MJO/NB

ORIGINAL

Decision No. 76920

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of the SOUTHERN CALIFORNIA WATER COMPANY for an order authorizing it to increase the rates for water service in its Central Basin District.	Application No. 51165 (Filed June 10, 1969)

O'Melveny & Myers, by Donn B. Miller, for applicant.
Cyril M. Saroyan, Counsel, and Richard D. Gardner and Raymond E. Heytens, for the Commission staff.

O P I N I O N

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

Public hearing was held before Examiner Catey in Los Angeles on November 19, 20 and 21, 1969. Copies of the application had been served, notice of filing of the application published, and notice of hearing published and posted, in accordance with this Commission's rules of procedure. The matter was submitted on November 21, 1969.

Testimony on behalf of applicant was presented by the chairman of its board of directors, its president, its vice presidents in charge of revenue requirements and operations, its secretary-treasurer, and its assistant secretary and Rate and Valuation Department assistant manager. The Commission staff presentation was through two accountants and two engineers.

Service Area and Water System

Applicant owns and operates water systems in 16 districts and an electric system in one district, all in California. Its Central Basin District includes areas in Los Angeles and Orange Counties consisting of portions of the cities of Artesia, Bell,

Bell Gardens, Cerritos, Cudahy, Downey, Hawaiian Gardens, Huntington Park, Lakewood, Long Beach, Los Alamitos, Norwalk, Paramount, Pico Rivera, Santa Fe Springs, South Gate and Vernon, as well an unincorporated areas adjacent to some of those cities. The area is primarily residential, with a few industrial and commercial zones.

The Central Basin District includes seven systems which are not physically interconnected, but are treated as a single entity for water supply and operating purposes. The separate systems are designated as the Artesia, Bell-Bell Gardens, Florence-Graham, Hollydale, Norwalk, Nowlin and Orangewood Systems.

The water sypply for this district is obtained from some 50 of applicant's wells, a leased well, purchases of Metropolitan Water District of Southern California (MWD) water through facilities of Central Basin Municipal Water District (CBMWD) and the City of Cerritos, and minor amounts of purchases from Park Water Company.

The distribution systems include about 320 miles of distribution mains, ranging in size up to 16-inch. There are about 35,300 metered services, 110 private fire protection services and 2,000 public fire hydrants. Thirteen reservoirs and storage tanks and ten booster pumping stations maintain system pressure and provide storage for the system.

Service

Field investigations of applicant's operations, service and facilities in its Central Basin District were made by the Commission staff. A staff engineer testified that only one informal complaint has been registered with the Commission by customers in the Central Basin District since 1967. The engineer's review of applicant's records indicated that the various complaints registered directly with the utility have been resolved satisfactorily.

Staff interviews with customers in the Artesia-Hawaiian Gardens area disclosed some dissatisfaction with taste and odor of the water. Applicant's scheduled replacement of an unreliable chlorinator and increased frequency of flushing should alleviate that problem.

Staff interviews with customers in the Norwalk-Orangewood area disclosed various complaints regarding taste, odor, air in the water, and low pressure. Applicant investigated and satisfactorily resolved those complaints.

Staff interviews with customers in the Bell Gardens area disclosed a few complaints regarding dirt or sand in the water and inconvenience caused by frequent street excavations for repair of leaks. Applicant has scheduled the replacement of the leaky main.

Rates

Applicant's present tariffs applicable to the Central Basin District include three schedules for general metered service in various portions of the district, a schedule for limited metered service, a schedule for private fire protection service, three schedules for public fire hydrant service in various portions of the district, a schedule for construction flat rate service, and schedule for service to company employees.

The multiplicity of rate schedules results from the fact that various portions of the Central Basin District were operated as entirely separate districts by applicant or its predecessors when the historical rate patterns were established. With the present integrated management and operation of the various separate systems within the district, there is now little justification for separate rate zones. As a transitional step toward the eventual elimination of zone rates, applicant proposes to consolidate the present three schedules of general metered service into two schedules and to consolidate the three public fire hydrant scheduled into one schedule. A staff witness testified that he considered this transitional step, and applicant's proposed change from a minimum-charge to a service-charge type of metered rate schedule, to be reasonable.

Applicant's proposed rate changes would, in general, increase metered service rates, eliminate the unused Nowlin Tariff Area public fire hydrant rate, increase the present Hawaiian Gardens Tariff Area public fire hydrant rates to the same rates now in effect for most of the Central Basin District, and increase the present private fire protection rates. The following Table I presents a comparison of applicant's present general metered service rates and those requested by applicant.

TABLE I

Comparison of Monthly General Metered Service Rates

Item	Present[a] (A&N)[c]	Present[a] (B&F)[d]	Present[a] (O)[e]	Proposed[b] (A&N)[c]	Proposed[b] (B,F &O)[f]
Minimum or Service Charge[g]	$2.10	$1.80	$1.80	$1.90	$1.60
Quantity Rate:					
1st 700 cf., per 100 cf.	.00[h]	.00[h]	.00[h]	.209	.195
Next 800 cf., per 100 cf.	.24	.21	.20	.209	.195
Next 1,000 cf., per 100 cf.	.24	.21	.18	.209	.195
Next 500 cf., per 100 cf.	.20	.20	.15	.209	.195
Next 7,000 cf., per 100 cf.	.20	.20	.15	.195	.195
Next 90,000 cf., per 100 cf.	.17	.17	.15	.195	.195
Next 50,000 cf., per 100 cf.	.15	.16	.15	.195	.195
Over 150,000 cf., per 100 cf.	.13	.14	.15	.195	.195

a. Before 2.94% surcharge to offset increased cost of purchased water.
b. Before surcharges relating to tax surcharges and investment tax credit.
c. Artesia-Norwalk Tariff Area.
d. Bell-Florence Tariff Area.
e. Orangewood Tariff Area.
f. Bell-Florence-Orangewood Tariff Area.
g. Minimum or service charge for a 5/8 x 3/4-inch meter. A graduated scale of increased charges is provided for larger meters.
h. Included for minimum charge under present rates.

The following Table II shows the charges under present and proposed rates for a typical commercial customer using 1,800 cubic feet of water in one month. Also shown are the amounts and percentage increases of charges for 1,800 cubic feet of water under proposed rates, compared with charges under present rates. These comparisons exclude the effect of small surcharges under present and proposed rates.

TABLE II

Comparison of Charges for 1,800 Cubic Feet of Water

Item	Tariff Area Artesia-Norwalk	Bell-Florence	Orangewood
Monthly Charge:			
Present Rates	$4.74	$4.11	$3.94
Proposed Rates	5.66	5.11	5.11
Amount of Increase	0.92	1.00	1.17
Percentage Increase	19%	24%	30%

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

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table III, from applicant's Exhibit No. 8 and the staff's Exhibit No. 12, are the estimated results of operation for the test year 1970, under present rates and under those proposed by applicant, before considering the additional expenses and offsetting revenue requirement resulting from the surcharge to federal income tax. For comparison, this table also shows the corresponding results of operation modified as discussed hereinafter.

TABLE III

Estimated Results of Operation (Test Year 1970)

(Dollars in Thousands)

Item	Applicant	Staff	Modified
At Present Rates			
Operating Revenues	$2,240.4	$2,304.4	$2,304.4
Deductions			
Direct Payroll	236.9	224.6	239.1
Purchased Power	102.5	101.0	102.5
Other Trans.& Distrib.Exp.	62.9	62.2	62.2
Gen'l.Office Billing Allocation	73.1	64.5	65.8
All Other Oper.& Maint.Exp.	637.5	637.5	637.5
Employee Pensions & Benefits	22.1	21.8	22.2
Regulatory Commission Exp.	5.0	3.2	5.0
Miscell.Direct Adm.& Gen.Exp.	2.6	1.5	1.5
Other Direct Admin.& Gen.Exp.	18.9	18.9	18.9
Other Allocated Admin.& Gen.Exp.	88.5	77.4	80.3
Taxes, Excl.Franchise & Income Taxes	247.3	244.9	260.4
Depreciation	231.7	228.1	231.7
Subtotal	1,729.0	1,685.6	1,727.1
Local Franchise Taxes	27.4	28.2	28.2
Income Taxes	75.3	101.5	94.2
Total	1,831.7	1,815.3	1,849.5
Net Revenue	408.7	489.1	454.9
Rate Base	8,842.7	8,796.2	8,827.0
Rate of Return	4.62%	5.56%	5.15%
At Rates Proposed by Applicant			
Operating Revenues	$2,773.1	$2,744.4	$2,773.1
Deductions			
Excl. Franchise & Income Taxes	1,729.0	1,685.6	1,727.1
Local Franchise Taxes	34.0	33.6	34.0
Income Taxes	347.1	326.0	333.3
Total	2,110.1	2,045.2	2,094.4
Net Revenue	663.0	699.2	678.7
Rate Base	8,842.7	8,796.2	8,827.0
Rate of Return	7.50%	7.95%	7.69%

From Table III it can be determined that, exclusive of any temporary increase due to an income tax surcharge, the increase in operating revenues will be 20 percent under applicant's proposed rates.

Operating Revenues

Applicant's estimate of revenues under present rates was prepared prior to the Commission's authorization of a 2.94 percent surcharge to offset increased cost of purchased water. The staff's corresponding estimate, reflecting this surcharge, is adopted in Table III.

The staff's estimate of revenues under proposed rates includes the effect of applicant's proposed "negative surcharge" to offset the reduction in income taxes while the investment tax credit was in effect. The investment tax credit is no longer in effect. Applicant's corresponding estimate, reflecting discontinuance of the investment tax credit, is adopted in Table III.

Operating Expenses

Applicant's 1970 estimate of direct payroll for this district includes the 5.5 percent increase over the 1969 level of wages that appeared likely to applicant when its estimates were being prepared. The staff estimate assumed no wage increase in 1970. The 1970 wage increase authorized in October, 1969 by applicant's board of directors was 6.47 percent. The staff's estimate of direct payroll, increased by 6.47 percent, is adopted in Table III.

The difference between the estimates of applicant and the staff for purchased power is due almost entirely to the staff's exclusion of power bills for the pumps on four wells which the staff recommends be abandoned and retired. As discussed hereinafter under "Abandonment of Wells", we do not at this time concur in the staff's recommendation. Applicant's estimate of power cost is adopted in Table III.

The minor difference between applicant's and the staff's estimates of other transmission and distributing expenses is due to the availability of more recent data when the staff's estimate was being prepared. The staff's estimate of these expenses is adopted in Table III.

Many aspects of applicant's electronic data processing (EDP) operations are being reviewed currently by applicant's management. In view of this, applicant stipulated that it would accept as reasonable for purposes of this proceeding the staff estimates of EDP costs to be used as utility expenses in fixing rates. The staff's estimate of general office billing allocation is lower than applicant's primarily because of the staff's lower estimate of EDP costs. The staff's estimate of those expenses, modified to reflect the 6.47 percent increase on the payroll portion of the expenses, is adopted in Table III.

The cost of employee pensions and benefits is affected by wage levels. Consistent with the payroll expenses adopted in Table III, the expenses adopted therein for employee pensions and benefits are the staff estimates, modified to reflect the 6.47 percent wage increase in 1970.

Applicant's and the staff's estimates of regulatory commission expenses differ primarily because applicant averaged the costs of the current proceeding over a three-year period, whereas the staff used a five-year period. Applicant's estimate is based upon its estimate of the frequency of future rate proceedings in this district, as indicated by the apparent trend in rate of return. The staff's estimate is based upon the long-term average frequency of prior rate proceedings in this district. A staff engineer testified, however, that if a different period of time is determined for the reasonableness of the water rates to be authorized herein, the staff would have no serious objections to the employment of that period of time for determining average regulatory commission expense. As discussed hereinafter under "Trend in Rate of Return", the rates authorized herein are expected to produce a reasonable return for the next three years. Applicant's estimate of average annual regulatory commission expense is adopted in Table III.

In the estimates of miscellaneous direct administrative and general expenses, applicant included certain dues, donations and memberships which the staff excluded. Applicant presented no justification for inclusion of those items. The staff estimate is adopted in Table III.

Most of the difference between applicant's and the staff's estimates of other allocated administrative and general expenses results from differences in estimates of general office wage levels and cost of EDP operations. A small portion of the difference is due to the staff's exclusion of a portion of the salary of one of applicant's directors. As discussed earlier herein, (1) applicant's actual wage levels for 1970 are 6.47 percent higher than estimated by the staff, and (2) applicant stipulated to the staff's EDP estimates for this proceeding. Although it appears that the president of applicant's board of directors has more duties than the other directors, there is insufficient evidence to reverse the finding in Decision No. 73827, dated March 12, 1968, in Application No. 49420, upon which the staff adjustment of directors' fees and salaries was patterned. The staff's estimate of this group of expenses, adjusted for the 1970 wage increase, are adopted in Table III.

Both applicant's and the staff's 1970 estimates of ad valorem taxes were based upon projection of the apparent average trend in past composite tax rates through the fiscal year 1968-69, but the staff's estimates exclude taxes on property which the staff considered to be nonoperative. Recent tax bills show that the actual 1969-70 composite tax rate is considerably higher than estimated by applicant and the staff, resulting in about $13,300 greater expenses for 1970. This later evidence, together with payroll tax effects of the 1970 wage increase, is reflected in the taxes adopted in Table III. Consistent with the treatment accorded other factors relating to applicant's wells, the ad valorem taxes on the four disputed well sites and improvements are included in the taxes adopted herein.

The staff's depreciation estimate excludes the depreciation related to the wells which the staff considered to be nonoperative. Applicant's depreciation estimate is adopted in Table III.

Local franchise taxes are based upon gross revenue. The franchise taxes adopted in Table III are consistent with the revenues adopted in that table.

The various differences between applicant's, the staff's and the adopted estimates of revenues and expenses affect the corresponding estimates of income taxes. The 1970 income taxes adopted in Table II reflect the revenues and expenses adopted in that table, and the recent revocation of the Investment Tax Credit.

Abandonment of Wells

The Commission staff recommends that four of applicant's wells in this district be abandoned. This affects the various estimates of expenses and rate base. Applicant contends that those four wells are useful in emergencies.

The provision for emergency sources of supply is a form of insurance. As with other forms of insurance, a decision to continue or discontinue the coverage should take into account the tangible and intangible benefits upon occurrence of the events against which the insured is protected, the statistical probability of such events happening, and the premium required. Thus, even if an event is likely to occur, and a dollar value can be placed upon the resulting damage, an extremely high premium could make insurance economically unfeasible. Conversely, insurance against even infrequent such occurrences might be reasonable if the premium were low enough.

In the present instance, applicant normally will have an adequate supply of water without the four wells excluded by the staff. There could be situations, however, such as shutdown of MWD sources or extinguishing of major conflagrations, during peak demand periods, where the four wells would prevent inconvenience or preclude actual monetary loss to customers. The record shows that the revenue requirement in retaining the four wells adds only about two cents to an average customer's monthly charges. This would be a low premium to pay for even a slim possibility that the four wells will be needed. Under these circumstances we do not concur with the staff's recommendation that the four wells be abandoned at this time. The rate base and expenses related to the four wells are included in Table III.

Minimum Bank Balances

One of the working cash items included by both applicant and the staff is the minimum account balances which banks require applicant to maintain. In recent previous proceedings both applicant and the staff have included in these minimum balances the portion thereof required by a bank which has extended a line of credit to applicant. In the current proceeding, the staff excluded that portion of the minimum bank balances on the grounds that it is related to loans for construction purposes, is thus an element of cost of capital, and is not includable in rate base. The staff cited Decision No. 43368, 49 Cal. PUC 107, 117 (1949) as authority for this concept.

For this proceeding, there is no point in dwelling at length on the relative merits of different methods of compensating a utility for the funds devoted to maintaining minimum bank balances. It is the result reached, not the method used, which is controlling. It would not be proper to either duplicate or omit entirely consideration of the minimum bank balances related to loan commitments. Allowance in rate base will not duplicate any other allowance in this proceeding, and will reach a reasonable result. The appropriate amount of $33,100 to be included in rate base can readily be determined from the record. We have included the disputed minimum bank balances in the rate base adopted in Table III.

Other Rate Base Items

Other relatively small differences between applicant's and the staff's rate base estimates relate to allocated common utility plant and depreciation reserve, plant held for future use, and level of advances for construction.

Applicant does not dispute those staff adjustments for the purposes of this proceeding. The staff adjustments are recognized in the rate base adopted in Table III.

Surcharge to Federal Income Tax

A 10 percent surcharge to federal income taxes was imposed by the Revenue and Expenditure Control Act of 1968. The surcharge was retroactive for the full year 1968 and expired December 31, 1969. The previous surcharge was reduced by the 1969 Tax Reform and Reduction Act. A 5 percent surcharge became effective January 1, 1970 and is scheduled to expire June 30, 1970.

Applicant's Exhibit No. 8 indicates that a 2.5 percent surcharge on bills computed under the metered service rates requested in the application would have been required to offset the effect of the 10 percent income tax surcharge and produce the same net revenues indicated hereinbefore in Table III. Revised calculations show that the surcharge, at the rates authorized herein, should be 1.2 percent, to offset the effect of the present 5 percent tax surcharge. This surcharge on applicant's bills will offset only the future effect of the tax surcharge and is not designed to recoup any of the increased taxes on net revenue produced prior to the effective date of the increased water rates authorized in this proceeding.

Rate of Return

In a recent rate proceeding, Application No. 50880, involving applicant's Bay District, the Commission found that an average rate of return of 7.1 percent over the next 2-1/2 years was reasonable for applicant's operations in that district. In the current proceeding, applicant contends that a reasonable range of rate of return for its operations is from 7-1/2 to 8 percent. The staff recommends, as a reasonable average allowable rate of return for applicant's near future operations, 7.1 to 7.4 percent.

The chairman of applicant's board of directors testified that maintenance of the present Class A rating for applicant's mortgage bonds is an important objective, from the standpoint of longer range financing. He stated that, in his opinion, the minimum coverage required to keep that rating is earnings of about three times the interest on those bonds, and that a 3½- to 4-times coverage would insure a continuation of the Class A rating. He cited the 3.58-times coverage computed for all of the Class A rated electric utility bonds in the United States.

Calculations based upon Table No. 2 of staff Exhibit No. 13 show that 86 percent of the interest on applicant's long-term debt will be in the form of interest on first mortgage bonds after issuance of $3,000,000 additional such bonds in 1970. Applying that percentage to the 2.80 percent weighted cost of all of applicant's long-term debt shown in Table No. 6 of Exhibit No. 13, results in a weighted cost of 2.41 percent for first mortgage bonds. On that basis, to provide 3-times, 3½-times and 4-times coverage of interest on first mortgage bonds would require, respectively, returns of 7.23, 8.44 and 9.64 percent on total capitalization and returns of 11.4, 14.8 and 18.1 percent on common equity. The returns on total capitalization and on common equity required for 3½-times and 4-times coverage of applicant's first mortgage bond interest are excessive by other criteria, but the 7.3 percent return on rate base found reasonable herein is slightly higher than the return on total capitalization required for 3-times coverage of mortgage bond interest.

Applicant's Exhibits Nos. 1 and 2 include various financial statistics relating to applicant and to ten gas utilities, ten electric utilities and ten water utilities, all with roughly the same gross operating revenues of applicant. The statistics include such items as dividend rates, yields, price-earnings ratios, capitalization ratios, percent earnings on average total capital, and total earnings as a multiple of debt interest and of debt interest plus preferred stock dividends. The staff's Exhibit No. 13 includes various financial statistics relating to applicant, to nine other water utilities throughout the nation, and to nine other Class A California water utilities. The statistics include such items as common equity ratios, earnings on equity and earnings on total capital.

One of the yardsticks used in judging what is a reasonable rate of return to be allowed on rate base is a cost-of-money determination, wherein the various component parts of applicant's capital structure are assigned a percentage cost of money and a composite cost of capital is calculated.

The return on equity utilized in the cost-of-money determination is a judgment decision and is influenced by many factors. Among those factors considered by the staff witness responsible for Exhibit No. 13 are continued growth in applicant's number of customers and plant investment, increasing debt costs, and applicant's capital structure.

The following Table IV shows the cost of capital resulting from the ranges of rate of return recommended by applicant and the staff and from the rate of return found reasonable herein. Capital ratios and related cost factors are the pro forma 1970 year-end amounts shown in, or derived from, staff Exhibit No. 13.

TABLE IV

Cost of Capital at Various Returns on Equity

Item			Capital Ratio	Cost Factor	Weighted Cost
Debt:					
Mortgage Bonds Only			50.72%	4.75%	2.41%
Other Long-Term Debt			6.57	5.94	.39
Total Debt			57.29	4.89	2.80
Preferred Stock			6.53	4.53	.30
Subtotal Excl. Common Equity			63.82	4.86	3.10
Common Equity:					
To Produce	7.1%	*Total Return	36.18	11.06	4.00
	7.3%	+Total Return	36.18	11.61	4.20
	7.4%	*Total Return	36.18	11.89	4.30
	7.5%	#Total Return	36.18	12.16	4.40
	8.0%	#Total Return	36.18	13.54	4.90

*Range recommended by staff.
#Range recommended by applicant.
+Return found reasonable herein.

The 7.1 percent return on rate base found reasonable in the last series of proceedings involving applicant was based, in part, on applicant's "cost of money" prior to the scheduled additional debt financing. This 1970 issue of additional first mortgage bonds is anticipated by the staff to bear an effective interest rate of 8.4 percent, as compared with its previous 4.49 percent imbedded cost of long-term debt. There is no significant change in any of the other factors, such as quality of service and efficiency of management, previously considered in determining a reasonable return. A 7.3 percent return on rate base now appears reasonable. Table IV indicates an 11.61 percent return on common stock equity under the assumed conditions hereinbefore discussed.

Trend in Rate of Return

Applicant's estimates for the test years 1969 and 1970 indicate an annual decline of 0.36 percent in rate of return at proposed rates. The staff's estimates show an annual decline of 0.32 percent at proposed rates.

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

As an indication of the reasonableness of the trend in rate of return derived from the test years 1969 and 1970, applicant prepared Exhibit No. 9, a comprehensive analysis of the many changes in recorded items of revenues, expenses and rate base during the years 1963 through 1968. Applicant analyzed and evaluated distortions during these years caused by such factors as changes in its water rates, changes in MWD rates, and changes in income tax rates and allowances.

Exhibits Nos. 8 and 9 show that, eliminating the effects of changes in water rates, MWD rates, and changes in income tax rates and allowances, the average annual decline in rate of return during the period from 1963 through 1968 would have been 0.24 percent at applicant's present water rates and somewhat steeper at its proposed rates. This adjusted decline for the five-year period differs from the 0.26 percent per year at present water rates projected by applicant and the 0.17 percent projected by the staff, largely because (1) the staff assumed the same wage levels for both years, (2) the average annual increase in water use per customer during the five-year study period was greater than is anticipated by applicant and the staff under the assumption of normal future climatic conditions, and (3) applicant did not adjust 1969 ad valorem taxes to reflect the full-year effect of the purchase of a small water system early in 1969. There is no reason to believe that the trend in rate of return at applicant's proposed water rates in the next few years would be less than the 0.32 to 0.36 percent per year indicated by the staff's and applicant's 1969 and 1970 estimates. We will adopt an indicated downward trend of 0.35 percent per year.

In most of the recent decisions in rate proceedings involving other districts of applicant, the apparent future trend in rate of return has been offset by the authorization of a level of rates to remain in effect for several years and designed to produce, on the average over that period, the rate of return found reasonable. That same approach is adopted for this proceeding, except that future changes in water assessment rates from the July 1, 1969 level and MWD rates from the July 1, 1970 level will be considered in future "offset" rate proceedings rather than in the current proceeding. With the annual "offset" proceedings resulting from this approach, but recognizing that the indicated downward trend is fairly steep, it is appropriate to project about three years into the future for the basic rates established herein.

The rate increase authorized herein will not be in effect for about the first quarter of the year 1970. With the indicated future trend in rate of return, the 7.7 percent return under the rates authorized herein for the test year 1970 should produce an average rate of return of 7.3 percent for a three-year period after the rates become effective.

Accounting Changes

In Exhibits Nos. 11 and 12, the staff recommends that applicant make certain changes in its accounting procedures. The staff suggestions are for applicant to:

1. Evaluate its expense allocations between utility and nonutility EDP work, basing those allocations, to the extent possible, upon actual machine hours, employee time cards or other appropriate factors.

2. Undertake a study of the time of the manager of the Metropolitan Division to insure the proper future allocation of that manager's salary to expenses and capital accounts.

In regard to allocation of EDP expenses between utility and nonutility operations, the staff showed in Exhibit No. 11 that applicant has not consistently allocated such expenses in a proper manner. In an earlier proceeding, a staff accountant had stated that he doubted the validity of those allocations but that he had not made a specific investigation in support of his position. We were persuaded in that proceeding by the testimony of one of applicant's officers indicating that the staff's doubts were not justified. We should have had greater confidence in the experienced judgment of the staff witness, even without a specific study. It is now apparent that many of the things done in the past by applicant's EDP department were not in accordance with the wishes and instructions of applicant's management. Applicant is now making an intensive review of its entire EDP operations, which should correct the accounting deficiencies pointed out by the staff.

In regard to the allocation of the time of division managers, there appear to be some inconsistencies among applicant's divisions. Applicant should review this matter and be prepared to show, in any future proceedings, that a reasonable basis of allocation is being used.

Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues.

2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the test year 1970, and an annual decline of 0.35 percent in rate of return, reasonably indicate the probable range of results of applicant's operations for the near future.

3. An average rate of return of 7.3 percent on applicant's rate base for the next three years is reasonable.

4. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

The Commission concludes that the application should be granted as set forth in the ensuing order.

O R D E R

IT IS ORDERED that, after the effective date of this order, applicant Southern California Water Company is authorized to file for its Central Basin District the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

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

Dated at San Francisco, California, this 10th day of MARCH, 1970.

William Symons Jr.
President

Commissioners

Schedule No. CBA-1

Central Basin District (T)

Artesia-Norwalk Tariff Area (T)

METERED SERVICE (T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the Cities of Artesia, Cerritos, Downey, Hawaiian Gardens, Lakewood, Long Beach, Norwalk, Santa Fe Springs and vicinity in Los Angeles County and portions of the City of Los Alamitos and vicinity in Orange County. (T)

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter	$ 1.90	(C)
For 3/4-inch meter	2.10	
For 1-inch meter	2.70	
For 1½-inch meter	4.50	
For 2-inch meter	7.00	
For 3-inch meter	14.00	
For 4-inch meter	21.00	
For 6-inch meter	35.00	
For 8-inch meter	60.00	(C)
Quantity Rates:		
First 3,000 cu.ft., per 100 cu.ft.	$ 0.209	(C)
Over 3,000 cu.ft., per 100 cu.ft.	0.195	(C)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month. (T)

(Continued)

Schedule No. CBA-1

Central Basin District (T)

Artesia-Norwalk Tariff Area (T)

METERED SERVICE (T)
(Continued)

SPECIAL CONDITION

While the 5 percent Surcharge to Federal Income Tax is in effect, bills computed under the above tariff will be increased by 1.2 percent. At such time as the tax surcharge is effectively terminated or reduced, the above percentage shall be eliminated or reduced to the extent of the reduction in the tax surcharge. (I)

A.51165 NB

Schedule No. CBB-1

Central Basin District (T)

Bell-Florence Tariff Area (T)

METERED SERVICE (T)

APPLICABILITY

Applicable to all metered water service. (T)

TERRITORY

Portions of the Cities of Bell, Bell Gardens, Cudahy, Downey, Huntington Park, Paramount, Pico Rivera, South Gate, Vernon and vicinity, Los Angeles County. (T)

RATES

Service Charge:

	Per Meter Per Month	
For 5/8 x 3/4-inch meter	$ 1.60	(C)
For 3/4-inch meter	1.80	
For 1-inch meter	2.40	
For 1½-inch meter	4.50	
For 2-inch meter	7.00	
For 3-inch meter	14.00	
For 4-inch meter	21.00	
For 6-inch meter	35.00	
For 8-inch meter	60.00	(C)

Quantity Rate:

Per 100 cu.ft.	$ 0.195	(C)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month. (T)

(Continued)

Schedule No. CBB-1

Central Basin District (T)

Bell-Florence Tariff Area (T)

METERED SERVICE (T)
(Continued)

SPECIAL CONDITION

While the 5 percent Surcharge to Federal Income Tax is in effect, bills computed under the above tariff will be increased by 1.2 percent. At such time as the tax surcharge is effectively terminated or reduced, the above percentage shall be eliminated or reduced to the extent of the reduction in the tax surcharge. (I)

Schedule No. CBA-1.L

Central Basin District (T)

LIMITED METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished to the Metropolitan State Hospital, in the City of Norwalk.

TERRITORY

Within the established Central Basin District. (T)

RATES	Per Meter Per Month	
Service Charge:		
For 10-inch meter	$90.00	(C)
Quantity Rate:		
Per 100 cu.ft.	$ 0.13	(C)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month. (T)

SPECIAL CONDITIONS

1. Service under this schedule will be furnished only between the hours of 9:00 p.m. and 6:00 a.m. The utility will provide adequate controls to prevent use of water any other time. (T)

2. While the 5 percent Surcharge to Federal Income Tax is in effect, bills computed under the above tariff will be increased by 1.2 percent. At such time as the tax surcharge is effectively terminated or reduced, the above percentage shall be eliminated or reduced to the extent of the reduction in the tax surcharge. (I)

Schedule No. CB-4 (T)

Central Basin District (T)

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Within the established Central Basin District. (T)

RATE

	Per Month	
For each inch of diameter of service connection ...	$2.00	(I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, than a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

(Continued)

Schedule No. CB-4 (T)

Central Basin District (T)

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

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

Schedule No. CB-5

Central Basin District (T)

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

Within the established Central Basin District. (T)

RATES	Per Hydrant Per Month	
City of Bell		
4-inch Riser Type Hydrant, with one outlet:		
Attached to 4-inch main, or smaller	$1.00	
Attached to 6-inch main, or larger	1.25	
4-inch Standard Type Hydrant, with one outlet:		
Attached to 4-inch main, or smaller	$1.25	
Attached to 6-inch main, or larger	1.50	
Hydrants with two or more outlets:		
For each outlet in excess of one	$0.25	
		(D)
County of Los Angeles and Other Public Agencies:		(T)
For each hydrant	$2.00	(T)

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be (N)
charged for at the quantity rates in the appropriate metered service schedule.

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

(Continued)

Schedule No. CB-5

Central Basin District (T)

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS-Contd.

3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size. (N)

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