

ORIGINAL

Decision No. 67909

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
PARK WATER COMPANY for authority)
to increase rates charged for water)
service to offset increase in Ad)
Valorem Taxes; and salaries and)
wages.)

Application No. 46071
(Filed January 2, 1964)
(Amendment filed June 17, 1964)

O P I N I O N

Park Water Company (applicant) seeks authority to increase its rates for general metered and flat rate services to offset an increase in its salary and wage expenses. Applicant has increased salaries and wages of its employees by 5-1/2 percent and has granted to certain of its employees, in addition to said increase, a merit increase based on longevity.

Applicant furnishes water to approximately 41,500 customers in various areas in Los Angeles County in, and in the vicinity of, Compton, Bellflower, Paramount, Downey and Norwalk, plus areas in San Bernardino County.

Applicant's rates were determined by Decision No. 65205, dated April 9, 1963, in Case No. 7305 and Applications Nos. 43659 and 43685, and further increased for service within the area of the Central and West Basin Replenishment District by authority of Decision No. 66257, dated November 5, 1963, in Application No. 45649, to compensate for the increased cost of Metropolitan Water District water and exchange pool costs.

Applicant's principal source of water is certain wells, supplemented by water purchased from Metropolitan Water District. It proposes to increase its rates for general metered service by 10 cents per meter per month and for general flat rate service by 10 cents per service connection per month for an additional annual revenue of approximately \$50,000. Its stated reasons for the increases are that they are necessary to offset increases since 1962 of substantially the same amount of ad valorem taxes, wages and salaries.

Present and company proposed rates produce bimonthly bills as follows:

Location	:Present: : Rates :	:Proposed: : Rates :	: Increase : :Amount:Per Cent:	
<u>Los Angeles County, Except</u>				
<u>Baldwin Park & Vicinity</u>				
Gen.Flat Rate Serv.(incl.res.)	\$3.40	\$3.60	\$0.20	5.9%
Avg.Gen.Metered Serv.(incl.res.)	6.00	6.20	.20	3.3
<u>San Bernardino County and</u>				
<u>Baldwin Park & Vicinity</u>				
Gen.Flat Rate Serv.(incl.res.)	3.20	3.40	.20	6.3
Avg.Gen.Metered Serv.(incl.res.)	5.80	6.00	.20	3.4

The staff made detailed analyses of applicant's results of operations for 1963 recorded and 1964 estimated. These analyses revealed deficiencies and mathematical errors in applicant's computations of revenues, expenses, rate bases and rates of return. At the request of the staff the applicant submitted an amended report of results of operations on June 16, 1964. The staff's analyses of the amended report showed only minor differences between the applicant's and the staff's estimates of revenues, expenses and rate bases.

The staff found only one significant difference between its and the applicant's estimates, that involving computation of income taxes. The estimated results of operations at the present and proposed rates are as follows:

Item	Staff	1964 Estimated		Co. Exceeds Staff	
	1963	Staff	Company*	Amount	Per Cent
<u>Present Rates</u>					
Oper. Revenues	\$1,597,840	\$1,642,420	\$1,643,575	\$ 1,155	0.1%
Oper. Expenses	1,248,460	1,296,150	1,292,341	(3,809)	(.3)
Income Taxes	70,970	75,330	116,438	41,108	54.6
Net Return	278,410	270,940	234,796	(36,144)	(13.3)
Depr. Rate Base	4,095,800	4,189,600	4,152,956	(36,644)	(.9)
Rate of Return	6.80%	6.47%	5.65%	(0.82)%	
<u>Proposed Rates</u>					
Oper. Revenues		\$1,692,240	\$1,693,396	\$ 1,156	.1
Oper. Expenses		1,296,380	1,292,341	(4,039)	(.3)
Income Taxes		100,552	142,718	42,166	41.9
Net Return		295,308	258,337	(36,971)	(12.5)
Depr. Rate Base		4,189,600	4,152,956	(36,644)	(.9)
Rate of Return		7.05%	6.22%	(0.83)%	-

Red Figure

* The company submitted only the figures shown at company proposed rates. The figures shown at present rates were computed by the staff on the company basis from information contained in the company's amended results of operation report.

In its forecast the applicant used a federal income tax rate of 50 per cent while the staff used the 48 per cent rate effective January 1, 1965. Of the difference of \$42,166 shown on the tabulation above, \$5,100 is the result of the different tax rates utilized; \$33,500 of the remaining difference is the result of applicant's erroneously excluding from its income tax deductions \$38,000 of depreciation expense and its inclusion of credits to

deductions of \$29,000, consisting mainly of rate case expense claimed as tax deduction in prior years.

Concerning expenses other than income taxes, the difference in estimates is only .3 percent, the applicant being less than the staff. Most of this is accounted for by the staff's using the \$35 per acre-foot price for purchased water which became effective July 1, 1964, while the applicant used the previous price of \$33 per acre-foot.

The Commission finds that the staff's estimates, as hereinabove summarized, reasonably represent the results of applicant's operations for 1964; that the applicant's presently filed rates for water service would produce an unreasonably low rate of return for the year 1964, and that for the year 1964 estimated the earnings are deficient; the Commission concludes that the applicant is entitled to financial relief.

The Commission further finds that the revenues which will be produced by the rates proposed by the applicant are reasonable; that the rate of return of approximately 7 percent which would result from the granting of the application is reasonable; that the increases in rates and charges authorized herein are justified, and that the present rates and charges insofar as they differ from those prescribed herein are for the future unjust and unreasonable. A public hearing is not necessary. We conclude that the application should be granted.

O R D E R

IT IS ORDERED that 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 rate service 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 November 5, 1964. ✓

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

Dated at San Francisco, California, this 22nd day of SEPTEMBER, 1964.

Fredrick B. Halchuff
President

George T. Crover
William W. Bennett
Commissioners

I will file a dissent
D. E. [unclear]

I dissent.
The rate of
return is
excessive.
George T. Crover
Commissioner

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Artesia, Bellflower, Commerce, Compton, Downey, Lynwood, Montebello, Norwalk, Paramount, Pico-Riviera, Santa Fe Springs, South Gate, and vicinities, Los Angeles County.

RATES

Per Meter
Per Month

Quantity Rates:

First 1,000 cu. ft. or less	\$1.70	(I)
Next 1,000 cu. ft., per 100 cu. ft. . . . .	.15	
Next 3,000 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	\$ 1.70	(I)
For 3/4-inch meter	2.10	
For 1-inch meter	2.90	
For 1 1/2-inch meter	4.40	
For 2-inch meter	6.70	(I)
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	

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

SPECIAL CONDITION

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

Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Portions of Artesia, Bellflower, Commerce, Compton, Downey, Lynwood, Montebello, Norwalk, Paramount, Pico-Rivera, Santa Fe Springs, South Gate, and vicinities, Los Angeles County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
For a single family residential unit, or commercial unit, including premises not exceeding 7,500 sq. ft. in area	\$1.80	(I)
a. For each additional single family residential unit on the same premises and serviced from the same service connection	1.00	
b. For each 100 sq. ft. of premises in excess of 7,500 sq. ft. . . . .	.02	

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
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.
4. All billing under this schedule to customers in the City of Norwalk is subject to a surcharge of 2.04%.

Schedule No. IS-1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Baldwin Park and vicinity, Los Angeles County, and the vicinities of Chino and Bloomington, San Bernardino County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 1,000 cu. ft. or less	\$1.60	(I)
Next 1,000 cu. ft., per 100 cu. ft. . . . .	.15	
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	\$ 1.60	(I)
For 3/4-inch meter	2.00	|
For 1-inch meter	2.80	
For 1 1/2-inch meter	4.30	|
For 2-inch meter	6.60	
For 3-inch meter	11.00	(I)
For 4-inch meter	20.00	
For 6-inch meter	40.00	
For 8-inch meter	65.00	
For 10-inch meter	100.00	

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

Schedule No. IS-2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Baldwin Park and vicinity, Los Angeles County, and the vicinities of Chino and Bloomington, San Bernardino County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
For a single family residential unit, or commercial unit, including premises not exceeding 7,500 sq. ft. in area	\$1.70	(I)
a. For each additional single family residential unit on the same premises and served from the same service connection	1.00	
b. For each 100 sq. ft. of premises in excess of 7,500 sq. ft. . . . .	.02	

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
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. IS-1, General Metered Service.

COMMISSIONER PETER E. MITCHELL DISSENTING:

A brief review of the rate proceedings of this applicant before the Commission should be registered so that the majority decision is presented in its proper context.

On April 9, 1963, Decision No. 65205 authorized a rate of return to Park Water Company of 7% and an increase in gross revenue of \$36,802 per year. The public hearings consumed eight days of hearing and one day for oral argument.

On November 5, 1963, Decision No. 66257 approved an increase in gross revenue to Park Water Company of \$50,022 per year to offset additional water costs to the company. This was an ex parte decision.

On September 22, 1964 (Application No. 46071, filed January 2, 1964), the instant decision of the majority grants the Park Water Company another gross revenue increase of \$50,000 per year. This, too, was issued ex parte, supposedly an offset for salaries and wages and ad valorem taxes. But the unvarnished fact is this was not an offset increase nor was it treated as such either by the staff or the decision.

This decision, signed by the majority of the Commission, is a typical general rate proceeding - two within eighteen months for this applicant. It is predicated not upon an offset to a particular expense item but upon an analysis of the revenues, expenses, rate base, and rate of return of the applicant - without a thorough and public review. Indeed, this decision is an attempt to maintain the applicant at an invariable 7% rate of return.

Application No. 46071 was filed on January 2, 1964. It states that:

"Applicant seeks authority to increase its rates for general metered and flat rate service to offset an increase in ad valorem taxes which has been incurred.

"Applicant further seeks authority to increase its rates for general metered and flat rate service to offset an increase in salaries and wage expenses which applicant proposes to incur with the approval of this Commission. Applicant proposes to increase salaries and wages of its employees by five and one-half per cent (5½%) and to grant to certain of its employees, in addition to said increase, a merit increase based on longevity."

The applicant requested that a Commission order accomplishing the above be issued ex parte.

Subsequently, as a result of a conference held on May 26, 1964, between the Company and the Commission's staff, the Company submitted an amended report on its results of operation for 1963 recorded and adjusted and 1964 estimated.

The majority decision of September 22, 1964, finds: "a public hearing is not necessary. We conclude that the application should be granted."

I disagree. A public hearing is necessary on a rate application of a major utility. The application as filed has not been granted. No allocation is shown in the decision for the increased

salaries and wages or ad valorem taxes sought by the applicant. It can not be made based upon the record. Other adjustments to revenues, expenses and rate base are contained in the staff study and findings of the decision. Apparently, the only constant value utilized was a 7% rate of return.

The unorthodox treatment dissembled in this decision is not harmonious or equitable with the consideration we have accorded other utilities in this State. Fluctuation of a rate of return heretofore has always been a recognized tenet of regulation, circumscribed within a zone of reasonableness.

Can we deny that the ad valorem taxes of every major utility in the State have increased year after year? Or, that every major utility would like to reward its employees with voluntary wage increases and merit advances?

Why, then, single out one major utility, inaugurate ex parte treatment, supposedly allow them an offset, and neglect other utilities? If the majority is to be consistent, why not seek out utilities that are in excess of our last authorized rate of return and give their consumers some relief - even as here, if it is only 10¢ per month?

Far from opposing annual examination of utilities by this Commission, I have long been in favor. To reiterate what I proposed two years ago: ^{1/} "it is not sufficient for a public utilities commission to wait until a rate application is filed or a rate investigation is opened to determine if the rates of a utility are fair and reasonable."

^{1/} "Regulation and the Space Age" - Speech before the Conference of Public Utility Counsel, State Bar of California Convention, September 20, 1962.

Then, as now, I advocated a program of annual review of all major utilities in this State, on a formal record, to insure a fair and reasonable rate to all parties: the utilities, the customers, the carriers, the shippers.

Or, indeed, what is the alternative that confronts us? To continue as we have in the past? In Case No. 7409, dated July 26, 1962, the Commission instituted an investigation into the rates and operations of the Pacific Telephone and Telegraph Company. ^{2/} After 49 days of hearing, interim Decision No. 67369 was signed on June 11, 1964. ^{3/} There are still further objectives in Case No. 7409, including rate spread, settlements and other items, yet to be determined. Meanwhile, neither the telephone industry nor its customers nor the Commission can proceed with assurance as to when or how any of these matters will ultimately be decided.

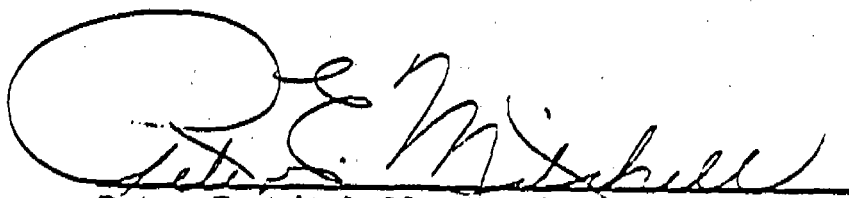
The Commission, the consumer representatives, and the utilities must all streamline their procedures under the Public Utilities Act if we are to maintain alert, timely regulation. An expedited annual review of every utility should be a sine qua non of this Commission. We have an experienced and informed Commission that is able to keep abreast of the times. We should do so.

^{2/} The previous rate decision was Decision No. 56652 issued May 6, 1958.

^{3/} Now on appeal to the California Supreme Court.

D 67909, Application No. 46071

Therefore, if we stabilize the Park Water Company at a fixed rate of return by an annual review, we should do the same for every utility in the State and on a public record.



Peter E. Mitchell, Commissioner

San Francisco, California

September 28, 1964