

ORIGINAL

Decision No. 76279

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA-AMERICAN WATER COMPANY, a corporation, for authority to increase its rates and charges for water service in the Baldwin Hills District of its San Gabriel Valley Division in Los Angeles County.

Application No. 50771
(Filed December 24, 1968)

In the Matter of the Application of CALIFORNIA-AMERICAN WATER COMPANY, a corporation, for authority to increase its rates and charges for water service in the Duarte District of its San Gabriel Valley Division in Los Angeles County.

Application No. 50798
(Filed January 3, 1969)

In the Matter of the Application of CALIFORNIA-AMERICAN WATER COMPANY a corporation, for authority to increase its rates and charges for water service in the San Marino District of its San Gabriel Valley Division in Los Angeles County.

Application No. 50842
(Filed January 28, 1969)

(See Appendix "A" for Appearances)

O P I N I O N

By these applications, California-American Water Company (CAWCO, or applicant), a California corporation, incorporated on December 7, 1965, for the purposes of acquiring the Water Department properties of California Water and Telephone Company (CW&TCO, or predecessor),^{1/} with headquarters at Suite 830, Tishman Airport Center, 9841 Airport Boulevard, Los Angeles, Ca 90045, all of whose outstanding shares of common stock are held by American Water

^{1/} Authorized by Decision No. 70418, dated March 8, 1966, in Application No. 48170, Amended.

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Works Company, Inc. (AWWCO, or parent of applicant),^{2/} a Delaware corporation, owning 90 operating water companies, including Village Water Company, in Ventura County, and Pollock Water Service, Inc., in Monterey County, 50 percent of whose common stock is owned by United Utilities Company (UUCO, or parent of AWWCO), a Delaware corporation, also owning the common stock of three other relatively small water companies, seeks authority to increase its rates for water service in the three operating districts of its San Gabriel Valley Division^{3/} by \$175,200 or 40.7 percent in Baldwin Hills; \$196,100, or 47.1 percent in Duarte; and \$249,600, or 26.8 percent in San Marino, based on its estimate of operations for the year 1969. The total requested increase for the three districts is \$620,900; an overall increase of 34.9 percent.

Bases of Applications

Applicant based its request for rate increases in Baldwin Hills District on the fact that its present rates, authorized by Decision No. 63655, dated May 8, 1962, in Application No. 43634, produced a rate of return of only 3.04 percent for

^{2/} Exhibit No. 8 is a copy of AWWCO's 1968 annual report to its stockholders showing consolidated depreciated utility plant of AWWCO and subsidiaries of \$536,599,445; operating revenues of \$97,545,337; earnings per share on common stock of \$1.20 per share; and 1,190,000 customers serving a population of 4,616,000.

^{3/} As shown in Exhibit A, the company has three operating divisions; San Diego Bay Division divided into Coronado (10,821 metered customers) and Sweetwater (25,557 metered customers) Districts; its Monterey Peninsula Division, including the lease of Pollock Water Service, Inc., (26,382 metered customers); and its San Gabriel Valley Division (Baldwin Hills, 5,779; Duarte, 5,315; and San Marino, 12,999 metered customers, Districts), for a company total of 86,853 metered customers as of December 31, 1967. Total company utility plant as of that date was \$46,579,941, and 1967 gross operating revenues were \$7,999,395.

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the year 1968 recorded, as shown in Exhibit B-1 (staff adjusted year 1968 shows in Exhibit No. 6, 3.13 percent); in Duarte District, its present rates, authorized by Decision No. 62481, dated August 29, 1961, in Application No. 43022 produced a rate of return of only 4.54 percent as shown in Exhibit B-1 in the recorded year 1968 (staff adjusted year 1968 shown in Exhibit No. 6, 4.00 percent); and in San Marino District, its present rates, authorized by Decision No. 56133, dated January 21, 1958, and Decision No. 56353, dated March 17, 1958, both in Application No. 38812, produced a rate of return of only 5.4 percent, as shown in Exhibit B for the adjusted year 1968 (staff adjusted year 1968 shows in Exhibit No. 6, 5.46 percent). Rising costs of purchased water, pumping assessments, taxes, wages, materials, supplies, and services, plus significant increases in plant investment, were cited as causes of depressed earnings in these three Districts.

Effects of Proposed Increases

The rate of return sought to be produced by the requested increases in Baldwin Hills is 7.86 percent (estimated by the staff to be 7.53 percent); in Duarte, Domestic and Irrigation Systems combined, 8.23 percent (estimated by the staff to be 8.20 percent, and Domestic System only, 8.89 percent); and in San Marino, 8.0 percent (estimated by the staff to be 8.15 percent), all based on 1969 estimated operations at the rates proposed in the application.

Exhibit C attached to Application No. 50771 shows that applicant's consolidated total company operations for the 12 months ending October 31, 1968, adjusted at present rates, would have

produced a rate of return of 6.15 percent; and, including the proposed rates for Baldwin Hills, 6.39 percent; Exhibit C, attached to Application No. 50798, shows that for the same period proposed rates for Duarte would have produced a company-wide rate of return of 6.41 percent; and Exhibits C-1 and C-2 show that applicant's consolidated operations for 1969 adjusted at present rates would produce a rate of return of 6.24 percent; at the proposed rates for Baldwin Hills and Duarte, 6.63 percent; and at the proposed rates for Baldwin Hills, Duarte and San Marino Districts, 6.95 percent.

Hearings

Public hearings were held before Examiner Warner on June 17, 18 and 19 in Inglewood (Baldwin Hills District); July 24, 25 and 26 in Duarte; and July 1 and 2, 1969, in San Marino. Every customer was notified of the hearings in his district, and notices of the filing of the applications and of the hearings were published in local newspapers together with a news release summarizing the proposed changes in each district's rates for general metered service, together with a statement of the time, date and place of the hearings. In Inglewood, about a dozen customers appeared; in Duarte, about 30 or 40; and in San Marino, three. The City of Duarte formally opposed Application No. 50798, and a consultant for the City submitted a report of his findings and testified thereon. Most customers who protested conceded that applicant might be entitled to some rate relief, but objected to the proposed magnitude. Gravity irrigation customers in the City of Bradbury

(Bradbury Estates) in the Duarte District objected strenuously to the proposed increase in irrigation rates. One customer in Baldwin Hills and another in San Marino supported the applications in their districts on the grounds that the applicant's operations were superior in service, and its prices for water low.

The record in each application was incorporated in each of the others by reference to the extent applicable.

History: Past, Present and Future Financing; and
Rates of Return at Present and Proposed Rates

Applicant's predecessor, California Water & Telephone Company (CW&TCO), with headquarters in San Francisco, was a longtime operating public utility, furnishing telephone service in Arcadia, Monrovia, and East Pasadena; San Fernando Valley; Redlands, Yucaipa, Beaumont, Banning, Palm Springs, Indio and Coachella Valley; and Perris, Hemet and San Jacinto, and operating the aforementioned water properties. As noted in Footnote 1, applicant acquired CW&TCO's water properties in March, 1966; by Decision No. 72665, dated June 27, 1967, in Application No. 49356, General Telephone Company of California (General) was authorized to issue shares of common stock to General Telephone and Electronics Corp., for stock of CW&TCO and for the latter to merge with General.

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On April 1, 1966, applicant commenced operation. AWWCO had obtained a \$45,000,000 loan from six banks bearing 5-1/4 percent interest for a term of three years with which it bought and used as collateral the 250,000 shares of applicant's common stock and advanced \$20,000,000 to applicant at the same interest rate. This note from AWWCO to the banks became due and payable March 31, 1969, and applicant, on that date, reimbursed AWWCO by borrowing from the same six banks \$20,000,000,^{4/} payable by December 31, 1969, at interest rates which vary from 7-1/2 percent in March, 1969, to 8-1/2 percent commencing on June 9, 1969.

By Decision No. 75598, dated April 29, 1969, in Application No. 50891, applicant was exempted from competitive bidding for the negotiation of the sale of its bonds, which as of the date of the hearings, had not been sold, but for which some 15 purchasers, principally the State of California Employees' Retirement Fund, had made commitments. The proceeds from the sale of said bonds, expected to bear an interest rate of 8-3/4 percent, will be used to refinance the aforesaid \$20,000,000 of 8-1/2 percent short-term notes due December 31, 1969. A member of applicant's board of directors, AWWCO's president and a director of AWWCO, and a director of UUCO, testified that the purchase of CW&TCO's Water Department by applicant in 1966 was the largest water property sale and purchase, except by a municipality, of which he knew.

^{4/} Bank of America, \$2,250,000; Security Pacific National Bank, \$2,250,000; National Bank and Trust Company of Pittsburg, \$4,500,000; Chemical Bank of New York, \$4,500,000; Fidelity Bank of Philadelphia, \$2,500,000; and Philadelphia National Bank, \$4,000,000.

The record contains an abundance of financial testimony by means of which applicant endeavored to support its contention that a rate of return approximating 8 percent on each of the San Gabriel Divisions' operating districts, yielding in the neighborhood of 8-3/4 percent on its common equity held by AWWCO, was required. Its financial witnesses, including its president, a vice president of Dean Witter & Co., applicant's investment counsellors and banker, and the aforesaid president of AWWCO, in sum, related the circumstances surrounding the fact that whereas, in April 1966, AWWCO had been able to finance applicant with borrowings in the millions of dollars at 5-1/4 percent, due to applicant's short financial history, and the advice given to AWWCO by its investment counselors (Equitable Securities Corporation - now Equitable Securities E. F. Morton Company) that applicant should establish its financial stability over a period of at least two years before offering its bonds on the market, in March, 1969, applicant and AWWCO had been caught in the current 1969 whirlwind of rising prime interest rates. The record shows that in April, 1968, the prime interest rate increased from 6 percent to 6-1/2 percent; on September 26, 1968, it decreased from 6-1/2 percent to 6-1/4 percent; on December 2, 1968, it increased from 6-1/4 percent to 6-1/2 percent; on December 19, 1968, from 6-1/2 to 6-3/4 percent; on January 7, 1969, from 6-3/4 to 7 percent; on March 17, 1969, from 7 percent to 7-1/2 percent; and on June 9, 1969, from 7-1/2 to 8-1/2 percent.

Commission staff financial experts recommended a rate of return of 7.25 percent on Commission staff District rate bases, which reflected the exclusion of some \$11,000,000 of total utility

plant for which an excessive price had been paid in applicant's acquisition of water system assets in March, 1966. The staff's recommended rate of return was calculated by these witnesses in Exhibit No. 5 to produce approximately 8-3/4 percent yield on common equity assuming 43.6 percent of long-term debt capitalization at an interest rate of 5.25 percent, as shown in Exhibit No. 6-A. Said latter exhibit shows that an interest rate of 8.75 percent on debt capital and the same 8.75 percent on common equity capital representing 56.4 percent of total capital, would require a 8.75 percent return on staff rate base.

Because of the importance of the rates of return which we have been asked to consider and, because of the relative magnitude of the instant rate of return request compared with recent rates of return authorized by the Commission for public utility water corporations in California as shown in Exhibit No. 5-A and, finally, because of the substantial disparity between the rate of return requested by applicant and that recommended by the staff, the following is the testimony, verbatim, of one of the staff financial experts (Tr. A. 50771, pgs. 205-211):

"FLOYD C. KNEELAND

recalled DIRECT EXAMINATION resumed

MR. BOIKAN: Mr. Kneeland, you are the same Mr. Kneeland who has previously testified in this proceeding?

THE WITNESS: That is correct.

Q. You testified previously that you had prepared a report on cost of money and rate of return for presentation at this hearing, did you not?

A. Yes

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Q. Do you have Exhibit No. 5 before you?

A. Yes, I do.

Q. Does that exhibit contain the study which you testified you had prepared?

A. Yes, it does.

Q. Are the contents true and accurate to the best of your knowledge?

A. They are.

Q. Mr. Kneeland, you have indicated in Exhibit No. 5 that you have taken an interest rate of 5 1/4 percent for the applicants in this study, have you not?

A. That is correct.

Q. Please explain why you have done so.

A. You are referring to the interest rate cost factor that I have used in Table No. 7?

Q. Yes, I am.

A. That is on page 10. While there are many reasons, the first one is that this 5 1/4 percent is the only rate that was ever authorized by the Commission for this utility and this debt of \$20 million which was advanced by the parent company is the only debt that this corporation has had in all the years up till, and you will note this table is prepared as of December 31, 1968, and at that time that was the only rate that this company had on debt of any kind.

Secondly, it was my belief also as made clear by Mr. Boikan yesterday that no refunding of such long term debt or issuance of such refunding notes on March 31, 1969 should have taken place without Commission approval of such action and these notes which were issued at a much higher rate, all of which was not in accord with the real intention of General Order No. 44 as I saw it and understood it. Even if such authorization for the 7 1/2 percent note had been obtained before March 31 or as understood to be required by GO 44, such rate still would not be binding upon us now in this rate proceeding for rate of return or rate-making purposes.

Also in all of applicant's exhibits up until yesterday, June 17, the 5 1/4 percent interest rate was used. Then since no attempt was made during the three-year period that this \$20 million loan from the parent was on the books of the company as long term debt, were any payments on account of this advance made or any attempt at total or partial refinancing thereof. There are doubts in our minds whether such a sudden refinancing at this time and demand being made by the parent for such repayment at this time when interest rates are at the highest in the half century is really prudent or in the best interest of this California utility. Such partial refinancing would appear to have been possible before this time since California-American has now been able on March 31, 1969 when loan money was in very short supply and banks unwilling to loan it and they were still able to raise this \$20 million from the banks at that time.

Then I would like to point out as a last thing that you will notice the very title of the Table No. 7; it refers to embedded cost of long term debt. Now the embedded cost means something that is built in to your capital structure on a long term basis and you have got to live with it for many years to come.

Now there was no such debt at this time other than this \$20 million and since this was an open account transaction and it is referred to as such in the Decision and Application, why there would be no indication since they have also testified that there was no note or no date given when it had to be repaid and was carried on the books as long term debt, this would be the only imbedded cost that we could possibly use in a table of this sort as an accountant, as I cannot go out and attempt to determine what they are going to be paying six months or a year from now for money. This was the debt at the time. This was the rate at the time, and consequently this table was figured at that interest rate.

Q. Mr. Kneeland, directing your attention to your recommended allowance of 8.75 percent yield on common equity, referring to Table 2, can you point out if there is any basis in that table for that recommendation?

A. Yes, I would say that all of these things which have been discussed here at this hearing, both yesterday and today, were taken into consideration in setting this rate which I have, rate of return on equity which I felt was proper. The first would be what we will call the secondary level of leverage to which the Examiner pointed out very clearly yesterday what this intends to do.*

You will notice in Table 2 that we have purposely put in the American Waterworks tabulation at the bottom merely for comparison. We did not include it in the averages or the range above because it is not proper to be in there, but you will notice that of 11 water utilities, both in California and the United States, the mean average for those two years, 1966 and 1967 which are the only two years California-American Water Company was in existence, the mean average rate for these 11 water utilities was 8.37.

Now this is return on average common equity and in 1967 that average was 7.84. The median for these same 11 water companies is 8.58 in 1966 and 7.01 in 1967.

You will also see by looking at American Waterworks which is on the last line, how their percentage increases due to this secondary leverage. You will see in 1967 that they get way up to 22.46 percent on their return on equity.

I think you should also take into consideration Table No. 3 in this respect also as far as American Waterworks is concerned. This Table No. 3 is the equity ratio, common equity ratio. That is the ratio of equity to debt on capitalization.

* Should read "tends to do."

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EXAMINER WARNER: Total capitalization?

THE WITNESS: Total capitalization. This is a ratio, equity ratio, common equity ratio, total capitalization. You will notice that the American Waterworks for five years has only averaged a ratio of less than 15 percent. However, you will note also it is going up slightly every year and reaches a high in 1967, so this equity ratio of the parent company causes the return on equity for them to be much greater than it is for the local company in California and --

EXAMINER WARNER: Or the average of the 11 companies?

THE WITNESS: Or the average of the 11 companies.

Q. Either on a mean or median basis, is that right?

A. Their equity ratio is much higher as you can see. This is more in the way that it should be for a utility, so this principle of secondary leverage was considered and calculated in several different ways by me. It figured out this 8.57 percent return on equity which we have allowed them with this 7 1/4 percent rate of return would calculate out to better than 16 1/2 percent to the parent company and, after all, in this case the parent company is really the only one concerned with what this company makes because in a consolidated return the earnings of this company in its entirety go to the parent company. It is not a matter of dividends or anything else.

EXAMINER WARNER: Is it a fact that Cal-American does file a consolidated return with American Waterworks?

A. No, American Waterworks files a consolidated return for the whole 99 or 89 companies of which this is just one.

EXAMINER WARNER: Yes. All right.

THE WITNESS: Now since the parent company owns all the stock and has, to date, issued all the capital invested both for stock and for debt or open account advances, it is sometimes used and considered proper by our rate of return branch, which is an entirely separate branch that does nothing but work upon these recommended rates of return, to figure the rate of return based on the parent's capitalization and cost factors for its debt.

Such a calculation was made by me from information contained in the American Waterworks 1968 annual report to stockholders and at the 7 1/4 percent rate of return which I have recommended in this report such calculation shows that such a rate of return would bring a return on equity to the parent again of over 16 1/2 percent which is as high as I felt we ought to go.

MR. BOIKAN: Mr. Kneeland, directing your attention to Table No. 2 on page 5 under the column American Waterworks for the year 1968, that figure of 22.46 includes certain revenues derived from nonrecurring sales of water systems, does it not?

A. It does, I believe.

Q. Do you know exactly to what extent that 22.46 can be accounted for by sales of water systems?

A. I do not know but this percentage was calculated by our rate of return branch as found in their five-year study and on just what basis they adjusted for that I don't really know.

Q. Is this figure adjusted for such sales and does it include such sales?

A. I wouldn't know since I didn't take part in the compilation of what the rate of return branch does in furnishing these statistics.

EXAMINER WARNER: I wonder, Mr. Boikan, if you would furnish the record with up-to-date Tables Nos. 1 through 4 of Exhibit 5 through the year -- this is June 1969. We certainly ought to have the year ending figures of 1968."

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By his letter dated July 29, 1969, applicant's counsel points out that revised Table No. 2 of Exhibit No. 5-A indicates that the earnings on average common equity for American Water Works for the year 1967 included over \$13,000,000 gain on the disposition of properties (see Footnote "c"). He further stated that the footnote indicates that only a 10.75 percent return was realized by American from operations in 1967, but that the exhibit does not clearly indicate that earnings from operations and property dispositions in 1967 were included in arriving at the 5-year (1964-1968) average return of 13.73 percent. He further pointed out that American's return on average common equity for the 5-year period (adjusted to eliminate the effect of 1967 property dispositions) is only 10.36 percent.

The record shows that, although it was the opinion of applicant's financial witnesses that applicant's earnings on common equity must be maintained in order to attract capital for applicant's growth factor, growth in Baldwin Hills, Duarte and San Marino is nearly static. Also, the record shows that the Monterey and San Diego Bay Divisions are prospering and growing.

DISTRICT OPERATIONS

Baldwin Hills District (A. 50771)

Operations

Sources of water supply in the Baldwin Hills District are six company wells and two connections to the Culver City feeder of the Metropolitan Water District of Southern California. Since 1962, pursuant to the terms of the adjudication of the

Central Basin of Los Angeles County, pumping from the Basin has been restricted and limited to approximately 2,100 acre-feet annually. This restriction has required the company to increase its purchases of MWD water to some extent. At present, about 50 percent of applicant's water is pumped and 50 percent purchased.

The boundaries of the Baldwin Hills District are delineated on the map following page 16 of Exhibit B attached to the application. The District service area is generally encompassed by La Brea Avenue, Stocker Street and Vernon Avenue on the north, Crenshaw Boulevard on the east, Slauson Avenue and Centinela on the south, and Wooster Avenue on the west, all in unincorporated territory of Los Angeles County adjacent to the cities of Inglewood and Los Angeles, on the north thereof. The terrain is hilly, and comprises approximately 2,000 acres, of which approximately 340 are owned and occupied by Standard Oil Company of California with active oil wells. Standard is a large industrial user of applicant's water for repressuring the underlying geologic oil formations.

Five booster pumping plants lift water from four concrete reservoirs and two steel tanks for servicing the higher elevations which range from 75 feet to 375 feet above sea level. Distribution mains are principally cast iron and asbestos cement. Commission staff engineers estimated in Exhibit No. 6 that the average number of residential-commercial customers for the year 1969 would be 5,775 and that water service would be furnished to one industrial customer (Standard Oil), two public authority customers, one other, 18 private fire protection services, and 336 fire hydrants. The present fire hydrant rate is \$2.00 per hydrant per month and no change is proposed.

Rates

The following tabulation is a comparison of present, proposed and authorized general metered service rates for the Baldwin Hills District:

Baldwin Hills District

Comparison of Present, Proposed
and Authorized Rates

General Metered Service

Quantity Rates:	<u>Per Meter Per Month</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized*</u>
First 500 cu.ft. or less	\$1.50	\$2.15	\$2.10
Next 1,500 cu.ft., per 100 cu.ft...	.25	.35	.34
Next 3,000 cu.ft., per 100 cu.ft...	.20	.27	.26
Over 5,000 cu.ft., per 100 cu.ft...	.16	.22	.22

*Exclusive of authorized F.I.T. surcharge additive.

Exhibit No. 6 in A. 50771 shows average annual residential-commercial customer sales of 251.4 ccf per customer, and Exhibit B shows that the bimonthly charge for 4,000 cu. ft. of usage at present rates is \$10.50; at proposed and authorized rates \$14.76, an increase of \$4.26, or 41 percent.

Earnings

Earnings data, as shown in Exhibits B-1 and No. 6, for the year 1968, at present rates as adjusted by the staff, and for

the year 1969 at present and proposed rates as estimated by applicant and staff, are summarized as follows:

Baldwin Hills District

Summary of Earnings

Item	Year 1968:		Year 1969 Estimated		
	Adjusted		Present Rates		Proposed Rates
	Per PUC : Ex. 6	Per Co. : Ex. B-1	Per PUC : Ex. 6	Per Co. : Ex. B-1	Per PUC : Ex. 6
Oper. Revenues	\$ 422,100	\$ 430,100	\$ 440,700	\$ 605,300	\$ 617,700
Oper. Expenses	286,700	303,500	307,800	303,500	307,800
Depreciation	48,600	52,300	51,100	52,300	51,100
Taxes	37,900	23,000	36,000	121,400	135,300
Subtotal	373,200	378,800	394,900	477,200	494,200
Net Revenues	48,900	51,300	45,800	128,100	123,500
Rate Base	1,563,100	1,628,600	1,640,900	1,628,600	1,640,900
Rate of Return	3.13%*	3.15%	2.79%	7.86%	7.53%

*At proposed rates, 7.89%.

The only significant difference in estimates of operating expenses between the company and the staff are in the costs of purchased water. In order to keep the test years 1968 and 1969 on a level that would eliminate change in the rate of return due to the increase in the cost of purchased water, the latest known price, \$49.30 per acre-foot for purchased water known to be in effect during both years, was used by the staff throughout, whereas the company adjusted the cost of water purchased as the prices increased. As of July 1, 1966, the price of MWD water was \$40.30 per acre-foot; as of July 1, 1967, \$43.30; as of July 1, 1968, \$46.30; and as of July 1, 1969, \$49.30. Regulatory Expense,

Account 797, was estimated by the staff to be \$4,000 amortized over a 5-year period at \$800 per year; applicant estimated this expense to be \$11,100 amortized over a 3-year period. Not included in the applicant's estimate was a fee of its financial witness of \$2,500.

Average net additions to utility plant for the year 1968 were estimated by the staff to be \$40,200, and for the year 1969, \$65,600.

The record shows that the indicated downward trend in rate of return of approximately 0.35 percent is caused almost entirely by the increase in rate base between the two test years (1968 and 1969). The Baldwin Hills District is realizing almost no customer growth, and has been experiencing a slight decline in water consumption per commercial customer. Staff estimates of sales to Standard Oil during the year 1969 were based on anticipated usages reported by Standard's officials; applicant's estimates were also based on discussions with Standard's officials, but also reflected monthly trends during the years 1967 and 1968 as recorded.

Service

No special service problems in the Baldwin Hills District have been reported, except the five complaints investigated and reported in Exhibit No. 1.

Duarte District (A. 50798)

Service Area and Operations

The location of the Duarte service area is shown on Figure 2-2 of Exhibit B. It lies on the sloping alluvial plain at the northern edge of the San Gabriel Valley and extends northerly into the foothills of the San Gabriel Mountains; is bounded on the west by the City of Monrovia; on the north by the Angeles National Forest; on the east and southeast by the San Gabriel River and the Santa Fe Flood Control Basin; and on the south by the gravel pit area of the City of Irwindale and the Euenia Vista Chamel. Included in this area of some 3,500 acres are the Cities of Duarte and Bradbury, as well as portions of the Cities of Monrovia and Irwindale, together with unincorporated areas of Los Angeles County. Also included is some undeveloped mountain land. Elevations range from 375 feet above sea level on the southwest to 1,200 feet on the northern edge of the present development.

The Duarte District water system was initiated in 1854 when water diversion works were constructed on the San Gabriel River, and the canal therefrom diverted water to various areas of Rancho Azusa de Duarte. In 1881, the Beardsley Ditch Company, a mutual, was formed and in 1882, property owners, served from an upper ditch, formed Duarte Mutual Irrigation and Canal Company. In 1947, the two mutuals merged to form Duarte Mutual Water Company, and in 1949, the domestic distribution system of the mutual became a public utility as Duarte Domestic Water Company; in 1958, the domestic company and the old mutual were remerged to form Duarte

Water Company and thus, the entire operation, including the irrigation system, came under Commission jurisdiction; in 1964, the assets, including water rights of Duarte Water Company, were purchased by CW&TCO; and in 1966, CW&TCO, as noted before, sold all of its water properties in California, including the Duarte system, to applicant.

In Duarte District, applicant now operates some 84 miles of pipe lines, including some 10 miles of gravity irrigation lines and four miles of pressure irrigation lines.

Sources of water supply for the domestic system in the Duarte District are seven wells which feed directly into the distribution pipeline system, three of which are located above the cienega, which forms the dike at the lower portion of the spreading grounds in the upper San Gabriel River.

The irrigation system is supplied by the diversion of surface water from the San Gabriel River and Fish Canyon. Diversion is effected pursuant to the "Compromise Agreement of 1890" at facilities operated jointly by applicant and other members of the "Committee of Nine" near Morris Dam, considerably upstream from the mouth of the San Gabriel River Canyon. Water required for irrigation is delivered into the main irrigation feeder near the mouth of Fish Canyon; the balance is diverted to spreading grounds. The irrigation feeder carries irrigation water by gravity to its terminus at the 4,000,000-gallon Lemon irrigation reservoir. Below that point, gravity irrigation service is furnished to 23 customers. Irrigation water is boosted by pumps to higher elevations out of the Lemon, Fair Oaks, and Woodlyn reservoirs to serve

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74 pressure service irrigation customers. The irrigation system's facilities are delineated on the map, Figure 3-1 of Exhibit B, and Figure 3-2 is a schematic diagram of the irrigation system.

The major facilities and pressure zones of the domestic system are delineated on the map, Figure 3-3 of Exhibit B, and Figure 3-4 is a schematic diagram of the domestic system. Staff engineers estimated the average number of residential-commercial customers for the year 1969 would be 5,236, with 13 industrial, 25 public authority and 19 private fire protection services, together with 473 fire hydrants. The present fire hydrant rental charge is \$1.50 per hydrant per month, which is proposed to be increased to \$2.50. The County of Los Angeles Fire Department, by its letter dated June 23, 1969 (Exhibit No. 10), has stated that it will not agree to renegotiating a contract with the water company reflecting an increase over the present rate of \$1.50; the County, having adopted a policy, stated in its letter to the Commission's principal hydraulic engineer in San Francisco, dated January 2, 1969, that it would (1) decline to enter into any new agreements with water purveyors calling for fire hydrant rentals; (2) decline requests by water purveyors presently under contract for hydrant rental rate increases; and (3) pursue a course of action resulting in the gradual discontinuance of all fire hydrant rental now being paid. The County feels that the water purveyor should be paid for both domestic water service as well as fire protection water service by the customer through domestic meters.

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Exhibit No. 6 in Application No. 50798 shows that the average annual sales per active service for the year 1969 have been estimated by the staff to be 299 ccf. One of the largest business customers is the City of Hope National Medical Center, and there are also two fairly large retirement homes. Small to medium-sized businesses are clustered along Huntington Drive. Five and 2-1/2-acre estates and farms or ranches are located in the City of Bradbury. The record shows that while there is some vacant property available in the Duarte area for development, no substantial growth is expected. An engineering consultant witness for the City of Duarte in Exhibit No. 13 contended that landscaping of the Foothill Freeway would require increases in sales of water, but the record discloses no firm plans of the California State Division of Highways for such landscape irrigation in the near future.

Rates

The following tabulation is a comparison of present, proposed and authorized general metered service rates for the Duarte District:

<u>Duarte District</u>			
<u>Comparison of Present, Proposed and Authorized Rates</u>			
<u>General Metered Service</u>			
Quantity Rates:	<u>Per Meter Per Month</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized*</u>
First 500 cu.ft., or less	\$2.00	\$3.00	\$2.65
Next 2,000 cu.ft., per 100 cu.ft..	.24	.36	.31
Next 7,500 cu.ft., per 100 cu.ft..	.16	.22	.21
Over 10,000 cu.ft., per 100 cu.ft..	.13	.17	.17

*Exclusive of authorized F.I.T. surcharge additive.

For a consumption of 2,500 cu. ft. per meter per month, the present charge is \$6.80; the proposed charge would be \$10.20, an increase of \$3.40, or 50 percent; and the authorized charge will be \$9.12, an increase of \$2.32, or 34.1 percent, including the 10 percent federal income tax surcharge additive.

Present, proposed and authorized rates for measured irrigation service are shown as follows:

Duarte District

Comparison of Present, Proposed
and Authorized Rates

Measured Irrigation Service

	<u>Per Meter Per Month</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
Quantity Rates:			
A. Pressure Service			
For all water delivered			
per 100 cu. ft.....	\$.09	\$.10	\$.10
B. Gravity Service			
For all water delivered			
per 100 cu. ft.....	.05	.06	.06

Applicant's present minimum charges for this service range from \$2.00 to \$37.50 per meter per month, depending upon meter size. Applicant's proposed, and herein authorized, service charges range from \$4.00 to \$75.00 per meter per month, depending upon meter size.

Exhibit B-2 is a copy of applicant's proposed irrigation tariffs which contain important special conditions, particularly that measured irrigation service is only for water used for commercial agricultural, commercial floracultural, or commercial horticultural purposes, and served from a connection to the special irrigation system in the area; irrigation service is applicable only to premises served under the irrigation schedule on a continuous basis on and after January 1, 1969; regarding irrigation service, if the premises are subsequently divided; and providing for the payment

by the applicant for water service of the cost of additional services and their installation. Although irrigation was the traditional foundation of applicant's water service in the late 1800s and early 1900s, it has been superseded almost entirely by domestic service requirements. It is applicant's intent to eventually cease offering irrigation service.

Earnings

Domestic & Irrigation Systems, Combined

Combined Domestic and Irrigation Systems' earnings data contained in Exhibits B-1 and No. 6 for the year 1968 at present rates, as adjusted by the staff, and for the year 1969 estimated, at present and proposed rates, as estimated by the applicant and the staff, are summarized as follows:

Duarte District

Summary of Earnings
(Domestic & Irrigation Systems, Combined)

Item	:Year 1968 :		Year 1969 Estimated			
	:Adjusted :		Present Rates		Proposed Rates	
	: Per PUC	: Per Co.	: Per PUC	: Per Co.	: Per PUC	: Per PUC
	: Ex. 6	: Ex. B-1	: Ex. 6	: Ex. B-1	: Ex. 6	: Ex. 6
Oper. Revenues	\$ 413,200	\$ 416,200	\$ 418,500	\$ 612,300	\$ 622,300	
Oper. Expenses	230,000	241,200	237,900	243,100	239,900	
Depreciation	58,300	62,000	61,100	62,000	61,100	
Taxes	50,200	38,500	50,000	147,500	163,200	
Subtotal	338,500	341,700	349,000	452,600	464,200	
Net Revenues	74,700	74,500	69,500	159,700	158,100	
Rate Base	1,873,600	1,938,700	1,927,300	1,938,700	1,927,300	
Rate of Return	3.99%*	3.84%	3.61%	8.23%	8.20%	

*At proposed rates, 8.66%

Domestic System Earnings, Only

For the domestic system, only (excluding the irrigation system), applicant estimated its rate of return for the year 1968, at present rates, to have been 4.01 percent, and at proposed rates to be 8.46 percent. The staff estimated the domestic system earnings for the year 1968 at present rates to be 4.71 percent, and at proposed rates 9.33 percent. For the year 1969, at present rates, the staff estimated the rate of return would be 4.34 percent, and the proposed rates 8.89 percent.

Irrigation System Earnings, Only

Exhibit No. 6-B shows that the applicant estimated its earnings for the year 1968 on the operations of its irrigation system to be negative 3.64 percent and at proposed rates to be 2.00 percent; the staff estimated 1968 irrigation system earnings at present rates to be negative 4.63 percent and at proposed rates 0.69 percent. For the year 1969, at present rates, the staff estimated irrigation system earnings to be negative 5.59 percent and at proposed rates negative 0.42 percent.

There are no significant differences between the estimated results of operations for the year 1969 at present and proposed rates submitted by applicant and the staff.

Account 797, Regulatory Commission Expense, was submitted by applicant to be \$15,000 amortized over a 3-year period at \$5,000 per year whereas, the staff estimated such expense to be \$12,200 amortized over a 5-year period at \$2,400 per year. Account 798, Outside Services Employed, includes \$1,500 in the applicant's estimate which represents the annual amount over a

5-year period to amortize the cost of an investigation and report by a firm of consulting engineers relative to integrating the domestic and irrigation water systems in the Duarte District. It was the staff's belief that these costs should be charged to Account 142, Preliminary Survey and Investigations, until the recommendations outlined in the report are accomplished, at which time the costs of the report should be capitalized. There is no conclusion in the record in this proceeding regarding the integration of the two systems. In fact, they have been and will be treated separately.

Net additions to utility plant for the year 1968 adjusted by the staff were \$127,800, and for the year 1969 estimated, \$80,100. Applicant estimated net additions for 1968 of \$192,700 and \$75,115 for the year 1969.

The indicated downward trend in rate of return of approximately 0.40 percent for the total Duarte District is caused by expenses increasing at a much faster rate than the increase in revenues, which latter is not sufficient to offset the increase in rate base.

Service

Service conditions, facilities and equipment were reported by the staff to be, on the whole, in satisfactory condition; the number of service complaints has been relatively few; and good service is being furnished in the Duarte District.

San Marino District (A. 50842)

Operations (Upper & Lower Systems)

Applicant's San Marino District of the San Gabriel Valley Division is separated physically into two systems designated as "upper" and "lower". The upper system serves the City of San Marino and portions of the Cities of Pasadena and San Gabriel and vicinity. The lower system serves portions of the Cities of Rosemead, Temple City and El Monte and certain unincorporated areas of Los Angeles County. The upper and lower systems are delineated on service area maps, pages 16 and 17 of Exhibit B.

Commission staff engineers estimated an average of 6,829 commercial services in the upper system, 11 industrial, 57 public authority and 10 private fire protection services for the year 1969, plus 472 fire hydrants, totalling 7,379 active services. Average consumption per commercial customer in the upper system was estimated to be 390.1 ccf per year.

In the lower system, staff engineers estimated that there would be an average of 6,168 commercial service connections, 67 industrial, 23 public authority, 45 private fire protection and 397 fire hydrants, totalling 6,700 active services. The average consumption per commercial customer in the lower system was estimated to be 251.0 ccf per year.

Applicant's sources of water supply in the upper system are nine wells, with a total capacity of 11,075 gallons per minute, and in the lower system 14 wells, with a total capacity of 11,350 gallons per minute. A supplemental source of supply is effective

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with the City of South Pasadena, with a connection for emergency use, and the City of San Marino is paid \$9,000 per year to maintain a connection with the Metropolitan Water District of Southern California. Said connection is used by applicant only nominally.

The upper system, with elevations from 400 feet to 815 feet above sea level, has four pressure zones, eight booster pumps, five ground reservoirs and tanks, with total storage capacity of 6,716,500 gallons, and two elevated tanks, with total storage capacity of 168,000 gallons.

The lower system with elevations of 250 feet to 275 feet above sea level, has one pressure zone, eight booster pumps, four ground reservoirs and tanks, with total storage capacity of 995,000 gallons, and two elevated tanks with total storage capacity of 700,000 gallons.

Rates

The following tabulation is a comparison of general metered service at present, proposed and authorized rates in the upper and lower systems of the San Marino District:

San Marino District
(Upper & Lower Systems)

Comparison of Present, Proposed
and Authorized Rates

General Metered Service

		<u>Per Meter</u>	<u>Per Month</u>	
		<u>Present</u>	<u>Proposed</u>	<u>Authorized*</u>
<u>Upper System</u>				
Quantity Rates:				
First	800 cu.ft. or less.....	\$1.85	\$2.45	\$2.20
Next	1,700 cu.ft., per 100 cu.ft...	.20	.26	.22
Next	2,500 cu.ft., per 100 cu.ft...	.20	.26	.19
Next	5,000 cu.ft., per 100 cu.ft...	.17	.22	.19
Next	5,000 cu.ft., per 100 cu.ft...	.15	.20	.15
Over	15,000 cu.ft., per 100 cu.ft...	.12	.18	.15
<u>Lower System</u>				
First	800 cu.ft. or less.....	\$1.85	\$2.45	\$2.20
Next	700 cu.ft., per 100 cu.ft...	.19	.25	.19
Next	1,000 cu.ft., per 100 cu.ft...	.15	.20	.19
Next	500 cu.ft., per 100 cu.ft...	.15	.20	.16
Next	7,000 cu.ft., per 100 cu.ft...	.13	.18	.16
Over	10,000 cu.ft., per 100 cu.ft...	.11	.15	.13

*Exclusive of authorized F.I.T. surcharge additive.

Exhibit No. 6 in Application No. 50842 shows the average annual residential-commercial consumption in the upper system to be 390.1 ccf for the year 1969 estimated. The average residential bimonthly use in the upper system, as shown in Exhibit B, is 6,200 cu. ft. for which the present charge is \$12.90. It would be increased to \$16.86 under the proposed rates, or an increase of 30.7 percent.

Exhibit No. 6 in Application No. 50842 shows the average annual residential-commercial consumption in the lower system to be 251.0 ccf for the year 1969 estimated. The average bimonthly usage in the lower system is 4,200 cu. ft. for which the present charge is \$8.16, which would be increased to \$10.80, or 32.4 percent under the proposed rates.

The authorized rates for the San Marino District result in an increase in upper zone revenues of about 27 percent and an increase in lower zone revenues of about 23 percent. The overall increase authorized for the entire district is about 26 percent. These rates will result in an increase in the minimum bills of about 19 percent to all customers, lesser increases for customers with average annual residential-commercial consumption and slightly larger increases for relatively large consumption in the upper zone.

Earnings

Earnings data for the upper and lower systems of the San Marino District for the year 1968 at present rates adjusted by the Commission staff, and for the year 1969 estimated at present and proposed rates, as shown by applicant in Exhibit B and by the staff in Exhibit No. 6, are summarized as follows:

San Marino District
(Upper & Lower Systems)
Summary of Earnings

Item	Year 1968:		Year 1969 Estimated		
	Adjusted		Present Rates		Proposed Rates
	Per PUC	Per Co.	Per PUC	Per Co.	Per PUC
	Ex. 6	Ex. B	Ex. 6	Ex. B	Ex. 6
Oper. Revenues	\$ 952,300	\$ 931,500	\$ 958,200	\$1,181,100	\$1,241,400
Oper. Expenses	411,000	451,400	425,000	451,400	425,600
Depreciation	114,100	119,700	120,300	119,700	120,300
Taxes	216,800	151,900	211,800	293,200	371,900
Subtotal	741,900	723,000	757,100	864,300	917,800
Net Revenues	210,400	208,500	201,100	316,800	323,600
Rate Base	3,855,000	3,962,600	3,970,000	3,962,600	3,970,000
Rate of Return	5.46%*	5.3%	5.07%	8.0%	8.15%

*At proposed rates, 8.62%

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The differences in earnings components are attributable to an apparent error in the company's method of estimating operating revenues, which is reflected in the company's lower estimated power costs; the differences in transmission and distribution expense and customer accounting expense are due to the fact that the company utilized a 12-months' period ending August 31, 1968, whereas, the staff used the average of the last three years of the cost for water service connection as the basis for its estimates, and the applicant added the salary of an additional employee to customer accounting expense, while the staff felt that the office was adequately staffed. The differences of \$15,725 by which the company exceeds the staff estimates of administrative and general expenses are set forth on page 6-2 of Exhibit No. 6, and include the differences in payroll allocations and capitalization of administrative payroll. The company estimated a cost of \$15,000 in Account 797 for this rate proceeding, which it amortized over a 5-year period at \$3,000 per year. The staff estimated a total cost of \$3,500 amortized over a 5-year period at \$700 per year.

Net additions for the year 1968 adjusted, included by the staff in its rate base, were \$155,522, and for the year 1969, \$229,254.

The indicated downward trend in rate of return of approximately .40 percent for the year 1969 estimated at proposed rates is caused by the minimal customer growth and water consumption projected for the San Marino District, which result in insufficient increase in revenues to offset the continuing increase in operating expenses and rate base.

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Service

An investigation of service conditions in the San Marino District by the Commission staff resulted in a report in Exhibit No. 6 that during 1968 there were few complaints of low pressure and miscellaneous complaints, such as chlorine odor, sand and dirt in the water, all of which were resolved, and applicant's facilities were generally in good condition and were providing adequate water service.

CONSOLIDATED SAN GABRIEL OPERATIONS

Applicant's San Gabriel Valley Division, and Baldwin Hills, San Marino and Duarte District headquarters are located at 2020 Huntington Drive, San Marino. A field and maintenance office for the Baldwin Hills District is located at 48th Street and 5th Avenue at Los Angeles. The Duarte District office houses a shop, a small office, and is the headquarters of the Duarte District superintendent and four field operating employees, including construction crewmen and pump men. One customer's clerk is stationed at this office to receive "walk-in" customer payments and inquiries. The Duarte District, together with the Baldwin Hills District, is under the control of the division manager, with offices located in San Marino, where the San Marino District office is also located and from which it is operated.

Exhibit No. 15 is a tabulation which shows that the administrative and general payroll per customer for the year 1968 adjusted by the Commission staff for Baldwin Hills was \$3.53; in Duarte \$3.67; and in San Marino \$3.08.

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For the year 1969 estimated by the Commission staff, administrative and general payroll expense per customer in Baldwin Hills was \$3.62; in Duarte \$3.80; and San Marino \$3.15.

For the year 1968 recorded, total company administrative and general payroll expense per customer was \$4.00, as shown in applicant's annual reports to the Commission.

Exhibit No. 15-A shows that the median of 13 major public utility water companies' recorded administrative and general salaries per connection for the year 1968 was \$3.61. The highest ratio was \$5.09; the lowest, \$1.72; and the average, \$2.71.

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San Gabriel Division Consolidated Earnings

Earnings data for the combined Baldwin Hills, Duarte (domestic system only) and San Marino (upper and lower systems combined) Districts of the San Gabriel Division for the year 1969 estimated, at present and proposed rates, as submitted by the Commission staff in Exhibit No. 6, are summarized as follows:

San Gabriel Valley Division

Summary of Consolidated Earnings

Item	Year 1969 Estimated - Per PUC Ex. 6			
	Baldwin Hills	Duarte Domestic System	San Marino Upper & Lower Systems	Total
	<u>Present Rates</u>			
Operating Revenues	\$ 440,700	\$ 402,400	\$ 958,200	\$1,801,300
Operating Expenses	307,800	210,900	425,000	943,700
Depreciation	51,100	53,300	120,300	224,700
Taxes	36,000	60,700	211,800	308,500
Subtotal	394,900	324,900	757,100	1,476,900
Net Revenues	45,800	77,500	201,100	324,400
Rate Base	1,640,900	1,784,200	3,970,000	7,395,100
Rate of Return	2.79%	4.34%	5.07%	4.39%
	<u>Proposed Rates</u>			
Operating Revenues	\$ 617,700	\$ 589,100	\$1,241,400	\$2,448,200
Operating Expenses	307,800	212,900	425,600	946,300
Depreciation	51,100	53,300	120,300	224,700
Taxes	135,300	164,200	371,900	671,400
Subtotal	494,200	430,400	917,800	1,842,400
Net Revenues	123,500	158,700	323,600	605,800
Rate Base	1,640,900	1,784,200	3,970,000	7,395,100
Rate of Return	7.53%	8.89%	8.15%	8.19%

The results of operation under rates to be authorized hereinafter are summarized in the following tabulation:

Summary of Earnings at Authorized Rates
Year 1969 Estimated

<u>Item</u>	<u>Baldwin Hills</u>	<u>Duarte Domestic System</u>	<u>San Marino Upper & Lower Systems</u>
Operating Revenues	\$ 617,700	\$ 541,800	\$1,204,100
Operating Expenses	307,800	212,300	425,200
Depreciation	51,100	53,300	120,300
Taxes*	<u>135,300</u>	<u>137,900</u>	<u>350,700</u>
Subtotal	494,200	403,500	896,200
Net Revenues	123,500	138,300	307,700
Rate Base	1,640,900	1,784,200	3,970,000
Rate of Return	7.53%	7.75%	7.75%

* Includes Federal Income Tax surcharge.

Findings

The Commission finds that:

1. California-American Water Company, a California corporation, successor to the Water Department of California Water and Telephone Company, is a wholly owned subsidiary of American Water Works Company, Inc., Delaware, 50 percent of whose common stock is owned by United Utilities Company of Delaware, and California-American (applicant), organized in December, 1965, commenced operations on April 1, 1966.

2. Applicant furnishes water service in three Divisions, to-wit, its San Diego Bay Division, divided into Coronado (10,821 customers) and Sweetwater (25,557 customers) Districts; its Monterey Peninsula Division, including the lease of Pollock Water Service, Inc. (26,382 customers); and its San Gabriel Valley Division (Baldwin Hills, 5,779 customers, Duarte, 5,315 customers, and San Marino, 12,999 customers, Districts), for a company total of 86,853 metered customers as of December 31, 1967.

3.a. Because of depressed earnings in the Baldwin Hills, Duarte and San Marino Districts, based on 1968 recorded and adjusted operations and 1969 estimated operations, due to increased costs of purchased water and pumping assessments, materials and wages, increased taxes and static revenues with moderately increasing capital investments in each District, primarily to effect replacements and rehabilitation of existing water system facilities, and further, because of increased costs of capital due to the recently declared (June 9, 1969) prime interest rate of 8-1/2 percent for bank borrowings and long-term debt, an 8 percent rate of return for each of applicant's operating

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districts of the San Gabriel Division (Baldwin Hills, Duarte and San Marino) has been requested.

b. When applicant was organized to acquire the Water Department of CW&TCO, AWWCO borrowed \$45,000,000 from six banks, two on the West Coast and four in the East, of which \$20,000,000 was loaned to applicant on a 3-year note bearing interest at 5-1/4 percent. Said note expired on March 31, 1969, and applicant has been required to refinance said note with notes bearing interest at 7-1/2 percent from March 31, 1969 to June 9, 1969 and at 8-1/2 percent from said latter date to December 31, 1969, and has sought authority to issue long-term debt at 8-3/4 percent.

c. Applicant's parents, and their bankers and investment counsellors, failed to refinance AWWCO's short-term notes at lower interest rates before it was too late and the prime rate had risen, radically. They were laggard in their efforts to obtain for applicant, and its customers, the benefits of low-cost financing. The public interest would be adversely affected if applicant's and its parents' laggardness were permitted to flow through to the customers in the form of higher rates for water service.

d. Applicant's predecessor, CW&TCO, had a long financial history with capabilities of borrowing large sums of money at low interest rates.

e. Secondary leverage mathematically will cause AWWCO's yield on common equity to increase somewhat more than the 8-3/4 percent yield on applicant's common equity, which will be realized from the rates for water service based upon the staff's recommended rate of return of 7.25 percent; tertiary leverage mathematically will cause UUCO's yield on common equity to increase substantially more than applicant's yield. The magnitude of such increased yields has not been disclosed on the record of these proceedings.

f. After consideration of the full record in the proceeding and the above-mentioned findings regarding rate of return, an average future rate of return of 7.25 percent is reasonable. This will provide applicant with a yield of approximately 8.75 percent on common equity assuming 43.6 percent of long-term debt at an interest rate of 5.25 percent.

4.a. For the purpose of this proceeding, annual declines in rate of return of 0.35 percent for the Baldwin Hills District and 0.40 percent for the Duarte and San Marino Districts are reasonable.

b. Applicant's new rates will be in effect for approximately the last quarter of the year 1969. With the indicated future trend in rate of return, a 7.75 percent return for Duarte (domestic) and San Marino based on the test year 1969 should produce a rate of return of 7.25 percent for a two-year period after the rates become effective. For Baldwin Hills District the rates proposed by applicant will produce an average rate of return of approximately 7.09 percent for the two years after the rates become effective. We find these rates of return to be reasonable.

c. The rates of return estimated by the Commission staff, which would be produced by the revenues received from applicant's customers at present rates for the year 1969 as estimated by the Commission staff in Exhibit No. 6 for Baldwin Hills District, 2.78 percent, Duarte District (domestic system only), 4.35 percent, and San Marino District, upper and lower systems combined, 5.07 percent, with San Gabriel Valley Division consolidated earnings of 4.39 percent, are deficient and unreasonably low, and applicant is in need of financial relief in its San Gabriel Valley Division.

d. The rates of return of 8.89 percent for Duarte (domestic), and 8.15 percent for San Marino (upper and lower) Districts, and 8.19 percent for consolidated San Gabriel Valley Division, which would be produced by the rates proposed in the application, are excessive. The rate of return of 7.53 percent for Baldwin Hills District, at applicant's proposed rates, is not excessive.

5.a. The rate of return components for each of the Districts of applicant's San Gabriel Valley Division, as estimated by the Commission staff for the year 1969, are more up-to-date, realistic, accurate, and reasonable than those submitted by applicant, except that the estimated cost of the instant rate proceeding in Application No. 50771, Baldwin Hills District, is low, whereas the costs of the proceedings in the Duarte and San Marino Districts are high; but in neither event is the under- or over-estimation of an amount significant to alter our preceding findings of the reasonableness of the Commission staff overall estimates.

b. Applicant's proposal that rates for irrigation service in the Duarte District of sufficient magnitude to produce break-even operations, with neither positive nor negative rate of return, is reasonable. The authorized irrigation tariffs shall not be construed to require or permit discontinuance of service to existing irrigation customers, unless so requested by a present irrigation service customer.

c. A rate of \$2.00 per hydrant per month for public fire hydrant service in the Duarte District is reasonable. Present rates for fire protection service in the Baldwin Hills District are not unreasonable, and applicant's proposed private fire protection rate of \$2.00 per month per inch of connection diameter in its San Marino District is not unreasonable.

Conclusion

Based on the foregoing findings, the Commission concludes that the applications for Duarte and San Marino Districts should be granted in part and denied in part and that the application for Baldwin Hills should be granted. Applicant should be authorized to file schedules which produce an average 7.25 percent rate of return in Duarte (domestic) and San Marino Districts and an average rate of return of 7.09 percent for its Baldwin Hills District in its San Gabriel Division; and the order which follows should so provide. The schedules of rates for the Baldwin Hills District hereinafter authorized to be filed will produce annual gross revenues of \$617,700, an increase of \$177,000 or 40.2 percent over 1969 estimated revenues at present rates. The schedules of rates for the Duarte District (domestic) hereinafter authorized to be filed will produce annual gross revenues of \$541,800, an increase of \$139,400 or 34.6 percent over 1969 estimated revenues at present rates, but \$47,300, or 25.3 percent less than requested. The schedules of rates for San Marino District hereinafter authorized to be filed will produce annual gross revenues of \$1,204,100, an increase of \$245,900 or 25.7 percent over 1969 estimated revenues at present rates, but \$37,300 or 13.2 percent less than requested.

O R D E R

IT IS ORDERED that Applications Nos. 50798 and 50842 of California-American Water Company, in its Duarte and San Marino Districts, are granted in part and denied in part, and Application No. 50771 in its Baldwin Hills District is granted and applicant is

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authorized to file, after the effective date of this order, the revised schedules of rates as set forth in Appendix B attached hereto. Applicant is also authorized to cancel its Duarte District Schedule No. DU-9C. 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.

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 Lyons, Jr.
President

[Signature]
[Signature]

Commissioners

Commissioner A. W. GATOV
Present but not participating.

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX "A"

APPEARANCES

Bacigalupi, Elkus, Salinger & Rosenberg, by William G. Fleckles, for applicant.

Sergius M. Boikan, Legal Counsel, Donald L. Houck, and Raymond E. Heytens, for the Commission staff.

In Application No. 50771:

Luke deVries, in propria persona and for neighbors; William H. Sharp, in propria persona and for Margaret J. Faussner; Irving I. Helfgott, for Ladera Heights Civic Association; Frederic deGervais; Carl Washington, Jr.; H. G. Crofford; Ragnar Lind; and Henry E. Phister; in propria personae, protestants.

Richard P. Buhr, for Standard Oil Company of California, interested party.

In Application No. 50798:

Alfred W. Jorgensen, for City of Duarte and Sawpit Farms, Ltd.; Joseph Rotella, Jr., for Los Angeles County Fire Department; Virginia L. Gray, for Gray's Wash Way; Mrs. Lucille M. Heerman; Mrs. Helen Beaucaire; Annie Anderson; and James S. Wallace; in propria personae, protestants.
Lewis H. Reece, for City of Bradbury; Robert Barr Read; Paul Reginald Argersinger; John C. Norgard; Paul Barth, Jr.; and Mrs. Thelma M. Manning, in propria personae, interested parties.

In Application No. 50842:

Ray E. Untereiner and Willis H. Clark, in propria personae, interested parties.

APPENDIX B
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Schedule No. BH-1

Baldwin Hills District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Baldwin Hills, Windsor Hills, View Park, Ladera Heights, and vicinity, Los Angeles County.

(T)
(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 500 cu.ft. or less	\$ 2.10	(I)
Next 1,500 cu.ft., per 100 cu.ft. ....	.34	⋮
Next 3,000 cu.ft., per 100 cu.ft. ....	.26	⋮
Over 5,000 cu.ft., per 100 cu.ft. ....	.22	⋮
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 2.10	⋮
For 3/4-inch meter	3.10	⋮
For 1-inch meter	5.35	⋮
For 1½-inch meter	10.25	⋮
For 2-inch meter	15.00	⋮
For 3-inch meter	30.00	⋮
For 4-inch meter	50.00	⋮
For 6-inch meter	90.00	⋮
For 8-inch meter	140.00	⋮
For 10-inch meter	200.00	(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% surcharge to Federal Income Taxes is removed, bills computed under the above tariff will be increased by 2.51%.

(N)
(N)

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Schedule No. BH-4

Baldwin Hills District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service rendered for privately owned fire protection systems.

TERRITORY

Baldwin Hills, Windsor Hills, View Park, Ladera Heights, and vicinity, Los Angeles County. (T)
(T)

RATE

	<u>Per Service Per Month</u>	
For each inch of diameter of private fire protection service	\$2.00	(I)

SPECIAL CONDITIONS

1. The minimum diameter will be 4 inches, and the maximum diameter will be the diameter of the main to which the service is connected.
2. The installation housing the detector-type check valve and meter and appurtenances thereto shall be in a location mutually agreeable to the applicant and the utility. Normally such installation shall be located on the premises of applicant, adjacent to the property line. Utility shall have full right of access thereto, and applicant shall provide utility with satisfactory easements to cover all such facilities when they are installed on premises of applicant. If such facilities are not located on applicant's property, and a governmental authority requires that they be moved or relocated, the costs incurred in such moving or relocation shall be borne by the applicant.
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 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)

APPENDIX B
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Schedule No. BH-4

Baldwin Hills District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

4. Utility will bear the installed cost of service pipe between the main and the property line. The costs of the vault, check valves, meters, and appurtenances thereto shall be paid by applicant. Such payment shall not be subject to refund. Upon installation such facilities shall become the property of utility, free and clear of all claims of any persons whatsoever, and applicant shall advise utility of the cost thereof if installed by applicant.

5. Service under this schedule will be furnished only for automatic sprinkler systems which are not interconnected with other water pipes of the applicant, except as provided for in Special Condition No. 7 hereafter.

6. For water delivered for other than fire protection purposes, charges shall be made therefor under Schedule No. BH-1, General Metered Service.

7. If applicant desires to install automatic sprinkler systems on the property in connection with his domestic or commercial service, whereby a larger service and meter are required than would be required for his domestic or commercial service alone, such service may be installed, at the option of the utility, and the utility shall require applicant to bear the entire cost of such service and meter, not subject to refund; however, credit will be given for the estimated cost of the service and meter that would be adequate for normal domestic or commercial service; or, in the event an existing service is replaced at the request of applicant, credit will be given for any salvage value recovered. In instances in which facilities are combined, as provided for above, the amounts of water used for fire protection purposes shall be estimated by the utility, and no charge shall be made for water so used.

8. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

9. The applicant shall indemnify the utility and save it harmless against any and all claims arising out of the service under this schedule, and shall further agree to make no claim against the utility for any loss or damage resulting from such service.

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Schedule No. DU-1

Duarte District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all general metered water service.

TERRITORY

Bradbury, Duarte, portions of Irwindale, Monrovia, and vicinity,
Los Angeles County.

(T)
(T)

RATES

Quantity Rates:		<u>Per Meter</u> <u>Per Month</u>	
First	500 cu.ft. or less	\$ 2.65	(I)
Next	2,000 cu.ft., per 100 cu.ft. ....	.31	⋮
Next	7,500 cu.ft., per 100 cu.ft. ....	.21	⋮
Over	10,000 cu.ft., per 100 cu.ft. ....	.17	⋮

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 2.65	⋮
For	3/4-inch meter	3.25	⋮
For	1-inch meter	5.20	⋮
For	1 1/2-inch meter	7.80	⋮
For	2-inch meter	10.50	⋮
For	3-inch meter	14.00	⋮
For	4-inch meter	23.00	⋮
For	6-inch meter	33.00	⋮
For	8-inch meter	50.00	(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% surcharge on Federal Income Taxes is removed, bills computed under this tariff will be increased by 3.00%.

(N)
(N)

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Schedule No. DU-3M

Duarte District Tariff Area

MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured service for irrigation purposes as defined in the special conditions below. Applicable only to premises served under Schedule No. DU-3M on a continuous basis on and after January 1, 1969.

(T)
:
:
(T)

TERRITORY

Bradbury, Duarte, portions of Irwindale, Monrovia, and vicinity, Los Angeles County.

(T)
(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Charge:		
A. Pressure service all water, per 100 cu.ft.	\$ 0.10	(I)
B. Gravity service all water, per 100 cu.ft.	.06	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 4.00	
For 3/4-inch meter	5.00	
For 1-inch meter	8.00	
For 1 1/2-inch meter	12.00	
For 2-inch meter	16.00	
For 3-inch meter	22.00	
For 4-inch meter	35.00	
For 6-inch meter	50.00	
For 8-inch meter	75.00	(I)

The Service Charge is a readiness-to-serve charge applicable to this service and to which is to be added the monthly usage charge computed at the Quantity Rate.

(N)
:
(N)

(Continued)

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Schedule No. DU-3M

Duarte District Tariff Area

MEASURED IRRIGATION SERVICE

(Continued)

SPECIAL CONDITIONS

1. Measured irrigation service to be supplied under these tariffs (N)
is only for water used for commercial agricultural, commercial flora-
cultural, or commercial horticultural purposes, and served from a connec-
tion to the special irrigation system in the area.

2. Premises as used in connection with this tariff schedule means
a contiguous parcel of land on which there is a large enough area to
engage in the commercial activities outlined in Special Condition No. 1
over and above the land on the premise which is improved in a manner not
eligible for this rate under Special Condition No. 1.

3. If a portion of the premise served under this schedule is devel-
oped and used for purposes other than those outlined in Special Condition
No. 1, such as but not restricted to, housing, ornamental noncommercial
landscaping, lawns, swimming pools, etc., there must be installed a sep-
arate service connection on the company's domestic system which will be
billed under Schedule No. DU-1, and no water from the service installed
under Schedule DU-3M will be used in connection for such portion of the
premise.

4. If a premise which is entitled to measured irrigation service
by virtue of having been receiving such service continuously since
January 1, 1969 and complying with the special conditions mentioned above
is divided into two or more premises each such premise resulting from
such division may apply for service under this schedule, providing the
development of the premise is such that it can qualify under the special
conditions of this Tariff Schedule No. DU-3M.

5. A customer on the premise eligible for this irrigation service
may request for his convenience an additional service or services and a
customer eligible for service on this schedule in connection with the
division of a premise may apply for a service to his portion of the di-
vided premise. The cost of such service shall be paid by the applicant.
Such payment shall not be subject to refund. Following the date of the
adoption of this schedule, no applications will be taken or service con-
nections installed of less than 1½-inch in diameter provided that in con-
nection with the installation of additional services on the irrigation
system the following special conditions must be met:

(Continued)

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Schedule No. DU-3M

Duarte District Tariff Area

MEASURED IRRIGATION SERVICE

SPECIAL CONDITIONS—Contd.

- a. If an irrigation main of adequate size to serve additional service connections does not exist adjacent to the premises to be served, then a main from the nearest existing irrigation 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.
- b. If off-site facilities of the irrigation system are inadequate to serve additional service connections requested to premises which are otherwise entitled to such service, the utility will not install such new services unless the applicant is willing to pay the cost without refund of the necessary additions to the off-site facilities to enable the utility to adequately serve the additional service connections requested.

(N)

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Schedule No. DU-4

Duarte District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Bradbury, Duarte, portions of Irwindale, Monrovia, and vicinity (T)
Los Angeles County. (T)

RATE

Per Month

For each inch of diameter of service connection \$2.00 (I)

SPECIAL CONDITIONS

1. The minimum diameter will be 4-inches, and the maximum diameter will be the diameter of the main to which the service is connected.
2. The installation housing the detector-type check valve and meter and appurtenances thereto shall be in a location mutually agreeable to the applicant and the utility. Normally, such installation shall be located on the premises of applicant, adjacent to the property line. Utility shall have full right of access thereto, and applicant shall provide utility with satisfactory easements to cover all such facilities when they are installed on premises of applicant. If such facilities are not located on applicant's property, and a governmental authority requires that they be moved or relocated, the costs incurred in such moving or relocation shall be borne by the applicant.
3. If 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 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. DU-4

Duarte District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

4. The fire protection service connection will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.
5. The cost of the vault, check valves, meters and appurtenances thereto shall be paid by applicant. Such payment shall not be subject to refund. Upon installation such facilities shall become the property of utility, free and clear of all claims of any persons whatsoever, and applicant shall advise utility of the cost thereof if installed by applicant.
6. Service under this schedule will be furnished only for automatic sprinkler systems which are not interconnected with other water pipes of the applicant, except as provided for in Special Condition No. 8 hereafter.
7. For water delivered for other than fire protection purposes, charges shall be made therefor under Schedule No. DU-1, General Metered Service.
8. If applicant desires to install automatic sprinkler systems on the property in connection with his domestic or commercial service, whereby a larger service and meter are required than would be required for his domestic or commercial service alone, such service may be installed, at the option of the utility, and the utility shall require applicant to bear the entire cost of such service and meter, not subject to refund; however, credit will be given for the estimated cost of the service and meter that would be adequate for normal domestic or commercial service; or, in the event an existing service is replaced at the request of applicant, credit will be given for any salvage value recovered. In instances in which facilities are combined as provided for above, the amounts of water used for fire protection purposes shall be estimated by the utility, and no charge shall be made for water so used.
9. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.
10. The applicant shall indemnify the utility and save it harmless against any and all claims arising out of the service under this schedule, and shall further agree to make no claim against the utility for any loss or damage resulting from such service.

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Schedule No. SM-1

(T)

San Marino District Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

San Marino, Rosemead, portions of San Gabriel, Temple City, and vicinity, Los Angeles County.

(T)
(T)

RATES

		<u>Per Meter Per Month</u>		
		<u>Lower System</u>	<u>Upper System</u>	
Quantity Rates:				
First	800 cu.ft. or less	\$ 2.20	\$ 2.20	(I)
Next	1,700 cu.ft., per 100 cu.ft. ....	.19	.22	⋮
Next	7,500 cu.ft., per 100 cu.ft. ....	.16	.19	⋮
Over	10,000 cu.ft., per 100 cu.ft. ....	.13	.15	⋮
Minimum Charge:				
For	5/8 x 3/4-inch meter	\$ 2.20	2.20	⋮
For	3/4-inch meter	3.00	3.00	⋮
For	1-inch meter	4.60	4.60	⋮
For	1 1/2-inch meter	8.00	8.00	⋮
For	2-inch meter	12.00	12.00	⋮
For	3-inch meter	24.00	24.00	⋮
For	4-inch meter	36.00	36.00	⋮
For	6-inch meter	65.00	65.00	⋮
For	8-inch meter	100.00	100.00	⋮
For	10-inch meter	130.00	130.00	⋮
For	12-inch meter	175.00	175.00	(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% surcharge to Federal Income Tax is removed, bills computed under this tariff will be increased by 3.5%.

(N)
(N)

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Schedule No. SM-4

San Marino District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

San Marino, Rosemead, portions of San Gabriel, Temple City and vicinity, Los Angeles County. (T)
(T)

RATE

Per Month

For each inch of diameter of fire protection service \$2.00 (I)

SPECIAL CONDITIONS

1. The minimum diameter will be 4 inches, and the maximum diameter will be the diameter of the main to which the service is connected.

2. The installation housing the detector-type check valve and meter and appurtenances thereto shall be in a location mutually agreeable to the applicant and the utility. Normally, such installation shall be located on the premises of applicant, adjacent to the property line. Utility shall have full right of access thereto, and applicant shall provide utility with satisfactory easements to cover all such facilities when they are installed on premises of applicant. If such facilities are not located on applicant's property, and a governmental authority requires that they be moved or relocated, the costs incurred in such moving or relocation shall be borne by the applicant.

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 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)

APPENDIX B
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Schedule No. SM-4

San Marino District Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

4. Utility will bear the installed cost of service pipe between the main and the property line. The cost of the vault, check valves, meters, and appurtenances thereto shall be paid by applicant. Such payment shall not be subject to refund. Upon installation such facilities shall become the property of utility, free and clear of all claims of any persons whatsoever, and applicant shall advise utility of the cost thereof if installed by applicant.

5. Service under this schedule will be furnished only for automatic sprinkler systems which are not interconnected with other water pipes of the applicant, except as provided for in Special Condition No. 7 hereafter.

6. For water delivered for other than fire protection purposes, charges shall be made therefor under Schedule No. SM-1, General Metered Service.

7. If applicant desires to install automatic sprinkler systems on the property in connection with his domestic or commercial service, whereby a larger service and meter are required than would be required for his domestic or commercial service alone, such service may be installed, at the option of the utility, and the utility shall require applicant to bear the entire cost of such service and meter, not subject to refund; however, credit will be given for the estimated cost of the service and meter that would be adequate for normal domestic or commercial service; or, in the event an existing service is replaced at the request of applicant, credit will be given for any salvage value recovered. In instances in which facilities are combined, as provided for above, the amounts of water used for fire protection purposes shall be estimated by the utility, and no charge shall be made for water so used.

8. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

9. The applicant shall indemnify the utility and save it harmless against any and all claims arising out of the service under this schedule, and shall further agree to make no claim against the utility for any loss or damage resulting from such service.

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Schedule No. DU-5

Duarte District Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, (T)
organized fire districts and other political subdivision of the State. (T)

TERRITORY

Bradbury, Duarte, portions of Irwindale, Monrovia and certain
contiguous areas in Los Angeles County.

RATE

Per Month

For each hydrant \$2.00 (I)

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall (T)
be charged for at the quantity rates in Schedule No. DU-1, General
Metered Service. (T)

2. The cost of relocation of any hydrant shall be paid by the
party requesting relocation.

3. Hydrants shall be connected to the utility's system upon (T)
receipt of written request from a public authority. The written
request shall designate the specific location of each hydrant and, (T)
where appropriate, the ownership, type and size. (T)

4. The utility undertakes to supply only such water at such pres- (T)
sure as may be available at any time through the normal operation of
its system. (T)