

ORIGINAL

Decision No. 76265

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SANTIAGO WATER COMPANY, a California corporation, under Section 454 of the Public Utilities Code for authority to increase public utility water rates.

Application No. 50801
(Filed January 6, 1969)
(Amended April 28, 1969)

Karl K. Roos, for applicant.
Furman B. Roberts and John Fonley,
for City of Orange; Shirley L.
Grindle; Mr. and Mrs. Larry O.
Sturgeon; and Dowd Cannaday,
in propria personae, protestants.
Chester O. Newman and Casimir
Strelinski, for the Commission
staff.

O P I N I O N

By this application, as amended, Santiago Water Company seeks authority to increase its rates for general metered water service by a gross annual amount of \$39,559, or 44.8 percent, based on its estimates for the year 1969. The rate of return sought to be produced by the proposed rates is 8.14 percent. The company has 47 fire hydrants connected to its system, but receives no revenue from Orange County therefor.

Public hearings were held before Examiner Warner on July 23 and 24, 1969, at Orange. The City of Orange filed an objection on February 7, 1969, and has filed Application No. 51255, dated July 18, 1969, asking the Commission to fix the just compensation to be paid by the City for applicant's water system, both

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within and without the city limits. Public hearing on an order to show cause in said Application No. 51255 has been set for September 23, 1969, in Los Angeles. Four customers objected to the magnitude of the proposed increase and complained of serious past service deficiencies which have improved considerably in the last two years, and complained of the inability to reach a serviceman over weekends.

Applicant furnishes water service to some 995 customers, about one-third of whom and their service area are inside the City of Orange. The balance of customers and service area are in Orange County. The system's growth potential is negative since it is surrounded by other water purveyors, to wit, the City of Orange, Cowan Heights Water Company, a subsidiary of applicant's parent, California Cities Water Company, and Orange Park Mutual Water Company.

Santiago purchased the assets of M. E. Jones, dba Jones Water Company, in July, 1955, and was owned by the Camille A. Garnier interests between 1958 and 1964, a period of expansion. Consolidated Water Company, a firm with headquarters in Chicago, purchased the outstanding stock of Santiago in December, 1964, and by Decision No. 70042, dated December 7, 1965, in Application No. 48037, California Cities Water Company, a subsidiary (99.5% owned) of Consolidated, was authorized to acquire all of Santiago's outstanding stock. From 1965 through 1968, Santiago's present owners and California Cities have added over \$179,000 of capital improvements. By Decision No. 70042 (supra), authorization of an unsecured 90-day promissory note by Santiago to California

Cities in the amount of \$72,064 was given. Said note, plus accrued interest, has been twice renewed without Commission authority. Total advances by California Cities from May, 1959, through December, 1968, amounted to \$291,489, of which \$118,449 was applied to operating expenses, \$127,088 to capital additions, and \$45,952 to other purposes. A total of \$125,304 of said advances has been repaid, and an amount of \$106,083 has been transferred to notes payable. As of December 31, 1968, accounts payable to associated companies totaled \$55,000, and notes payable to associated companies, \$282,386.

Applicant contends that in the year 1969 estimated, at present rates, it would operate at a loss of \$1,710.

Applicant's present general metered service rates have been in effect since August 26, 1959. The following tabulation compares the present, proposed and authorized general metered service rates:

Comparison of Present, Proposed and
Authorized General Metered Service Rates

		<u>Per Meter Per Month</u>		
		<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
		<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
Quantity Rates:				
First	500 cu.ft., or less	\$ 2.65	\$ 3.85	\$ 3.35
Next	1,000 cu.ft., per 100 cu.ft....	.42	.61	.53
Next	1,000 cu.ft., per 100 cu.ft....	.36	.52	.45
Over	2,500 cu.ft., per 100 cu.ft....	.30	.43	.39
Minimum Charges:				
For	5/8 x 3/4-inch meter	\$ 2.65	\$ 3.85	\$ 3.35
For	3/4-inch meter	4.00	5.80	5.00
For	1-inch meter	5.50	8.00	7.50
For	1-1/2-inch meter	8.00	11.60	11.00
For	2-inch meter	12.00	17.40	17.00
For	3-inch meter	20.00	30.00	30.00

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Annual consumption per customer for 1969 has been estimated by the applicant, as shown in Exhibit No. 1, a Commission staff financial and engineering report on the application, to be 201.0 ccf. Also, the record shows that in said Exhibit the applicant estimates monthly average water use to be 1,675 cu. ft. per customer. The present charge for a monthly consumption of 1,700 cu. ft. is \$7.57; at the proposed rates it would be \$10.99, an increase of \$3.42, or 45.2 percent; and at the authorized rates, \$9.55, an increase of \$1.98, or 26.2 percent.

Exhibits "A" and No. 1 contain earnings studies for the year 1968 adjusted and for the year 1969 estimated, both at present and proposed rates, submitted by the applicant and the staff. The following tabulation is a summary of the earnings data contained in said exhibits:

Summary of Earnings

Item	Year 1968		Year 1969 Estimated			
	Adjusted		Present Rates		Proposed Rates	
	Present Rates:	Per Co. :	Per PUC :	Per Co. :	Per PUC :	Per PUC :
	Per PUC Ex. 1:	Ex. "A" :	Ex. 1 :	Ex. "A" :	Ex. 1 :	
Oper. Revenues	\$ 87,560	\$ 88,324	\$ 88,470	\$127,883	\$128,110	
Oper. Expenses	52,890	61,274	53,950	61,274	53,950	
Depreciation	9,820	11,676	10,590	11,676	10,590	
Taxes	8,980	17,084	9,200	22,377	29,920	
Subtotal	71,690	90,034	73,740	95,327	94,460	
Net Revenues	15,870	(1,710)	14,730	32,556	33,650	
Rate Base	327,340	399,821	368,310	399,821	368,310	
Rate of Return	4.85%*	-	4.00%	8.14%	9.14%	

() Red Figure

*At proposed rates, 10.57%.

The principal differences in estimates of operating expenses are source of supply, meter maintenance and expense, and customers' accounting expense. The Commission staff estimated that 331.5 acre-feet of water per year would be available from the Lomita treatment plant where water purchased from Carpenter Irrigation District is obtained. The water purchased from Carpenter is not subject to Orange County Water District assessments which, as of July 1, 1969, had increased from \$13.30 to \$18.60 per acre-foot. Water produced from applicant's leased well, owned by Santa Ana Valley Irrigation Company (SAVI), is subject to the OCWD pumping tax. Applicant estimated that its entire water supply for 1969 of 558.6 acre-feet would be from the SAVI well, whereas the staff estimated that 228.3 acre-feet would be pumped from the SAVI well; the balance, as noted, to be derived from the Lomita plant.

The staff adjusted meter maintenance and expenses to reflect the reduction of the silt and sand problem due to the installation of a sand trap at the SAVI well and increased frequency of main flushing. The difference in estimates of customer accounting expense is due largely to the allocation by the staff of only one-half of the office clerk's time to the Santiago operation, the other one-half being allocated to the Cowan Heights Division of California Cities.

The staff based its estimate of street franchise tax on the assumption that the county franchise tax does not apply to sales of water within the City of Orange.

Appendix "B" (Exhibit "B") is an original cost appraisal of applicant's utility plant in service as of December 31, 1968, prepared by applicant's engineering consultant. Since recorded data were unreliable, many estimates using standard appraisal techniques were utilized, except that profit by Garnier affiliated interests on plant construction from 1958 through 1964 was eliminated from recorded utility plant. The staff made a further adjustment to eliminate excess indirect charges of the affiliates.

A staff financial witness recommended a rate of return of 7 percent on the staff rate base. Because applicant's capitalization has not been stabilized to a conventional capital structure evident in other water utilities, the staff used the capital structure and debt cost of Consolidated Water Company and all subsidiaries with a debt component of 65 percent (at a composite rate of 6 percent) and 35 percent common and preferred equity.

Findings

The Commission finds that:

1. Santiago Water Company is a wholly owned subsidiary of California Cities Water Company, a subsidiary (99.5% owned) of Consolidated Water Company, furnishing general metered water service to some 995 customers, one-third of whom are located within the City of Orange and the balance in unincorporated territory of Orange County.
2. Applicant's growth potential is negative, and its service area is surrounded by other water purveyors.

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3.a. Applicant's earnings at present rates are deficient and applicant is in need of financial relief.

b. The rate of return of 8.14 percent estimated by the company in Exhibit "A" for the test year 1969, and the rate of return of 9.14 percent estimated by the Commission staff for the year 1969 at proposed rates are excessive.

4. The rate of return of 7 percent recommended by the Commission staff is reasonable.

5.a. The staff engineering estimates of applicant's operations and rate of return components for the year 1969, including the augmented use of the Lomita treatment plant, the reduction in meter maintenance and expenses and customer accounting expenses and franchise taxes, are reasonable.

b. The Commission staff imputation of liberalized depreciation for income tax purposes is not realistic because of applicant's negative growth factor. However, the dollar amount effect on estimated earnings for the year 1969 is negligible.

6. 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.

Conclusion

Based on the foregoing findings, the Commission concludes that the application should be granted in part and denied in part and applicant should be authorized to file new schedules of rates which will produce gross annual revenues of \$111,760, an increase of \$23,290, or 26.3 per cent over the revenues

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which would be produced by the present rates; but \$16,123, or 12.6 percent less than sought in the application as amended. Further, applicant should be directed to comply with the recommendations contained on pages 38 and 39 of the Commission staff report, Exhibit No. 1.

O R D E R

IT IS ORDERED that:

1. Application No. 50801, as amended, of Santiago Water Company is granted in part and denied in part, and applicant 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.

2. Applicant shall carry out the recommendations contained on pages 38 and 39 of Exhibit No. 1 herein.

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

Dated at San Francisco, California,
this 15th day of OCTOBER, 1969.

William J. Sproule, Jr.
President
Augustine
J. J. Wilkerson
Thomas M.

Commissioners

APPENDIX A
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Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

El Modena and vicinity, Orange County.

RATES

Quantity Rates:		<u>Per Meter</u> <u>Per Month</u>	
First	500 cu. ft. or less.....	\$3.35	(T)
Next	1,000 cu. ft., per 100 cu. ft.....	.53	⋮
Next	1,000 cu. ft., per 100 cu. ft.....	.45	⋮
Over	2,500 cu. ft., per 100 cu. ft.....	.39	(I)
Minimum Charge:			
For	5/8 x 3/4-inch meter.....	\$ 3.35	(I)
For	3/4-inch meter.....	5.00	⋮
For	1-inch meter.....	7.50	⋮
For	1 1/2-inch meter.....	11.00	⋮
For	2-inch meter.....	17.00	⋮
For	3-inch meter.....	30.00	(I)

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

SPECIAL CONDITION

Until the 10 percent surcharge to federal income tax is removed, bills computed under the above tariff will be increased by 1.61 percent. (N)
(N)

Schedule No. 9FC

FLAT RATE CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished for building construction.

TERRITORY

El Modena and vicinity, Orange County. (T)

RATE

Per Month

For each separate service connection \$ 3.50 (I)

SPECIAL CONDITION

Service under this schedule will be furnished only (N)
during the initial construction period of a residence or other |
building, and in no event longer than one year. (N)