

**ORIGINAL**

Decision No. 73171

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of MESA CREST WATER COMPANY, a )  
California Corporation, for an )  
increase in rates for water service. )

Application No. 49014  
(Filed December 7, 1966)  
(Amended January 19, 1967)

Frank W. Doherty, for applicant.  
Captain J. Rotella, Jr., for  
Los Angeles County Fire  
Department; Al Murphy, for  
La Canada Country Club, Inc.;  
Mrs. Narri Sirri; Will E.  
Harrison, Jr.; Patricia M.  
Barnes; Mrs. Hazel Hicks;  
Norman B. Rohrer; Mrs. R. J.  
Parks; and E. Jane Savage,  
Mrs. James L. Lawrence, Jr.,  
and Mrs. Theodore William Peters,  
each appearing in behalf of  
herself and husband; protestants.  
Stanley C. Lagerlof and M. J. French;  
interested parties.  
Chester O. Newman and Edward C.  
Crawford, for the Commission staff.

O P I N I O N

Applicant Mesa Crest Water Company seeks authority to increase its rates for water service.

Public hearing was held before Examiner Main in La Canada on May 23, 1967. Notice of hearing had been mailed to customers and published in accordance with this Commission's rules of procedure. The matter was submitted at the conclusion of the hearing.

Testimony on behalf of applicant was presented by its manager and its consulting engineer. The Commission staff presentation was made by an engineer and by an accountant. About 50 customers attended the hearing, primarily to protest applicant's

request to increase its present rates by 100 percent. Two customers testified concerning their need for water pressure higher than 40 p.s.i.g. existing at their services, which are located at the higher elevations in two of applicant's pressure zones, because of exposure to fire hazard represented by brush and other growth near their properties. A representative of the Los Angeles County Fire Department testified on behalf of the Consolidated Fire Protection District of Los Angeles County concerning its objections to the proposed increase in rates for public fire protection service.

Service Area and Water System

Applicant's service area, comprising about 600 acres in the northerly portion of the community of La Canada, Los Angeles County, is about 70 percent developed. 344 customers including a country club and a golf course are presently provided metered service. In addition 105 houses and a 4-unit condominium, now being built, are expected to require service soon.

The service area is mostly on steep hillside terrain with elevations ranging from 1,200 to 2,100 feet and is divided into four pressure zones to meet the elevation requirements of service. The pressure zones and related facilities are listed in the following Table 1.

Table 1  
Pressure Zones and Facilities

Zone Served	Booster Pumps				Storage Tanks	
	Approx. Elevation Range	Pressure Range, psig	Number of Pumps	Capacity Per Pump, gpm	Capacity (Gallons)	Elevation (ft.) 2/
1	1275-1470	35-150	2	750	1,000,000	1,556
2	1440-1665	40-150	3	750	220,000	1,758
3	1650-1870	50-150	3	600	2,220,000	2,004
4	1870-1925	40-65	1	160	10,000 1/	

1/ Hydropneumatic tank serving approximately 15 customers to be replaced upon further development as required.

2/ High water elevation.

Applicant's entire water supply is purchased from the Foothill Municipal Water District (District), a member agency of the Metropolitan Water District of Southern California, at a point on the District's system near the intersection of Foothill Boulevard and Hampton Road approximately five-eighths of a mile south of applicant's service area. From this point all water must be boosted some 400 feet in elevation to facilities serving pressure zone 1, and most of the water must be boosted several times thereafter to the higher pressure zones. The booster pumps on the system operate in conjunction with storage located above each of the pressure zones.

The principal storage reservoirs located at an elevation of about 2,000 feet are designed to meet the large water requirements and demand flows for domestic use, golf course irrigation and fire flow service of the country club and the third pressure zone. Water

from this storage can be released to the lower pressure zones through pressure regulators located at booster plants. The transmission and distribution systems include four miles of mains ranging in size from 4-inch to 10-inch and three miles of 12-inch main. There are about 350 metered services, 5 private fire protection services, and 52 public hydrants.

Exhibit No. 4 shows that only one informal complaint, which concerned a customer billing, has been made to the Commission during the past four years; that applicant has a water supply permit; that tests made by the Los Angeles County Health Department indicate the water quality to be satisfactory, and that under the pressure zoning used, the pressure in some areas exceeds maximum of 125 p.s.i.g. provided for in General Order No. 103. Otherwise pressures are within the range provided for by said general order and by applicant's filed tariffs.

#### Rates

Applicant's present tariffs include rates for general metered service, private fire protection service and public fire protection service, which were established in 1957, 1965, and 1965, respectively. Applicant proposes to increase each of these rates by 100 percent. The following Table 2 sets forth a comparison of applicant's present rates, those requested by applicant, and those authorized herein:

Table 2  
Comparison of Rates

<u>Item</u>	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
<u>General Metered Service</u>			
Quantity Rates per meter per month:			
First 1,000 cu. ft. or less	\$ 4.00	8.00	7.80
Next 2,000 cu. ft. per 100 cu. ft.	.30	.60	.59
Next 2,000 cu. ft. per 100 cu. ft.	.25	.50	.48
Over 5,000 cu. ft. per 100 cu. ft.	.20	.40	.38
<u>Private Fire Protection Service</u>			
Per inch of diameter of service Per month	2.00	4.00	3.70
<u>Public Fire Protection Service</u>			
Per hydrant per month	2.00	4.00	3.70

The bill for the typical usage of 2,500 cubic feet per month through a one-inch meter would be \$8.50 under present rates, and would be \$17.00 under proposed rates, an increase of one hundred percent. Under the rates authorized herein, the comparable bill will be \$16.65, an increase of 96 percent.

Public Fire Protection Service

Applicant's tariffs provide that public fire protection service is furnished pursuant to the terms and conditions of an agreement dated March 27, 1958 with the Consolidated Fire Protection District of Los Angeles County. Said agreement, which is Exhibit 3 herein, contains the following provision:

"This agreement shall at all times be subject to such changes or modifications by the Public Utilities Commission of the State of California as said Commission may from time to time direct in the exercise of its jurisdiction."

In opposing the proposed increase in rates for this service, representatives of the Los Angeles County Fire Department stated, in substance, that hydrant rental is a matter of negotiation between the Los Angeles County Fire Department and applicant, that the Consolidated Fire Protection District of Los Angeles County does not agree to an increase in the hydrant rental, that there are 110 different contracts with water purveyors in Los Angeles County with the hydrant rental averaging about \$1.90 per hydrant per month and representing an annual cost to Los Angeles County of about \$500,000, and that the \$4.00 hydrant rental proposed by applicant would be an excessive rate.

Applicant's consulting engineer testified that apart from the fixed charges and operating and maintenance expenses which correspond to the increased size of mains, pumps and storage to provide public fire protection service, the proposed rates would yield approximately a 9 percent rate of return on applicant's plant account estimate of \$15,859 for hydrants.

It appears that the system as installed, with its 3½ million gallons of storage capacity, 5,710 gallons per minute of pumping capacity and extensive use of large diameter mains, provides fire protection service which would not be fully compensated for on a cost basis by the proposed rates for such service. In the circumstances, it follows, and we so find, that there does not appear to be justification for public fire protection service not to receive its proportionate share of the needed increase in rates.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table 3 from applicant's Exhibit 1 and from staff's Exhibit 4 are the estimated results of operation for the test year 1967 under present water rates and those proposed by applicant. For comparison, this table also shows the adopted results of operation at the rates hereinafter authorized. Both the applicant and the staff used the then effective state corporation franchise tax rate of 5-1/2 percent, in their analyses. The Commission takes notice of the fact that this tax rate was increased to 7 percent on July 29, 1967, applicable to earnings for the year 1967. Accordingly, the adopted results of operation shown below reflect the use of the increased tax rate.

Table 3  
Estimated Results of Operation - Test Year 1967

Item	Present Rates		Proposed Rates		Adopted
	Applicant	Staff	Applicant	Staff	
<u>Operating Revenues</u>					
General Metered Sales:					
Residential	\$ 38,436	\$ 43,450	\$ 76,870	\$ 86,900	\$ 83,600
Country Club	19,380	15,660	38,760	31,320	30,100
Construction Water	-	1,800	-	3,600	3,450
Private Fire Protection	144	140	290	290	280
Public Fire Protection	1,200	1,200	2,400	2,400	2,300
<b>Total Operating Revenue</b>	<b>59,160</b>	<b>62,250</b>	<b>118,320</b>	<b>124,510</b>	<b>119,730</b>
<u>Operating Revenue Deductions</u>					
<u>Operating Expenses</u>					
Purchased Water	27,770	27,200	27,770	27,200	27,200
Power	9,430	8,810	9,430	8,810	8,810
O & M Labor	1,000	1,000	1,000	1,000	) 8,640
Office Salaries	1,200	1,200	1,200	1,200	
Management Salaries	7,500	6,440	7,500	6,440	) 7,960
Other Operating Expenses	7,960	7,960	7,960	7,960	
<b>Total Expenses</b>	<b>54,860</b>	<b>52,610</b>	<b>54,860</b>	<b>52,610</b>	<b>52,610</b>
Depreciation	14,764	14,790	14,764	14,790	14,790
Taxes, excl. Franchise & Income Taxes	10,299	9,750	10,299	9,750	9,750
County Franchise	340	340	828	340	830
Income Taxes	100	100	12,607	17,410	15,060
<b>Total Deductions</b>	<b>80,363</b>	<b>77,590</b>	<b>93,358</b>	<b>94,900</b>	<b>93,040</b>
<b>Net Revenue</b>	<b>(21,203)</b>	<b>(15,340)</b>	<b>24,962</b>	<b>29,610</b>	<b>26,690</b>
Rate Base	354,324	381,320	354,324	381,320	381,320
Rate of Return	-	-	7.0%	7.8%	7.0%

(Red Figure)



From Table 3 it can be seen that the end results of the studies prepared by the applicant and by the staff are not far apart, mainly because of the partially compensating differences in estimates between revenue categories, the similar levels of estimated total deductions and the larger rate base estimated by the staff.

To make its estimates more representative of future operations the staff has based its estimate of general metered sales to residential users on 430 customers, its estimate of general metered sales to the country club on usage data reflecting practices currently followed in watering the golf course, and its estimate of general metered sales of construction water on construction activity at a level indicated by the average annual increase in the number of customers served during the past five years. We find reasonable the staff estimates of operating revenue.

Purchased water, power and payroll expense, which consists of operating and maintenance labor, office salaries, and management salaries, represent about 85 percent of total operating expenses. The staff estimates of purchased water and of power reflect lower total water usage than that estimated by applicant. This results from the staff's lower estimated water usage by the country club more than offsetting the higher estimated usage for residential and construction water purposes. In arriving at its estimate of \$8,640 of payroll expense, the staff reviewed the work requirements and activities of applicant's personnel. For the remaining operating expenses applicant and the staff have used the same estimates. We find reasonable the staff estimates of operating expenses.

The staff's estimate of rate base exceeds that of applicant by \$26,996, largely as the result of a staff accounting adjustment which increases utility plant by \$19,507 to include the cost of grading, leveling and preparing land for four reservoir sites. We find reasonable the staff rate base.

Consistent with our adoption of staff operating expenses and rate base in Table 3 we adopt the staff estimates of depreciation expense and taxes excluding franchise and income taxes. Applicant's estimate of the Los Angeles County franchise tax based on .7 percent of gross operating revenues appears representative and is adopted.

#### Rate of Return

Applicant proposes a rate of return of 7 percent on its estimated rate base of \$354,324. Since the staff recommends a somewhat higher rate of return and inasmuch as recent Commission decisions relating to rate increases for utilities considered comparable as to capital structure and quality of service have authorized rates of return in excess of 6.5 percent, the rate of return sought by applicant does not appear excessive. We find reasonable a rate of return of 7 percent.

#### Findings and Conclusion

The Commission finds that:

1a. Applicant is in need of additional revenues but the proposed rates set forth in the application are excessive.

b. The adopted estimates, previously summarized and discussed herein, of operating revenues, operating expenses and rate base for the test year 1967 reasonably represent the results of applicant's future operations.

c. A rate of return of 7 percent on the adopted rate base is reasonable.

d. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

2. The maximum pressure of 125 psig provided for in General Order No. 103 is exceeded at some locations within applicant's service area.

3. The straight-line remaining life depreciation rates set forth in Exhibit No. 4 are reasonable for applicant's plant.

4. Applicant has not kept current the system map prescribed by General Order No. 103.

The Commission concludes the application should be granted to the extent set forth in the order which follows.

#### O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant Mesa Crest Water Company is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be October 16, 1967, or four days after the date of filing, whichever is later. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. For the year 1967, applicant shall apply the depreciation rates set forth in Table 3-A of Exhibit 4. 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 shall 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 result of each review shall be submitted promptly to the Commission.

3. Applicant shall prepare and keep current the system map required by Paragraph I.10.a. of General Order No. 103. Within ninety days after the effective date of this order, applicant shall file with the Commission two copies of this map.

4. In locations where normal operating pressures exceed 125 psig at the service connection applicant shall be required to install a pressure regulator on the customer's service if the customer so requests.

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

Dated at San Francisco, California, this 10<sup>th</sup> day of OCTOBER, 1967.

William G. Bennett  
President

Angela

William J. ...

Commissioner

Commissioner Fred P. Morrissey  
present but not voting.

*I dissent. In view of all circumstances a 9.6% increase in rates is not justified.*  
*John E. Mitchell*

APPENDIX A  
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Schedule No. 1

METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The vicinity of La Canada, Los Angeles County.

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 1,000 cu.ft. or less .....	\$ 7.80	(I)
Next 2,000 cu.ft., per 100 cu.ft. ....	.59	
Next 2,000 cu.ft., per 100 cu.ft. ....	.48	
Over 5,000 cu.ft., per 100 cu.ft. ....	.38	(I)
Minimum Charge:		
For 5/8 x 3/4-inch meter .....	7.80	(I)
For 3/4-inch meter .....	10.00	
For 1-inch meter .....	12.00	
For 1 1/2-inch meter .....	16.00	
For 2-inch meter .....	20.00	
For 3-inch meter .....	35.00	
For 4-inch meter .....	55.00	
For 6-inch meter .....	110.00	(I)

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

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

The vicinity of La Canada, Los Angeles County. (T)

RATES

	<u>Per Month</u>	(T)
For each inch of diameter service connection .....	\$3.70	(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. (T)
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 (T)

(Continued)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE  
(Continued)

SPECIAL CONDITIONS (Contd.)

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.

(T)

5. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

(T)

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

(T)

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, (T)  
organized fire districts and other political subdivisions of the State. (T)

TERRITORY

The vicinity of La Canada, Los Angeles County. (T)

RATE

	<u>Per Month</u>	(T)
For each hydrant .....	\$3.70	(I)

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. 1, Metered Service. (T)
2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.
3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size.
4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system. (T)