estimates are judgment figures, and in this case, both tend to be extreme. We find that \$50,000 is a reasonable allowance for materials and supplies.

Working Cash Allowance

We find that the staff estimate of \$90,000 for working cash is reasonable.

Average Depreciated Rate Base

The Commission hereby finds a depreciated rate base of \$3,944,351 to be fair and reasonable for the test year 1962.

Revenues

The recorded revenues of applicant for the years 1955 through 1961 are as follows:

<u>Year</u>	<u>Revenue</u>
1955	\$ 962,538
1956	1,074,900
1957	1,160,300
1958	1,241,341
1959	1,385,054
1960	1,416,997
1961	1,538,317

Comparisons of applicant's and the staff's estimates of revenues in 1962 at present and proposed rates are as follows:

Item	Year 1962 Estimated			
	Present Rates		Proposed Rates	
	Applicant:	Staff	Applicant:	Staff
<u>Metered Rates</u>				
Commercial	\$1,172,640	\$1,253,000	\$1,554,900	\$1,652,700
Industrial	52,220	64,200	75,170	91,800
Public Authority	28,470	42,000	44,460	61,400
Subtotal	\$1,253,330	\$1,359,200*	\$1,674,530	\$1,805,900*
<u>Flat Rates</u>				
Commercial	\$ 128,180	\$ 106,600	\$ 169,960	\$ 142,300
Private Fire Protection	1,280	5,900**	1,280	5,900**
Public Fire Protection	47,390	44,400	47,390	44,400
Subtotal	\$ 176,850	\$ 156,900	\$ 218,630	\$ 192,600
Total Operating Revenues	\$1,430,180	\$1,516,100	\$1,893,160	\$1,998,500

*In addition to the figures shown, the staff added estimated revenues from correction of meters of \$11,800 at present rates and \$15,000 at proposed rates. These revenues will be referred to herein.

**The staff included herein revenues from stand-by private fire protection. Applicant included such revenues in its industrial metered revenues.

The differences between the staff's and applicant's estimates of commercial metered service revenues are, at present and proposed rates, respectively, \$80,360 and \$97,800, the staff estimate being the larger in each instance. Part of this difference results from the differences in the estimates of revenues per customer per year and part results from the differences in the estimates of the

number of metered commercial customers as opposed to the number of unmetered customers. The evidence shows that in forecasting revenues per year per metered commercial customer, applicant estimated an average annual water consumption of 219 ccf, whereas the staff estimated 232 ccf. The recorded average annual consumption per metered commercial customer for the years 1959, 1960, and 1961 was 244 ccf, 232 ccf, and 243 ccf, respectively. We find that the staff's estimate of average annual commercial metered consumption for 1962 is reasonable and it will be used herein. Such consumption would result in average annual revenue of \$34.70 for each such customer at present rates, and approximately \$45.77 at the proposed rates, an average increase of approximately \$11.07 or 31.9%.

In forecasting the gross commercial metered service revenues the staff estimated an increase of 5,822 meters between 1960 and 1962. Such figure includes an average of 411 new commercial metered consumers per year, which rate we find to be reasonable, and the conversion of 5,000 flat rate consumers to metered status at the rate of 2,500 per year. The applicant's proposed rate of conversion for the year 1962 is 1,000, and we find this rate is reasonable for the year 1962. On this basis, the reasonable expectancy for metered commercial consumers at the end of the year 1962 is 36,064, with an average for the year of 35,359. Using such figure, at present rates, the estimated revenues in 1962 from commercial metered customers would be \$1,226,957, and at proposed rates would be \$1,618,381. We find these revenue estimates to be reasonable for the purposes of this proceeding.

Applicant's estimates of metered service revenues from public authorities and industrial consumers are purportedly based on the averages for the past five and one-half years. Applicant used 250.56 ccf and 386.79 ccf per month, per consumer, respectively, for these two items, and the staff used 358.33 ccf and 700 ccf, respectively. The record shows that the recorded average consumption per month for industrial customers for the years 1956 through 1960 was 439.58 ccf, 469.91 ccf, 543.16 ccf, 650.75 ccf, and 691.91 ccf, respectively. The record also shows that the recorded average annual consumption per month for public authorities for the years 1956 through 1960 was 252.92 ccf, 208.67 ccf, 248.08 ccf, 292.83 ccf, and 336.91 ccf, respectively. In each instance, the trend has been consistently upward; the staff's estimates are in accordance with the trend. We find that the staff's estimates are reasonable and they will be used. The resulting revenues at present and proposed rates are as follows:

	<u>No. of Services</u>	<u>Present</u>	<u>Proposed</u>
Industrial	83	\$64,200	\$91,800
Public Authorities	93	\$42,000	\$61,400

Applicant estimates that in 1962, at existing rates, its revenues per flat rate commercial consumer will be \$1.691 per month per consumer and that there will be a total of 75,800 consumer months. The resulting total estimated annual revenues at present rates would be \$128,180 and would be \$169,964 at the proposed rates. This latter figure was reached by multiplying the adjusted unmetered revenues by the factor 1.32598, the proposed "across the board" rate increase. The staff calculated that with 5,400 flat

rate consumers, applicant's revenues would be \$106,600 at present rates and \$142,300 at proposed rates.

Using the staff estimate of flat rate commercial customers at December 31, 1961 of 6,650 and reflecting the conversion of 1,000 flat rate customers to metered service during 1962, there will remain 5,650 flat rate commercial customers at the end of 1962. This would produce an average of 6,150 for the test year 1962. Based upon this average number of customers, flat rate commercial revenues for the test year 1962 would be \$124,796 at present rates, and \$165,477 at rates proposed by applicant. We find these latter two revenue figures to be reasonable.

Inasmuch as we have used the staff's estimates of industrial metered service revenues which do not include private fire protection, an item included by applicant in its estimates thereof, the staff's estimate of private fire protection revenues will be used herein. We find that it and the staff's estimate of public fire protection revenues are reasonable. For 1962, at present and existing rates, these items are as follows:

	<u>Year 1962 Estimated</u>	
	<u>Present</u>	<u>Proposed</u>
Private Fire Protection	\$ 5,900	\$ 5,900
Public Fire Protection	\$44,400	\$44,400

The staff also included in its revenue estimates the additional amounts which allegedly could be recovered if meters were corrected by a 10-year meter testing program pursuant to our General Order 103. This would require the testing of approximately

3,500 meters per year and the staff assumed an addition of revenue of \$11,500 per year at present rates and \$15,000 per year at proposed rates in 1962. Applicant objected to this, and there seems to be no foundation for assuming such revenues. This claimed source of revenue will be disregarded.

It is our opinion, and we find, that in 1962 at present and proposed rates applicant's revenues will be as follows:

Item	Year 1962 Estimated	
	Present Rates	Proposed Rates
<u>Metered Rates</u>		
Commercial	\$1,227,000	\$1,618,400
Industrial	64,200	91,800
Public Authority	42,000	61,400
Subtotal	\$1,333,200	\$1,771,600
<u>Flat Rates</u>		
Commercial	\$ 124,800	\$ 165,500
Private Fire Protection	5,900	5,900
Public Fire Protection	44,400	44,400
Subtotal	\$ 175,100	\$ 215,800
Total Operating Revenues	\$1,508,300	\$1,987,400
<u>Expenses</u>		

There are major differences between applicant's and the staff's estimates of expenses for 1962. Most of the difference is caused by the added payroll estimated by applicant in excess of that estimated by the staff. The applicant requests that it be permitted to recover the salaries of six new employees in 1962. Included under Operating and Maintenance Expenses are four employees with total added salaries of \$22,200, plus an accountant at an annual salary of \$8,400, and an assistant general manager at an annual salary of \$12,000. In addition to these added employees,

applicant's engineering witness contemplates that under its meter repair program it will be required to repair approximately 3,500 meters per year and that such annual repair program will require extra personnel with added salaries of \$35,300 per year.

Applicant's vice president testified that only seven new employees will be required, including one additional employee to handle the meter repair program.

The staff based its payroll estimates on the past experience of the company and its expert knowledge of the personnel requirements. The following tabulation shows a comparison of the 1961 recorded operation and maintenance expenses and applicant's and the staff's estimates of 1962 operation and maintenance expenses, together with a dollar amount of difference and the percentage amount of difference.

COMPARISON OF STAFF AND COMPANY
OPERATION AND MAINTENANCE EXPENSES

		1961 Recorded, 1962 Estimated				
Ac. :		: 1961	: Company	: 1962 Staff	: Co. Exceeds Staff	:
:No. :	Item	:Recorded	:Estimate	:Estimate	: Amount	: Per Cent
<u>Operation Expenses</u>						
703	Source of Supply Misc.	\$ 28	\$ 430	\$ 1,000	\$ (570)	(57.0)%
703	Water Replenish. Taxes	114,693	154,670	167,600	(12,930)	(7.7)
704	Purchased Water	56,013	76,440	56,300	20,140	35.8
721	Pumping Operation	46	60	100	(40)	(40.0)
724	Pumping Labor	9,620	11,710	9,600	2,110	22.0
725	Pumping Misc.	11,588	15,350	11,400	3,950	34.6
726	Power Purchased	166,347	171,440	154,100	17,340	11.3
742	Water Treatment Labor	7,686	8,610	8,000	610	7.6
744	Chemicals	4,053	4,140	4,700	(560)	(11.9)
751	Trans. & Distr. Oper.	325	340	400	(60)	(15.0)
753	Trans. & Distr. Lines	4,103	5,050	5,000	50	1.0
754	Meter Expense	15,679	19,600	15,400	4,200	27.3
755	Customer Installation	6,545	7,780	3,100	4,680	151.0
772	Meter Reading Expense	24,170	29,430	27,000	2,430	9.0
773	Customer Records Expense	95,516	115,140	101,200	13,940	13.8
775	Uncollectibles	8,047	6,750	7,600	(850)	(11.2)
	Total Oper. Expenses	\$524,459	\$626,940	\$572,500	\$54,440	9.5
<u>Maintenance Expenses</u>						
711	Wells	\$ 2,169	\$ 9,420	\$ 3,200	\$ 6,220	194.4
730	Structures	50	1,350	1,900	(550)	(28.9)
732	Pumping Equipment	3,329	10,470	13,600	(3,130)	(23.0)
748	Water Treatment Equip.	390	550	600	(50)	(8.3)
760	Reservoirs and Tanks	4,331	6,250	2,100	4,150	197.6
761	Trans. & Distr. Mains	11,118	15,200	18,600	(3,400)	(18.3)
763	Services	20,888	25,250	12,300	12,950	105.3
764	Meters	24,087	91,250	51,200	40,050	78.2
765	Hydrants	904	1,280	800	480	60.0
	Total Maint. Expenses	\$ 67,266	\$161,020	\$104,300	\$56,720	54.4
	Total Operation and Maintenance Expenses	\$591,725	\$787,960	\$676,800	\$111,160	16.4

(Red Figure)

The staff estimate exceeds the 1961 recorded amounts by \$85,075, while applicant's exceeds the 1961 recorded amounts by \$196,235.

Operating Expenses

Account No. 703 - Miscellaneous Source of Supply Expense

Applicant's figure of \$430 will be used.

Account No. 703 - Water Replenishment Taxes
Account No. 704 - Purchased Water

The differences here are caused by applicant's and the staff's estimates of purchased Metropolitan Water District water compared with pumped water. Applicant desires to purchase a major percentage of water and pump a smaller portion from its own wells. The difference in the estimates is \$7,210. Although there are cost differentials involved in choosing between pumped water and purchased water, other factors must also be considered, including certainty of supply, availability, and water rights litigation. On this record, we are not constrained to hold that management decisions in this respect have been unreasonable for rate making purposes. Applicant's estimates of \$154,670 for water replenishment taxes and \$76,440 for purchased water will be used herein.

Account No. 721 - Pumping Operation

Applicant's estimate of \$60 will be used.

Account No. 724 - Pumping Labor and Expense

The staff's estimate for 1962 of \$9,600 is approximately the same as the 1961 recorded figure. We find the staff's estimate is reasonable and will be adopted.

Account No. 725 - Pumping Miscellaneous

The staff used the 1961 recorded expense as a criterion. Applicant here, in addition to prorating a small amount of additional

salary, allowed for gardening work on the pumping lots. This latter expense is reasonable and applicant's estimate of \$15,350 will be adopted.

Account No. 726 - Power Purchased

There is a difference of \$17,340 between applicant's and the staff's estimates of cost of power purchased in 1962, the applicant's being the higher. The difference in the estimates is caused by (1) the cost per acre-foot for power and (2) the number of acre-feet of water pumped. We have held that applicant's estimate of the amount of purchased water is correct. However, it appears that applicant's estimate of cost per acre-foot of \$7.17 is excessive and that the staff's estimate of cost per acre-foot of \$5.95 is more realistic. Relating this cost per acre-foot to the approximately 23,915 acre-feet, which applicant estimates it will require, results in an expense of \$142,294 for power purchased, which figure we find to be reasonable.

Account No. 742 - Water Treatment Labor
Account No. 744 - Water Treatment Chemicals

Applicant's total estimate for these two accounts is \$12,750 and the staff's is \$12,700. We find the staff's estimate is reasonable and it will be used.

Account No. 751 - Transmission and Distribution Operation
Account No. 753 - Transmission and Distribution Lines Expense

The staff's and applicant's estimates are very nearly identical. The staff's estimate of \$5,400 will be used.

Account No. 754 - Meter Expense

This account is entirely based on payroll. Due to inadequate accounting records, applicant had no record of this account

prior to 1960. The staff used a judgment figure of \$15,400, which is \$279 less than the company's 1961 recorded figure. Applicant's estimate appears excessive inasmuch as the number of meters to be installed in 1962 is estimated not to exceed 1,500 meters. We find the staff estimate is reasonable and it will be used.

Account No. 755 - Customer Installations Expense

The 1961 recorded figure for this item was \$6,545. The staff reduced this figure to \$3,100 for 1962 and applicant estimated \$7,780. We find that the applicant's figure of \$7,780 is reasonable and it will be adopted.

Account No. 772 - Meter Reading Expense

The recorded figure for 1961 is \$24,170. Applicant estimated \$29,430 for 1962; the staff allowed \$27,000. We find the latter figure is reasonable and it will be used.

Account No. 773 - Customer Records Expense

The recorded figure in 1961 was \$95,516. The applicant estimated \$115,140 in 1962, of which \$97,110 is labor, an increase of approximately \$20,000 over 1961. The staff's estimate is \$101,200, which we find to be reasonable.

Account No. 775 - Uncollectibles

The staff and applicant are generally in agreement on the percentage allowance for uncollectibles. Our allowance for uncollectibles is \$7,160 at present rates, and \$9,440 at the proposed rates, which we find to be reasonable.

Maintenance Expenses

Account No. 711 - Wells

Applicant's recorded figure for 1961 was \$2,169. For 1962, it estimates \$9,420 based on \$1,000 per well for 84 wells, amortized

over a period of 10 years, plus \$1,000 for labor. Prior to 1961, the annual charge was less than \$500 per year total. We find the staff's estimate of \$3,200 is reasonable and it will be adopted.

Account No. 730 - Structures
Account No. 732 - Pumping Equipment
Account No. 748 - Water Treatment Equipment

The applicant estimated a total of \$12,370 for these items. The staff's figures totaling \$16,100 are reasonable and will be adopted.

Account No. 760 - Maintenance of Reservoirs and Tanks

The staff's estimate of \$2,100 is an average of the applicant's recorded expenses over the past five years. We find this sum to be reasonable and it will be adopted.

Account No. 761 - Maintenance of Transmission
& Distribution Mains

The staff estimate of \$18,600 is a judgment figure based on recorded figures of applicant and practices of other large companies. We find this figure to be reasonable and it will be adopted.

Account No. 763 - Services

The recorded figure in 1961 was \$20,388. Applicant estimated \$25,250 in 1962 and the staff estimated \$12,300. Applicant's figure appears reasonable and it will be adopted.

Account No. 764 - Meters

This account includes the allowance for the 10-year meter testing program. The recorded figure in 1961 was \$24,087. Applicant estimates \$91,250, including the \$35,300 heretofore referred to for extra employees. The staff estimated \$51,200. We find the staff's estimate to be reasonable, and it will be adopted.

Account No. 765 - Hydrants

We find that \$900 is reasonable for this expense.

From the foregoing it appears, and we find, that total allowances of \$692,834 at present rates and \$695,114 at proposed rates are reasonable for operation and maintenance expenses, and they will be adopted.

Administrative and General Expenses

A comparison between the 1961 recorded and the applicant's and the staff's estimates for 1962, as well as the dollar and per cent differences between the respective estimates, is set forth in the following tabulation:

COMPARISON OF STAFF AND COMPANY
ADMINISTRATIVE AND GENERAL
AND MISCELLANEOUS EXPENSES

		1961 Recorded, 1962 Estimated					
:Ac. :		: 1961	: 1962 Estimated			: Co. Exceeds Staff:	
:No. :	Item	:Recorded	:Staff	: Company	: Amount	: Per Cent	:
<u>Admin. & Gen. Expenses</u>							
791	Admin. & General Salaries	\$ 79,008	\$ 87,400	\$ 82,450	\$ (4,950)	(5.7)	%
792	Office Supplies & Other Expense	13,386	12,700	13,390	690	5.4	
793	Property Insurance	457	400	590	190	47.5	
794	Injuries & Damages	11,418	7,800	9,480	1,680	21.5	
795	Employment Pensions & Benefits	5,119	3,700	4,550	850	23.0	
796	Franchise Requirements	252	300	100	(200)	(66.7)	
797	Regulatory Commission Exp.	10,138	3,500	14,000	10,500	300.0	
798	Outside Serv. Empld.	11,181	3,800	16,710	12,910	339.7	
799	Misc. General Expenses	554	300	430	130	43.3	
805	Maint. of General Plant	11,049	1,500	9,930	8,430	562.0	
	Total Administrative & General Expenses	\$142,562	\$121,400	\$151,630	\$30,230	24.9	
<u>Miscellaneous Expenses</u>							
812	Admin. Exp. Transferred	\$ (2,834)	\$ (2,900)	\$ (2,830)	\$1,070	(27.4)	
	Total Misc. Expense	\$ (2,834)	\$ (2,900)	\$ (2,830)	\$1,070	(27.4)	
	Total Administrative & General Expenses and Miscellaneous Expenses	\$139,728	\$117,500	\$148,800	\$31,300	26.6	

(Red Figure)

The differences total \$31,300, applicant's figure being the larger.

Account No. 791 - Administrative and General Salaries

The staff increased the 1961 recorded over-all total to permit the employment of a full-time accountant. We find the staff figure of \$87,400 is reasonable.

Account No. 792 - Office Supplies and Other Expenses

This is a judgment figure. Applicant's estimate of \$13,390 is based on its recorded figure of \$13,386 for 1961. This figure is reasonable and will be adopted.

Account No. 793 - Property Insurance

Applicant's figure of \$590 will be adopted.

Account No. 794 - Injuries and Damages

Applicant's figure is based on a payroll which includes personnel not allowed herein. We find the staff's estimate of \$7,800 is reasonable.

Account No. 795 - Employees' Pensions and Benefits

Both estimates were based on the same method. However, applicant included employees not allowed herein. We find the staff's estimate of \$3,700 to be reasonable.

Account No. 796 - Franchise Requirements

The staff's estimate of \$300 is reasonable.

Account No. 797 - Regulatory Commission Expense

Applicant estimated \$14,000 as the amortized portion of this expense for the year 1962. This estimate includes a portion of \$62,270 in engineering services and studies, including the preparation of Exhibit No. 1 herein and a depreciation study. In

addition, applicant estimates \$10,000 in legal fees, plus further engineering service expenses.

The staff estimated \$9,000 as a reasonable allowance spread over a period of three years for all services for the reason, among others, that much of the cost of this proceeding was caused by applicant's failure to properly maintain its records. The staff allowed an additional \$500 for miscellaneous recurring items. We find that a reasonable allowance for regulatory Commission expense is \$5,000.

Account No. 798 - Outside Services Employed

The applicant's estimate of \$16,710 appears excessive, based on its 1961 recorded expense of \$11,181, which included the services of a part-time accountant. This latter expense has been removed as applicant will employ a full-time accountant. Applicant will have, however, litigation with the City of Norwalk not heretofore encountered. A reasonable allowance for this should be included and in our opinion the sum of \$15,000, amortized over a period of three years, is reasonable. We find that \$8,000 is reasonable for this expense and will be adopted.

Account No. 799 - Miscellaneous General Expenses

The staff's estimate of \$300 is reasonable.

Account No. 805 - Maintenance of General Plant

There is a difference of \$8,430 between the staff's estimate of \$1,500 for 1962 and applicant's estimate of \$9,930. The staff estimate properly excludes transportation equipment maintenance, which is considered under operation and maintenance expenses. We find the estimate of \$1,500 is reasonable.

Account No. 812 - Administrative Expense Transferred

This account capitalizes certain administrative salaries. We find that the staff's estimated amount of \$3,900 is reasonable.

The total 1962 administrative and general expenses included herein will be \$124,080.

Depreciation

The staff's estimate of depreciation expense is \$119,000, which is \$36,480 less than the applicant's estimate of \$155,480. It appears that the difference is due mostly to the calculation of remaining lives. On the record herein, and giving consideration to depreciation accruals on adopted 1962 depreciable plant additions, we find \$119,123 reasonable for depreciation expense in 1962. Applicant will be required to compute depreciation expense by the straight-line remaining life method.

Taxes Other Than on Income

The applicant and the staff disagreed as to taxes other than on income. The staff estimated that State Unemployment Insurance taxes would be \$6,300, which is lower than the applicant's estimate of \$6,630 due to the fact the applicant considered several additional employees. We find that the staff's estimate is reasonable and it will be adopted.

The staff's estimate of Federal Unemployment Insurance taxes is greater than that of applicant due to the increase in rates from 0.3 of 1% used by the applicant to 0.8 of 1%, the alleged present rate. We find that the staff's estimate of \$2,000 is reasonable and it will be adopted.

Both parties estimated that Federal Insurance Contribution Act taxes will amount to \$9,100. We find this figure to be reasonable and it will be adopted.

The staff capitalized \$3,500 of the above taxes. The applicant did not dispute such capitalization. We find the staff's figure reasonable and it will be adopted.

The applicant presented evidence that its property tax rate in 1961 was 2.54867%. This percentage rate of the depreciated utility plant value we have used of \$6,539,811 equals \$166,678, which sum we hereby find will be a reasonable estimate of ad valorem taxes for 1962.

Vehicle taxes are not included as we find that such taxes are properly included under operating and maintenance expenses.

In addition to the above, there are local franchise fees and business license fees which total approximately \$320 at present rates, and will total approximately \$380 at the proposed rates. We find these figures reasonable and they will be adopted herein.

In addition to the foregoing, the City of Norwalk has levied an assessment in the nature of a franchise fee in the amount of 2% of the revenues from operations in the City. The applicant estimated that 23.37575% of its total revenues is derived from the city area. We have found that applicant's 1962 revenues will be \$1,508,300 at existing rates, and \$1,987,400 at the proposed rates. The resulting franchise fee will amount to \$7,052 at the present rates, and \$9,287 at the proposed rates.

We do not state an opinion whether or not such a fee is legal, but we will allow it as a proper charge until its legality has been determined in the proper courts. We have been informed that such an action is contemplated by applicant, and applicant will be ordered to inform the Commission in writing if it is established that it is not liable for the payment of this fee to the City of Norwalk.

Since this franchise fee is wholly and distinctly based upon a definable portion of applicant's gross revenues from sale of water in the City of Norwalk, it is reasonable that this charge should be borne by applicant's customers in that area alone. Accordingly, rates and charges authorized by this decision will, for service rendered to customers in the City of Norwalk, be subject to a surcharge of 2.04% to be added to billings for both general metered service and flat rate service. Schedules of rates authorized by this decision to be filed with the Commission in accordance with General Order No. 96-A will contain this special condition.

In summary, the total of the taxes other than income which we allow here are as follows:

	<u>Present Rates</u>	<u>Proposed Rates</u>
State Unemployment	\$ 6,300	\$ 6,300
Federal Unemployment	2,000	2,000
Federal Insurance Contribution Act	<u>9,100</u>	<u>9,100</u>
Total	17,400	17,400
Less Tax Capitalized	<u>3,500</u>	<u>3,500</u>
Net Payroll Taxes	13,900	13,900
City and County Ad Valorem Tax	166,678	166,678
Local Franchise Fees	200	260
Business Licenses	120	120
City of Norwalk Tax	<u>7,052</u>	<u>9,287</u>
Total	\$187,950	\$190,245

Taxes on Income

Applicant's and staff's estimates of revenues and expenses result in differences in the estimated income taxes. Applicant uses liberalized depreciation in tabulating its Federal income taxes.

The Internal Revenue Act of 1962 provides for a credit against taxes for investment in qualified property acquired on and after January 1, 1962. The record herein includes sufficient information to determine the effect of this credit. We take official notice that such a tax credit feature would result in an increase in net revenue when treated in accordance with the "flow through" basis which we adopt as reasonable.

After giving effect to the revenues and expenses adopted herein, we compute and adopt income tax in the amount of \$124,711 for the test year 1962 at present rates and \$383,990 at proposed rates. This computation reflects a 5.5% State income tax rate and a 52% Federal income tax rate.

Summary of Earnings

To recapitulate, using the figures herein adopted, we arrive at the following summary of earnings for test year 1962 at present and proposed rates:

SUMMARY OF EARNINGS

Item	Present Rates	Proposed Rates
Operating Revenues	\$1,508,300	\$1,937,400
Operation & Maintenance Expenses	692,834	695,114
Administrative & Genl. Expenses	124,080	124,080
Depreciation	119,123	119,123
Taxes Other Than on Income	187,950	190,245
Income Taxes	<u>124,711</u>	<u>383,990</u>
Total Expenses	\$1,248,698	\$1,512,552
Net Revenues	259,602	474,848
Rate Base	\$3,944,351	\$3,944,351
Rate of Return	6.58%	12.04%

Rate of Return

Applicant seeks an 8.18 percent rate of return on its claimed depreciated rate base of \$4,072,250. It computed its capital structure as of December 31, 1960, and December 31, 1961, as follows:

	<u>1961</u>	<u>1962</u>
Common Stock	\$2,000,000	\$2,000,000
Earned Surplus	548,334	659,440
Funded Debt	<u>1,550,000</u>	<u>1,600,000</u>
Total Capitalization	\$4,098,334	\$4,259,440

Applicant requests a return of 10.72% on its common equity and compares such return with 10 other water companies with an average return on equity of 10.67%, ranging from a high of 14.95% to a low of 7.42%.

The debt financing of applicant has been accomplished under very favorable conditions and the effective rate of interest of 3.48% obtained on the issuance of \$2,000,000 of debt in 1951 and 1952 comprises the cost of all senior capital remaining in the company's capital structure on September 30, 1961. The cash flow from operations and other sources of funds not requiring the issuance of securities has been sufficient to provide for all capital outlays since 1952, including debt retirement. Future growth will apparently be limited and the principal capital expenditures will relate to the providing of additional water supplies, replacing inadequate distribution facilities, and completing the metering program. Cash flow from earnings and depreciation accruals probably will suffice to provide funds for these purposes and it does not appear probable that additional external financing through debt or stock will be necessary.

Applicant has the lowest operating expenses per customer and lowest rate base per customer of any Class A water utility in California. Considering these economies of operation, together with the quality of the water service applicant provides, we find that a rate of return of 7.0% is reasonable for applicant's operations for the test year 1962. Such a rate of return will provide for debt servicing and produce a return of approximately 9.0% on equity capital.

With a rate of return of 7.0% applied to the test year rate base of \$3,944,351 found to be reasonable, there is a need for approximately \$276,105 in net revenues, or \$16,503 more than the net revenues produced at present rate levels. We find an increase in gross revenues of \$36,802 is required to produce such results.

We find that the increases in rates to be authorized by the order herein will provide such additional gross revenue as will enable applicant to meet its expenses of operation and earn a fair and just return on its depreciated rate base hereinbefore found reasonable.

We find that the increases in rates and charges authorized herein are reasonable and justified and that the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

Case No. 7305 was instituted primarily for the purpose of determining whether applicant's rates should be reduced. As we have held that applicant is entitled to a rate increase, the investigation will be terminated.

The staff investigated this company relative to service and facilities. The record shows that generally the applicant is providing a reasonably good service, but that it has some systems with dead ends, undersized and encrusted mains, and one source of

supply. These defects result in several areas of low pressure, sediment in the water and occasional interruptions of service. The staff stated that many of these dead ends are impractical to eliminate; that some could be eliminated without excessive cost; that some inadequate mains should be replaced; and that some of this work has been done in conjunction with applicant's metering program. The staff also recommended that operating pressures be raised in some areas, including specifically Areas 24 and 51, and added that an increase in personnel is justified for the purpose of flushing mains and providing chlorinization and that stand-by sources of supply should be developed in each of the present one-well systems. The Commission finds that these suggested improvements are reasonable and that the suggestions outlined above should be followed. The order which follows will make provision therefor.

Applicant will be ordered to correct certain deficiencies in its service and system as set forth in the order herein.

O R D E R

IT IS ORDERED as follows:

1. Park Water Company is authorized to file with this Commission, after the effective date of this order and in conformance with General Order No. 96-A, the schedules of rates for general metered service and flat rates attached to this order as Appendix A, and, upon not less than five days' notice to this Commission and to the public, to make such rates effective for service rendered on and after May 1, 1963. ✓

2. Concurrently with the filing authorized herein, Park Water Company is authorized and directed to withdraw and cancel by appropriate advice letter its presently effective rate schedule No. 1, General Metered Service, and its presently effective rate schedule No. 2, General Flat Rate Service.

3. Park Water Company shall, within ninety days after the effective date of this order, submit to this Commission in writing schedules and plans for (a) eliminating dead ends in the service areas and the estimated costs thereof; (b) replacing inadequate mains and the estimated costs thereof; (c) increasing pressures in service areas (particularly Areas 24 and 51) and checking all pressures and reporting to the Commission the pressures in the various service areas; and (d) investigating possible stand-by sources of supply in the various systems, where necessary, and reporting to the Commission.

4. Applicant shall determine the accruals to the depreciation reserve for each primary plant account by dividing the original cost of the utility plant, less estimated future net salvage, less depreciation reserve by the estimated remaining life of the surviving plant of the account. Applicant shall make its first review and submit the results of the review to this Commission within one hundred eighty days after the effective date of this order. Thereafter, applicant shall review the accruals of each plant account when major changes in utility plant composition occur and at intervals of not more than three years. The results of these reviews shall be submitted to this Commission.

5. In the event Park Water Company ceases to be liable for payment of the City of Norwalk fee, it shall so inform the Commission

in writing not more than ten days after such event and file revised tariffs to eliminate the surcharge to City of Norwalk customers.

C. Application No. 43685 is dismissed and Case No. 7305 is terminated.

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

Dated at San Francisco, California, this 6th day of APRIL, 1963.

George T. Grover
President
~~[Signature]~~
~~[Signature]~~
Frederick B. Holhoff
[Signature]
Commissioners

APPENDIX A
Page 1 of 2

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service. (T)

TERRITORY

Portions of Artesia, Baldwin Park, Bollflower, Commerce, Compton, Downey, Lynwood, Montebello, Norwalk, Paramount, Pico-Rivera, Santa Fe Springs, South Gate, and vicinities, Los Angeles County, and the vicinities of Chino and Bloomington, San Bernardino County. (T)

RATES

Quantity Rates:		<u>Per Meter</u> <u>Per Month</u>	
First	1,000 cu.ft. or less	\$ 1.50	(T)
Next	1,000 cu.ft., per 100 cu.ft. ....	.15	(T)
Next	8,000 cu.ft., per 100 cu.ft. ....	.125	
Next	90,000 cu.ft., per 100 cu.ft. ....	.10	
Next	200,000 cu.ft., per 100 cu.ft. ....	.08	
Over	300,000 cu.ft., per 100 cu.ft. ....	.075	

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 1.50	
For	3/4-inch meter	1.90	(I)
For	1-inch meter	2.70	
For	1 1/2-inch meter	4.20	
For	2-inch meter	6.50	
For	3-inch meter	11.00	
For	4-inch meter	20.00	
For	6-inch meter	40.00	
For	8-inch meter	65.00	
For	10-inch meter	100.00	(I)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates. (T)

SPECIAL CONDITION

All billing under this schedule to customers in the City of Norwalk is subject to a surcharge of 2.04%. (N)

APPENDIX A
Page 2 of 2

Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service. (T)

TERRITORY

Portions of Artesia, Baldwin Park, Bellflower, Commerce, Compton, Downey, Lynwood, Montebello, Norwalk, Paramount, Pico-Rivera, Santa Fe Springs, South Gate, and vicinities, Los Angeles County, and the vicinities of Chino and Bloomington, San Bernardino County. (T)
(T)

RATES

	<u>Per Service Connection Per Month</u>	
For a single family residential unit, or commercial unit, including premises not exceeding 7,500 sq.ft. in area	\$1.60	(I)
a. For each additional single family residential unit on the same premises and served from the same service connection	1.00	(N)
b. For each 100 sq.ft. of premises in excess of 7,500 sq.ft. ....	.02	(T)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter. (T)
2. All service not covered by the above classifications shall be furnished only on a metered basis .
3. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service. (T)
4. All billing under this schedule to customers in the City of Norwalk is subject to a surcharge of 2.04%. (N)
(N)