

ORIGINAL

Decision No. 62795

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of AZUSA VALLEY WATER COMPANY,
a corporation, for authorization
to increase rates and charges for
water service.

Application No. 46206
(Filed February 18, 1964)

Gibson, Dunn & Crutcher, by Raymond L. Curran,
for applicant.
Harry C. Williams, for the Cities of West
Covina and Azusa; Paul D. Foxworthy, for
the City of Azusa; and Vern McNeese, for
Suburban Water Systems; interested parties.
Frank G. Cambell, Jerry J. Levander, and
Raymond E. Heytens, for the Commission staff.

O P I N I O N

By this application, Azusa Valley Water Company seeks authority to increase its rates for general metered, public fire hydrant, private fire protection, construction water, and haulage service, by an annual amount of approximately \$336,000, based on its estimate of 1964 operations, or 55.2%. No increase in rates is sought for limited measured irrigation water service.

Public hearings were held before Examiner Warner on May 6, 1964, and July 15, 1964, at Covina. One letter has been received from a customer protesting the proposed increase, and one customer appeared to protest the application. No complaints regarding service conditions were entered.

As of December 31, 1963, applicant was providing irrigation service to 26 customers, and 13,076 domestic, commercial, and industrial customers were being provided general metered service. Applicant was granted a certificate of public convenience and necessity to operate as a public utility by Decision No. 47713, dated

September 16, 1952, in Application No. 33275. Its predecessor and parent company, The Azusa Irrigating Company, a mutual water company, was incorporated in 1886 for the purpose of delivering both domestic and irrigation water to its stockholders. The Irrigating company ceased operations on December 31, 1963, and since that time applicant has been furnishing both domestic and irrigation water service. At the present time, the Irrigating company is in the process of distributing 37,296 shares of the common stock of applicant to the mutual shareholders on the basis of 4 shares of applicant's common stock for each outstanding share of the mutual. Upon the completion of such distribution and liquidation the Irrigating company will be dissolved.

Applicant's service area includes a portion of the Cities of Azusa, Covina, West Covina, Glendora and Irwindale, and adjoining Los Angeles County territory extending from the San Gabriel Mountain foothills on the north to the San Bernardino Freeway on the south. The water supply is obtained from three sources, (1) 4 wells located in the main San Gabriel River Basin and 2 wells located in the intermediate San Gabriel River Basin; (2) surface water runoff from the San Gabriel River the domestic portion of which is filtered at a new Canyon filtration plant located at the mouth of the San Gabriel River Canyon; and (3) emergency cross connections with the municipal water systems of the Cities of Azusa, Covina, and Glendora.

Applicant alleged that, during the year 1963 adjusted, it realized a rate of return under its present rates of only 3.32%, and would realize a rate of return of only 2.34% in the estimated year 1964 under those rates. The present rates were established in the year 1952, and applicant has made substantial investments in its utility plant since then. In addition it alleged that, since 1952,

there have been substantial increases in operating expenses as a result of increases in the cost of wages and salaries and increases in ad valorem taxes.

Applicant's present rates are compared with those proposed in the application in the following tabulation:

COMPARISON OF PRESENT AND PROPOSED
GENERAL METERED SERVICE RATES

| <u>Quantity Rates</u> | <u>PER METER PER MONTH</u> | |
|------------------------------------|----------------------------|-----------------|
| | <u>Present</u> | <u>Proposed</u> |
| First 1,000 cu.ft. or less | \$ 2.00 | |
| Next 4,000 cu.ft., per 100 cu.ft. | .15 | |
| Next 5,000 cu.ft., per 100 cu.ft. | .10 | |
| Next 40,000 cu.ft., per 100 cu.ft. | .08 | |
| Over 50,000 cu.ft., per 100 cu.ft. | .06 | |
| First 500 cu.ft. or less | | \$ 2.00 |
| Next 3,500 cu.ft., per 100 cu.ft. | | .23 |
| Next 6,000 cu.ft., per 100 cu.ft. | | .20 |
| Next 10,000 cu.ft., per 100 cu.ft. | | .15 |
| Over 20,000 cu.ft., per 100 cu.ft. | | .13 |

The record shows that the average monthly water consumption is approximately 1,900 cubic feet per residential customer. At the present rates, the charge for such consumption is \$3.35; at the proposed rates such charge would be \$5.22, an increase of 55.8%.

Exhibit No. 7, submitted by applicant's accountant, is a report on applicant's results of operations for the year 1963 as recorded, and for the year 1963 adjusted and the test year 1964 at present and proposed rates.

Exhibit No. 10, submitted by a Commission staff accountant and a Commission staff engineer, is a report on applicant's results of operations for the year 1963 adjusted and the year 1964 estimated at present and proposed rates.

Exhibit No. 11 is a comparison of the earnings data for

the year 1964 contained in Exhibits Nos. 7 and 10, and such data are summarized in the following tabulation:

COMPARISON OF COMPANY AND STAFF
SUMMARY OF EARNINGS
(Per Ex. No. 11)

| Item | Year 1964 Estimated | | | |
|--------------------------|---------------------|---------------------|--------------------|---------------------|
| | Present Rates | | Proposed Rates | |
| | Per Co. Ex.No.7 | Per PUC Ex.No.10 | Per Co. Ex.No.7 | Per PUC Ex.No.10 |
| Operating Revenues | \$ 609,447 | \$ 617,900 | \$ 945,576 | \$ 957,300 |
| Oper. & Maintenance Exp. | 254,769 | 256,000 | 256,935 | 257,800 |
| Admin. & General Exp. | 104,017 | 79,600 | 108,417 | 79,600 |
| Taxes Other than Income | 93,877 | 100,100 | 93,877 | 104,500 |
| Taxes Based on Income | 100 | 2,300 | 146,642 | 166,100 |
| Depreciation | 114,210 | 116,700 | 114,210 | 116,700 |
| Total Oper. Exp. | <u>566,973</u> | <u>554,700</u> | <u>720,081</u> | <u>724,700</u> |
| Net Revenue | 42,474 | 63,200 | 225,495 | 232,600 |
| Rate Base | 3,907,000 | 3,730,000 | 3,907,000 | 3,730,000 |
| Rate of Return | 1.1% | 1.7% | 5.8% | 6.2% |

Analysis of the preceding tabulation discloses no substantial or significant differences between the company and staff estimates of applicant's rates of return and their components at present and proposed rates, except in the estimates of administrative and general and miscellaneous expenses, taxes, and rate base. Only major differences will be discussed hereinafter.

The staff accountant testified that operating results for the year 1963 had been adjusted to reduce expenses for items that more properly should have been capitalized, the net effect of which, after allowance for additional income taxes, would be a reduction in expense for the year, of \$5,590. This witness further testified that applicant had misclassified certain expenditures as between expense categories.

Staff estimates of administrative and general expense

included adjustments to administrative and general salaries to exclude supervisory time properly chargeable to other groups of expenses, and included regulatory commission expense, in the amount of \$25,000, spread over a 5-year period.

Staff estimates of ad valorem taxes were adjusted for the inclusion of the Canyon filtration plant and the irrigation system on a full-year basis. Federal income taxes estimated by the staff included \$8,500 of additional taxes representing the income tax on the unrefunded portion of advances for construction which Federal tax agency rulings have treated as normal income at the expiration of the refund period and subject to income tax provisions.

Staff estimates of utility plant as of December 31, 1962, include additive adjustments of \$406,000 for the cost of water rights; \$206,641 for the acquisition of the irrigation system excluding water rights; \$429,700 for the Canyon filtration plant and supply line; and \$67,240 for the year 1963 adjusted and \$156,600 for the year 1964 estimated for weighted net plant additions. Applicant's estimates of utility plant for rate base purposes included water rights at no value, which would produce a rate of return of 1.2% at present rates and 6.3% at proposed rates, water rights at a value of \$350,000, which would produce a rate of return of 1.1% at present rates and 5.8% at proposed rates as shown in the preceding tabulation; and water rights at a value of \$600,000, which would produce a rate of return of 1.0% at present rates and 5.4% at proposed rates.

Exhibit No. 9 shows the development by applicant's counsel of original costs for the establishment and preservation of water rights by the Irrigating company and its predecessors.

Exhibit No. 10 was the development by the staff engineer of the original costs of water rights. The costs developed in Exhibits Nos. 9 and 10 differ in that (1) the staff witness disallowed \$13,225 on the ground that applicant and its predecessors had not actually expended the amounts claimed in Exhibit No. 9 in connection with certain legal controversies antedating 1900, and (2) the staff witness disallowed \$34,619 expended in defense of certain claimed pumping rights on the ground that such rights have not yet been judicially determined.

The staff engineer recommended denial of applicant's request to change its present tariffs for construction water and haulage service, which provide that installation and removal charges be actual costs, to provide for a \$15 installation and removal charge and a \$10 minimum charge, both payable in advance, and quantity charges identical to general metered service charges. Applicant suggested that the determination of actual costs now provided in its tariffs would cost more than the service was worth, but had made no study to support its suggestion.

Exhibit No. 12, submitted by the staff accountant - financial witness, is a report on applicant's cost of money and rate of return. Said exhibit shows that if estimated losses from irrigation operations of approximately \$9,750, together with related rate base, for the year 1964 were eliminated, the rate of return on total operations of 6.2% would be increased to approximately 6.6%. He recommended that the rate of return of 6.2% estimated by the staff at proposed rates be adopted as reasonable in this proceeding, and testified that the net revenue of \$232,600 for the test year 1964 at proposed rates would provide sufficient earnings to service debt interest, preferred dividends, and a return of approximately 8.3% on adjusted equity capital.

Based on the evidence the Commission finds as follows:

1. The estimates of applicant's rate base and results of operations submitted in Exhibit No. 10 are more precise and accurate and are more in conformity with practices usually accepted and adopted by the Commission than are the estimates submitted by applicant. The staff estimates are adopted herein as reasonably representing the results of operations.

2. Applicant's rate of return for the year 1964 estimated at its presently filed rates for water service is deficient and applicant is in need of financial relief.

3. The rate of return of 6.2% for the year 1964 at the rates proposed in the application as estimated by the Commission staff in Exhibit No. 10 is reasonable.

4. Applicant's proposal to establish a fixed installation and removal charge and a fixed minimum charge for construction water and haulage service has not been justified. Applicant's Rule No. 13, temporary service, provides that the applicant for such service will be required to pay to the utility in advance the estimated net cost of installing and removing the facilities necessary to furnish the service. Applicant's proposal herein is therefore not necessary.

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

It is concluded that the application should be granted as set forth hereinafter.

O R D E R

IT IS ORDERED that:

1. a. Azusa Valley Water Company is authorized to file the schedules of rates attached hereto as Appendix A and upon not less

than five days' notice to the Commission and to the public, to make such rates effective for service rendered on and after October 1, 1964.

b. Concurrently with the filing authorized herein, Azusa Valley Water Company is authorized to withdraw and cancel by appropriate advice letter its presently effective rate schedules as follows:

Schedule No. 2, Flat Rates - Special;

Schedule No. 4, Haulage Rates.

2. Within sixty days after the effective date of this order applicant shall file with the Commission four copies of a comprehensive map drawn to an indicated scale of not more than 400 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.

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

Dated at San Francisco, California, this 15th day of SEPTEMBER, 1964.

Fredrick B. Hallock
President
George H. Grover
William W. Bennett

Commissioners

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

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service. (T)

TERRITORY

Portions of Azusa, Covina, Glendora, Irwindale, West Covina, and vicinity, Los Angeles County. (T)
(T)

RATES

| Quantity Rates: | | Per Meter <u>Per Month</u> | |
|-----------------|------------------------------------|-------------------------------|-----|
| First | 500 cu.ft. or less | \$ 2.00 | (I) |
| Next | 3,500 cu.ft., per 100 cu.ft. | .23 | |
| Next | 6,000 cu.ft., per 100 cu.ft. | .20 | |
| Next | 10,000 cu.ft., per 100 cu.ft. | .15 | |
| Over | 20,000 cu.ft., per 100 cu.ft. | .13 | |

Minimum Charge:

| | | | |
|-----|----------------------------|---------|-----|
| For | 5/8 x 3/4-inch meter | \$ 2.00 | |
| For | 3/4-inch meter | 3.00 | |
| For | 1-inch meter | 5.00 | |
| For | 1-1/2-inch meter | 8.00 | |
| For | 2-inch meter | 12.00 | |
| For | 3-inch meter | 18.00 | |
| For | 4-inch meter | 30.00 | |
| For | 6-inch meter | 50.00 | |
| For | 8-inch meter | 80.00 | (I) |

The Minimum Charge will entitle the consumer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE (T)

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems. (T)
(T)

TERRITORY

Portions of Azusa, Covina, Glendora, Irwindale, West Covina and vicinity, Los Angeles County. (T)
(T)

RATE

Per Month

For each inch of diameter of service connection.. \$2.00 (I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund. (N)

2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund. (N)

(Continued)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS (Continued)

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

(N)

5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

(N)

Schedule No. 5

(N)

PUBLIC FIRE HYDRANT SERVICE

(N)

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized fire districts and other political subdivisions of the State.

(T)

(T)

TERRITORY

Portions of Azusa, Covina, Glendora, Irwindale, West Covina and vicinity, Los Angeles County.

(T)

(T)

RATE

Per Month

For each hydrant

\$2.50

(I)

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.

(N)

2. The cost of installation and maintenance of hydrants will be borne by the public authority.

3. Relocation of any hydrant shall be at the expense of the party requesting relocation.

4. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.

(N)