

ORIGINAL

Decision No. 71121

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of COAST WATER COMPANY under Section 454 of the Public Utilities Code for authority to increase its public utility water rates.

Application No. 47973
(Filed October 13, 1965)

Knapp, Gill, Hibbert & Stevens, by
Wyman C. Knapp, for applicant.
Charles L. Stuart, for Southern
California Water Company and
Henry L. Goerlick, for City of
Bell Gardens, interested parties.
Edward C. Crawford and Chester O.
Newman, for the Commission staff.

O P I N I O N

Applicant is a public utility water company furnishing water to consumers in Bell Gardens, Los Angeles County, California. Its presently authorized rates are set forth in the Commission's Decision No. 62298, dated July 18, 1961, in Application No. 43431.

By the application herein applicant seeks an order authorizing it to increase its general metered and residential flat rate service charges to produce additional revenues of approximately \$7,461 per year.

Public hearings were held in Los Angeles on April 28 and 29, 1966, before Examiner Rogers. Prior to the first day of hearing, notices thereof were mailed to consumers as required by this Commission. There were no protests. The City of Bell Gardens appeared in support of the application.

The applicant is a California corporation. Its history is set forth in prior decisions of this Commission and will not be herein repeated. The applicant cannot extend its service area as it is completely surrounded by other water suppliers.

The applicant served approximately 915 customers on August 31, 1965, approximately 65 percent of which were metered and 35 percent unmetered. It also furnished water for 33 public fire hydrants and five private fire services. No increase in rates for the latter two items is requested.

Applicant claims it will operate at a loss in the test year 1966 at the present rates and that its proposed rates will give it a net income for the test year of \$4,790.

Rates

The following is a comparison of the present and proposed rates.

GENERAL METERED SERVICE

	<u>Per Meter Per Month</u> <u>Present Rates</u>
<u>Quantity Rates:</u>	
First 500 cu. ft., or less	\$ 1.80
Next 1,500 cu. ft., per 100 cu. ft.....	.12
Next 3,000 cu. ft., per 100 cu. ft.....	.10
Over 5,000 cu. ft., per 100 cu. ft.....	.09
<u>Minimum Charge:</u>	
For 5/8 x 3/4-inch meter	\$ 1.80
For 3/4-inch meter	2.40
For 1-inch meter	3.20
For 1 1/2-inch meter	4.70
For 2-inch meter	6.70
For 3-inch meter	10.00
For 4-inch meter	22.00
For 6-inch meter	35.00

GENERAL METERED SERVICE

<u>Quantity Rates:</u>	<u>Per Meter Per Month</u>	
		<u>Proposed Rates</u>
First 500 cu. ft., or less	\$	2.10
Next 1,500 cu. ft., per 100 cu. ft.....		.14
Over 2,000 cu. ft., per 100 cu. ft.....		.11

Minimum Charge:

For 5/8 x 3/4-inch meter	\$	2.10
For 3/4-inch meter		3.00
For 1-inch meter		4.50
For 1 1/2-inch meter		10.00
For 2-inch meter		18.00
For 3-inch meter		35.00
For 4-inch meter		50.00
For 6-inch meter		100.00

FLAT RATE SERVICE

<u>Rates:</u>	<u>Per Service Connection</u>	
	<u>Present</u>	<u>Proposed</u>
For single-family residential unit, including premises served through connection not larger than one-inch in diameter	\$2.25	\$2.65
For each additional residential unit on the same premises and served from the same service connection	\$1.10	\$1.30

Applicant submitted as Exhibit No. 1 a report on applicant's operations for the years 1963 and 1964, for the partially recorded and partially estimated year 1965, and for the estimated year 1966 at present and proposed rates. The Commission staff accounting and engineering witnesses submitted a report, Exhibit 4, for the estimated year 1966 at present and proposed rates. The following tabulation summarizes the earnings information in Exhibits 1 and 4 for the year 1966 as estimated by the applicant and the staff at present and proposed rates.

Summary of Earnings

Item	1966 Estimated			
	Present Rates		Proposed Rates	
	Company	Staff	Company	Staff
	Exh. #1	Exh. #4	Exh. #1	Exh. #4
Operating Revenues	\$45,390	\$46,590	\$52,851	\$54,250
<u>Deductions</u>				
Operating Expenses	39,659	39,330	39,659	39,330 ^{1/}
Depreciation Expense	3,726	3,290	3,726	3,290
Taxes Other Than Income	3,693	2,720	3,693	2,720
Taxes Based on Income	100	100	983	1,880
Total Deductions	\$47,178	\$45,440	\$48,061	\$47,220
Net Revenue	(1,788)	1,150	4,790	7,030
Average Depreciated Rate Base	\$64,521	\$65,850	\$64,521	\$65,850
Rate of Return	-	1.7%	7.4%	10.7%

○ Red Figure

Revenues

Applicant's recorded revenue from fire protection service was static in the years 1964 and 1965 and totaled \$774 in each year. This revenue was used by both the staff and applicant in estimating the 1966 revenue from this source, and we find the estimate to be reasonable.

The applicant estimated that in 1966, metered commercial sales will total \$29,752 at present rates and \$34,546 at proposed rates, and that unmetered commercial sales will total \$14,864 at present rates and \$17,531 at proposed rates. At the time applicant's report was prepared it had only the first five months of 1965 revenues

^{1/} District cost of water pumped in excess of entitlement and water replenishment assessment effective October 1, 1966, included for full test year.

recorded and estimated the last seven months. These figures for the year 1965 were \$28,074 for metered sales and \$15,003 for unmetered sales. During the hearing the applicant produced a document purporting to show the complete results for the year 1965 which were \$28,331 and \$14,864, respectively (Exhibit 3). It also introduced in evidence its profit and loss statement for the year 1965, which showed these two items to be \$28,331 and \$15,313, respectively (Exhibit 2). The differences were not explained.

The applicant's witness stated that customer growth has been static for the past two years. During the 10-year interval, 1956-1965, only 58 active consumers were added to the system. The difference in the metered customers between 1963 (500) and 1966 (estimated 585) reflects the changeover from unmetered to metered users. There is a corresponding decrease in the unmetered customers (1963, 410; 1966 estimated, 332). The witness stated no meters will be added in 1966 due to lack of funds.

In calculating its 1966 revenues, applicant used the average annual consumption per metered consumer, for the years 1963 and 1964. This annual consumption was 333 Ccf. The witness tested the accuracy of the 1964 water use table with actual recorded data and found it to be within 0.2 percent in customer months and 0.8 percent in total water consumption.

The staff engineering witness's estimates of revenues at present and proposed rates for 1966 were based upon water consumption normalized to reflect average climatological conditions considering the average rainfall and temperature for each month of the years 1962 to 1965, inclusive. He estimated an average annual

water use per metered consumer of 340 Ccf. and allowed 15 percent for unaccounted-for water.

Both the applicant and staff assumed the same number of metered and unmetered consumers in 1966.

We find the applicant's estimates of revenues for the year 1966, at present and proposed rates, to be reasonable.

Operating Expenses

The applicant's estimate for the year 1966 was \$39,659, and the staff's was \$39,330, a difference of only \$329. A comparison of the applicant's and the staff's estimates is as follows:

Operating Expenses

Item	1966 Estimated	
	Applicant	Staff
Source of Supply	\$11,575	\$13,550
Pumping	8,221	8,130
Water Treatment	227	230
Transmission and Distribution	4,995	4,100
Customer Accounts	5,509	4,680
General Administrative Expenses	9,132	8,640
Total Expenses	\$39,659	\$39,330

It appears from the record herein that in figuring the expenses the staff apparently did not include either the total amount of the present salary of the secretary who is actually the manager (Mrs. Brown), or the present salary of the superintendent. These two items totaled \$15,180, and the staff allowed a total of

only \$12,825. The amount of these salaries, excluding the amount capitalized (stated to be \$341 in 1965), would more than account for the differences in estimated operating expenses.

We find the applicant's estimates of operating expenses for the year 1966 are reasonable, and they will be used herein.

Depreciation Expense

The applicant's estimate of depreciation expense for the year 1966 was \$3,726, and the staff's was \$3,290, a difference of \$436. Much of the difference is due to the fact that the staff removed from the recorded utility plant the passenger vehicle used by Mrs. Brown. This vehicle cost \$4,741 net, to the applicant, and was being depreciated at the rate of 5.9 percent or approximately \$280 per year. This automobile should not have been included in the utility plant. Applicant had been so advised in a prior proceeding (Decision No. 53941, dated October 16, 1956, in Application No. 37458). The staff allowed the applicant \$2,000 for a new truck with a related depreciation expense of \$180.

We find the staff's estimate of depreciation expense for the year 1966 is reasonable and it will be used herein.

Rate Base Fixed Capital

The applicant estimated the fixed capital as of December 31, 1965, to be \$133,179, and estimated routine additions in 1966 of \$230, giving a total of \$133,409 as of December 31, 1966. This figure includes the changeover from gas engine driven pumps to electrically driven pumps.

The staff used the recorded cost of \$141,900 for utility plant as of September 30, 1965, estimated \$200 in normal additions in the balance of 1965, and arrived at a gross plant of \$142,100. It added \$11,430 for the changeover to electric motors and \$2,000 for a new truck and deducted \$24,770 for retiring the old truck, the gas engines, and the automobile, leaving a beginning of the year 1966 plant of \$130,760, to which it added an estimated \$1,130 for 1966 normal plant additions, giving estimated end-of-year utility plant of \$131,890, and an average utility plant of \$131,330. The difference between the estimates is caused mainly by the staff's deleting the secretary's car. We find the staff's estimate of utility plant reasonable and proper for the year 1966, and it will be used herein.

Depreciation Reserve

Applicant's depreciation reserve as of December 31, 1965, was estimated to be \$80,551, and its depreciation expense for the year 1965 was \$3,884. Applicant has planned to change from gasoline to electric power for its pumps and revised its depreciation rates resulting in a depreciation expense of \$3,726 for the year 1966, and a depreciation reserve of \$67,201 at the end of the year 1966. The estimated average is \$64,714. Applicant's figures include the accrued depreciation on the automobile stated by the staff to be \$1,930. The staff, in addition to varying the lives of the utility plant items from the lives assumed by the applicant, deducted the depreciation on the car and on the truck which the staff assumed was replaced with a \$2,000 truck on which it calculated a depreciation accrual of \$180 for the year 1966.

We find that the staff's estimate of an average depreciation reserve for 1966 of \$60,990 is reasonable and this figure will be used herein.

Contributions

The applicant's estimated average contributions in aid of construction were \$8,127 and the staff's estimate was \$8,140. We find the staff's estimate of contributions in 1966 to be reasonable and it will be used herein.

Materials and Supplies and Working Cash

These are judgment figures. The applicant and the staff each estimated \$150 for materials and supplies. The applicant estimated \$3,850 for working cash. The staff estimated \$3,500. We find the staff's estimates to be reasonable and they will be used herein.

Average Depreciated Rate Base

Using the figures referred to above, we find the reasonable rate base for the year 1966 to be \$65,850.

The applicant's operating expenses (including payroll) have been adopted herein; we also adopt applicant's estimate of payroll taxes, amounting to \$810. Likewise, since we have adopted the staff's estimate of utility plant, we adopt the staff's estimate of \$1,840 for ad valorem taxes. Recently applicant has been required to pay an annual county health license of approximately \$110, included by applicant but not by the staff in the respective estimates for the year 1966. We adopt applicant's estimate of this license.

Taxes

Using the figures developed above, we find the taxes at the present and proposed rates to be as follows:

Summary of Taxes

Item	: Present Rates :	Proposed Rates :
<u>Taxes Other Than Income</u>		
Payroll Taxes	\$ 810	\$ 810
Ad Valorem Taxes	1,840	1,840
County Health License	<u>110</u>	<u>110</u>
Total Taxes Other Than Income	\$2,760	\$2,760
<u>Taxes On Income</u>		
State Corporation Franchise Tax	100	320
Federal Income Taxes	<u>-</u>	<u>1,090</u>
Total Taxes	\$2,860	\$4,170

Summary of Earnings

To recapitulate, using the figures herein adopted, we arrive at the following summary of earnings for the test year 1966 at the present and proposed rates.

Summary of Earnings

Item	1966 Estimated	
	: Present Rates :	Proposed Rates :
Operating Revenues	\$45,390	\$52,851
<u>Operating Expenses</u>		
Operating & Maint. Expense	39,659	39,659
Depreciation Expense	3,290	3,290
Taxes Other Than Income	2,760	2,760
Income Taxes	<u>100</u>	<u>1,410</u>
Total Deductions	\$45,809	\$47,119
Net Revenue	(419)	5,732
Average Depreciated Rate Base	\$65,850	\$65,850
Rate of Return	-	8.7%

(419) Red Figure

Rate of Return

The applicant seeks a rate of return of 7.4 percent on its claimed depreciated rate base of \$64,521. The staff recommended a rate of return of 7 percent on its estimated rate base of \$65,850, which latter rate of return we find fair and reasonable for applicant in this proceeding. With a rate of return of 7 percent applied to the test year rate base of \$65,850, there is a need for gross revenues of \$51,330, an increase of \$5,940 over applicant's gross revenues of \$45,390 at existing rates.

We find that the increase in rates to be authorized by the order herein will provide such additional gross revenues and will enable applicant to meet its expenses of operation and earn a fair and just return on its depreciated rate base hereinbefore found reasonable.

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

We conclude that a rate increase is justified to the extent set forth in the order herein.

O R D E R

IT IS ORDERED that:

1. Coast 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 schedule of rates 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 September 1, 1966.

2. Concurrently with the placing in effect of the rates herein authorized, Coast Water Company shall withdraw and cancel, by appropriate advice letter, its presently effective rate schedules for general metered service (Schedule No. 1) and residential flat rate service (Schedule No. 2R).

3. Within ninety days after the effective date of this decision, Coast Water Company shall file with this Commission two copies of a current system map which has been prepared and kept current, as required by paragraph 1.10.a. of General Order No. 103.

4. Coast Water Company shall apply the depreciation rates set forth in Table 3-A of Exhibit No. 4 in Application No. 47973, when it has replaced the gas engines on its pumps with electric motors. Until review indicates otherwise, applicant shall continue to use these rates. Applicant shall review its depreciation rates at intervals of five years and whenever a major change in depreciable plant occurs. Any revised depreciation rates should be determined by: (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the result by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of the plant. The results of each review shall be submitted promptly to the Commission. Should the gas engine to electric motor changeover not be completed in the year 1966, applicant shall apply the depreciation rates set forth in Table 3-A of Exhibit No. 4 in Application No. 47973, except for Account No. 324, and shall make its own depreciation review for Account No. 324, which review shall be submitted promptly to the Commission.

5. Within forty-five days after the effective date of the order herein, Coast Water Company shall file a revised tariff service area map, appropriate general rules, and sample copies

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of printed forms that are currently used in connection with customers' services. Such filing shall comply with General Order No. 96-A. The effective date of the revised tariff sheets shall be four days after the date of filing.

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

Dated at San Francisco, California, this 16th
day of AUGUST, 1966.

En
George J. Hoover President
August
William W. Bennett Commissioners

Commissioner Frederick B. Holoboff, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Bell gardens, Los Angeles County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 500 cu. ft. or less	\$ 2.05	(I) ----- (I)
Next 1,500 cu. ft., per 100 cu. ft.13	
Over 2,000 cu. ft., per 100 cu. ft.11	
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 2.05	
For 3/4-inch meter	3.00	
For 1-inch meter	4.50	
For 1 1/2-inch meter	7.00	
For 2-inch meter	10.00	
For 3-inch meter	20.00	
For 4-inch meter	30.00	
For 6-inch meter	60.00	

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

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

The unincorporated community of Bell Gardens, Los Angeles County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
For a single-family residential unit, including premises.	\$ 2.60	(I)
For each additional residential unit on the same premises and served from the same service connection.	\$ 1.25	(I)

SPECIAL CONDITIONS

1. The above residential flat rates apply to a service connection not larger than one inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. For service covered by the above classification, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.