

**ORIGINAL**Decision No. 75335

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of SUBURBAN WATER SYSTEMS, a  
California corporation, for  
authority to increase its rates  
for water service.

Application No. 49914  
(Filed January 2, 1968;  
Amended April 1, 1968)

Arthur D. Guy, Jr., Walker Hannon and Daniel J. Reed, for applicant.  
Elmer Rafinski, Louis A. Zanardi, John T. Hoffman, Everett W. McDonald, H. P. Walen, Mrs. H. P. Walen, Eugene H. Tyner, Henry C. Morchouse, Mrs. Bernice Chavers, Edward F. Devlin, Mrs. Alice D. Aughinbaugh, Mrs. Grace Latapie, Mrs. Joseph Clark, William A. Birch, Theresa Simpson, June Kapuuala, George Zimmerman for West Covina, Mrs. Walter Wilson and Elwood V. Valencia, protestants.  
Hideo Kiyon and Jennie V. Bradley, interested parties.  
David R. Larrouy, Counsel, Raymond E. Heytens, Richard D. Gardner, and John D. Reader, for the Commission staff.

O P I N I O N

Applicant seeks authority to increase its rates for general metered water service and private fire protection service. Public hearings were held before Examiner Rogers in Whittier on October 14, and in West Covina on October 15, 16 and 17, 1968, briefs were filed, and the matter was submitted. Notice of the hearings was published and served on all water users in accordance with the Commission's rules of procedure.



Complaints

Fourteen of applicant's general metered service customers testified at the hearings as protestants or interested parties.

Three of the witnesses, two from Santa Fe Springs who were next door neighbors, and one from Puente, testified that their water bills for the months they took their vacations were higher than for comparable complete months while they were home. One of these witnesses had the meter checked. The company representative admitted the bill was erroneous, but no adjustment was ever made. The applicant should examine the bills for these customers for the period involved and adjust the bills for the proper charges during the respective vacation periods.

Of the remaining customers, five were from the Whittier area, two from Pico Rivera, three from the Puente area, and one from Glendora.

The Pico Rivera customers and the Whittier customers complained that the pressure was too low; that the water tasted bad; and that the proposed increase is exorbitant.

The Puente customers complained that the proposed increase is exorbitant.

The Glendora customer protested that the water is chlorinated and tastes bad, and the pressure is too low.

The company investigated seven of these customers' complaints and made a report (Exhibit No. 22).

The City of West Covina protested the increase and presented its objections in writing (Exhibit No. 23). The exhibit



refers to the sales of portions of the Santa Fe Springs and Glendora systems; states that some of the West Covina customers' rates are proposed to be raised as much as 50 to 100 percent depending on the volume of water used; alleges that the cost of pumping to higher elevations should be paid for by the customers in the higher elevations; and states that under the proposal, the applicant would have a rate of return of approximately eight percent.

Contract Customers

Applicant has approximately 16 metered water users which receive water at rates established by contracts executed many years ago. One of these customers, Standard Oil Company of California, objected to being required to pay more than the contract price for water. It stated that any unilateral action by this Commission would be unconstitutional.

Prior to the hearings herein a hearing had been held on the amendment to the application which requested interim rate increases. Decision No. 74151, dated May 21, 1968, granted applicant interim increases in each of its seven tariff areas but specifically stated that: "--if after full hearing of this matter the record does not support a finding that such interim rates are reasonable, applicant is hereby placed upon notice that all or part of said increase will be the subject of refund."

The evidence presented at the hearing herein considered was based on the rates in effect at the time the application was originally filed.



General Information

Applicant provides water service<sup>1/</sup> in two general regions, the San Jose Hills area and the Whittier-Rivera area. Within the San Jose Hills system, there are five tariff areas: Puente-South Covina, Highlands, West Covina, Glendora and Covina Knolls, all in the main San Gabriel Basin. The Whittier Rivera system encompasses the Whittier and Rivera tariff areas in the downstream Central Basin.

The applicant's forecast of the number of customers in each area during 1968 is as follows:

<u>Service Area</u>	<u>Number of Customers</u>
(1) Glendora	1,959
(2) Covina Knolls	416
(3) Highlands	513
(4) West Covina	3,200
(5) Puente-South Covina	22,808
(6) Rivera-Whittier	15,658
(7) Rivera	<u>4,366</u>
Total	48,920

As of October 14, 1968, Camille A. Garnier (now deceased) was Chairman of the Board and Chief Executive Officer; Anton C. Garnier, President; Walker Hannon, Executive Vice President; Earl Olsen, Vice President of Finance; Cecil H. Smith, Treasurer and Assistant Secretary; and Mildred Brittain, Secretary.

By Decision No. 64256, dated September 14, 1962, in Application No. 43241 and Case No. 6323, as amended by Decision No. 65210, dated April 9, 1963, applicant's last general rate increase, the Commission adjusted applicant's rate base in several important respects.

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1/ The applicant had seven tariff areas, containing at the time the application was filed, approximately 48,619 customers of which approximately 4,843 in Santa Fe Springs and Glendora have been lost since the hearing. (Decision No. 74855, dated October 22, 1968, in Application No. 50495 and Decision No. 74931, dated November 13, 1968, in Application No. 50560.)



The original application herein included Exhibit No. 4. The summary of earnings therein contained showed an estimated average depreciated rate base for 1967 of \$14,445,034 and for 1968 of \$14,603,086.

At the outset of the hearing herein, the applicant and the staff stipulated as follows:

- " (1) The following enumerated adjustments and recommended procedures made in Decision No. 64256 in Application No. 43241, and Case No. 6323, except as hereinafter set forth, will not be considered as issues on the hearing of the above entitled Application:
- a. Tract extensions without refund contracts;
  - b. Adjustments from purchases from associated companies;
  - c. The adjustment for mutual stock in 1962 included a portion of the stock in two mutual water companies which have since been declared public utilities. This adjustment is made on the same 1962 basis but excludes the stock of the two mutuals which are now public utilities.
  - d. Accounting modifications. (Issues as identified in Decision No. 64256).
- " (2) It is hereby stipulated and agreed that any of the aforementioned adjustments to rate base (if such were the effect) made in Decision No. 64256 will, for the purpose of rate base determination be updated to the date of hearing in all cases of an adjustment to reflect rate base figures relative to the items involved had Applicant functioned and operated in accordance with the prescribed methods recommended by the Commission Staff in said Decision No. 64256.



- " (3) By this stipulation it is understood that its purpose is to expedite all other matters relating to Applicant's request for a rate increase by means of avoiding the presentation of evidence, philosophies and theories as reflected in rate base adjustments and other forms of recommended procedure set forth in the above accepted area of issues.
- " (4) It is expressly understood, however, that Applicant by entering into this stipulation is not to be considered as in any sense waiving its right to have heard and considered by the Commission at a time other than the period of the rate hearing itself the philosophies, principles and theories purporting to justify the aforementioned adjustments and accounting procedures, i.e., Applicant and the Commission Staff agree herein to bifurcate the rate proceeding itself and hearing or hearings on the issues enumerated above which will be excluded from consideration within the rate proceeding."



In accordance with the stipulation the following are the summaries of earnings for 1968 at present and proposed rates as estimated by the applicant and the staff.

Comparisons of Staff and Company Summaries of Earnings  
for 1968

Item	Present Rates	
	Staff	Company
Operating Revenues	\$3,009,410	\$3,100,130
<u>Operating Expenses</u>		
Operating and Maintenance	1,207,380	1,259,873
Administrative and General	407,380	435,941
Depreciation Expense	440,420	467,666
Amortization	90	91
Non-Income Taxes	416,190	457,842
Income Taxes	320	2,117
Total Operating Exp.	<u>2,471,780</u>	<u>2,623,530</u>
Net Revenue	537,630	476,600
Avg. Depreciated Rate Base	13,082,040	13,379,786 *
Rate of Return	4.11%	3.6%

Proposed Rates		
Operating Revenues	\$4,253,070	\$4,203,468
<u>Operating Expenses</u>		
Operating and Maintenance	1,212,760	1,265,390
Administrative and General	425,810	452,491
Depreciation Expense	440,420	467,666
Amortization	90	91
Non-Income Taxes	416,190	457,842
Income Taxes	648,570	539,403
Makeup and Replenishment Assessment	20,000	25,361
Income Tax Levy		34,361
Total Operating Exp.	<u>3,163,840</u>	<u>3,242,605</u>
Net Income	1,089,230	960,863
Avg. Depreciated Rate Base	13,082,040	13,379,786 *
Rate of Return with 10% Federal Income Tax Surcharge	8.33%**	7.18%

\* Rate Base per Stipulation - See Exhibits Nos. 5 and 14.

\*\* 8.82% excluding federal income tax surcharge.



The applicant's results of operations report (Exhibit No. 4) and the staff report (Exhibit No. 15) were prepared prior to the agreement between the applicant's counsel and the staff counsel (Exhibit No. 5) which reduced the 1968 rate base claimed by the applicant from \$14,603,086 to \$13,379,786. At the time the applicant's report was prepared the federal 10 percent surcharge had not been made effective. The foregoing tabulation has been adjusted pursuant to agreement between the applicant and the staff (Exhibit No. 20).

#### Revenues

In estimating the revenues for 1968 the applicant assumed an average annual consumption of 253 Ccf per customer and the staff estimated 259 Ccf. The applicant's engineer, who made the original study (Exhibit No. 4), stated that on an updated weather normalization study and work in concert with the staff, the 259 Ccf consumption per customer year was agreed upon. We find that gross annual revenues for 1968 will be \$3,009,410 at present rates and \$4,253,070 at the proposed rates.

It should be noted here that the parties did not include approximately \$102,000 in revenues from sales of water to Southwest Water Company, or the related pumping expenses for the stated reason that they assume that a pending adjudication of pumping rights in the San Gabriel Valley Water Basin will render it uneconomical for applicant to produce and sell water to Southwest.



Operating and Maintenance Expenses

The applicant's estimate of operating and maintenance expenses for 1968, at proposed rates compared to the staff's estimates of such expenses is as follows:

<u>Item</u>	<u>Company</u>	<u>Staff</u>
Source of Supply	\$ 478,416	\$ 461,930
Pumping Expenses	330,736	324,890
Water Treatment Expense	15,774	15,480
Trans. and Dist. Expense	197,335	185,540
Customer Accounts Expense	239,508*	221,320*
Sales Expense	3,621	3,600
Total	<u>\$1,265,390</u>	<u>\$1,212,760</u>

\* The staff estimated that at present rates this expense would be reduced by \$5,380. The applicant estimated a reduction of \$5,517 at present rates.

Differences in the source of supply expenses were attributed to the fact that the applicant's stated costs for purchased water were excessive and were corrected by the staff. In addition, the staff used currently effective replenishment and makeup assessments and the applicant used estimated rates. We find that the staff's estimate of source of supply expense is correct and it will be adopted for the purpose of this decision.

The difference in the pumping expenses is accounted for by the staff using 1961 to 1967 average costs increased to allow for growth in 1968. The applicant adjusted this expense for higher cost of pumping per unit due to an anticipated reduction in the amount of water to be pumped as the result of the adjudication of pumpers rights, and, consequently the cessation by applicant of the sale of water to Southwest Water Company. We find that the



staff's estimate of pumping expenses for 1968 is reasonable and it will be used for purposes of this decision.

We find that the staff's estimate of water treatment expense is reasonable and it will be adopted for the purposes of this decision.

The differences in the estimates of transmission and distribution expense are mainly attributable to the fact that the applicant has improperly accounted for various items of such expense. We find that the staff's estimate is reasonable and it will be adopted for the purposes of this decision.

The difference in the customers' accounts expense is essentially due to the staff disallowance of electronic data processing system expenses. The applicant urges that it be allowed the set-up cost even though the system is not yet in use. We find that the staff's estimate is proper with the addition of \$3,750 per year for the electronic data processing set-up for a total of \$219,690 at present rates and \$225,070 at proposed rates.

We find that \$3,600 is a reasonable sum to allow for sales expense, and find that in 1968 the total operating and maintenance expenses will be \$1,231,130 at the present rates and \$1,236,510 at the proposed rates, including \$20,000 for back makeup and replenishment costs.

#### Administrative and General Expenses

The staff's estimates of administrative and general expenses for the year 1968 at present and proposed rates are proper with the exception of its allowance for administrative and general salaries. We find the applicant's estimate of the expense



for this item is reasonable and it will be adopted for the purposes of this decision. We further find that the staff's estimates of the remaining items are reasonable. We find that in 1968 administrative and general expenses will be \$415,240 at present rates and \$433,670 at the proposed rates.

Depreciation Expense

The applicant's estimate of depreciation expense exceeds that of the staff by \$27,246. The staff adjusted the rate base in conformance with this Commission's Decision No. 64256. We find that the staff's estimate of depreciation expense is reasonable and it will be adopted for the purposes of this decision.

Non-Income Taxes

The applicant's estimate of non-income taxes for the year 1968 exceeds that of the staff's by \$41,652. Included in such estimates are ad valorem taxes as to which the applicant's estimate exceeds that of the staff by \$48,983 and the payroll taxes as to which the staff's estimate exceeds that of the applicant by \$7,331. The staff considered an adjustment for transactions with associated companies as specified in Decision No. 64256, supra.

We find that the staff's estimates of such taxes are reasonable and they will be adopted.

Makeup and Replenishment Assessment

Decision No. 73076, dated September 12, 1967, in Application No. 48633, established the rates in effect prior to the interim increase authorized by the interim decision in this



matter. The increase authorized by Decision No. 73076 was to offset increased costs of pumping due to replenishment and makeup assessments, and increased costs of purchased water. The total amount of prior replenishment and makeup assessments considered was stated to be approximately \$125,000 to be recovered over a period of five years. The staff recommended that the sum of \$20,000 per year be included in operating expenses for the stated reason that the makeup and replenishment tax had reduced somewhat from what was originally estimated in Decision No. 73076. We find that the sum of \$20,000 should be included as an expense.

Income Tax Levy

The Internal Revenue Service has disallowed certain depreciation on utility plant and on the difference between the par value and market value of stock issued in connection with the retirement of advances for construction. The applicant requests that \$34,361 per year be included in operating expenses to compensate for this I.R.S. charge. We find that the stockholders should bear this expense and that this item should not be included as an expense to be paid by the consumers.

Income Taxes

Based on the foregoing findings, we find that applicant's income taxes for the year 1968 will be \$100 at present rates and \$578,240 at the proposed rates.

Rate Base

The staff estimated rate base for 1968 is \$13,082,040. The applicant's was \$14,603,090. Pursuant to the stipulation (Exhibit No. 5 supra), the applicant reduced its rate base for



the purposes of this decision to \$13,379,786, a difference of \$1,223,304. The difference between the staff estimated rate base and the applicant's agreed rate base is \$297,746.

Both the staff and the applicant included \$112,000 for materials and supplies. The staff estimated \$160,850 for working cash. The applicant allowed \$141,318 for working cash. We find that the staff's estimates for these items are reasonable and they will be allowed.

The staff also deducted from the rate base \$211,206 comprising \$63,708 of advances and \$147,498 of contributions resulting from the acquisition by applicant of certain facilities of the La Puente Cooperative Water Company pursuant to Decision No. 71758, which required that applicant record such sums as stated. Applicant recorded these amounts as being included in a note payable to La Puente. We find that the staff's treatment of these sums and the related utility plant is correct.

The staff also adjusted the rate base to exclude therefrom \$68,374 for the book value of stock in two mutual water companies. The company had excluded only half (\$34,187) of the book value of this stock. We find the staff adjustment is proper for the purposes of this decision.

We find that a 1968 average rate base of \$13,082,040 is reasonable and will be used for the purposes of this decision.



We find that applicant's results of operations for the estimated year 1968 at present and proposed rates will be as follows:

<u>Adopted Summary of Earnings for 1968 at Present and Proposed Rates</u>		
<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
<u>Revenues</u>	\$ 3,009,410	\$ 4,253,070
<u>Expenses</u>		
Operating and Maintenance	1,231,130	1,236,510
Administrative and General	415,240	433,670
Depreciation	440,420	440,420
Amortization	90	90
Non-Income Taxes	416,190	416,190
Income Taxes (without 10%)	100	578,240
Total	\$ 2,503,170	\$ 3,105,120
Net Revenues	506,240	1,147,950
Rate Base	\$13,082,040	\$13,082,040
Rate of Return	3.87%	8.78%

#### Rate of Return

The applicant requested a rate of return of 7.51 percent on the adjusted rate base of \$13,379,786. The staff recommended a rate of return of 6.75 percent applied to the staff estimated and herein adopted rate base of \$13,082,040.

The applicant's reason for requesting the 7.51 percent rate of return on the increased rate base is attrition which, it claims, was at the rate of .33 percent per year from 1964 to 1967 and .50 percent from 1967 to 1968. It attributes the attrition to increased operating costs, inflation, taxes and increased investments.

The applicant compared the rates of return for the years 1964, 1965, 1966 and the first one-half of 1967 on a recorded basis, and the years 1967 and 1968 on an estimated basis



without considering the stipulated rate base adjustments and without normalizing the years.

The staff used the test years 1967 and 1968 and normalized them to remove unusual and non-recurring events.

The whole record reflects a decreasing rate of return from 1964 to 1968. We find that the future rate of attrition will be .15 percent per year and that a future three-year period from 1969 through 1971 is reasonable in establishing rates from this proceeding.

In its cost of money study (Chapter 14, Exhibit No. 4), the applicant gave its December 31, 1966, capitalization and its estimated December 31, 1968, capitalization, as follows:

Line No.	Description	December 31, 1966		Estimated December 31, 1968	
		Amount	%	Amount	%
1	Common Stock & Prem. \$	490,670		\$ 915,670	
2	Capital Surplus	373,006		373,006	
3	Retained Earnings	742,939		742,939	
4	Total Common Equity	1,606,615	11.25	2,031,615	13.76
5	Preferred Equity	4,110,330	28.79	4,600,330	31.15
6	Total Equity	5,716,945	40.04	6,631,945	44.91
7	Bonds, Debentures, Notes	8,561,476	59.96	8,137,476	55.09
8	Total Capitalization	<u>\$14,278,421</u>	<u>100.00%</u>	<u>\$14,769,421</u>	<u>100.00%</u>

The applicant's witness agreed that the stated capitalization is erroneous in that \$1,046,476 of 7.75 percent bonds, \$400,000 of 7.75 percent preferred stock and \$425,000 of common stock had not been sold or issued.



The true picture, as reflected in the staff's cost of money and rate of return study (Exhibit No. 19), shows that as of December 31, 1967, applicant's capitalization was as follows:

<u>Item</u>	<u>Capital Spread</u>
Long-Term Debt and Notes Payable	59.13%
Preferred Stock	29.07%
Total	<u>88.20%</u>
Common Equity	11.80%
Total Capital	<u>100.00%</u>

The staff financial witness pointed out that applicant's proportion of common equity capital is a continuation of years of meager common equity interest, of which we have taken official notice and called to the applicant's attention in numerous decisions, whereby applicant is operating on capital predominately furnished by outside sources.

As recently as July 18, 1967 (Decision No. 72784 in Application No. 49007), we pointed out to applicant that its common stock equity capital ratio does not compare favorably with other Class A water utilities operating in California or with ratios which we have from time to time, considered necessary and advisable.

On October 24, 1967 (Decision No. 73215 in Application No. 49460), we denied applicant's request for authority to issue \$300,000 worth of debentures for the reason that its common stock equity capital ratio was too low.



Below is a schedule in which assumed earnings rates on common equity are combined with the requirements necessary to service long-term debt and preferred stock to provide various returns on total capital.

TOTAL COST OF CAPITAL COMMENSURATE WITH RATE BASE  
AT ASSUMED YIELDS ON COMMON EQUITY

Item	Capital: Weighted:		Assumed Yields on Common Equity:			
	Spread	Cost	15%	17%	19%	21%
Long-Term Debt and Notes Payable	59.13%	5.53%	3.27%			
Preferred Stock	<u>29.07</u>	4.22	<u>1.23</u>			
Total Senior Capital	88.20		4.50	4.50%	4.50%	4.50%
Common Equity	<u>11.80</u>		<u>1.77</u>	2.01	2.24	2.48
Total Capital	<u>100.00%</u>		<u>6.27%</u>	<u>6.51%</u>	<u>6.74%</u>	<u>6.98%</u>

As can be seen, due to the extremely low percentage of common equity, any reasonable rate of return will result in returns on common equity much higher than with a well balanced company.

We find that a rate of return of 6.75 percent is reasonable for the future. Said rate of return will be adequate to service the present and anticipated fixed capital and provide a return on equity in the range of 19.1 percent.

Between 1967 and 1968, estimated, the applicant's rate of return declined from 4.24 percent to 4.11 percent at present rates. With the indicated trend in rate of return, a rate of



return of 7.05 percent for the test year 1968, when applied to the 1968 estimated average rate base of \$13,082,040, should produce an average future return of 6.75 percent into the next three years. We find a return of 7.05 percent when applied to the estimated average rate base of \$13,082,040 to be fair and reasonable.

The foregoing adopted results of operation at present and proposed rates do not consider the 10 percent surcharge to federal income taxes. The income tax surcharge is applicable to the full year of 1968 and, unless extended will expire on June 30, 1969. Sufficient revenues should be added to the herein authorized revenues to offset the future effect of the tax increase. This increase will offset only the future effect of the tax increase and is not designed to recoup any of the increased tax on net revenue produced prior to the effective date of the increased water rates which may be authorized by supplemental order in this proceeding.

#### Rate Spread

The applicant has requested that one service charge type rate be established for all areas with a surcharge for a small area at a higher elevation not presently served. The staff engineer pointed out that because of different water sources and elevations in areas the cost of delivering water would not be identical. He recommended that the present six tariff areas be divided into two zones and that a two-zone rate schedule be authorized. He illustrated on Exhibits Nos. 17 and 18 where the zones could be broken. The area for which applicant requested a surcharge would be a small part of the upper zone suggested by the staff.

We find that such recommendation is reasonable; that the type of rates proposed by applicant should be instituted; and that there be an increment of three cents per 100 cubic feet for all of the customers in the higher zone as shown on Exhibits Nos. 17 and 18. We find such increment reasonable.



Deeded Water Rights

Applicant, through purchases, acquired certain irrigation customers who, originally, were served through open ditches pursuant to contracts. These customers, now totalling 13 (Exhibits Nos. 8 and 9), are presently served through the regular system of applicant the same water as domestic consumers and receive the same service. They pay substantially less for water than other consumers. In at least one instance the customer pays less than the cost of the water to applicant. These customers were notified of the hearing and that the staff would recommend that the contracts should be disregarded and that they would be required to pay the regular rates for their water.

These consumers will be required to pay the regular meter rates for their water in the future. As the Supreme Court of California stated (Hartland Law v. The Railroad Commission, 184 Cal. 737 at 739):

"There is no longer any question as to the power of a state to fix rates for a public utility service which will supersede rates for such service previously fixed by private contract between the consumer and the company. It has been conclusively settled that the interference with private contracts by the state regulation of rates is but a legitimate effect of a valid exercise of the police power which neither impairs the obligation of a contract nor deprives of property without due process of law (citations). It is immaterial that petitioners' contract was entered into prior to the enactment of the present Public Utilities Act ... If the service contracted for was devoted to public use (citation), the contract for service was subject to the exercise of the police power and, the state having elected to confer upon the Commission the power to prescribe uniform rates for the service, petitioner cannot complain if the exercise of this power results in the practical annulment of his private contract fixing compensation for a public service."



See also Producers Transportation Company v. Railroad Commission of the State of California, 64 Law Ed. 239 at 243 and Sutter Butte Canal Company v. Railroad Commission of the State of California, 73 Law Ed. 637 at 640.

Compliance with Decision No. 71758

By Decision No. 71758, dated December 27, 1966, in Case No. 7263 (66 Cal. PUC 614) the Commission ordered, inter alia,

"1. Suburban Water Systems is directed to refund to each person who was a domestic service customer of its alter ego La Puente Co-operative Water Company for the period three years immediately preceding the effective date of this order the difference between the amount charged each customer by La Puente and Suburban's authorized tariff rates during that period of time.

"2(a) Suburban shall record in Account 241 - Advances for Construction, and in Account 265 - Contributions in Aid of Construction, the balances of refundable advances and nonrefundable contributions carried in the books of La Puente immediately prior to the purported sale and transfer of La Puente's assets to Suburban."

This same decision ordered applicant to make certain refunds to customers of La Puente Cooperative (Ordering Paragraph No. 1).

This order has not been complied with and applicant's books reflect an amount of \$351,476 total for these accounts still carried as a note payable. ✓



We find that any rate increase authorized herein should be conditioned to commence after the ordered refunds and accounting adjustments have been made and the refunds made to the customers of La Puente Cooperative.

Staff Recommendations

The staff counsel made several recommendations relative to the applicant. Such recommendations are implemented in the order which follows.

Findings

The Commission finds that:

1. Suburban Water Systems (applicant) is a public utility water corporation under the jurisdiction of this Commission furnishing water service to an overall total of approximately 43,776 customers in Los Angeles and Orange Counties. The customers in each system are furnished water at different rates.

2. Applicant proposes to increase its rates for general metered service and private fire protection service. It proposes that its general metered service customers be served in all systems at a service charge form of rate with two rate zones. Revenues for 1968 will be \$3,009,410 at the present rates and \$4,253,070 at the company proposed rates.



3. Operating and maintenance expenses for the year 1968 will be \$1,231,130 at present rates and \$1,236,510 at company proposed rates.

4. Administrative and general expenses for the year 1968 will be \$415,240 at present rates and \$433,670 at the company proposed rates.

5. Depreciation expense for the year 1968 will be \$440,420.

6. Amortization expense for 1968 will be \$90.

7. Taxes other than on income will be \$416,190 for the year 1968.

8. Income taxes for the year 1968 will be \$100 at present rates and \$573,240 at the company proposed rates.

9. The net revenues for the year 1968 will be \$506,240 at present rates and \$1,147,950 at company proposed rates.

10. Applicant's average adjusted rate base for the year 1968 is \$13,082,040.

11. Based on the above findings, applicant's rate of return for the estimated year 1968 will be 3.87 percent at present rates and 8.78 percent at the company proposed rates.

12. The rate of return applicant is receiving at the present rates is deficient and applicant is in need of financial relief. The estimated rate of return of 8.78 percent which would be produced by the rates proposed by applicant is excessive.



13. There is an annual attrition in applicant's rate of return. With the indicated trend in rate of return a rate of return of 7.05 percent, when applied to the 1968 estimated average rate base of \$13,082,040 should produce an average future return of 6.75 percent into the next three years. We find a rate of return of 7.05 percent for the estimated year 1968 when applied to the rate base of \$13,082,040 to be fair and reasonable.

14. Filings of new schedules of rates for general metered service and private fire protection service should be authorized. The order which follows will authorize the filing of new schedules of rates which will produce \$3,777,300 in gross annual revenues, excluding revenues required for the 10 percent federal surtax, an increase of \$767,890 or 25.5 percent of the gross annual revenues which would be produced at present rates (those authorized by Decision No. 73076, dated September 12, 1967). This increase is \$475,770 less than the increase sought in the application. When the authorized revenues are related to the rate base of \$13,082,040 which is just and reasonable after deducting operating expenses, depreciation and taxes, an average rate of return of 6.75 percent will result over the next three years. We find such rate of return to be reasonable. The present rates, insofar as they differ from the herein authorized rates, are for the future, unjust and unreasonable. ✓



15. In addition to the increased rates found reasonable, applicant should be authorized to recover sufficient funds to compensate for the 10 percent federal surtax. The rates and charges and the rate increase authorized by this decision should be further modified by the addition to the general metered rates and private fire protection rates of 2.00 percent thereof to permit applicant to recover the future effect of said surtax and insofar as the authorized rates differ from the total authorized rates, they are for the future, unjust and unreasonable. This additive should terminate when the surtax is terminated.

16. The staff recommendation that a two-zone rate schedule be authorized, and applicant's request for a service charge type of rate are reasonable. There should be an additional charge of three cents per 100 cubic feet of water for customers in the higher zones as outlined in Exhibits Nos. 17 and 18.

✓ 17. The rate increases authorized herein should not become effective until applicant has adjusted its books in accordance with Decision No. 71753, and made refunds in accordance with paragraph one thereof and reported compliance to the Commission in writing.



- ✓ 18. Applicant should bill its deeded water users at its regular metered service rates.
- ✓ 19. Applicant should reduce its accrual rate for computing estimated uncollectible accounts to .45 percent.
- ✓ 20. Applicant should devise an improved stores control procedure to assure proper recordation of material:returns and file a report with the Finance and Accounts Division of this Commission setting forth those procedures.
- ✓ 21. Applicant should make a study of the capitalization of construction overhead items and file a report setting forth those procedures.
- ✓ 22. Applicant should keep the Commission advised of the status of the San Gabriel Valley adjudication.
- ✓ 23. Applicant should make any indicated adjustments to the bills of the Santa Fe Springs and Pucate customers, whose bills were higher for the periods they were on vacation than when home, and report to the Commission.
- ✓ 24. Applicant's common stock equity capital ratio is extremely low. It should finance future expansion through the sale of its common stock, if possible, in order to improve the ratio of its common stock equity to its debt and preferred stock.

The Commission concludes that the application should be granted to the extent herein set forth, and in all other respects it should be denied.



O R D E R

IT IS ORDERED that:

1. After advances for construction and contributions in aid of construction have been recorded and refunds to customers of La Puente Co-operative Water Company have been made as specified in Decision No. 71758, Suburban Water Systems will be authorized by supplemental order herein to file the revised schedules of general metered service and private fire protection rates attached to this order as Appendix A, and concurrently to cancel its present schedules Nos. PU-1, HI-1, WC-1, GL-1, CK-1, WH-1, RI-1, and 4. Such filings shall comply with General Order No. 96-A, and shall include filing of revised tariff service area maps to delineate Tariff Area No. 1 and Tariff Area No. 2 in accordance with the rate zones outlined in Exhibits Nos. 17 and 18. The effective date of the new and revised tariff sheets 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.

2. Within ten days after the effective date of this order, applicant shall file with this Commission a copy of a trust agreement made and entered into between Suburban Water Systems and a suitable bank, trust company or other licensed escrow agent, containing escrow instructions for payment of any amounts not yet refunded to domestic service customers of La Puente Co-operative Water Company in accordance with Ordering Paragraph No. 1 of Decision No. 71758 and providing that a sum of money equal in amount to the current unpaid balance of such refunds has been deposited in escrow.



3. Commencing thirty days after the effective date hereof all of Suburban Water Systems' deeded water users shall be charged for water at the appropriate general metered service rate.

4. Within thirty days after the effective date hereof, Suburban Water Systems shall investigate the vacation period bills of Bernice Chavers, Mrs. Joseph Clark and Verna Edwards, and file a written report with this Commission within ten days thereafter.

5. Commencing with the year 1969, Suburban Water Systems shall reduce its accrual rate for estimating uncollectible accounts to .45 percent.

6. Within thirty days after the effective date of this order Suburban Water Systems shall devise an improved stores control procedure to assure proper recordation of material returns and file a report with the Finance and Accounts Division of this Commission specifying the adopted procedure.

7. Within sixty days after the effective date hereof Suburban Water Systems shall advise this Commission of its procedures for the capitalization of construction overhead items.

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

Dated at Los Angeles, California, this  
18<sup>th</sup> day of FEBRUARY, 1969.

William J. Quinn  
President  
August  
Red P. Morrissey  
John M. Moran  
Commissioners

Commissioner Thomas Moran, being necessarily absent, did not participate in the disposition of this proceeding.



APPENDIX A  
Page 1 of 4

## Schedule No. 1

(C)

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Covina, West Covina, La Puente, Glendora, Whittier and vicinity, Los Angeles and Orange Counties.

(C)

RATESPer Meter  
Per Month

## Service Charge:

For 5/8 x 3/4-inch meter .....	\$ 2.40	(I)
For 3/4-inch meter .....	2.65	
For 1-inch meter .....	3.90	
For 1 1/2-inch meter .....	5.00	
For 2-inch meter .....	7.00	
For 3-inch meter .....	13.00	
For 4-inch meter .....	18.00	
For 6-inch meter .....	30.00	
For 8-inch meter .....	44.00	

## Quantity Rates:

Tariff Area  
No. 1 No. 2

First 30,000 cu.ft., per 100 cu.ft. ....	\$ .14	\$ .17	
Over 30,000 cu.ft., per 100 cu.ft. ....	.12	.15	(I)

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)

(C)

SPECIAL CONDITIONS

1. The boundaries of the zones in which the above rates apply are delineated on the tariff service area maps filed as part of these

(X)

(X)

(Continued)



Schedule No. 1

METERED SERVICE  
(Continued)

SPECIAL CONDITIONS (Contd.)

tariff schedules. Tariff area No. 1 in the San Jose Hills System includes all customers in zones designated 547 and below and in the Whittier System zones designated 300 and below. Tariff area No. 2 includes all other customers.

(N)

(N)

2. Until the 10% surcharge to federal income tax is removed, bills computed under this tariff will be increased by 2.0%.

(I)

(I)



APPENDIX A  
Page 3 of 4

Schedule No. 4

All Tariff Areas

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

All tariff areas.

(T)

RATE

Per Month

For each inch of diameter of service connection ..... \$3.00 (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. (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

All Tariff Areas

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)  
|  
(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.

(N)  
|  
(N)

6. Until the 10% surcharge to federal income tax is removed, bills computed under this tariff will be increased by 2.0%.

(I)  
(I)