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ORIGINAL

Decision No. 74241

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
Orange County District.

)
Application No. 49681
(Filed September 21, 1967)

O'Melveny & Myers, by Donn B. Miller, for applicant.
Cyril M. Saroyan, counsel, and Chester O. Newman,
for the Commission staff.

O P I N I O N

Applicant Southern California Water Company seeks
authority to increase rates for water service in its Orange County
District.

Public hearing was held before Examiner Catey in Santa Ana
on March 26 and 27, 1968. Copies of the application had been served
and notice of hearing had been published and posted, in accordance
with this Commission's rules of procedure. The matter was
submitted on March 27, 1968, subject to the receipt of certain
late-filed exhibits which have since been received.

Testimony on behalf of applicant was presented^{1/} by its
president, its senior vice-president, its vice president, its rate
and valuation department manager, and its consulting accountant.
The Commission staff presentation^{1/} was made through an accountant
and three engineers. One customer testified in opposition to the
rate increase.

^{1/} Testimony relating to overall company operations had been
presented by witnesses for applicant and the staff in Application
No. 49420, the Southwest District rate proceeding. This
testimony was incorporated by reference in the record in
Application No. 49681.

Service Area and Water System

Applicant owns and operates water systems in eighteen districts and an electric system in one district, all in California. Its Orange County District includes portions of the cities of Anaheim, Cypress, Fountain Valley, Garden Grove, La Palma, Los Alamitos, Orange, Placentia, Santa Ana, Seal Beach, Stanton and Westminster, and unincorporated areas of Orange County adjacent to those communities.

The Orange County District includes several systems which are not physically interconnected but, except for some historical differences in rates, are maintained and operated as parts of the overall system. Most of the area served by those systems is residential, with some small industrial and commercial zones.

The principal water supply for this district is obtained from 53 wells. A second source is the facilities of Orange County Municipal Water District (OCMWD), a member agency of Metropolitan Water District of Southern California (MWD).

The distribution systems include about 270 miles of mains, ranging in size up to 16-inch. There are about 25,100 metered services, 30 private fire protection services and 2,100 public fire hydrants. Eleven reservoirs and storage tanks, with appurtenant booster pumps, maintain system pressure and provide storage in 13 separately operated distribution systems.

Service

Field investigations of applicant's operations, service and facilities in its Orange County District were made by the Commission staff. The plant was found to be in good condition and adequate service was being furnished. Only one informal complaint

regarding service has been registered with the Commission during the past three years. A staff engineer reviewed customer complaints in applicant's files and interviewed several customers. Applicant apparently corrects promptly any inadequacies in service.

There is a potential service problem in several of the isolated systems within the district. These systems each have but a single primary source of supply. Inevitably, the single source must be shut down temporarily for routine maintenance or emergency repairs. Applicant has arranged for emergency connections with adjacent purveyors in all but one of the areas and, so far, this has been adequate. In the Atwood system, storage for about five hours' demand is available and applicant plans to interconnect the system with the nearby Placentia system within two years. Applicant is cautioned to pay particular attention to these potential trouble spots and to take appropriate action in any emergency situation that may occur.

Rates

Applicant's present tariffs include five separate schedules for general metered service in the various present tariff areas within the Orange County District, an optional special metered service schedule and a metered irrigation service schedule for the Placentia Tariff Area, and two separate schedules for fire hydrant service in the Placentia and Cypress-Los Alamitos-Stanton Tariff Area. In addition, applicant's present company-wide schedules for temporary flat-rate service, private fire protection service and service to applicant's employees are now applicable to the Orange County District.

Applicant proposes to increase its Orange County District general metered service rates, to consolidate the five present minimum-charge type schedules into a single service-charge type

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schedule, and to increase its private fire protection rates. The staff offered no objections to the consolidation of rates nor to the change from minimum charges to service charges. In view of applicant's consolidation of the maintenance and operation of the various Orange County systems, there is no longer sufficient justification for separate tariff areas within the district.

The following Table I presents a comparison of applicant's present general metered service rates with those proposed by applicant:^{2/}

TABLE I
COMPARISON OF MONTHLY RATES
FOR GENERAL METERED SERVICE

Item		Present						Proposed
Schedule No. *		CS-1	CPS-1	CSR-1	OR-1	PA-1	OC-1	
Minimum or Service Charge		\$2.00#	\$2.50#	\$2.50#	\$2.50#	\$2.00#	\$2.20#	
First	700 c.f.per 100 c.f.	.00#	.00#	.00#	.00#	.00#	.182	
Next	300 c.f.per 100 c.f.	.225	.00#	.00#	.00#	.225	.182	
Next	1,000 c.f.per 100 c.f.	.225	.15	.15	.25	.225	.182	
Next	1,000 c.f.per 100 c.f.	.225	.14	.13	.215	.225	.182	
Next	2,000 c.f.per 100 c.f.	.20	.12	.11	.215	.20	.182	
Next	5,000 c.f.per 100 c.f.	.17	.12	.11	.18	.17	.182	
Next	9,000 c.f.per 100 c.f.	.17	.12	.09	.15	.17	.182	
Next	11,000 c.f.per 100 c.f.	.12	.12	.09	.15	.12	.182	
Next	70,000 c.f.per 100 c.f.	.12	.12	.09	.12	.12	.182	
Over 100,000	c.f.per 100 c.f.	.12	.12	.09	.12	.12	.131	

* CS-1 is for Cypress-Los Alamitos-Stanton, excl. Park Lane and Rancho.

CPS-1 is for Park Lane.

CSR-1 is for Rancho.

OR-1 is for Orange County, excl. Cypress-Los Alamitos-Stanton and Placentia.

PA-1 is for Placentia.

OC-1 is for entire Orange County.

Minimum charge or service charge for a 5/8 x 3/4-inch meter. A graduated scale of increased charges is provided for larger meters.

^{2/} The rates shown are the amended rates requested by applicant as set forth in Exhibit No. 2, reflecting the correction of an error in applicant's revenue estimates pointed out by the staff.

The following tabulation lists the monthly billing amount for a typical residential customer using 2,200 cubic feet through a 5/8 x 3/4-inch meter in each of the present rate areas at both the present rates and those proposed (and authorized) in this proceeding:

COMPARISON OF MONTHLY BILLS
FOR THE AVERAGE GENERAL METERED CUSTOMER*

<u>Present Rate Area</u>	<u>Pres. Rates</u>	<u>Prop. Rates</u>	<u>% Increase</u>
Cypress-Los Alamitos-Stanton, excl.			
Park Ln. and Rancho	\$5.38	\$6.20	15.2%
Park Lane	4.28	6.20	44.9
Rancho	4.26	6.20	45.5
Orange County, excl. above and Placentia	5.43	6.20	14.2
Placentia	5.38	6.20	15.2

* 2,200 cubic feet

The Placentia Tariff Area now has an optional special metered service schedule applicable to off-peak service through 4-inch and 6-inch meters. Rates for this service are somewhat lower at higher consumption levels than for general metered service, reflecting the benefit to applicant of large customers who are willing and able to utilize only off-peak deliveries. Applicant proposes to increase the rate for this service, commensurate with its requested increase in rates for general metered service, to change from a minimum charge rate to a service charge, and to make the revised schedule applicable throughout the Orange County District.

Applicant now has a special interruptible measured irrigation rate applicable only to the irrigation of five or more acres of commercial crops within the city limits of Placentia. No increase is requested in this rate nor in the company-wide rate for temporary flat rate service.

Because of certain franchise requirements in Orange County, applicant does not collect any revenues directly from public agencies for fire hydrant service. It proposes to cancel its presently unused schedule for public fire hydrant service in Placentia and the schedule for fire hydrant service in parts of the Cypress-Los Alamitos-Stanton Tariff Area which adds a surcharge to customers' bills for metered service. The staff opposes the cancellation of the Placentia schedule. We concur with the staff that a schedule of charges for public fire protection service provides a more equitable distribution of costs than to collect those costs from other users. For example, a truck garden may use many times more water than a downtown office building, yet the garden would have practically no need for, nor benefit from, public fire hydrants. Inasmuch as applicant is unable to collect appropriate charges from public authorities, however, there is no point in establishing the usual fire hydrant rate schedule in the Orange County District.

Applicant's present "company-wide" private fire protection service schedule excludes the Culver City, Big Bear and Southwest Districts. In rate proceedings involving those three districts, the Commission found that a monthly charge of \$2 per inch diameter of service was reasonable, rather than the \$1 per inch set forth in the "company-wide" schedule. Eventually, when all districts have had rate proceedings, the present "company-wide" schedule can be replaced with a revised schedule. In the meantime, as each district is covered by a rate proceeding, a separate increased schedule is authorized for that district.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table II, from the staff's Exhibit No. 11 and applicant's Exhibit No. 7, are the estimated results of operation for the test year 1968, under present rates and under those proposed by applicant.

TABLE II
ESTIMATED RESULTS OF OPERATION, TEST YEAR 1968

<u>Item</u>	<u>At Present Rates</u>	
	<u>Staff</u>	<u>Applicant</u>
Operating Revenues	\$1,694,000	\$1,694,000
Deductions	<u>1,242,900</u>	<u>1,249,300</u>
Net Revenue	451,100	444,700
Rate Base	8,063,100	8,132,900
Rate of Return	5.59%	5.47%
	<u>At Rates Proposed by Applicant</u>	
	<u>Staff</u>	<u>Applicant</u>
Operating Revenues	\$1,989,200	\$1,999,600
Deductions	<u>1,397,400</u>	<u>1,409,300</u>
Net Revenue	591,800	590,300
Rate Base	8,063,100	8,132,900
Rate of Return	7.34%	7.26%

From Table II it can be determined that the rates requested by applicant will result in an increase of about 18 percent in operating revenues.

There are several small differences between the estimates presented by applicant and those presented by the Commission staff for operating expenses and rate base. As hereinafter discussed, the rate of return is not excessive under either applicant's or the staff's estimates, when the apparent future trend in rate of return is considered, so there is no need to discuss or resolve the differences.

Rate of Return

In a recent rate proceeding involving applicant's Southwest District, the Commission found that an average rate of return of 6.9 percent over the next three years is reasonable for applicant's operations. In Exhibit No. 12, the staff recommends that the rate of return be set in the upper portion of a 6.75 to 6.90 percent range.

Applicant's estimates for the test years 1967 and 1968 indicate an annual decline of 0.49 percent in rate of return at proposed rates. The staff's estimates, which exclude the effect of a 1968 wage increase on trend in return, show an annual decline of 0.31 percent at proposed rates. Exhibit No. 14 shows that, for the past seven years, applicant's wage levels have increased each year, with a minimum of 2.7 percent in 1965 and 5.3 percent in 1968. The average annual wage increase for that period is 4 percent.

The comparative rates of return for two successive test years, or for a series of recorded years, are indicative of the future trend in rate of return only if the rates of change of major individual components of revenues, expenses and rate base in the test years, or recorded years, are reasonably indicative of the future trend of those items. Distortions caused by abnormal, non-recurring or sporadically recurring changes in revenues, expenses, or rate base items must be avoided to provide a valid basis for projection of the anticipated future trend in rate of return.

As an indication of the reasonableness of the trend in rate of return derived from the test years 1967 and 1968, applicant showed in Exhibit No. 1 summaries of earnings for the years 1963 through 1966, based upon unadjusted actual recorded data. An average decline of 0.42 percent per year was experienced during that period. Adjusting for a non-recurring income tax credit related to taxes for prior years, the average annual decline was 0.50 percent. There is no reason to believe that the trend in rate of return will level off in the next few years to less than 0.4 percent per year, which is midway between the projections of applicant and the staff.

The rate increase authorized herein will not be in effect for about the first half of the year 1968. With the indicated future trend in rate of return, the 7.26 to 7.34 percent return which would have resulted under applicant's proposed rates if in effect for the full test year 1968, should produce actual rates of return of approximately 6.3 percent for 1968 (with only half of the year at the new rates), 6.9 percent for 1969 and 6.5 percent for 1970.

Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues.
2. The estimates presented by applicant and by the Commission staff, of operating revenues, operating expenses and rate base for the test year 1968, and an annual decline of 0.4 percent in rate of return, reasonably indicate the probable range of results of applicant's operations for the near future.
3. A rate of return of from 6.3 to 6.9 percent on applicant's rate base for the next three years is not in excess of a reasonable return.
4. 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.

The Commission concludes that the application should be granted.

O R D E R

IT IS ORDERED that, after the effective date of this order, applicant Southern California Water Company is authorized to file for its Orange County District the revised rate schedules attached to

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this order as Appendix A, and concurrently to cancel its present Schedules Nos. CS-1, CPS-1, CSR-1, OR-1, PA-1, PA-1M, CS-4 and PA-5; and also concurrently to file a revised Schedule No. AA-4 to remove its applicability to the Orange County District. Such filings shall comply with General Order No. 96-A. The effective date of the new and revised schedules shall be four days after the date of filing. The new and revised schedules shall apply only to service rendered on and after the effective date thereof.

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

Dated at Los Angeles, California, this 11th day of JUNE, 1968.

[Signature]
President

[Signature]
William M. Bennett
Shed P. Monsey
Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. CC-1

(T)

Orange County Tariff Area

(T)

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

All or portions of the Cities of Anaheim, Cypress, Fountain Valley, Garden Grove, La Palma, Los Alamitos, Orange, Placentia, Santa Ana, Seal Beach, Stanton and Westminster, and vicinity, Orange County. (T)

(T)

RATES

Quantity Rates:

Per Meter
Per Month

First 100,000 cubic feet, per 100 cubic feet	\$ 0.182	(C)
Over 100,000 cubic feet, per 100 cubic feet	0.131	

Service Charge:

For 5/8 x 3/4-inch meter	\$ 2.20
For 3/4-inch meter	2.25
For 1-inch meter	2.75
For 1-1/2-inch meter	4.00
For 2-inch meter	5.00
For 3-inch meter	9.00
For 4-inch meter	18.00
For 6-inch meter	25.00
For 8-inch meter	30.00

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

(C)

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Schedule No. OC-9M

(T)

Orange County Tariff Area

(T)

OPTIONAL SPECIAL METERED SERVICE

APPLICABILITY

Applicable to all optional special metered water service.

TERRITORY

All or portions of the Cities of Anaheim, Cypress, Fountain Valley, Garden Grove, La Palma, Los Alamitos, Orange, Placentia, Santa Ana, Seal Beach, Stanton and Westminster, and vicinity, Orange County.

(T)

(T)

RATES

Quantity Rates:

Per Meter
Per Month

First 20,000 cubic feet, per 100 cubic feet	\$ 0.182
Next 80,000 cubic feet, per 100 cubic feet	0.15
Over 100,000 cubic feet, per 100 cubic feet	0.12

(C)

Service Charge:

For 4-inch meter	\$18.00
For 6-inch meter	25.00
For 8-inch meter	30.00

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

(C)

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.

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Schedule No. CC-4

(T)

Orange County Tariff Area

(T)

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 Anaheim, Cypress, Fountain Valley, Garden Grove, La Palma, Los Alamitos, Orange, Placentia, Santa Ana, Seal Beach, Stanton and Westminster, and vicinity, Orange County.

(T)

(T)

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.

(Continued)

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Schedule No. OC-4

(T)

Orange County Tariff Area

(T)

PRIVATE FIRE PROTECTION SERVICE
(Continued)

SPECIAL CONDITIONS (Continued)

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.