

ORIGINALDecision No. 73703

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CALIFORNIA CITIES
WATER COMPANY, a California
corporation, under Section 454 of
the Public Utilities Code for
authority to increase its public
utility water rates for water
service in its COWAN HEIGHTS DIVI-
SION to offset an increase in Ad
Valorem Taxes.

Application No. 49612
(Filed August 17, 1967)

O P I N I O N

California Cities Water Company, a subsidiary of Consolidated Water Company, a Delaware corporation, operates separate systems in Los Angeles and San Bernardino Counties and two in Orange County. The instant application concerns the rates in its Cowan Heights Division, one of the Orange County systems. As of July 1, 1967, this system was serving approximately 625 customers. A study prepared by an engineer of the Commission's Utilities Division Hydraulic Branch will be received as Exhibit No. 1.

Applicant is herein requesting a rate increase to offset an ad valorem tax increase. The County of Orange has changed the assessment basis of the Cowan Heights District. The practical result has been an increase in these taxes from \$1,343, recorded in 1966 to \$11,714 estimated for the current (1968) fiscal year.

Applicant's current Cowan Heights rates were established pursuant to Decision No. 67225, dated May 19, 1964, in Application No. 45706. They became effective June 20, 1964. In that decision the Commission found that a rate of return of 2-1/2% would be reasonable. The reason given for such a low rate of return was that

the then prevailing occupancy represented only a small part of the potential for which the basic plant was installed. Accordingly, the connection of additional customers would increase the rate of return by reducing operating expense per customer while not requiring proportionate increases in plant investment.

The prognosis of Decision No. 67225 has proven to be correct if the effect of the tax increase is not considered. The table following illustrates the rising trend of rate of return and the effect of the tax increase.

Item	1965 Recorded	1966		1966 Adjusted 3/
		Recorded & Adjusted 1/	Adjusted 2/	
Operating Revenues	\$ 71,366	\$ 87,063	\$ 87,063	\$ 97,463
<u>Deductions</u>				
Operating Expenses	51,138	60,353	60,353	60,353
Depr. Expenses	12,516	11,631	11,631	11,631
Taxes, Ad Valorem	1,306	5,749	11,714 2/	11,714 2/
		1,340 1/		
Taxes, Other	1,064	779	779	779
Total Deductions	66,024	78,512	84,477	84,477
		74,103 1/		
Net Income, Before Taxes	5,342	8,551	2,586	12,986
On Income		12,960 1/		
State Franchise Tax @		20 5/	20 5/	
7% 4/		200 1/		200
Federal Income Tax @		590 1/		600
22% 4/	-		-	
Net Income	5,342	8,531	2,566	12,186
		12,170 1/		
Average Rate Base	321,400	318,500	318,500	318,500
Rate of Return	1.7%	2.7%	0.8%	3.8%
		3.8% 1/		

1/ Adjusted ad valorem taxes to old basis of assessed valuation (\$1,340).

2/ Adjusted ad valorem taxes to new basis of assessed valuation.

3/ Adjusted ad valorem taxes to new basis of assessed valuation and increased revenues by \$10,400 to offset the increase in ad valorem taxes.

4/ Interest allowance of \$10,060 for income tax purposes.

5/ Proportionate share of minimum tax.

The staff estimated that applicant's proposed rates would yield approximately 6.4% in the year 1968. Since they will not be in effect for the full year the return will fall slightly short of this. Addition of customers should correct this decline in a short period of time. With very slight changes suggested by the staff the proposed rates will be authorized.

By letter dated August 30, 1967, applicant notified all of its customers of this application for an increase in rates. A total of 26 letters have been received by the Commission protesting the proposed increase. Most of these protestants feel that the rates are already too high and 10 complained that their rates are nearly double those of adjacent water purveyors. One customer complained of the service. Applicant's rates are indeed higher than those of surrounding water systems. This is caused by increased expenses arising from serving large lots, hilly terrain and by a relatively large investment per customer as compared with the surrounding purveyors.

The Commission finds that:

1. The estimates of operating revenues, expenses, including taxes and depreciation, and the rate bases as submitted by the staff for the years 1965 and 1966 reasonably represent the result of applicant's operations for the purposes of this proceeding.

2. 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 herein prescribed are for the future unjust and unreasonable.

The Commission concludes that the application should be granted as provided by the following order.

ORDER

IT IS ORDERED that:

1. After the effective date of this order, applicant California Cities Water Company is authorized to file the revised schedule of rates for its Cowan Heights Division set forth in Appendix A to this order. Such filing shall comply with General Order No. 96-A. The revised rate schedule shall become effective for service rendered on and after March 1, 1968 or on and after the fourth day following the date of filing, whichever is later.

2. Within forty-five days after the effective date of this order, applicant shall file a revised tariff service area map, appropriate general rules, and sample copies of printed forms that are normally 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 the date hereof.

Dated at San Francisco, California, this 6th day of FEBRUARY, 1968.

President

William C. Bernick

Lawyer

William J. Synovis, Jr.

Jed P. Morrissey

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. 1

(N)

Cowan Heights Division

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The areas known as Cowan Ranch, Peacock Hills and vicinity located 2 miles northeast of Tustin, Orange County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 700 cu.ft. or less	\$ 4.35	(I)
Next 19,300 cu.ft., per 100 cu.ft.26	
Over 20,000 cu.ft., per 100 cu.ft.20	(I)
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 4.35	(I)
For 3/4-inch meter	5.50	
For 1-inch meter	8.00	
For 1 1/2-inch meter	13.00	
For 2-inch meter	19.00	
For 3-inch meter	26.00	
For 4-inch meter	31.00	(I)

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