

ORIGINAL

Decision No. 73827

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  
Southwest District.

Application No. 49420  
(Filed May 31, 1967)

O'Melveny & Myers, by Donn B. Miller  
and William J. Bogaard, for applicant.  
Harold O. (Hank) Carriere, for Gardena  
Board of Realtors; and Gilbert Smith,  
for Centerview Homeowners Association,  
protestants.  
A. C. Miller, for Los Angeles City  
Schools, interested party.  
Cyril M. Saroyan, Counsel, Chester O.  
Newman and Raymond E. Heytens, for  
the Commission staff.

O P I N I O N

By this application Southern California Water Company seeks authority to increase its rates for water service in its Southwest District by approximately \$488,500, or 16.3 percent, according to its estimated results of operations for the year 1968. Its calculated estimated rate of return for said year is 5.07 percent at the present rates, and would be 7.03 percent at the proposed rates. Included in the application are requests to change from a multi-block quantity rate to a single quantity rate, plus a monthly service charge; to double the present rate for private fire protection service; and to include an escalation

clause in the general metered service tariff to adjust the quantity rate charge to reflect the annual (effective July 1 of each year) \$3 per acre-foot increase announced by Metropolitan Water District (MWD).

Petition for Immediate Offset Relief

A Petition for Immediate Offset Relief was filed by applicant on August 14, 1967, to offset the increased costs of purchased water and increased state income taxes. It alleged in said petition that, based on purchases of water for the 12 months' period July 1, 1967 to June 30, 1968, an increase of \$53,640 would result from the increase of \$3 per acre-foot of water purchased by applicant from West Basin Municipal Water District, the constituent agency of MWD, which became effective July 1, 1967. The effect of the rise in the corporation franchise tax rate from 5-1/2 percent to 7 percent on January 1, 1967, would be an increase of \$7,862 based on results of operation for the 12 months ending June 30, 1967. Applicant alleged that these two increases in operating costs would reduce the rate of return in the Southwest District from 6.19 percent to 5.93 percent, and a revenue increase of 2.22 percent to metered service would restore the rate of return to said 6.19 percent.

By letter dated August 22, 1967, applicant withdrew the petition and it was dismissed by Decision No. 73046, dated September 12, 1967.

Public Hearings

Public hearings on the original application were held before Examiner Warner on November 1, 2 and 3, 1967 in Gardena

and on November 10 and 17, 1967 in Los Angeles. The matter was submitted subject to the receipt of late-filed Exhibit No. 4-B on or before November 24, 1967. Said exhibit, having been received, the matter is ready for decision.

The Record and Issues

The record consists of 716 pages of testimony and 17 exhibits. Applicant's president, vice president-finance, vice president-water and electric operations, senior vice president and treasurer, two certified public accountant consultants, the assistant manager of the rate and valuation department, and the chairman of the board of directors of MWD testified for the company. Three staff engineers and two staff accounting and financial experts testified for the Commission staff. Some 16 subjects involving management judgment, Commission policy, and rate regulation practice were explored and tested on the record. The subjects were: proposed amortization of conversion costs of electronic data processing (EDP); reasonable administrative salaries expense for rate-making purposes; reasonable directors' fees; allocation of administrative expenses transferred-credit; working cash allowance in rate base; envelope billing expenses; systemwide rate of return, financial status, and financial requirements; ad valorem tax estimates; street franchise tax estimates; state corporation franchise tax increase; payroll increases; proposed conversion to a two-part general metered service rate schedule; proposed MWD water costs' escalation rate schedule clause; proposed private fire protection service rate increase; attrition in rate of return, and reasonable Southwest

District rate of return. The subjects in issue will affect all of applicant's future results of operations in all of its districts and its total utility operations. Applicant has a full-time rate and valuation department which prepares rate increase applications for Commission authorization in whole or in part.

The receipt of ten written communications protesting the application and commenting on various service problems, including low pressure, bad taste and odor, sand, discoloration, and lack of prompt attention to service complaints was noted for and made a part of the record by the presiding officer. About 61 persons attended the hearings in Gardena, and nine of these testified for themselves and others they were representing either as property owners or neighbors. Their complaints were individually investigated by the applicant at the direction of the Commission, and Exhibit No. 1 is a report on the results of those investigations.

General Information and Total Utility Operations

As of December 31, 1966, applicant was furnishing water service to 153,286 customers and electric service to 7,192 customers in 19 operating districts, including 13 water and one electric, grouped into six divisions. Water service is rendered in Contra Costa, Imperial, Kern, Los Angeles, Orange, Sacramento, San Bernardino and Ventura Counties in the areas the general locations of which are shown on Chart 1-C of Exhibit No. 4. Utility plant at December 31, 1966, totalled \$65,455,549, with a related depreciation reserve of \$11,747,094.

The company's general offices are located at 11911 South Vermont Avenue, Los Angeles, California 90044. Customer accounting and billing departments are located at 10926 La Cienega Boulevard, Los Angeles, where EDP is conducted. Three directors, Dr. Wilson B. Moody, Chairman, Harold O. Polian, and Walter Youngstrom, reside in Omaha, Nebraska, and two in Southern California. Philip F. Walsh is president and a director; W. C. Welmon, senior vice president and a director, will resign as a vice president in April, 1968, but according to the tentative organization chart for April 2, 1968 (Exhibit No. 4-2), will be retained as assistant to the president. Merle F. Lundberg, now is and will be secretary-treasurer; C. W. Plemons, formerly of Suburban Water Systems, now is and will be controller; C. L. Stuart now is and will be vice president in charge of acquisitions, nonoperating property transactions, public relations, and other assignments by the president; W. W. Franklin now is and will be vice president-water and electric operations; and Harold O. Polian, of Omaha, now is and will be vice president-finance. The latter is also a director of Kirkpatrick, Pettis, Smith, Polian, Inc., investment bankers of Omaha, and chairman of the board of Edison Sault Electric Company, of which Mr. Youngstrom is also a director. Mr. Polian is also an officer of Investors Management Corporation, an Omaha-based investment advisory service. Mr. Youngstrom is chairman of the board of directors of Acme Mail Advertising Company, and Dr. Moody is a director of two other public utilities in the Midwest and the East.

Basis of Application

The primary basis of the application, as set forth in Exhibit No. 2, submitted by applicant's vice president-finance, was the alleged deterioration of applicant's coverage of debt interest and earnings per common share which was predicted to jeopardize applicant's "A" bond rating; thus weakening applicant's competitive position in obtaining additional capital. Applicant proposes to issue common and preferred stock as its next method of financing, and represents that a 12 percent return on equity would be required to market any such issues. This witness testified that a rate of return on the company's systemwide rate base in the range of 7 to 7½ percent would be required to produce the required return on common equity. He further testified that the effect of the 12 percent return in terms of the times interest earned coverage would step in at, or slightly above, the three times coverage; a more comfortable coverage would be 3½ times; the company's projection was 3.3 in 1968, 3.2 in 1969, and 3.1 in 1970; the coverage of bond interest for 1967 would be 2.9 times, which had declined as of November 1, 1967, to 2.47 times; and applicant's actual return on common equity in November, 1967 was somewhere in the range of 9 to 9½ percent.

The following tabulation shows the recorded rates of return on rate base by operating districts for the 12-month periods ending December 31, 1963 through 1966.

SUMMARY OF EARNINGS BY DISTRICTS  
(Per Exhibit No. 4-A)

District	Rate Base		Rate of Return			
	1966	1963	1964	1965	1966	
	Thous. Dollars	%	%	%	%	
<u>Water Department</u>						
Arden	\$ 9.5	-	-	-	-	(0.76)
Barstow	1,863.3	7.18	6.40	5.66	6.05	
Bay	22.2	-	-	-	55.48	
Big Bear	1,058.8	3.99	4.58	5.02	5.25	
Calipatria	287.0	5.93	5.57	5.89	5.99	
Central Basin	7,397.0	6.43	6.95	6.93	7.01	
Culver City	2,156.9	5.60	5.22	4.80	5.78	
Desert	459.7	2.22	0.72	1.80	0.44	
Folsom-Cordova	1,206.9	-	8.94	8.88	7.60	
Huntington Beach#	861.7	6.99	-	-	-	
Kern County	129.9	3.09	2.05	2.39	1.99	
Ojai	728.5	5.32	7.82	7.12	7.12	
Orange County	7,212.0	7.89	6.94	6.60	6.63	
Pomona Valley	2,212.7	8.30	7.40	6.85	6.06	
San Bernardino County	1,329.4	6.49	6.98	6.92	6.84	
San Gabriel Valley	1,768.7	6.22	6.50	6.17	7.13	
Simi Valley	1,430.4	16.27	28.80	6.40	6.02	
South Sacramento#	727.9	5.39	-	-	-	
Southwest	11,359.8	6.39	6.27	6.29	6.36	
Total Water Dept. Ø	40,632.6	6.56	6.60	6.40	6.47	
<u>Electric Department</u>						
Bear Valley	1,635.1	6.93	6.53	6.50	6.26	
Total Util. Ops. Ø	42,267.7	6.57	6.60	6.40	6.46	
(Loss)						

# 1963 only.

Ø Excludes Huntington Beach and South Sacramento properties disposed of in 1964.

Exhibit No. 9, a Commission staff report on cost of money and rate of return, shows that applicant's composite cost of capital as of December 31, 1967 would be 6.57 percent based upon an allowance on common equity of 10.5 percent. The staff

financial witness testified that in his opinion a range of return of 6.75 percent to 6.90 percent on the original cost of the Southwest District rate base would be reasonable.

Rate Increases During 1967

By Decision No. 72350, dated May 2, 1967 in Applications Nos. 48563 and 48997, applicant was authorized to increase its rates for water service in its Culver City District by a gross annual amount of \$126,650, or 19.9 percent, to yield a rate of return of 6.75 percent on the Culver City District rate base for the test year 1967, and by Decision No. 72990, dated August 29, 1967, in Application No. 49128, applicant was authorized to increase its rates for water service in the Bear Valley Zone in its Big Bear District by approximately \$16,000, or 11.5 percent, to produce a rate of return in the range of 6.8 percent to 7.4 percent for the test year 1967.

Pending Rate Increase Applications

Application No. 49681, filed September 21, 1967, seeks authority to increase rates for water service in applicant's Orange County District by \$372,000, or 22.9 percent, to produce a District rate of return for 1968 of 7.26 percent; Application No. 49861, filed December 7, 1967, seeks authority to increase rates for water service in applicant's Barstow District by \$124,600, or 30.3 percent, to produce a District rate of return of 7.26 percent; and Application No. 49938, filed January 9, 1968, seeks authority to increase rates for water service in applicant's Pomona Valley Water District by \$92,200, or 14.9 percent, to produce a District rate of return of 7.24 percent. Said applications are pending.



E. D. P. Conversion Costs

In 1963, applicant began to convert its billing and general accounting systems to EDP through the use of an RCA 301 computer and system which have been replaced by an RCA third generation computer Spectra, which has a memory capacity of 60,000 characters, three times that of the older RCA 301; has a memory access time that is seven times faster, and can print 300 lines per minute faster than its 301 counterpart. There are 20 to 21 employees at the EDP Center on La Cienega Boulevard. Practically all of the applicant's bookkeeping, including its plant accounting may be convertible, and applicant is doing outside work with gross sales amounting to \$100,000 per year, so far. The profits on outside sales have been about \$20,000 and sales are expected to be measurably expanded. Conversion costs, not including capital items as of the end of the year 1966, amounted to \$314,000, which, together with future costs, applicant proposes to amortize as an expense to rate payers over a five-year period at the rate of approximately \$68,250 per year. However, the record shows that past conversion costs incurred in 1963, 1964, 1965 and 1966 have been claimed for income tax purposes, and, in company-wide financial and accounting reports to stockholders, banks, loaning institutions and to this Commission, such costs have been charged against income tax accruals set up to cover the profit on sale of South Sacramento and Huntington Beach water system properties.

Administrative Salaries

The Commission staff in its general report on company-wide operations, Exhibit No. 7, adjusted in Account No. 791.1, Salaries of General Officers, for rate-making purposes, the salaries of the senior vice president and treasurer, and the salary of the vice president in charge of acquisitions and public relations. An adjustment for rate-making purposes was also made to the salaries paid the chairman of the board and the two directors in Omaha. The total adjustment to salaries of general officers amounted to \$67,760.

A difference of \$5,150 between the staff's 1968 estimate in Exhibit No. 7 of Account No. 791.2, Salaries of General Office Employees, is attributable to the company's having included in Exhibit No. 4 the assistant controller's salary for one-half year in 1967 and then calculating its 1968 estimate by increasing the 1967 total by 4.57 percent. The staff included this officer's salary expense on a full year basis for 1967 and 1968, but estimated no increase for this salary group in 1968. However, Exhibit No. 6 is a certified copy of a resolution of applicant's board of directors authorizing an over-all pay increase, to other than the executive group, not to exceed \$102,276 or 5.25 percent of the 1967 payroll, effective January 1, 1968.

The staff, in Exhibit No. 7, adjusted Account No. 798, Outside Services Employed, to reflect a reduction in estimates of Arthur Andersen & Company expense, as auditors, from applicant's estimated amount of \$16,000 for the year 1968 in Exhibit No. 4 to an estimated annual fee of \$13,500.

Another major difference between applicant's estimate of other company administrative and general expenses for the year 1968 in Exhibit No. 4 is shown in Account No. 799, Miscellaneous General Expenses. This is due principally to the fact that the company included \$68,250 for EDP conversion expense based on the five-year amortization of past and future conversion expenses, while the staff included \$30,200 as the average of future conversion and maintenance expenses. Also, the staff transferred the salaries of three directors at \$3,000 each, for a total of \$9,000, to Account No. 799, the company having included these directors' annual salaries in Account No. 791.1.

Finally, the substantial difference in the 1968 estimates of Account No. 790.3, Indirect Charges to Construction and Stores, in Exhibits Nos. 4 and 7 is due to the difference in salaries of general officers which are allocated to these accounts.

The following tabulation compares the total company administrative and general expenses for the years 1967 and 1968 estimated by the staff and the company.

## Total Company

ADMINISTRATIVE AND GENERAL EXPENSES  
(Years 1967 and 1968 Estimated)

Acct.:		Staff		Company
Number:	Account	1967	1968	1968
		Estimated	Estimated	Estimated
791.1	Salaries of General Officers	\$ 89,140	\$ 89,140	\$156,900
791.2	Salaries of Gen. Office Employees	147,000	147,000	152,150
792	Office Supplies & Other Expenses	67,000	74,000	74,000
793	Property Insurance	3,710	4,000	4,000
794	Injuries & Damages	870	870	870
795	Pensions & Benefits	35,770	36,230	36,230
797	Regulatory Commission Expenses	6,600	6,800	6,800
798	Outside Services Employed	20,350	20,350	22,750
799	Miscellaneous General Expenses	90,300	90,300	119,350
783	Advertising Expenses	5,600	5,600	5,600
790.3	(Indirect Chgs. to Construction)	(60,980)	(64,060)	(87,690)
	(Indirect Charges to Stores)	(4,980)	(5,370)	(5,410)
	Subtotal 1/	400,380	404,860	485,550
797	Regulatory Commission Expense (General Report) 2/	1,300	1,300	-
	Total	401,680	406,160	485,550
	( ) Credit			

- 1/ Common administrative and general expenses - spread on four-factor percentages to various districts.
- 2/ Estimated cost of General Report - spread to four affected districts on customer basis.

Administrative Expenses Transferred-Credit

Applicant uses a four-factor method to distribute indirect charges to construction both to individual district operations and to operating expense accounts. The Commission staff recommended that such indirect charges to construction be credited to operating

expenses in each district according to the relation that gross additions to plant in each district bear to gross additions for the total company, on the grounds that the use of the four-factor method understates Southwest District's expenses and overstates other Districts' expenses.

Working Cash

The company's estimate of \$555,366 in Exhibit No. 4 is derived from its average monthly cash balances in banks for the years 1963, 1964, 1965 and 1966. The staff has used in Exhibit No. 7 the sum of the minimum cash balances required by each individual bank in which the company maintains a deposit, which totals \$455,500 adjusted for allocation to water utility plant, only, of \$429,720.

Estimated Wages and Salaries for 1968

The company estimated wages and salaries for 1968 using the 1967 wage rates increased by 4.50 percent. The staff used the latest known wage and salary levels for both 1967 and 1968. As noted hereinbefore, a 5.25 percent payroll increase, excluding executive salaries, became effective January 1, 1968.

Southwest District Operations

Applicant's Southwest District operations approximate 25 percent of total utility operations. As of December 31, 1966, water service was being furnished to 40,680 metered customers and 253 private flat rate fire protection service customers, and 2,510 fire hydrants for public fire protection were connected to the system. The number of customers added since 1959 is estimated to amount to 3,872, or a 10 percent increase by the end of year 1968.

Gross utility plant in service at December 31, 1966 totalled \$15,520,300, an increase of about \$6,000,000, or 39 percent of gross plant, since 1959. The related depreciation reserve at December 31, 1966 was \$2,611,100. Gross additions to plant during 1967 and 1968 were estimated to approximate \$1,363,000. Of the approximate \$7,363,000 of additions to gross utility plant between 1959 and the end of 1968, the principal additions were and will be for the provision of about ten million gallons of additional storage facilities to increase water operating pressures and to improve fire protection. They were also required for the use of MWD water supplies. Other principal plant expenditures in the Southwest District were made to reduce leaks in the system and to install radio equipment on trucks. The number of employees in the Southwest District in 1959 was 39, and in 1967 had been reduced to 29 despite the growth of the system.

The Southwest District west of the shoestring strip of the City of Los Angeles, which divides the District into two portions east and west, extends from Vermont Avenue westerly to Aviation Boulevard and from Manchester Avenue on the north to 182nd Street on the south. The easterly portion extends from Figueroa Street on the west easterly to the City of Compton and from 120th Street south to Victoria Street. The Southwest District area includes all of the City of Lawndale, a portion of the Cities of Gardena, Hawthorne, Inglewood and Compton, and a portion of the County of Los Angeles, and it approximates 21 square miles as shown on Chart 3-B of Exhibit No. 5.

Approximately 65 percent of the water supply for the Southwest District is obtained from seven connections to the transmission system of MWD through the facilities of West Basin Municipal Water District. The price to applicant of MWD water has increased from \$25.50 in 1959 to \$43.30 as of July 1, 1967, and will increase at the annual rate of at least \$3.00 per acre-foot through 1972. Most of the MWD water is softened, filtered and treated, but some unsoftened water is supplied by MWD. However, when the California State water project is completed to the Castaic Reservoir in 1971, MWD's West Branch will commence delivering water from Northern California and East Branch water will be delivered in 1972. This Feather River water will be of high quality and of a more acceptable content of total dissolved solids and hardness. The chairman of MWD's board of directors testified that the cost of MWD water will be increased annually until it reaches an ultimate price of either \$70 or \$80 an acre-foot which will represent the cost of northern water plus the cost of MWD's distribution, representing, more or less, the figure at which water would be selling if the Colorado River aqueduct were running at full capacity.

Present, Proposed and Authorized Rates

Applicant's present rates were authorized by Decision No. 58530, dated June 2, 1959, in Application No. 40675 and became effective July 1, 1959. Authority to increase rates to offset a pumping tax assessment was sought by Application No. 42407, which was denied by Decision No. 60532, dated August 9, 1960. Authority to increase rates in the Southwest District,

generally, was sought by Application No. 43574 which was denied by Decision No. 63942, dated July 17, 1962, and a petition for rehearing was denied by Decision No. 64371, dated October 9, 1962.

The following tabulation is a comparison of present metered service rates with those proposed in the application and the rates hereinafter authorized.

Comparison of Basic Charges

Item	Per Meter Per Month		
	Present <sup>1/</sup>	Proposed <sup>2/</sup>	Authorized <sup>2/</sup>
For 5/8 x 3/4-inch meter	\$ 2.35	\$ 2.00	\$ 1.75
For 3/4-inch meter	3.00	3.00	3.00
For 1-inch meter	4.00	4.00	4.00
For 1½-inch meter	8.50	8.00	7.50
For 2-inch meter	13.00	10.00	10.00
For 3-inch meter	25.00	12.00	12.00
For 4-inch meter	40.00	15.00	15.00
For 6-inch meter	65.00	25.00	25.00
For 8-inch meter	100.00	30.00	30.00

Comparison of Quantity Rates

Quantity Rates		Present	Proposed	Authorized
First	700 cu. ft. or less	\$2.35 <sup>3/</sup>		
Next	1,800 cu. ft., per 100 cu. ft.	.25		
Next	7,500 cu. ft., per 100 cu. ft.	.19		
Next	90,000 cu. ft., per 100 cu. ft.	.15		
Over	100,000 cu. ft., per 100 cu. ft.	.12		
All water service, per 100 cu. ft.			\$0.18 <sup>4/</sup>	
First	10,000 cu. ft., per 100 cu. ft.			\$0.20 <sup>4/</sup>
Over	10,000 cu. ft., per 100 cu. ft.			0.16

<sup>1/</sup> Monthly minimum charge.

<sup>2/</sup> Monthly service charge.

<sup>3/</sup> Includes monthly minimum charge and quantity rate.

<sup>4/</sup> Plus monthly service charge.

Comparison of Private Fire Protection Flat Rate

Item	Flat Rates		
	Present	Proposed	Authorized
Per Inch of Diameter of Fire Sprinkler Service	\$1.00	\$2.00	\$2.00



The following tabulation compares the charges for water service under the present, proposed and authorized rates for general metered service:

COMPARISON OF CHARGES FOR WATER SERVICE UNDER PRESENT  
PROPOSED AND AUTHORIZED GENERAL METERED SERVICE RATES

5/8" x 3/4" Meter, Per Month

Consumption Cu. Ft.			Increase 1/				Increase 1/	
	Present	Proposed	Amount	Percent	Authorized	Amount	Percent	
0	\$ 2.35	\$ 2.00	\$(0.35)	(14.9)	\$ 1.75	\$(0.60)	(25.5)	
500	2.35	2.90	.55	23.4	2.75	.40	17.0	
700	2.35	3.26	.91	38.7	3.15	.80	34.0	
1,000	3.10	3.80	.70	22.6	3.75	.65	21.0	
1,200	3.60	4.16	.56	15.6	4.15	.55	15.3	
1,400	4.10	4.52	.42	10.2	4.55	.45	11.0	
1,500	4.35	4.70	.35	8.0	4.75	.40	9.2	
1,800	5.10	5.24	.14	2.7	5.35	.25	4.9	
2,000	5.60	5.60	-	-	5.75	.15	2.7	
2,500	6.85	6.50	(0.35)	(5.1)	6.75	(0.10)	(1.5)	
5,000	11.60	11.00	(0.60)	(5.2)	11.75	.15	1.3	
10,000	21.10	20.00	(1.10)	(5.2)	21.75	.65	3.1	
20,000	36.10	38.00	1.90	5.2	33.75	(2.35)	(6.5)	
30,000	51.10	56.00	4.90	9.6	49.75	(1.35)	(2.6)	
50,000	81.10	92.00	10.90	13.4	81.75	.65	.8	
100,000	156.10	182.00	25.90	16.6	161.75	5.65	3.6	
150,000	216.10	272.00	55.90	25.9	241.75	25.65	11.9	
200,000	276.10	362.00	85.90	31.1	321.75	45.65	16.5	

(Decrease)

1/ Increase over present rate charges.

Earnings

Applicant's Exhibits Nos. 5 and 5-A contain earnings data for the recorded years 1963 through 1966 and the estimated years 1967 and 1968 at present and proposed rates. Exhibit No. 8 submitted by the Commission staff contains earnings data for the estimated years 1967 and 1968 at present and proposed rates. The following tabulation compares the earnings data for the year 1966 recorded as shown in Exhibit No. 5, and the year 1968 estimated at present and proposed rates as shown in Exhibits Nos. 5-A and 8.

SUMMARY OF EARNINGS

Southwest District

Item	:Year 1966:		Year 1968 Estimated			
	:Recorded :		Present Rates :		Proposed Rates	
	: Per Co. :		Per Co.:		Per PUC:	
	: Ex. 5 :		Ex. 5-A:		Ex. 8 :Ex. 5-A :	
(Thousands of Dollars)						
Operating Revenue	\$ 2,887.5	\$3,004.0	\$3,019.9	\$3,492.5	\$3,486.9	
Operating Expense	1,357.1	1,610.8	1,608.7	1,610.8	1,608.7	
Depreciation	300.7	302.6	302.1	302.6	302.1	
Taxes	506.7	489.1	477.0	746.0	720.4	
Subtotal	2,164.5	2,402.5	2,387.8	2,659.4	2,631.2	
Net Operating Revenue	723.0	601.5	632.1	833.1	855.7	
Rate Base	11,359.6	11,853.2	11,744.4	11,853.2	11,744.4	
Rate of Return	6.36%	5.07%	5.38%	7.03%	7.29%	

It was the opinion of applicant's president that 7.25 percent would be a fair rate of return on the Southwest District rate base.

There are no significant differences between applicant's estimated revenues and the estimates submitted by the Commission staff at present and proposed rates. Each adjusted recorded revenue

data for normal precipitation and temperature by the Modified Bean Method.

The only significant difference in operation and maintenance expenses is in the allocation to the Southwest District of billing expenses. The difference of \$7,600 is caused primarily by the staff's not having reflected the company's proposed cost of envelope billing instead of the present postcard billing. It was the staff's position that any additional costs of providing this type of service to customers should be offset by savings in collection expenses and working cash requirements since it would be expected that bills would be paid more expeditiously.

The principal differences in administrative and general expenses are caused by the staff's officer salary adjustments and general office allocations as discussed under total utility operations. In its estimate of regulatory Commission expenses (Account No. 797) in connection with this proceeding, the company included certain general office salaries which are also shown in its general report, Exhibit No. 5. The staff prorated its estimate over a five-year period compared to three years used by the company.

The differences in estimates of ad valorem tax expense for the estimated year 1968 amounting to \$28,000 out of a total company estimate of \$275,300 are attributable to the fact that the staff developed an effective tax rate for the 1966-1967 fiscal tax year applied to the March, 1966 taxable utility plant balance. This rate was then applied to adjusted taxable utility plant to determine ad valorem taxes for the estimated years 1967 and 1968.

Although the company used the same method for calculating ad valorem taxes, it trended the effective rate on the basis of the past nine years' tax history. The record shows that the effective tax rate has actually decreased during each of the past two fiscal years.

Estimates of street franchise tax submitted by the staff were based on the ratio of 1966 recorded payments to total 1966 recorded gross revenues applied to the estimated gross revenues for the years 1967 and 1968. The company developed an upward trend in its ratio of street franchise tax to gross revenues. The difference at the present rates between the staff and company estimates is \$15,900, out of total company estimated street franchise taxes for the year 1968 of \$46,400; the difference at proposed rates is \$18,200, out of total 1968 company estimated street franchise taxes of \$53,500. The record shows that replaced mains are installed in public streets out of back-of-lot private rights of way. When this is done, front-of-lot service connections are made. The record does not disclose precisely the extent of these replacements, either in the past or the estimated future, or in footage of main, numbers of services affected, or costs.

There is no significant difference in estimates of average depreciated rate bases for the year 1968 submitted by the company and the staff. However, the staff's method and result of calculating operating land includable in rate base at the Chadron plant were disputed by the applicant. The staff did not feel it prudent that rate payers should pay for taxes

and maintenance on a piece of property 87 feet wide just for a pipeline 8 inches wide, when there was adequate property on the north end of the lot to tie well facilities into storage facilities that are in existence.

Findings and Conclusions

The Commission finds as follows:

1.(a) Service conditions, i.e., quality, quantity and pressure of water served by applicant in its Southwest District, comprising some 21 square miles, are reasonably satisfactory. They have improved measurably in the last ten years as the result of applicant's having rehabilitated a substantial portion of its water system in said District, and having added large water storage facilities. They will continue to improve with additionally programmed water system rehabilitation and with additional storage and the utilization of Feather River water through the State of California water project when Metropolitan Water District (MWD) commences delivering northern water from its Castaic Reservoir in 1971.

(b) The results of the investigations of the service complaints registered by letter and at the hearings and the actions to eliminate their causes should result in improved service to the individual complainants, but will require following up by the applicant. The main serving the Gunther residence should be flushed semi-monthly, and the company should flush other non-circulating mains on a similar regular schedule.

2. Applicant's earnings in its Southwest District are deficient, and applicant is in need of financial relief in said District although not to the extent proposed in the application.

3. Applicant's proposal to amortize the costs of conversion to electronic data processing (EDP) in an annual amount of \$68,250 covering past and future costs is unreasonable, and the staff estimate of average future conversion and maintenance expenses of \$30,200 annually is reasonable. Since applicant has already claimed past costs as income tax deductions, such costs have, in effect, been provided for out of profits from the sale of water system properties; the proposal to amortize is not only belated, but the period of amortization is too short if the principle of amortization were, itself, found to be reasonable; the extent of claimed savings to rate payers has not been shown; and rather than be charged for conversion costs, rate payers should be credited with the profits resulting from EDP outside sales.

4. (a) Executive salaries paid to the chairman of the board of directors and vice president-finance, resident in Omaha, are excessive for rate-making purposes. The record does not show the extent of time, if any, that the chairman of the board devotes to applicant, and only one-fourth of the vice president-finance and director's time is devoted to applicant. Their aggregate compensation in 1966 was \$31,000, and applicant's 1967 estimate was \$35,000, or a 13 percent increase. The amount of \$3,000 per year per Omaha-based director, as submitted by the staff, is reasonable.

(b) Adjustment by the staff of the soon-to-resign senior vice president and treasurer's salary is unreasonable. The Commission would expect applicant to maintain a well-paid and

fully staffed executive office at its Southern California headquarters. This officer will continue to serve on a full-time basis for at least the next three years, and he should be fully compensated therefor. Water service rates in the Southwest District should and will contain their proportionate share of contribution to such executive and general office expenses.

5. The four-factor method of allocating administrative expenses transferred-credit employed by applicant has resulted in a distortion of recorded expenses between the individual operating districts, and a greater than proper recorded credit, and resultant lower net expenses, in the Southwest District. Concurrently, plant accounts in the Southwest District, since its inception, have been overstated and would need to be reconstructed for rate-making purposes if the staff proposal of basing such allocations on the ratio of the district construction to total utility construction for each year were adopted in this proceeding. Applicant should change allocation bases, and allocate administrative expenses transferred-credit in its district accounting on the construction ratio, henceforth.

6. The staff estimate of working cash capital for total utility operations as allocated to Southwest District is reasonable. There is no reason for adopting applicant's estimate based on average cash balances since such balances in excess of minimum balances required by banks to be maintained on deposit occur in the normal flow of cash to the utility.

7. Applicant's proposal to convert to envelope billing is reasonable, but its estimate of additional expenses to be incurred

is not reasonable. Net savings should follow the institution of envelope billing as a service to customers, primarily in more expeditious payments by customers.

8. A total utility rate of return in the range of 7 to 7½ percent as an objective is reasonable. Maintenance and perpetuation of applicant's financial ratings and status are required by the public interest. An uneconomically operated public utility water corporation is a public liability, and such uneconomical operations quickly redound to the detriment of the utility's customers in deterioration of service.

9. The staff's ad valorem tax estimates are reasonable. There is no conclusive showing that the advalorem tax rates are trending upward for the test years.

10. The street franchise tax estimate should have reflected the replacement of mains in public streets from private rights of way, but the applicant made no precise showing of the extent of such replacements or their costs. To simply trend upward its ratio of street franchise tax to gross revenues is unreasonable and overstates the estimated tax expense. The staff estimate is reasonable and should be adopted.

11. The adopted state corporation franchise tax expense should be based on the 7 percent tax rate which went into effect January 1, 1967 vs. the prior 5.5 percent rate.

12. Payroll expense adopted for the purpose of this proceeding should be based on the payroll increase voted by the board of directors on November 1, 1967 to be 5.25 percent of the total 1967 payroll, exclusive of executive payroll, and to be effective January 1, 1968.



13. The proposed conversion to a two-part general metered service rate schedule has merit, except that the quantity rates should be in two blocks, as recommended by the staff, to smooth out the percentage increases for all amounts of consumption. Applicant's proposal which would have resulted in decreases in the 0, 2,500, 5,000 and 10,000 cubic feet per month of consumption for a 5/8 x 3/4-inch meter, and up to 31 percent increases in the 200,000 cubic feet per meter per month of consumption, is unreasonable.

14. Applicant's proposed MWD water costs' escalation rate schedule clause is unnecessary since the rates authorized herein will allow the utility to recover all MWD water costs for the reasonable future and the rate of return authorized hereinafter will provide for attrition from other causes.

15. Applicant's proposed private fire protection service rate increase of 100 percent, in order to standardize its schedules for such service systemwide, is reasonable and should be authorized.

16. The following tabulation sets forth the adopted results of operation for the estimated test year 1968:

Southwest District

Item	: Estimated Test Year 1968 : : Adopted Results of Operation:
Operating Revenues	\$ 3,466,300.00
Operating Expenses	1,613,700.00
Depreciation	302,100.00
Taxes	704,900.00
Subtotal	\$ 2,620,700.00
Net Operating Revenues	845,600.00
Rate Base	11,744,400.00
Rate of Return	7.2%

17. There will be attrition in applicant's rate of return in the foreseeable future at the rate of .3 percent per year. ✓

18. After taking into account the aforesaid attrition, the average rate of return over the next three years will be 6.9 percent, which is within the range recommended by the staff, and which is reasonable. It will produce a return of approximately 11.5 percent on common equity, as shown in Exhibit No. 9. ✓

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

It is concluded that the application should be granted in part and denied in part and that applicant should be authorized to file new schedules of rates which will produce the annual gross revenues for the test year 1968 heretofore set forth. They represent an increase of \$446,400 or 14.8 percent over the revenues which would be produced by the present rates, but \$20,600 less than the increase in rates proposed in the application.

O R D E R

IT IS ORDERED as follows:

1. After the effective date of this order, Southern California Water Company is authorized to file the revised rate schedules for its Southwest District 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 four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. Applicant shall allocate Administrative Expenses Transferred-Credit in its district accounting in the ratio of the annual construction in each district to the annual total utility construction.

3. Applicant shall flush noncirculating mains semi-monthly.

4. In all other respects the application is denied.

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

Dated at San Francisco, California, this 12th  
day of March, 1968.

William L. Bennett President

August

William L. Bennett Jr.

Joe P. Monroey Commissioners

*Will file a  
concurring opinion  
C. L. Mitchell*

COMMISSIONER PETER E. MITCHELL CONCURRING:

I concur that the rate of return as indicated in the decision is reasonable. However, I cannot agree with the finding on attrition. There is no discussion of attrition in the decision and no explanation for the finding of .3 percent per year downward trend in rate of return. It can only be concluded that the finding is a mathematical abstraction not influenced by experience and apprehension.

In the past the Commission has always relied on a historical basis to demonstrate the presence of attrition.<sup>1/</sup> By this authority Exhibit No. 4 incorporated in page 7 of the decision does not subserve a measured negative trend in the rate of return for the Southwest Division of the Southern California Water Company. The recorded data from 1963 through 1966 indicates a rate of return of 6.39% for 1963; 6.27% for 1964; 6.29% for 1965; 6.36% for 1966. There is no revelation of any other medium by which the attrition figure may be discerned.

It appears that the majority has now established a procedure, as I would understand it, that a rate of return may be supplemented by an increased percentage by the selection of a hypothetical figure without expressed indices. For my part I would rather abandon the incremental adjective of attrition and incorporate any earnings instability in the rate of return in cumulo.

  
Peter E. Mitchell, President

San Francisco, California  
March 13, 1968

1/ California Water Service Company, A.48590, Decision No. 72235.

APPENDIX A  
Page 1 of 3

Schedule No. SW-1

Southwest Tariff Area

METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

All or portions of the Cities of Compton, Gardena, Hawthorne, Inglewood and Lawndale, the communities of Athens, Lennox and Moneta, and vicinity, Los Angeles County.

RATES

Service Charge:

	Per Meter Per Month
For 5/8 x 3/4-inch meter .....	\$ 1.75
For 3/4-inch meter .....	3.00
For 1-inch meter .....	4.00
For 1 1/2-inch meter .....	7.50
For 2-inch meter .....	10.00
For 3-inch meter .....	12.00
For 4-inch meter .....	15.00
For 6-inch meter .....	25.00
For 8-inch meter .....	30.00

(C)

Quantity Rates:

First 10,000 cu.ft., per 100 cu.ft. ....	\$ 0.20
Over 10,000 cu.ft., per 100 cu.ft. ....	.16

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month

(C)

APPENDIX A  
Page 2 of 3

Schedule No. SW-4

Southwest Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

All or portions of the Cities of Compton, Gardena, Hawthorne, Inglewood and Lawndale, the communities of Athens, Lennox and Moneta, and vicinity, Los Angeles County.

RATE

Per Month

For each inch of diameter of service connection ... \$2.00

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.

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

APPENDIX A  
Page 3 of 3

Schedule No. SW-9M

Southwest Tariff Area

OPTIONAL SPECIAL METERED SERVICE

APPLICABILITY

Applicable to all optional special metered water service.

TERRITORY

All or portions of the Cities of Compton, Gardena, Hawthorne, Inglewood and Lawndale, the communities of Athens, Lennox and Moneta, and vicinity, Los Angeles County.

RATES

		Per Meter Per Month
Service Charge:		
For 4-inch meter .....		\$15.00
For 6-inch meter .....		25.00
For 8-inch meter .....		30.00
Quantity Rates:		
First 20,000 cubic feet, or less .....		\$ 0.18
Next 80,000 cubic feet, per 100 cubic feet .....		.16
Over 100,000 cubic feet, per 100 cubic feet .....		.13

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month.

SPECIAL CONDITIONS

1. Service under this schedule will be furnished only between the hours of 10:00 P.M. and 5:00 A.M. The utility will provide adequate controls to prevent use of water at any other time.
2. This schedule applies only to service furnished through 4-inch or larger meters.