

ORIGINAL

Decision No. 70395

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application
of CONSERVATIVE WATER COMPANY
for authority to increase rates
for metered water service

Application No. 47708
(Filed June 25, 1965)

(For appearances, see Appendix A.)

O P I N I O N

Conservative Water Company seeks authority to increase its rates for water service in the community of Watts where approximately 55 per cent of the customers in the community are within the City of Los Angeles and 35 per cent are in unincorporated territory of Los Angeles County and the cities of Lynwood and South Gate. During 1964, the average number of customers was 8,721, and for the year 1966 the average number of customers was estimated by the Commission staff to be 8,482. According to applicant's estimates for the year 1966, the increase in gross annual revenues at the proposed rates would amount to \$42,632, or an increase of 11.7 per cent over the revenues which would be produced for the year 1966 at the present rates.

Public hearings were held before Examiner Warner on December 28 and 29, 1965, at South Gate. Of 60 persons attending the hearings some 44 appeared in protest and about

20 testified regarding the quality of water, low pressure, discoloration, odor and taste. A petition, containing some 70 signatures, protesting the application, was also received. The most general complaint was that the hard water which is prevalent throughout the service area deteriorates plumbing, fixtures, water-using appliances and utensils. A widespread opinion expressed at the hearing was that for drinking and cooking purposes, everyone buys bottled water which costs 25 cents a gallon, totalling as much as \$10 a month. These costs are in addition to applicant's charges for water service which is utilized for gardening, bathing and washing. Excessive amounts of detergents are required and many customers have installed water softeners on their premises at additional installation and operating costs. It was the consensus that the customers would not protest an increase in rates if the quality of water was improved.

Applicant's present rates were established in 1963 when an increase in rates was authorized to offset a water pumping tax assessment. The first increase in rates since applicant commenced doing business in 1904 was granted in August 1960. The record shows that applicant's present rates and those proposed herein are lower in most usage categories than the rates of the City of Los Angeles Department of Water and Power which furnishes water service in the surrounding vicinities.

The following tabulation compares the present and proposed rates, and shows the rates of the City of Los Angeles:

Quantity Rates:	Per Meter Per Month		City of L. A.
	Present	Proposed	
Service Charge *	\$ --	\$ --	\$ 1.000
First 200 c. f., or less	#	1.25	1.378
Next 200 c. f., per 100 c. f.	1.25	.185	.189
Next 2,500 c. f., per 100 c. f.	.18	.185	.189
Next 300 c. f., per 100 c. f.	.16	.165	.189
Next 3,700 c. f., per 100 c. f.	.16	.165	.167
Next 20,000 c. f., per 100 c. f.	.14	.165	.167
Next 3,300 c. f., per 100 c. f.	.14	.14	.167
Next 15,700 c. f., per 100 c. f.	.14	.14	.137
Next 20,000 c. f., per 100 c. f.	.12	.14	.137
Next 130,000 c. f., per 100 c. f.	.12	.12	.137
Next 103,300 c. f., per 100 c. f.	.10	.12	.137
Next 30,000 c. f., per 100 c. f.	.10	.12	.137
Next 355,700 c. f., per 100 c. f.	.10	.12	.113
Next 300,000 c. f., per 100 c. f.	.10	.11	.113
Next 30,000 c. f., per 100 c. f.	.08	.11	.113
Next 970,000 c. f., per 100 c. f.	.08	.11	.113
Next 33,300 c. f., per 100 c. f.	.08	.09	.113
Over 2,033,300 c. f., per 100 c. f.	.08	.09	.095

* Quantity Rates are in addition to the monthly service charge.

Included in \$1.25 minimum charge under present rates.

No increase in minimum charges is proposed although, as shown, the water usage entitlement with the minimum charge under the proposed rates is 50 per cent less than under the present rates.

The record shows that the average monthly consumption is approximately 1,400 cubic feet per customer. At the present rates, the charge for such consumption is \$3.05; at the proposed rates, such charge would be \$3.47, a monthly increase of 13.7 per cent.

The record shows that on December 23, 1965, the City Council of Los Angeles passed and adopted a resolution requesting the City's Department of Water and Power to enter into negotiations with applicant for the purpose of acquiring applicant's existing facilities within the boundaries of the City of Los Angeles so that residents of the Watts statistical area of the City could

have their water supply provided through city-owned facilities. Many of the protestant customers expressed a strong desire for "city water" because they believed it to be more potable than, and not as hard as, the water supplied by applicant. Clear support for this position is not found in the record.

Applicant's consulting engineer was unable to furnish the Commission with precise water quality data, but in Exhibit E attached to the application it was admitted that, chemically, the water falls in a classification commonly called "hard water" despite its having been mixed with treated and untreated Colorado River water supplied through two connections with the Metropolitan Water District's middle-cross feeder, which also furnishes water to the City of Los Angeles Department of Water and Power's Wadsworth Plant, the Southern California Water Company's Culver City water system and to and beyond the City of Santa Monica. A "horseback" estimate was submitted by applicant's engineering witness that the cost of a water softening plant would approximate \$308,000, including the cost of land for the plant of about \$180,000; that annual operating expenses of the plant would approximate \$53,000; and that in order to earn a fair return, an increase of 100 per cent in the rates proposed herein would be required.

Exhibit E contains a summary of earnings for the year 1964 adjusted at present and proposed rates and the years 1965 and 1966 estimated at present and proposed rates. Exhibit No. 3 submitted by Commission staff engineers and accountants contains a summary of earnings for the years 1965 and 1966 estimated at

present and proposed rates. The earnings data contained in Exhibits E and No. 3 are summarized in the following tabulation:

SUMMARY OF EARNINGS				
Item	Year 1966 Estimated			
	Present Rates		Proposed Rates	
	Per Co. : Ex. E : (Pg. 56)	Per PUC : Ex. No.3	Per Co. : Ex. E : (Pg. 56)	Per PUC : Ex. No.3
Operating Revenues	\$365,300	\$352,330	\$407,932	\$403,240
Operating Expenses	268,224	262,140	268,606	262,140
Depreciation	33,111	36,820	33,111	36,820
Taxes	36,703	36,160	45,672	49,480
Subtotal	\$338,038	\$335,120	\$347,389	\$348,440
Net Operating Revenues	\$ 27,262	\$ 17,260	\$ 60,543	\$ 54,800
Rate Base	\$974,569	\$954,620	\$974,569	\$954,620
Rate of Return	2.80%	1.8%	6.21%	5.7%

There is no substantial difference between the earnings estimates submitted by applicant and staff, except that the staff estimates of revenues have taken into consideration the loss of customers in August, 1965, whereas applicant's estimates were prepared before that date and have not considered such loss.

A principal cause of the low earnings estimates at present rates is the increased cost of water purchased from Metropolitan Water District. About 20 per cent of applicant's water sold is so purchased. The following is a recapitulation of

costs of water purchased and to be purchased by applicant from Central Basin Municipal Water District, a member agency of MWD, through applicant's two connections therewith:

<u>Period in Effect</u>	<u>Price Per Acre Foot</u>	
	<u>Filtered Water</u>	<u>Softened and Filtered Water</u>
7-1-57 to 6-30-58		\$23.00
7-1-58 to 6-30-60		26.00
7-1-60 to 12-31-60		24.00
1-1-61 to 12-31-61		26.00
1-1-62 to 12-31-62		28.00
1-1-63 to 12-31-63		30.00
1-1-64 to 6-30-64	\$30.00 (a)	33.00
7-1-64 to 6-30-65	31.00	35.00
7-1-65 to 6-30-66	34.00	38.00
7-1-66 to 6-30-67	37.00	41.00
7-1-67 to	40.00	44.00

(a) During the months of January, February and March 1964, the MWD middle cross feeder carried "softened and filtered water" and cost Conservative \$33.00 per acre foot.

Increased labor costs due to wage increases and the need for an accountant-bookkeeper are another principal cause of applicant's estimated low earnings. The fact of and need for such increases were not seriously disputed by the staff.

The Commission staff accountant testified that in his opinion the rates of return and earnings on equity capital resulting from the rates proposed by applicant are not unreasonable and he recommended that the proposed rates be granted.

The Commission finds that:

1. a. The rate of return which would be produced for the year 1966 estimated at the present rates is deficient and applicant is in need of and entitled to financial relief and the rates proposed in the application would not produce an excessive rate of return.

b. 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.

2. The quality of water furnished by applicant is hard and is believed by a majority of applicant's customers to be unusable and unpotable causing the customers to purchase bottled water for cooking and drinking at costs which amount to as much as, if not more than, their regular water bills.

3. The City Council of Los Angeles has requested the city's Department of Water and Power to enter into negotiations to acquire applicant's water system facilities within the city limits, thus potentially affecting approximately 65 per cent of applicant's customers.

4. Most of applicant's customers would prefer city water, which may or may not be of better quality, although the city's rates for water service in most instances would be higher than those authorized herein.

5. It is reasonable and in the public interest that applicant be directed to study the method and costs of improving the quality of its water, and to file a report thereon with the Commission within one hundred twenty days.

It is concluded that the application should be granted and that the report on the method and costs of improving the water quality should be filed.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Conservative Water Company is authorized to file the revised rate schedule attached to this order as Appendix B. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be April 1, 1966, or four days after the date of filing, whichever is later. The revised schedule shall apply only to service rendered on and after the effective date thereof.

2. For the year 1965 applicant shall apply the depreciation rates set forth in Table 3-A of Exhibit No. 3. Until review indicates otherwise, applicant shall continue to use these rates. Applicant shall review its depreciation rates at intervals of three years and whenever a major change in depreciable plant occurs. Any revised depreciation rates shall be determined by:

- (a) Subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant.
- (b) Dividing the result by the estimated remaining life of the plant.
- (c) Dividing the quotient by the original cost of plant.

The results of each review shall be submitted promptly to the Commission.

3. Applicant shall, within one hundred twenty days after the effective date hereof, file with the Commission in writing a report on a study of the method and costs of improving the quality of its water served. Following receipt of such report, the Commission may reopen this proceeding for further hearing.

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

Dated at San Francisco, California, this 1st day of MARCH, 1966.

Frederick B. Holbrook President
John J. Ketchum
George D. Crowe
Augustin

 Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.

APPEARANCESAPPENDIX A

O'Melveny & Myers, by Lauren M. Wright,
for applicant.

Ida M. Dickerson, for Good Neighbor of
Los Angeles; Lillian Green; Alfred
Lawrence; Mrs. Mac Spivey; Mary Lee
McCool; Ruby Woods; Leon Stewart;
Mrs. D. F. Kepporn; Edward Treadway;
Mrs. Luz Bustamante; Evelyn McGrann;
Nathan Johnson; Otis Loftis; A. P.
Williamson; Dolores Tilden; L. H. Nance;
Jannie Molet; Mrs. Irene Winbush; Dan
Winbush; M. M. Darwin; Maggie Petry;
Leon G. Jefferson; Idell A. Bateman, for
Central Gardens; Selvina Ferguson; Edward
Harris; Willie Blackmon; Ulyses Blackmon;
Cleo Hogan; Helen Juanita Scott;
Mrs. Winnie V. Jordan; Bessie Cohens;
John J. Cato; Mrs. Lula Mae Clousell;
Martha M. Souder; Reverend Moses L. Price;
Alzada Clark; Maria Pearl McCane Brown;
Mrs. Robbie Ward; Mrs. Ardala Johnson;
Mrs. Carrie B. Fitch; Mrs. Edith M.
McKinney; Mrs. Cheatom; Reverend William N.
Knox; Calvin K. Harrison, for Unity Service
Corp.; A. N. Eastman; and Mrs. Shirley
Spencer Taylor; protestants.

R. W. Russell, by K. D. Walpert, for the City
of Los Angeles; Richard H. Keeler, for
Department of Water & Power, City of Los
Angeles; Almer Dismuke; and Robert T. Hall;
interested parties.

Chester O. Newman and Raymond E. Heytens,
for the Commission staff.

APPENDIX B

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Los Angeles, Lynwood, South Gate and vicinity, Los Angeles County.

RATES

		<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:			
First	200 cu.ft. or less	\$ 1.25	(I) (I)
Next	2,800 cu.ft., per 100 cu.ft.185	
Next	27,000 cu.ft., per 100 cu.ft.165	
Next	40,000 cu.ft., per 100 cu.ft.14	
Next	630,000 cu.ft., per 100 cu.ft.12	
Next	1,300,000 cu.ft., per 100 cu.ft.11	
	Over 2,000,000 cu.ft., per 100 cu.ft.09	
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ 1.25	
For	3/4-inch meter	2.00	
For	1-inch meter	3.00	
For	1 1/2-inch meter	4.00	
For	2-inch meter	6.00	
For	3-inch meter	11.00	
For	4-inch meter	17.00	
For	6-inch meter	25.00	
For	8-inch meter	39.00	

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