

SW/MJO *

Decision No. 75877

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of JUNIOR WATER CO., INC. }
for authority to issue notes and to }
increase rates for water service. }

Application No. 50794
(Filed December 30, 1968)

Allan F. Kerr and Everett L. Clark,
for applicant.
Patricia L. Ready, Vivian Cunningham
Spiker and Marvin Wise, in propria
personae, protestants.
Paul E. Palmer, in propria persona,
interested party.
Jerry J. Levander and Raymond E.
Heytens, for the Commission staff.

O P I N I O N

By this application, Junior Water Co., Inc., which furnishes water service to some 1,148 consumers in the west part of Norwalk, seeks to increase its rates by a gross annual amount of approximately \$11,900, or 28.5 percent, according to its estimates of its operations for the year 1969. As of August, 1968, flat rate service was being furnished to 999 residential premises, and 145 residences, three schools and one church were metered. The average metered consumer used approximately 1,500 cu. ft. of water per meter per month, and the average flat rate residential customer usage was calculated at 1,740 cu. ft. per service connection per month. The company polices the individual flat rate usages, and installs meters where, what it considers, excessive amounts of water are being used by a flat rate service customer.

Applicant also seeks authority to issue long-term notes to Ponticopoulos, a limited partnership, and to Allan F. Kerr, an individual, and its president, in the aggregate amount of \$52,147.15, composed as follows: An \$11,719.90 note to be issued to Ponticopoulos to refinance the balance due the latter, plus \$20,000 of additional financing for planned improvements of existing utility plant, and to purchase and install meters at existing flat rate service connections. Said total amount is proposed to be amortized in four years and five months at the rate of \$700 per month. The short-term notes totalling \$20,426 are proposed to be issued to Allan F. Kerr to refinance existing short-term notes issued to and held by Kerr and current liabilities to Kerr for net salaries of \$5,649 for 1966 and \$5,676 net salary for 1967, and Kerr's current salary liability of \$5,676 for 1968.

The record shows that applicant's officers and directors are Allan F. Kerr, president-director, Katherine V. Kerr, vice-president and secretary-treasurer and a director, Perc Fleming, director, C. Clement Peterson (C.P.A.), director, and Spiros G. Ponty, director (father and father-in-law of Katherine V. Kerr and Allan F. Kerr, respectively).

Public hearing was held before Examiner Warner on April 22, 1969, at Norwalk. Three customers appeared and one customer telephoned to protest the lack of systemwide metering, but had no objection to the rate increase proposed. They contended that their having been placed on metered service constituted discrimination against them in favor of the flat rate users,

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especially their immediate neighbors. One customer complained of oily scum in his domestic water. Exhibit No. 3 is a report on the results of applicant's investigation of this complaint directed by the Commission.

Applicant was organized in 1949 and first commenced business as a public utility, pursuant to authority granted by Decision No. 44038, dated April 11, 1950, in Application No. 30883, to furnish water service in three subdivided tracts in Norwalk, which have been fully developed. There is no room for further expansion. The water supply from three wells is limited by the adjudicated allowable extraction right from the Central Basin ground waters which is administered by the "Watermaster" in the Department of Water Resources of the State of California, pursuant to the "Decree" in Case No. 786656 of the Los Angeles County Superior Court. Said allowable extraction right is 590 acre-feet per year. Applicant may sell surplus water to the "Exchange Pool" and, in fact, did so in 1967 when it sold 52 acre-feet for the sum of \$1,710.28, equaling \$32.89 per acre-foot. However, when applicant's water system requirements exceed 590 acre-feet, which they did in 1968, and might occur more frequently if flat rate consumers were not cautioned and urged to conserve water, limited purchases might be made from the "Exchange Pool".

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Applicant's present rates have been in effect since 1961. They were authorized by Decision No. 61517, dated February 14, 1961, in Application No. 42401.

The following tabulation compares the present, proposed, and authorized rates for flat and general metered services:

Comparison of Present, Proposed,
and Authorized Flat and General
Metered Service Rates

Flat Rates

	<u>Per Service Connection Per Month</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
Rates:			
For a single family residence including premises not exceeding 6,000 sq. ft. in area	\$ 2.75	\$ 3.50	\$ 3.30
a. For each additional residence on the same premises and served from the same service connection	1.40	1.75	1.70
b. For each 100 sq. ft. of area in excess of 6,000 sq. ft.....	0.025	0.025	0.03

General Metered Service

	<u>Per Meter Per Month</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
Quantity Rates:			
First 1,000 cu.ft., or less	\$ 2.40	\$ 3.00	\$ 2.65
Next 200 cu.ft., per 100 cu.ft.	*	.20	.20
Next 1,800 cu.ft., per 100 cu.ft.	.17	.20	.20
Next 2,000 cu.ft., per 100 cu.ft.	.15	.20	.20
Over 5,000 cu.ft., per 100 cu.ft.	.10	.15	.12

Minimum Charges:

For 5/8 x 3/4-inch meter	\$ 2.40	\$ 3.00	\$ 2.65
For 3/4-inch meter	3.50	3.50	3.75
For 1-inch meter	5.00	5.00	6.00
For 1½-inch meter	7.50	7.50	11.50
For 2-inch meter	12.00	12.00	16.00
For 3-inch meter	20.00	20.00	26.00
For 4-inch meter	30.00	30.00	40.00

* Included in the minimum charge of \$2.40 above.

Applicant's consulting engineer submitted the 57-page Exhibit "E" attached to the application as a general report on applicant's operations for the year 1967 recorded and adjusted, 1968 normalized, and 1969 estimated. Said report was dated December 20, 1968.

A Commission staff financial expert and two engineering experts submitted, as Exhibit No. 2, a report dated April 17, 1969, on the results of their investigation of applicant's operations for the year 1968 adjusted and the year 1969 estimated.

The following tabulation compares and summarizes the earnings data contained in Exhibits "E" and No. 2:

Summary of Earnings

Item	Year 1969 Estimated			
	Present Rates		Proposed Rates	
	Per Co.	Per PUC	Per Co.	Per PUC
	Ex. "E"	Ex. 2	Ex. "E"	Ex. 2
Operating Revenues	\$ 41,736	\$ 42,670	\$ 53,637	\$ 55,050
Operating Expenses	27,545	26,880	27,545	26,880
Depreciation	4,563	4,450	4,563	4,450
Taxes	6,166	6,540	9,845	10,370
Subtotal	38,274	37,870	41,953	41,700
Net Revenue	3,462	4,800	11,684	13,350
Rate Base	138,454	136,410	138,454	136,410
Rate of Return	2.50%	3.52%	8.44%	9.79%

There are no significant differences in estimates of applicant's operations for the year 1969 submitted by either the applicant or the staff.

A 10 percent surcharge to federal income taxes was imposed by the Revenue and Expenditure Control Act of 1968. The surcharge was retroactive for the full year 1968 and expired June 30, 1969. If the surcharge is reinstated at some time in the near future, we would be receptive to a supplemental filing by applicant in this proceeding requesting appropriate additional rate relief. If the surcharge is reinstated at the previous 10 percent level, the corresponding surcharge on applicant's rates for metered and residential flat rate service will be 0.7 percent.

The staff financial witness recommended a rate of return of 8 percent on the staff's estimated 1969 rate base of \$136,410, which would produce utility operating income of \$10,913. After debt service of \$2,148, this would provide a return of 9.4 percent on 1968 year-end pro forma equity capital of \$93,638. Said computation does not take into consideration interest on short-term notes.

The staff recommended authorization of a note to be issued to Ponticopoulos for \$31,721 payable over a 10-year period with interest at 7 percent per annum on the unpaid principal, which would require principal and interest installments of \$368.36 per month. The staff did not recognize any purpose or benefit to be derived from authorizing the refinancing of \$20,426 of short-term notes due applicant's president Kerr. It contended that such refinancing proposed by the applicant would merely be a change in the form of debt between the same debtor and creditor, and opposed the authorization of such refinancing.

The staff also recommended that the utility should file a tariff schedule for fire hydrant service and that it should use depreciation rates set forth in Table No. 3-A of the staff report. The staff further recommended that future depreciation rates be reviewed at five-year intervals or whenever a major change in depreciable plant occurs.

Findings

The Commission finds that:

1. Junior Water Co., Inc., is a public utility corporation under the jurisdiction of this Commission furnishing water service as of August, 1968 to some 1,148 customers in the City of Norwalk, including 145 general metered residential services, three schools and one church, for a total of 149 metered services, and 999 unmetered flat rate customers. The service area is fully occupied, and the company's three wells are its sole source of water supply which is limited to production by an allowable extraction right under Superior Court "Decree" to 590 acre-feet per year.

2.a. The rate of return of 2.50 percent estimated by the applicant (3.52 percent estimated by the staff) which would be produced by applicant's present rates for the year 1969, is deficient, and applicant is in need of financial relief.

b. The rate of return which would be produced by the proposed rates, estimated by the applicant to be 8.44 percent for the year 1969 (9.79 percent estimated by the staff), is excessive.

c. The rate of return of 8 percent on an estimated rate base of \$136,410, when related to the operating expenses and depreciation calculated by the staff after taking into account the effect of taxes on income, all for the year 1969, is reasonable.

3.a. Applicant's proposed financing is not the best method and would place an undue financial commitment and burden on applicant.

b. The financing proposed by the Commission staff is reasonable.

4. Equitable treatment of all of applicant's consumers requires that applicant install meters, universally, in larger numbers than it has scheduled for the immediate future.

5. The money, property or labor to be procured or paid for by the issue of the note herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part reasonably chargeable to operating expenses or to income.

6. The staff proposal concerning filing a tariff schedule for fire hydrant service is reasonable.

7. The staff recommendations for depreciation rates and procedures are reasonable.

Conclusions

Based on the foregoing findings, the Commission concludes that the application should be granted in part and denied in part and that Junior Water Co., Inc., should be authorized to file new schedules of rates which will produce gross annual revenues of \$51,160. After deducting operating expenses, depreciation and taxes totaling \$40,250, net utility operating income of \$10,910 will result. The gross annual revenues to be produced by the authorized rates will be an increase of \$8,490, or 19.9 percent, over the revenues estimated to be produced by the present rates, but \$2,480, or 20.9 percent, less than sought in the application.

Junior Water Co., Inc., should be authorized to issue its promissory note to Ponticopoulos for \$31,721 payable over a 10-year period with interest at 7 percent per annum on the unpaid principal, with principal and interest installments of \$368.36 per month.

The application for authorization of the refinancing of \$20,426 of short-term notes due applicant's president Kerr should be denied.

Applicant should be directed to submit and carry out a plan for the complete metering of its water system within five years and should submit, in writing to the Commission, semiannual reports of its progress therewith.

Applicant should be directed to file a tariff schedule for fire hydrant service.

Applicant should be directed to file depreciation rates as set forth in Table No. 3-A of Exhibit No. 2 and review such rates as recommended in paragraph 32.a of said Exhibit No. 2.

O R D E R

IT IS ORDERED that:

1.a. This application is granted in part and denied in part, and Junior Water Co., Inc., is authorized to file, after the effective date of this order, the revised schedules of rates as set forth in Appendix "A" attached hereto. Said rates shall be effective four days after the date of filing and shall apply only to service rendered on and after said effective date. Such filing shall comply with General Order No. 96-A.

b. Applicant shall file, in accordance with General Order No. 96-A, a tariff schedule for fire hydrant service.

2.a. Junior Water Co., Inc., for the purposes specified in this proceeding, may issue its promissory note to Ponticopoulos for \$31,721 payable over a 10-year period with interest at 7 percent per annum on the unpaid principal, with principal and interest installments of \$368.36 per month.

b. The application for authorization of the refinancing of \$20,426 of short-term notes due applicant's president Kerr is denied.

3. For the year 1969, applicant shall apply the depreciation rates set forth in Table No. 3-A of Exhibit No. 2. Applicant shall review its future depreciation rates at five-year intervals or whenever a major change in depreciable plant occurs. Any revised depreciation rates shall be determined by: (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the result by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be

submitted promptly to the Commission and upon recognition by the Commission that the rates are acceptable, applicant shall use such revised rates in recording future depreciation.

4. Applicant shall submit in writing to the Commission and carry out a plan for the complete metering of its water system within five years, and shall submit in writing semiannual reports of its progress therewith.

5. Applicant shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

6. In all other respects, the application is denied.

The authority herein granted to issue a note will become effective when applicant has paid the minimum fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$25. In other respects the effective date of this order shall be twenty days after the date hereof.

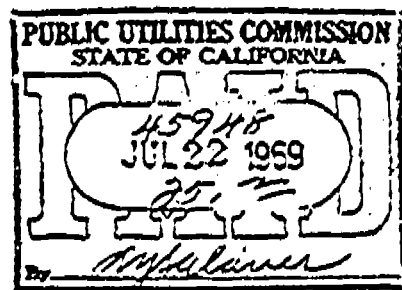
Dated at San Francisco, California, this 8th day of JULY, 1969.

William Squares
President

Richard M. Moroney

[Signature]

[Signature]
Commissioners



Schedule No. 1

METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portion of Norwalk and vicinity, Los Angeles County.

(T)

RATES

Quantity Rates:

	<u>Per Meter</u> <u>Per Month</u>	
First 1,000 cu. ft. or less	\$ 2.65	(C)
Next 4,000 cu. ft., per 100 cu. ft.20	(C)
Over 5,000 cu. ft., per 100 cu. ft.12	

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 2.65	(I)
For 3/4-inch meter	3.75	
For 1-inch meter	6.00	
For 1 1/2-inch meter	11.50	
For 2-inch meter	16.00	
For 3-inch meter	26.00	
For 4-inch meter	40.00	(I)

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

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service. (T)

TERRITORY

Portion of Norwalk and vicinity, Los Angeles County. (T)

RATES

Per Service Connection
Per Month

For a single-family residential unit, including premises not exceeding 6,000 sq. ft. in area	\$ 3.30	(C)
a. For each additional single-family residential unit on the same premises and served from the same service connection	1.70	
b. For each 100 sq. ft. of premises in excess of 6,000 sq. ft.	0.03	(C)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter. (C)

2. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service. (C)