

ORIGINAL

Decision No. 68318

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 Hermosa-Redondo)
 district.)

Application No. 46302
 (Filed March 19, 1964)

McCutchen, Doyle, Brown, Trautman & Enersen, by A. Crawford Greene, Jr., for applicant.
Francis E. Hopkins and Joseph P. Leach, for City of Redondo Beach; Morris Loopesko, Ernest M. Dierl, Mrs. Esther Schwarz, and Mary Chong, in propria personae, protestants.
W. R. Roche and Robert Beardslee, 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 Hermosa-Redondo District by an annual amount of \$359,300, based on its estimates for the test year 1965. This would be an over-all increase of 27.3 per cent.

Public hearings were held before Examiner Warner on July 30 and 31, 1964, at Redondo Beach, and August 17 (no evidence taken) and 18, 1964, at San Francisco. Twenty-five letters protesting the application were received from customers;

City of Torrance protested; City of Redondo Beach requested a thorough investigation to the end that any increase authorized be minimal; and there were also received petitions with seven signatures of residents in and in the vicinity of the 2100 block of Vanderbilt Avenue, protesting, twelve signatures of residents in and in the vicinity of the 1500 block of Stanford and Harper Avenues, protesting, sixty-five signatures of residents in and in the vicinity of the 300 and 400 blocks of Miramar, Guadalupe, and Sierra Vista Avenues, protesting and complaining of the quality of water, and forty-five signatures of residents in and in the vicinity of the 3400 and 3500 blocks of Johnston Avenue and the 2400 block of Burritt Avenue, protesting and complaining of water pressure, meters not being read, and dirty water.

The record on Application No. 46301 of applicant to increase its rates for water service in its East Los Angeles 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 20,865 active service connections in its Hermosa-Redondo

District including the cities of Hermosa Beach and Redondo Beach and a small portion of the City of Torrance, as well as unincorporated territory of Los Angeles County adjacent thereto; applicant estimated that in the year 1965 there would be an average of 21,348 connections. In addition, 37 private fire protection and 810 public fire protection flat rate services were connected; for the year 1965, applicant estimated there would be an average of 44 private and 859 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 West Basin Municipal Water District, such cost having been \$29.50 an acre-foot for the year prior to January 1, 1964, \$32.50 on January 1, 1964, and \$34.50 on July 1, 1964, and being scheduled to rise to \$37.50 from July 1, 1965 to June 30, 1966. Applicant further alleges that during the period 1960-1963, utility plant increased \$942,000, the bulk of which, \$848,400, was for mains, services, meters, and a one million-gallon steel tank; also, its 1964 budget provides for an additional two million-gallon steel tank. Increases in taxes, wages, and other costs are also alleged.

Applicant's present rates were authorized by Decision No. 64133 and became effective September 1, 1962. 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 Rate:	<u>Per Meter Per Month</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
For all water delivered, per 100 c.f.	\$ 0.175	\$ 0.22	\$ 0.20
Service Charge:			
For 5/8 x 3/4-inch meter	\$ 1.65	\$ 2.15	\$1.95
For 3/4-inch meter	1.90	2.35	2.10
For 1-inch meter	2.20	3.20	2.85
For 1½-inch meter	3.50	4.50	4.00
For 2-inch meter	4.80	5.80	5.20
For 3-inch meter	9.00	10.75	9.50
For 4-inch meter	13.00	15.00	13.00
For 6-inch meter	19.00	24.00	22.00
For 8-inch meter	26.00	36.00	32.00
For 10-inch meter	37.00	45.00	40.00

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 Rate.

The record shows that the average monthly water usage in the Hermosa-Redondo District is estimated by Commission staff engineers to be approximately 1,700 cubic feet. At the present rates, the charge for such usage through a 5/8 x 3/4-inch meter would be \$4.63, and at the proposed rates, it would be \$5.89, an increase of \$1.26, or 27.2 per cent; and at the rates authorized, such charge will be \$5.35, an increase of 15.6 per cent.

Exhibit No. 4 is applicant's report on results of operation of its Hermosa-Redondo District. Said Exhibit shows applicant's earnings in Hermosa-Redondo 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 Hermosa-Redondo 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	\$1,316.4	\$1,378.2	\$1,675.7	\$1,751.2
Operating Expenses				
Purchased Water	310.6	339.6	310.6	339.6
Other Oper. & Maint. Expense	381.9	348.7	381.9	348.7
Admin. & General Expense	88.4	83.0	88.4	83.0
Depreciation	139.2	139.2	139.2	139.2
Taxes Other Than on Income	142.9	138.9	143.2	139.1
Taxes Based on Income	34.0	71.4	216.6	261.1
Total Operating Expense	1,097.0	1,120.8	1,279.9	1,310.7
Net Operating Revenue	219.4	257.4	395.8	440.5
Rate Base	5,569.1	5,540.8	5,569.1	5,540.8
Rate of Return	3.94%	4.65%	7.11%	7.95%

The principal difference between company and staff operating revenue estimates of \$61,800 at present rates and \$75,500 at proposed rates for the year 1965 is in the expected average sale of

water to commercial customers. The staff estimate of 208 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 193 Ccf. per customer-year was derived by average consumption of the nine-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 200 Ccf.

Staff's estimate of purchased water expense is greater by \$29,000 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 \$1,000 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 transmission and distribution maintenance expenses is lower by \$34,000 than applicant's because staff's estimate of expense for street improvements of \$18,300 for the year 1965 was based on the average of the last five years as being representative of the level of these expenses into the future, whereas, applicant's estimate of \$36,800 was based on a projection of the rapid increase in such expenses over the same period; staff's estimate of \$10,700 for additional meter testing is based on the testing of an additional 1,070 meters per year while applicant based its estimate of \$14,500 on the testing of 1,450 meters per year; and the difference in the remaining transmission and distribution maintenance expense estimate and other transmission and distribution operation expense is caused by a

flatter trend adopted by staff. Staff's estimate of regulatory Commission expense was \$3,900, whereas, applicant's estimate was \$4,800, 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 \$2,300 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 bases estimated by 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 West Basin Municipal Water District. The cost over a four-year period of installing reservoirs will be about \$735,000, but neither applicant nor staff included such cost in its 1965 rate base estimate.

Exhibit No. 7 is a report on rate of return submitted by a staff accountant. It shows applicant's composite 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 \$5,540,800 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. 7 provided therefor.

Exhibit No. 16 shows that applicant's total company rate of return for the year 1965, if the instant application and Application No. 46301, 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 due to the presence of organic material in the mains. To minimize this problem, applicant uses a high chlorine concentration and follows a regular flushing program.

The Commission finds as follows:

1. California Water Service Company is a public utility water corporation under the jurisdiction of this Commission; operates 21 separate districts in California; and furnishes water service to about 21,000 customers in its Hermosa-Redondo 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 \$5,540,800 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 Hermosa-Redondo District, which will produce total estimated annual operating revenues during the test year 1965 in said District of \$1,587,600, which will be an increase of \$209,400, or 15.2 per cent, over the revenues which would be produced by the present rates, but \$163,600 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 Hermosa-Redondo 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.

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. Holdhoff
President

George H. Brown

William A. Brown

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. HR-1

Hermosa-Redondo Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Hermosa Beach, Redondo Beach, and Torrance, and vicinity, (T)
 Los Angeles County. (T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 1.95	(I)
For 3/4-inch meter	2.10	
For 1-inch meter	2.85	
For 1-1/2-inch meter	4.00	
For 2-inch meter	5.20	
For 3-inch meter	9.50	(I)
For 4-inch meter	13.00	
For 6-inch meter	22.00	(I)
For 8-inch meter	32.00	
For 10-inch meter	40.00	
Quantity Rate:		
For all water delivered, per 100 cu. ft.	\$ 0.20	(I)

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 Rate.