

ORIGINAL

Decision No. 68317

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 CALIFORNIA WATER SERVICE COMPANY,)
 a corporation,)
 for an order authorizing it to)
 increase rates charged for water)
 service in the East Los Angeles)
 district.)

Application No. 46301
(Filed March 19, 1964)

McCutchen, Doyle, Brown, Trautman & Enersen, by A. Crawford Greene, Jr.,
 for applicant.
Alfred J. Lord, for The Housing Authority of the County of Los Angeles; George E. Poehner and Bruce McKnight, for the City of Stockton; David H. Zimmer, for the City of Montebello; Loraine B. Berry, D.D., for neighbors; G. Wayne Bonser, Dr. Statih Mobley, Petra Bustos, C. M. Bancroft, Ona Wolf, Edith Hutchens Somerville, and John Neboyskey, in propria personae, protestants.
John C. Luthin, for the City of Stockton, interested party.
W. R. Roche, Robert W. Beardslee, and T. Deal, for the Commission staff.

O P I N I O N

California Water Service Company seeks authority to increase its general metered service rates in its East Los Angeles District by an annual amount of \$426,200, based on its estimates for the test year 1965. This would be an over-all increase of 22.3 per cent.

Public hearings were held before Examiner Warner on July 28 and 29 at Montebello, July 30 (no evidence taken) and July 31, 1964, at Redondo Beach, and August 17 and 18, 1964, at San Francisco. Six letters protesting the application, and in one instance complaining of low pressure conditions on Rollins Drive, have been received, and several customers protested at the hearings. The Housing Authority of Los Angeles County recognized that applicant might require a small adjustment in rates, but protested the magnitude proposed.

The record on Application No. 46302 of applicant to increase its rates for water service in its Hermosa-Redondo District was incorporated herein by reference to the extent that reference is made therein to company-wide operations.

Applicant furnishes water service in 21 districts from the Hamilton City-Chico Area in Northern California to the East Los Angeles and Hermosa-Redondo Districts in Southern California, as shown on Chart 2A of Exhibit No. 2. As of December 31, 1963, investment in utility plant amounted to \$87,233,741, and there were 232,176 customers and 415 employees. Applicant's principal office is in San Jose.

In 1963, applicant was furnishing water service to an average of 25,623 active service connections in its East Los Angeles District, largely in unincorporated territory of Los Angeles County east of Los Angeles, south of Los Angeles, Alhambra and Monterey Park, west and in a portion of Montebello, and north and in a portion of Commerce and Vernon; applicant estimated that in the year 1965 there would be an average of 25,864 connections.

In addition, 366 private fire protection and 1,515 public fire protection flat rate services were connected; for the year 1965, applicant estimated there would be an average of 396 private and 1,543 public fire protection services.

Applicant alleges that the most important factor which prompted the filing of the instant application is the increased cost of Metropolitan Water District water purchased from Central Basin Municipal Water District, such cost having been \$26 an acre-foot prior to January 1, 1962, \$28 prior to January 1, 1963, \$30 prior to January 1, 1964, \$33 on January 1, 1964, and \$35 on July 1, 1964, and being scheduled to rise to \$38 from July 1, 1965 to June 30, 1966. Applicant further alleges that during the period 1961-1963, utility plant increased \$1,204,000, the bulk of which was for replacements, a major transmission line, and freeway relocations; also, that during this period, the number of active service connections in this District decreased by approximately 700, primarily due to freeway construction. Increases in taxes, wages, and other costs are also alleged.

Applicant's present rates were authorized by Decision No. 63545, and became effective May 1, 1962. Applicant proposes to eliminate the present construction flat rate service schedule and to provide construction water under the general metered service schedule. The following tabulation compares the present rates with those proposed in the application and those authorized hereinafter:

COMPARISON OF PRESENT, PROPOSED AND
AUTHORIZED GENERAL METERED SERVICE RATES

Quantity Rates:	<u>Per Meter Per Month</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
First 30,000 c.f., per 100 c.f....	\$ 0.16	\$ 0.20	\$ 0.18
Over 30,000 c.f., per 100 c.f....	.15	.17	.17
Service Charge:			
For 5/8 x 3/4-inch meter.....	2.10	2.60	2.45
For 3/4-inch meter.....	2.30	2.85	2.60
For 1-inch meter.....	3.15	3.90	3.60
For 1½-inch meter.....	4.40	5.45	5.00
For 2-inch meter.....	5.70	7.00	6.50
For 3-inch meter.....	10.50	13.00	12.00
For 4-inch meter.....	14.00	18.00	16.00
For 6-inch meter.....	24.00	29.00	27.00
For 8-inch meter.....	35.00	44.00	40.00
For 10-inch meter.....	44.00	54.00	50.00

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

The record shows that the average monthly water usage in the East Los Angeles District is estimated by Commission staff engineers to be approximately 1,900 cubic feet. At the present rates, the charge for such usage through a 5/8 x 3/4-inch meter would be \$5.14; at the proposed rates, it would be \$6.40, an increase of \$1.26, or 24.5 percent; and at the rates authorized, such charge will be \$5.87, an increase of 4.2 per cent.

Exhibit No. 4 is applicant's report on results of operation of its East Los Angeles District. Said Exhibit

shows applicant's earnings in East Los Angeles for the years 1960 through 1963, and for the years 1964, 1965, and 1966 at present and proposed rates. Exhibit No. 6 is a report on applicant's results of operation in the East Los Angeles District submitted by a Commission staff accountant and Commission staff engineers. The following tabulation compares the earnings data in said Exhibits.

COMPARATIVE SUMMARY OF EARNINGS
(Per Exhibit No. 6)

Item	Year 1965 Estimated			
	Present Rates		Proposed Rates	
	Company	Staff	Company	Staff
	(thousands of dollars)			
Operating Revenues	\$1,907.4	\$1,985.8	\$2,333.6	\$2,425.2
Operating Expenses				
Purchased Water	189.3	234.1	189.3	234.1
Other Oper. & Maint. Expense	766.1	722.8	766.1	722.8
Admin. & General Expense	140.2	132.8	140.2	132.8
Depreciation	200.4	200.4	200.4	200.4
Taxes Other Than on Income	182.9	178.6	188.4	184.2
Taxes Based on Income	103.8	148.0	317.7	368.6
Total Operating Expense	1,582.7	1,616.7	1,802.1	1,842.9
Net Operating Revenues	324.7	369.1	531.5	582.3
Rate Base	7,640.3	7,622.5	7,640.3	7,622.5
Rate of Return	4.25%	4.84%	6.96%	7.64%

The principal difference between company and staff operating revenue estimates of \$78,400 at present rates and \$91,600 at proposed rates for the year 1965 is in the expected average sale of water to commercial customers. Staff's estimate of 222 Ccf. per customer-year for 1965 was derived by graphical Method B (Modified Bean) based on the years 1954 to 1963, which eliminated variations due to rainfall and temperature and which indicated a definite upward trend

in annual consumption per customer. Applicant's estimate of 204 Ccf. per customer-year was derived by averaging consumption over the 9-year period 1955 through 1963, and its estimate was exceeded by the actual consumption in each of the years 1960 through 1963. For these four years the actual consumption averaged 213 Ccf.

Staff's estimate of purchased water expense is greater by \$44,800 than applicant's primarily because of staff's estimate of higher water consumption per customer. Applicant's estimate of replenishment assessment expense was lower by \$4,200 than staff's because applicant used an assessment rate of \$7.00 per acre-foot for the year 1965, whereas, staff used \$7.36 per acre-foot, the actual amount. Staff's estimate of purchased power is lower by \$1,900 than applicant's because staff used electric rates of Southern California Edison Company, effective July 1, 1964. Staff's estimate of transmission and distribution maintenance expenses is lower by \$26,900 than applicant's because staff's estimate of expense for street improvements of \$9,000 gave minor weight to the high level of such expenses in 1962, whereas, applicant used that year as a pivot point; staff's estimate of meter testing expense of \$10,000 is based on the testing of an additional 1,000 meters per year while applicant based its estimate on the testing of 1,740 meters per year; and the differences in the remaining transmission and distribution maintenance expense and other transmission and distribution operation expense estimates are caused by flatter trends adopted by staff. Staff's estimate of regulatory Commission expense was \$4,200, whereas, applicant's estimate was \$6,300, each amortized over a three-year period. Both the applicant's and the staff's estimates of taxes based on income utilize liberalized depreciation

on a "flow-through" basis. Applicant has elected in the past to avoid immediate payment of taxes on the gains from sales of certain of its properties under Section 1033, Involuntary Conversions, of the Internal Revenue Code, which allows applicant to spread the tax on the reinvested portion of the profit over the life of the plant by not claiming depreciation expense on such plant as a deduction when computing income taxes. Staff decreased estimated taxes for the year 1965 by \$3,500 to compensate for the effect of this election. Consistent with new tax law, staff adjusted depreciable plant base for income tax purposes to include investment tax credit taken in 1962 and 1963. The effect of this modification in the law is to increase the allowable tax depreciation.

There is no significant difference between the rate base estimates of applicant and staff.

The record shows that the Metropolitan Water District of Southern California plans to enforce its requirement that applicant provide storage for water delivered to applicant by MWD through Central Basin Municipal Water District. The cost, over a six-year period, of installing reservoirs will be about \$738,000, but neither applicant nor staff included such cost in its 1965 rate base estimate.

Exhibit No. 8 is a report on rate of return submitted by a staff accountant. It shows applicant's cost of capital as of June 30, 1964, to be 6.3 per cent. The staff witness recommended that applicant be granted a rate of return of 6.3 per cent on the 1965 staff rate base of \$7,622,500 for this district, inasmuch as he considered rate base and capitalization reasonably comparable.

Applicant argued and urged the inclusion of an allowance for attrition in rate of return. Staff's witness testified that the cost of money calculation in Exhibit No. 8 provided therefor.

Exhibit No. 19 shows that applicant's total company rate of return for the year 1965, if the instant application and Application No. 46302, supra, were granted, would be 6.33 per cent.

Each complaint of service has been investigated and a report thereon submitted by applicant. Staff's investigation of service conditions disclosed the presence of some dirty water conditions due to the presence of manganese in well water, but complaints of dirty water, which averaged some 15 to 33 times per month between January 1, 1961, and September 30, 1963, dropped to about 10 per month during the period October 1, 1963, to March 31, 1964.

The record shows that there is little prospect for growth or expansion in applicant's East Los Angeles District.

The Commission finds as follows:

1. California Water Service Company is a public utility water corporation under the jurisdiction of this Commission; operates some 21 separate districts in California; and furnishes water service to about 26,000 customers in its East Los Angeles District.

2. Due primarily to increases in costs of purchased water, operation and maintenance expenses, and taxes, applicant's rate of return for the year 1965 at present rates would be deficient, and applicant is in need of and entitled to financial relief.

3. The 1965 rate of return which would be produced by the rates proposed in the application would be excessive.

4. The staff's estimated results of operations for the test year 1965 reasonably reflect applicant's operations for that year. Said results of operations are adopted as reasonable for the purposes of this decision.

5. Applicant's rate of return for this district will continue to be subject to substantial decline in the immediate future. A rate of return of 6.5 per cent on the adopted 1965 rate base of \$7,622,500 would yield a rate of return of approximately 6.25 per cent for the future. Said rate of return is reasonable.

It is concluded that the application should be granted in part and denied in part, and the order which follows will authorize applicant to file new schedules of rates applicable to its East Los Angeles District which will produce total estimated annual operating revenues during the test year 1965 in said District of \$2,246,300. This will be an increase of \$260,500, or 13.1 per cent, over the revenues which would be produced by the present rates, but \$178,900 less than the increase sought.

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.

O R D E R

IT IS ORDERED that California Water Service Company is authorized to file the schedule of rates applicable to its East Los Angeles District 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 January 1, 1965. Concurrently with the filing authorized herein, applicant is authorized to cancel by appropriate advice letter its presently effective Schedule No. EL-9FC, Construction Flat Rate Service.

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

Dated at San Francisco, California, this 9th day of December, 1964.

Fredrick B. Holcomb
President

George E. Hoover

Walter J. Arnold

Commissioners

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

Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. EL-1
East Los Angeles Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

East Los Angeles, Commerce and vicinity, Los Angeles County. (T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter.....	\$ 2.45	(I)
For 3/4-inch meter.....	2.60	
For 1-inch meter.....	3.60	
For 1 1/2-inch meter.....	5.00	
For 2-inch meter.....	6.50	
For 3-inch meter.....	12.00	
For 4-inch meter.....	16.00	
For 6-inch meter.....	27.00	
For 8-inch meter.....	40.00	
For 10-inch meter.....	50.00	
Quantity Rates:		
For the first 30,000 cu.ft., per 100 cu.ft.	\$ 0.18	
For all over 30,000 cu.ft., per 100 cu.ft.....	.17	

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.