

**ORIGINAL**Decision No. 72350

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application  
of the Southern California Water  
Company for an order authorizing  
it to increase the rates and charges  
for water service in its Culver City  
District.

Application No. 48563  
(Filed June 15, 1966)

In the matter of the Application  
of the Southern California Water  
Company for an order authorizing  
it to offset the loss incurred  
during the suspension of the  
Investment Tax Credit by tem-  
porarily increasing the rates and  
charges for water service in its  
Culver City District.

Application No. 48997  
(Filed December 1, 1966)

O'Melveny & Myers, by Donn B. Miller, for applicant.  
Mrs. Sara L. Astrin, Esther M. and Henry P. Van Ostrum,  
Ab Beri, Della F. Rippe and Henry A. Rippe, J. Harland Knauss, Mrs. Edna Larkin,  
Henry S. Johnson and Mrs. H. S. Johnson, and Mrs. Anna Shiels,  
in propria personae; Mrs. Cecile K. Cole, for Dr. and Mrs. Cole; and Joseph S. Dorfman, for Nathan M. Gordon Company; protestants.  
Donald E. Olson, for City of Culver City; John C. Sample, Jr., for Tidewater Oil Company; Ralph E. Eastman, in propria persona; and Darrell Ratzlaff, for Hughes Tool Company; interested parties.  
Raymond E. Heytens, Robert C. Moeck, and Cyril M. Saroyan, for the Commission staff.

O P I N I O N

Southern California Water Company seeks authority to file new schedules of rates for water service in its Culver City District to produce gross annual revenues, according to its estimates for the year 1967, of \$749,680, of which \$9,540 represents an increase to offset suspension of the Investment Tax Credit. The total increase would amount to \$149,820, or a 25 percent increase over present rates.

Public hearings were held before Examiner Warner on October 4, 5 and 6, 1966, at Culver City; the matter was submitted subject to receipt of late-filed Exhibits Nos. 10 and 11 on or before November 4, 1966; but, in the interim, Application No. 48997, the Investment Tax Credit offset, was filed on December 1, 1966; and on January 17, 1967, a Commission staff engineer submitted a memorandum report on his investigation of the latter matter. This report is received as Exhibit No. 1 therein. Public hearing of Application No. 48997 is not necessary because a complete review of applicant's operations and earnings was made in connection with Application No. 48563. The matters are now consolidated for decision.

As of December 31, 1965, applicant was furnishing water service to 145,773 water customers and 6,779 electric customers in 18 operating districts grouped into six divisions in Sacramento, Kern, San Bernardino, Imperial, Ventura, Orange, and Los Angeles Counties in the areas shown on Chart 1-C of Exhibit No. 3, a report on the company's total utility operations. Utility plant as of

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said date amounted to \$60,637,509, with a related depreciation reserve of \$10,529,388.

Exhibit No. 3 shows that the capital structure as of December 31, 1965, comprised 51.94 percent of total funded debt amounting to \$21,060,000 and 3.95 percent of bank loans amounting to \$1,600,000; 8.58 percent of preferred stock totaling \$3,480,000; and 35.53 percent of common equity totaling \$14,403,313. Said exhibit shows that the average effective interest rate as of May 1, 1966, in connection with the sale of \$3,000,000 of 5.10 percent Series Bonds in the Spring of 1966, was 4.26 percent. Exhibit No. 7 shows that the effective cost of money as of June 30, 1966, was 4.34 percent. The record shows that the company plans to sell \$1,000,000 of new preferred stock and \$1,000,000 of common stock in 1967; the year ending 1969 figures in Exhibit No. 5 reflect an estimated sale of \$3,000,000 of first mortgage bonds during the years 1968 and 1969.

Earned surplus as of December 31, 1965; totaled \$5,866,330. Earnings as a percent of book value of common stock ranged from a high of 12.05 percent in 1960 to 10.67 percent for the year 1965. Earnings per share of common stock had increased from 77 cents in 1956 to \$1.18 in 1964 and \$1.16 in 1965. The payout ratio has increased from 68.4 percent in 1956 to 72.6 percent in 1965.

The company's general offices are located at 11911 South Vermont Avenue, Los Angeles, California 90044. Three directors reside in Southern California and two in Omaha, Nebraska. Philip F. Walsh is president and W. C. Welmon is senior vice president and treasurer. Each has had long and wide experience with the company's management.

The Culver City District is managed by W. W. Franklin, vice president in charge of all water and electric operations. Firley C. Cleveland is division manager of the Metropolitan Division, and Ralph N. Stewart, Culver City District superintendent. There are two pump operators, one turn-off-and-on man, three servicemen and one cashier-clerk.

During the year 1965, in the Culver City District there was an average of 6,279 residential and metered customers which would increase to 6,358 for the estimated year 1967; an average of 1,396 business metered customers, excluding condominiums, which would increase to 1,406 for the estimated year 1967; an average of 189 industrial metered customers during 1965, which would increase to 198 for the estimated year 1967; an average of 66 public authority metered customers during 1965 which would remain the same for the estimated year 1967; and an average of 253 condominium residential and living units for the estimated year 1967 reflecting the completion of two condominiums in the Hayden Park development. The record shows, also, that 196 acres of Fox Hills, owned by Home Savings and Loan Association, are being developed into 104 acres overall of multiple dwelling units, 43 acres of non-residential and 49 acres of industrial uses. These properties have been annexed to Culver City and will be served by applicant. A total of 8,000 people in Fox Hills is estimated, which will substantially expand and affect applicant's operations in its Culver City District. Construction of two 26 and 20-unit pilot apartment buildings has been completed, property is being sold, and in 1968 there will be a large multiple-residential development in the tract. In addition, negotiations have been

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and are under way by commercial and industrial interests. Some increase in revenues will be attributable to greater customer density and water usage, and to possible high water use development of Hal Roach industrial sites and MGM properties, should MGM Studios move to Ventura County. Such a move may be imminent.

Applicant's present Culver City District rates were established by Decision No. 57263, dated August 26, 1958, in Application No. 39772. In the year 1954, Culver City residents voted to join the Metropolitan Water District in order to receive softer water than was being served at that time by applicant with water from its own wells in the area. The 1958 decision directed the company to report to the Commission for a period of one year the amount of hardness of water delivered in the Culver City District and a statement of its progress in eliminating bad water odors and taste complained of at that time.

The authority to increase rates granted by Decision No. 57263 was based to a large extent on recognition by the Commission of the need to import softened MWD water which would be blended with well waters at a ratio of 85 percent to 15 percent, respectively, and a full consideration of and allowance for the capital and operating costs associated with the importation of MWD water. The cost of producing well water in 1958 was approximately \$14.62 per acre-foot; MWD water was purchased for \$25.50 per acre-foot. Well water had an average of 415 parts per million of hardness at applicant's Charnock plant and 296 parts per million

at its Sentney plant to be blended with MWD water, which would vary from 125 parts per million to 140 parts per million, resulting in an average hardness of blended water of 160 to 170 parts per million.

It was not until September 1966 that the capacity of MWD's La Verne treatment plant was sufficient to produce and deliver quantities of water of the 1958 stated specifications to Culver City. The delay in delivery was caused by delays in the doubling of the La Verne plant capacity required by demands placed on Colorado River water by consumers in Southern California. The cost of purchased MWD water increased to \$40 per acre-foot on July 1, 1966, and will be \$43 per acre-foot on July 1, 1967; and will increase \$3 per acre-foot per year to \$49 per acre-foot on July 1, 1969.

The increases in costs of purchased water plus wage increases and capital improvement programs totaling \$294,000 completed in 1966, and \$234,800 estimated to be completed during 1967, and increases in other operating costs, including maintenance, materials and supplies, and taxes, are cited as bases for the rate increases herein sought.

Fire flow delivery capacities have been and will be increased in critical residential, commercial and industrial areas following conversations and consultations with Culver City fire and administrative officials. The National Board of Fire Underwriters gives Culver City a No. 3 rating, which is excellent. The rating is, to a considerable extent, based on water supplies, water storage, water pressure and flows.

The following tabulation compares applicant's present rates with those proposed in Application No. 48563 and the authorized rates:

COMPARISON OF PRESENT, PROPOSED  
AND AUTHORIZED RATES  
GENERAL METERED SERVICE

Quantity Rates:	<u>Per Meter Per Month</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
First 800 cu. ft., or less	\$2.10	\$2.65	\$2.60
Next 1,700 cu. ft., per 100 cu. ft.	.23	.28	.27
Next 7,500 cu. ft., per 100 cu. ft.	.20	.26	.24
Over 10,000 cu. ft., per 100 cu. ft.	.17	.20	.19

During the period of the suspension of the Investment Tax Credit, bills computed under the proposed tariff would be increased by 1.33 per cent; under the authorized tariff, by 1.13 per cent.

Under the present rates the charge for a monthly consumption of 2,000 cu. ft. is \$4.86; under the proposed rates, without the surcharge caused by the suspension of Investment Tax Credit, such charge would be \$6.01; the surcharge would be eight cents, making a total charge at proposed rates of \$6.09, an increase of \$1.23 or 25.3 percent over present rates. Under the rates authorized herein, including the effect of the surcharge, the charge for such consumption will be \$5.91, an increase over present rates of 21.6 percent.

As originally submitted, the application contained earnings data for the Culver City District as shown in Exhibit No. 4. Exhibit No. 11 is a revised summary of earnings for the year 1967 at present and proposed water rates submitted by applicant, reflecting increased labor expense to become effective

January 1, 1967, pursuant to a resolution of applicant's Board of Directors held on November 1, 1966. Accountants and engineers on the Commission's staff submitted earnings data for the year 1967, estimated at present and proposed rates, in Exhibit No. 8. The following tabulation summarizes the earnings data contained in Exhibits Nos. 11 and 8:

SUMMARY OF EARNINGS

(Before suspension of Investment Tax Credit)

Item	Year 1967 Estimated			
	Present Rates		Proposed Rates	
	Per Co. Ex. 11	Per PUC Ex. 8	Per Co. Ex. 11	Per PUC Ex. 8
Operating Revenues	\$599,860	\$635,250	\$740,140	\$783,080
Operating Expenses	383,420	390,750	383,420	390,750
Depreciation	59,820	59,820	59,820	59,820
Taxes	68,790	84,370	141,130	160,590
Subtotal	512,030	534,940	584,370	611,160
Net Operating Revenues	87,830	100,310	155,770	171,920
Rate Base	2,325,400	2,302,500	2,325,400	2,302,500
Rate of Return	3.78%	4.36%	6.70%	7.47%

The principal difference between estimates of operating revenues submitted by the applicant and the staff is in the use of different estimating methods. The Commission staff used the Modified Bean method of statistically adjusting recorded water usage and sales to normal temperature and precipitation conditions. Said method has been tested before the Commission in major rate proceedings of California Water Service Company's Livermore, East Los Angeles, Hermosa-Redondo Beach, Selma, King City, Stockton



and Los Altos Districts, and has been found to be reasonable and proper. Additionally, the method has been adopted as reasonable by the Commission in proceedings of Citizens Utilities Company's North Los Altos District and in San Gabriel Valley Water Company's Fontana District.

The only significant differences in estimates of operating expenses are in estimates of labor expense. The applicant incorporated all of its known and anticipated wage increases in its estimates in Exhibit No. 11, whereas the staff in Exhibit No. 8 based its estimates on current requirements as of September 1966.

A very minor difference in estimates of working cash capital arises from the use in cash receipt and payment lag calculations of a practice, which might be available to the applicant, of paying only 70 percent of its estimated income tax without penalty. However, the record shows that the applicant has not utilized, and will not utilize, such practice.

An investment counselor, head of the Underwriting Department of Dean Witter & Co., testified that in his opinion a seven percent return on applicant's total capitalization would be fair. He testified that, for 1967, seven percent would be approximately 11-1/2 percent for the common equity. Applicant's president testified that after thorough consideration he had decided to seek a 6.75 percent rate of return for the Culver City District.

A Commission staff financial expert testified that a rate of return of 6.75 percent applied to the 1967 staff estimated rate base of \$2,302,500 would not be unreasonable for the Culver City District, particularly in view of an indicated attrition in

rate of return of approximately one-half of one percent from 1966 to 1967 due largely to increased purchased water expense which, as well as other expenses, would continue to increase after 1967.

Service complaints were entered by 12 customers and in addition thereto, the manager of a large laundry protested the magnitude of the rate increase which would apply to usages of water in excess of 200,000 cu. ft. per month. The usage of the Culver City plant of the laundry company, which also operates two plants in Los Angeles and one in Orange County, was 1,748,000 cubic feet per month. This laundry customer and an oil recovery company, which may use very large quantities of water to repressure an oil field in the Culver City area, will negotiate with applicant for special contracts. Any such contracts will, of course, be subject to Commission approval. Customer complaints, as in 1958, dealt principally with the hardness of water which applicant's vice president testified, and Exhibit No. 6 shows, had by late September 1966 been reduced to the specifications of the 1958 MWD soft water importation and blending program, i.e., to 132 parts per million of hardness at the Baldwin reservoir on September 28, 1966 and 130 parts per million at the MWD connection at Charnock and Sawtelle Boulevard. The record shows that present operations are in that neighborhood of softness, and will continue to be.

#### Findings

The Commission finds as follows:

1. The rates of return of 3.78 percent or 4.36 percent estimated by the company and by the Commission staff, respectively, which would be produced by Southern California Water Company's

present water rates for its Culver City District for the year 1967 estimated as shown on Exhibits Nos. 11 and 8, are deficient and unreasonable and applicant is entitled to financial relief.

2. The softness of water now being served, and to be served continuously in the future, meets the stated specifications of the soft water importation and blending program of the Commission's Decision No. 57263, dated August 26, 1958.

3.a. The rate of return which would be produced by the rates proposed in the applications is excessive.

b. The costs of purchased water have materially increased and will continue to increase through the year 1969. Wage increases have been effected and the Investment Tax Credit has been suspended.

4.a. A rate of return of 6.75 percent for the estimated year 1967, based on a rate base of \$2,302,500, is reasonable. There may be annual attrition of at least one-half of one percent in immediately future years due, in large part, to increased costs of wages paid and purchased water and the continued installation of nonrevenue producing plant to increase water service pressures and flows. Such attrition may be offset in whole or in part by increased sales of water to condominiums in Hayden Park, in the Hal Roach industrial area, in the development of MGM Studios' properties if the studios move to Ventura County, and in the newly annexed Fox Hills area which is being developed by Home Savings and Loan Association for multiple-unit residential, commercial and industrial uses.

b. A rate of return of 6.75 percent on applicant's Culver City operations will not cause an excessive rate of return on applicant's overall operations.

5. The Commission staff method utilized in estimating operating revenues in the Culver City District, both at present and proposed rates for the year 1967, is reasonable and more realistic than the estimating method employed by the applicant.

6.a. Except for the estimates of labor expense and the very minor working cash requirement, the Commission staff estimates of rate of return components in Exhibit No. 8, are reasonable. The applicant's labor expense estimates and its method of paying its estimated income tax are reasonable. No adjustment to the staff estimated rate base for 1967 is warranted because of the minimal dollar difference involved.

b. Applicant's proposal to increase its rates for private fire protection service from \$1.00 per inch diameter of service connection per month to \$2.00 per inch diameter of service connection per month is reasonable.

7. The following summary of applicant's estimated operations for the year 1967 in its Culver City District, including the effect of the suspension of Investment Tax Credit, herein approved and adopted is reasonable:

ADOPTED SUMMARY OF EARNINGS

<u>Item</u>	<u>Estimated Year 1967 at Authorized Rates</u>
Operating Revenues	\$ 761,900
Operating Expenses	395,100
Depreciation	59,800
Taxes	<u>151,600</u>
Subtotal	606,500
Net Operating Revenues	155,400
Rate Base	2,302,500
Rate of Return	6.75%

8. Applicant should be authorized to file new schedules of rates which will produce the earnings set forth hereinbefore under Finding No. 7. The 1967 estimated gross annual revenues of \$761,900 to be produced by the authorized rates are \$126,650 or 19.9 percent over the 1967 gross revenues estimated by the staff which would be produced by the present rates, but \$31,300 or 3.9 percent less than the revenues which would be produced by the proposed rates.

9. The increases in rates authorized hereinafter are just and reasonable and insofar as they differ from present rates, the latter are unjust and unreasonable.

It is concluded that the applications should be granted in the manner set forth in the following order.

O R D E R

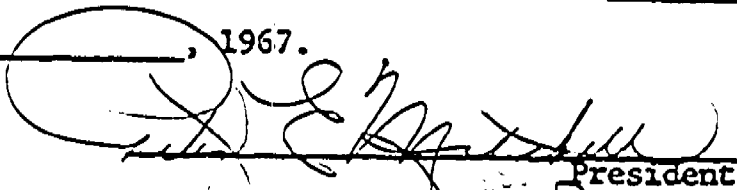
IT IS ORDERED that Southern California Water Company is authorized to file the schedules of rates applicable to its Culver City District attached hereto as Appendix A, and upon not less than five days' notice to the Commission and to the public, to make such rates effective for service rendered on and

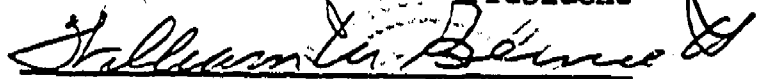
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after June 1, 1967. Concurrently, Southern California Water Company shall revise its present Schedule No. AA-4, Fire Sprinkler Service, to exclude therefrom the Culver City Tariff Area.

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

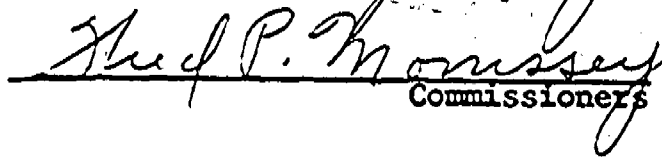
Dated at San Francisco, California, this 2nd day of MAY, 1967.

  
\_\_\_\_\_  
President

  
\_\_\_\_\_  
Commissioner

Commissioner A. W. Gatev, being necessarily absent, did not participate in the disposition of this proceeding.

  
\_\_\_\_\_  
Commissioner

  
\_\_\_\_\_  
Commissioner

APPENDIX A  
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Schedule No. CC-1

Culver City Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Culver City and vicinity, Los Angeles County.

(T)

RATES

Per Meter  
Per Month

Quantity Rates:

First	800 cu.ft. or less .....	\$ 2.60	(I)
Next	1,700 cu.ft., per 100 cu.ft. ....	.27	
Next	7,500 cu.ft., per 100 cu.ft. ....	.24	
Over	10,000 cu.ft., per 100 cu.ft. ....	.19	

Minimum Charge:

For	5/8 x 3/4-inch meter .....	\$ 2.60	
For	3/4-inch meter .....	3.50	
For	1-inch meter .....	5.00	
For	1 1/2-inch meter .....	11.00	
For	2-inch meter .....	17.50	
For	3-inch meter .....	35.00	
For	4-inch meter .....	54.00	
For	6-inch meter .....	90.00	
For	8-inch meter .....	130.00	(I)

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

Until the Investment Tax Credit is reinstated, bills computed under the above tariff will be increased by 1.13%.

(N)

(N)

APPENDIX A  
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Schedule No. CC-4

Culver City Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Culver City and vicinity, Los Angeles County.

RATE

Per Month

For each inch of diameter of service connection .... \$2.00 (I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

(Continued)



Schedule No. CC-4

Culver City Tariff Area

PRIVATE FIRE PROTECTION SERVICE  
(Continued)

SPECIAL CONDITIONS (Contd.)

5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.