

ORIGINAL

Decision No. 77240

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
TUSTIN WATER WORKS, for an Order)
Authorizing a Raise in Rates.)

Application No. 51558
(Filed December 16, 1969)

Milford W. Dahl, for applicant.
Mrs. Wanda L. Bose, in propria
persona, protestant.
Mr. & Mrs. J. S. Ward; Mrs. Betty
Yoncich, in propria personae,
service complainants.
Victor T. Bellerue, for County
of Orange; Linn E. Magoffin,
for California Water Associa-
tion and Cal-American Water
Co., interested parties.
William D. Figg-Hoblyn, Counsel,
Chester O. Newman and Raymond E.
Heytens, for the Commission staff.

O P I N I O N

By this application, Tustin Water Works, serving an estimated 12,172 average number of customers for the year 1970 in the Cities of Tustin, Orange and Santa Ana and in adjacent unincorporated territory of Orange County, seeks authority to increase its rates for water service by a gross annual amount of \$228,333, or 28.3 percent, according to its estimates for the year 1970; to withdraw its public fire hydrant rental tariff; and to realize a rate of return of 8.43 percent on its estimated average depreciated rate base of \$2,508,714.^{1/}

^{1/} A Commission staff engineer, in Exhibits 3 and 3A, estimated the requested increase to be \$243,100, or 30.1 percent, and to produce a rate of return of 9.10 percent on its estimated rate base for the year 1970 of \$2,446,630.

Public hearings were held before Examiner Warner on April 14 and 15, 1970, at Orange, where about a dozen customers appeared in attendance, of whom four testified or commented on the application. The customers did not protest the application per se, but complained about low pressures, worms, bad odor, sand and gravel in faucet strainers and red dirt in toilet tanks. These conditions were stated to have been chronic and of long standing. Exhibit 1 is a report directed by the presiding officer to be prepared by the applicant on the results of applicant's investigation of the complaints and measures taken, or proposed to be taken, to alleviate them. The record shows that when a new 5,000,000-gallon reservoir has been completed late in the year 1970, and when a regular and more effective main flushing program has been adopted and instituted, the service conditions will improve and standards set by General Order No. 103 will be met, all of which will be beneficial to the complainants and their neighborhoods. The completion of the new reservoir will also provide needed additional fire protection because, as the record shows, during peak demand periods on hot summer days, applicant's present storage is drawn down to levels which would be inadequate to cope simultaneously with a major conflagration. A Commission staff engineer testified that 80 percent of the storage capacity of the new reservoir would be required to provide adequate fire protection storage.

At the close of the hearing on April 15, 1970, but before submission of the matter, applicant's counsel filed with the presiding officer, and served on all the parties, a Petition

A. 51558 - SW/hjh */ms *

for a Proposed Report pursuant to Rule 78. When reminded by the Examiner that the issuance of a proposed report could cause a delay of some 60 days, in addition to normal processing time, and when advised that the latter was prepared to announce what his recommendation would be in any such proposed report if its issuance were authorized by the Commission, applicant's counsel withdrew said petition and the recommendations were placed on the record; an opportunity was provided to argue, but no argument was desired by any party; the matter was submitted and is now ready for decision.

Applicant based its instant application on the fact that its earnings had declined since its last full-fledged rate increase application was granted in part by Decision No. 71333, dated September 27, 1966. Two offset rate increases were granted in February 1967 and April 1968, respectively, but according to applicant, the rate of return of 4.24 percent, which it estimated its operations would produce for the year 1970 at present rates, did not service its costs of senior capital which, on a pro forma basis, a Commission staff financial examiner testified would be 6.78 percent as of July 1, 1970.

By Decision No. 76581, dated December 23, 1969, in Application No. 51513, applicant was authorized to issue and sell \$900,000 of 8 percent bonds which, as of the date of the staff report, dated April 3, 1970, on applicant's results of operations, Exhibit 3, had been oversubscribed by applicant's customers and residents of its service area. Proceeds from this sale, in part, will be used to finance the \$433,000 cost of the new reservoir

A. 51558 - SW/ms *

as well as to retire 5-1/2 percent bonds due July 1, 1970, amounting to \$250,000, and to expand backup and offsite facilities to meet the demands for new services in subdivisions, apartments and trailer park developments since, the record shows, applicant's service area, although surrounded by other water purveyors, has substantial room for growth, especially in new high rise, multiple-unit dwellings, which will be proportionately large revenue producers with low service capital requirements.

The following is a tabulation which compares applicant's present rates with those proposed in the application, and with those authorized hereinafter:

Comparison of Present, Proposed and
Authorized General Metered Service Rates

		Per Meter Per Month		
		<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
Quantity Rates:				
First	800 cu.ft., or less	\$ 2.00	\$ -	\$ -
Next	3,200 cu.ft., per 100 cu.ft...	.18	-	-
Next	6,000 cu.ft., per 100 cu.ft...	.16	-	-
Over	10,000 cu.ft., per 100 cu.ft...	.14	-	-
All water sold per 100 cu.ft.		-	.168*	.163
Minimum or Service Charge:				
For	5/8 x 3/4-inch meter	\$ 2.00	\$ 2.00	\$ 1.90
For	1-inch meter	4.00	2.80	2.65
For	1-1/2-inch meter	6.50	4.20	4.00
For	2-inch meter	10.00	6.80	6.50
For	3-inch meter	15.00	10.40	10.00
For	4-inch meter	30.00	18.20	15.00
For	6-inch meter	60.00	24.00	23.00
For	8-inch meter	100.00	-	-

* As revised in Exhibit 2-C.

A. 51558 - SW/ms *

The present charge for monthly average usage of 1,900 cubic feet through a 5/8 x 3/4-inch meter is \$3.98; at the proposed rates*, such charge would be \$5.19; and at the rates authorized hereinafter, such charge will be \$5.00.. Table 15-D of Exhibit 2 compares general metered rates with neighboring water purveyors for average monthly usage by meter size.

Comparison of General Metered Rates with Neighboring Water Purveyors for Average Monthly Usage by Meter Size

Utility	Monthly Charge for Average Usage by Meter Size						
	5/8" x 3/4"	1"	1 1/2"	2"	3"	4"	6"
Average Monthly Usage C.F.	1,900	2,900	5,500	14,800	36,000	84,000	73,000
Tustin Water Works Existing Rate	\$ 3.98	\$ 5.78	\$10.16	\$24.08	\$ 53.76	\$120.96	\$105.56
Tustin Water Works Proposed Rate*	5.19	7.67	13.44	31.66	70.88	159.32	146.64
So. Calif. Water Co. Orange County Tariff Area	5.66	8.03	14.01	31.94	74.52	170.88	157.86
Rossmoor Water Company **	9.70	13.30	22.66	54.10	118.66	255.46	224.66
California Cities Water Company Santiago System	10.45	14.71	24.85	61.12	143.80	331.00	288.10
Santiago County Water District	8.75	12.50	21.00	46.25	102.00	224.00	198.50
City of Orange	4.23	6.43	11.55	28.29	64.25	141.05	123.45
City of Santa Ana	4.48	6.68	11.88	28.86	60.58	120.98	107.78
Irvine Ranch Water District	5.30	7.80	14.00	33.60	78.00	176.00	158.00

* As revised in Exhibit 2-C.

** Rates in effect prior to January 16, 1970.

It should be noted that large size lots, apartment houses, shopping centers and industrial complexes are served through larger-sized meters.

The County of Orange joined applicant's requested abandonment of the presently filed public fire hydrant rental tariff of \$1.00 per hydrant per month. A witness for the Orange County Fire Protection Department, which has jurisdiction over some 500 square miles of unincorporated territory in Orange County, containing 32 water purveyors, of whom five are public utility water companies under this Commission's jurisdiction, testified that applicant is the only water purveyor which bills for fire hydrant rentals; the Fire Protection Department has no practical means of collecting moneys to pay for fire hydrant rentals from its tax supporters, without the formulation of a sub-community services district, which would be complicated and costly.

The record shows that by Decision No. 74241, dated June 11, 1968, in Application No. 49681, Southern California Water Company was authorized to abandon its public fire hydrant rental tariff applicable to all of its Orange County systems, despite a staff recommendation that such tariff be retained and enforced.

By Decision No. 76279, dated October 15, 1969, in Application No. 50798 of California-American Water Company to increase, among other things, its rates for public fire hydrant rentals in its Duarte District, the Commission granted such request, in part, despite a refusal by the County of Los Angeles Fire Department, written to California-American on June 23, 1969, to agree to renegotiate a contract with the latter reflecting an increase over the then present rate of \$1.50 per hydrant per month; Los Angeles County, having adopted a policy, stated in

A. 51558 - SW

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. Los Angeles 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.

In the instant proceeding, Orange County has affirmed its belief in a like principle, and it has paid bills rendered it by the applicant herein under duress, and pursuant to the provisions of the Commission's order in Decision No. 71333, supra, that Tustin enforce its filed tariff.

The presiding officer recommended (1) the retention and enforcement of applicant's presently filed public fire hydrant rental tariff; (2) the issuance of an Order on the Commission's Own Motion Instituting an Investigation into the reasonableness of all public utility water companies' filed public fire hydrant tariffs. Both applicant's counsel and counsel for Orange County joined in supporting such recommendation.

Applicant's controller and office manager, a consulting engineer, a certified public accountant consultant, and a vice president and a director submitted as Exhibit 2 an analysis of applicant's 1968-1969 operations and projections for 1970.

A. 51558 - SW

The earnings data contained in Exhibit 2 and in Exhibit 3A, the revision to the staff report, are summarized as follows:

Summary of Earnings

Item	Year 1970 Estimated			
	Present Rates		Proposed Rates	
	Per Co.	Per PUC	Per Co.	Per PUC
	Ex. 2	Ex. 3A	Ex. 2	Ex. 3A
Oper. Revenues	\$ 807,365 ^{1/}	\$ 808,700 ^{1/}	\$1,035,698 ^{3/}	\$1,051,800 ^{1/}
Oper. Expenses	491,288	500,620 ^{2/}	491,288	500,620 ^{2/}
Depreciation	94,803	94,070	94,803	94,070
Taxes	114,974	118,970	238,122	234,380
Subtotal	701,065	713,660	824,213	829,070
Net Revenues	106,300	95,040	211,485	222,730
Rate Base	2,508,714	2,446,630	2,508,714	2,446,630
Rate of Return	4.24%	3.88%	8.43%	9.10%

^{1/} Including public fire hydrant rental revenue per presently filed tariff.

^{2/} Based on \$20 per acre-foot District equity assessment, \$53 per acre-foot purchased water, and 55% purchased water.

^{3/} Excluding revenue from public fire hydrant rental tariff.

Applicant's counsel stipulated to the reasonableness of the results of operations and recommendations contained in Exhibits 3 and 3A, with the minor objections that (1) regulatory Commission expense be amortized over a three-year period, as proposed by the applicant, instead of a five-year period as recommended by the Commission staff; and (2) fire hydrant revenue should not be included as such, but absorbed in applicant's authorized

general metered service tariff and, thus, be produced by all of applicant's general metered customers.

The presiding officer recommended that applicant be authorized to file new schedules of rates which would produce the gross annual revenues of \$1,002,040 necessary, after deductions, and when related to the average depreciated rate base of \$2,446,630 estimated by the Commission staff for the year 1970, to produce the rate of return of the 8.1 percent recommended by the Commission staff financial examiner. The presiding officer also recommended that, because of the present volatility of the national and local economy and the fact that the Commission has encouraged small water utilities to apply for rate adjustments frequently rather than wait longer periods resulting in depressed utility operations and the requirement for disproportionately large rate relief, the expense of the instant rate proceedings be amortized over a three-year period.

Although the record shows a mathematical decline in rate of return between the year 1969 and 1970 of .24 percent due to increased operating costs, excluding increased cost of purchased water, but including increased cost of utility plant, all as determined by the Commission staff engineer, the Commission staff financial examiner found no trend, either upward or downward, in return on average net plant investment for the recorded years 1967, 1968 and 1969. The presiding officer concluded in his recommendation that recognition of attrition was not warranted herein because of the short-termed engineering study and the lack of any long-term study of rate of return attrition in evidence. Likewise, the

record does not show the effects on rate of return which may be expected, over a short- or long-term, of the predominance of growth and development anticipated in high rise multiple-unit dwelling developments.

Based on a review of the record, the Commission finds that:

1. Applicant is in need of financial relief and the recommendations of the presiding officer are reasonable.

2. We find that the increases in rates and charges authorized herein are justified, that the rates and charges authorized herein are reasonable, and that the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

Applicant's counsel stipulated to the reasonableness of the staff financial, accounting, and engineering recommendations contained on pages 37 and 38 of Exhibit 3.

We conclude that:

1. The application should be denied in part and granted in part and that applicant should be authorized to file schedules of rates which will produce the rate of return of 8.1 percent based on applicant's operations for the test year 1970 hereinbefore found to be reasonable.

2. Applicant's request to withdraw its presently filed public fire hydrant rental tariff should be denied pending the issuance of, and decision on, a statewide investigation of the reasonableness of public utility water companies' filed public fire hydrant rental tariffs.

3. Applicant should be ordered to carry out the staff recommendations contained on pages 37 and 38 of Exhibit 3.

O R D E R

IT IS ORDERED that:

1. Application No. 51558 of Tustin Water Works is granted in part and denied in part, and applicant is authorized to file, after the effective date of this order, the revised schedules of rates as set forth in Appendix A attached hereto. Said rates shall be effective four days after the date of filing and shall apply only to service rendered on and after said effective date. Such filing shall comply with General Order No. 96-A.

2. Applicant shall:

a. Maintain its books on a monthly basis in accordance with General Instruction No. 3 of the Uniform System of Accounts for Water Utilities.

b. Utilize Account No. 812, Administrative Expenses Transferred-Cr., in its operating expense accounts as specified in the Uniform System of Accounts for Water Utilities.

c. Follow its tariff Rule No. 15, paragraph A.6.E., relative to revising its main extension contracts for the difference between actual construction costs and the amount advanced.

d. Retain its public fire hydrant schedule and pursue the collection of revenue for this service.

e. Report quarterly its ratio of purchased water supply to total water supply, together with its projected ratio for the succeeding three quarters. Such reports are to be sent to the Commission by the fifteenth day of the month following the last day of the quarter. The Commission staff should review applicant's rates and rate of return if this ratio should fall substantially below 55 percent.

f. Include a surcharge in the rate schedule for metered service authorized in this proceeding to offset the effect of the 5 percent federal income tax surcharge to be effective until the expiration of said tax surcharge.

g. Establish a bimonthly, or more frequent, main flushing program in all areas where worms, sand, dirt, bad odor, or other water quality deficiencies are reported or found to exist until such deficiencies are corrected.

3. In all other respects this application is denied.

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

San Francisco
Dated at _____, California,
this 19th day of MAY, 1970.

William Symons, Jr.
President

August

[Signature]

[Signature]

Sumner L. Sturgeon
Commissioners

APPENDIX A
Page 1 of 7

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tustin and portions of Santa Ana, Orange and vicinity, Orange County.

RATES

	Per Meter Per Month	
Service Charge:		(C)
For 5/8 x 3/4-inch meter	\$ 1.90	
For 1-inch meter	2.65	
For 1 1/2-inch meter	4.00	
For 2-inch meter	6.50	
For 3-inch meter	10.00	
For 4-inch meter	15.00	
For 6-inch meter	23.00	(C)
Quantity Rate:		
For all water delivered, per 100 cu.ft.	\$ 0.163	(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)
		(T)

SPECIAL CONDITION

While the 5 percent Surcharge to Federal Income Tax is in effect bills computed under the above tariff will be increased by 0.8 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)

(I)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Tustine and portions of Santa Ana, Orange and vicinity, Orange County.

RATE

Per Month

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

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, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the stand 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.

(Continued)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - Contd.

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

APPENDIX A
Page 4 of 7

Schedule No. 9FC

- UNMETERED SERVICE TO DWELLING UNITS DURING CONSTRUCTION (T)

APPLICABILITY

Applicable to all houses or apartments being constructed as a part of a total real estate development. (T)
(T)

TERRITORY

Tustin and portions of Santa Ana, Orange and vicinity, Orange County.

RATES

For each dwelling unit for the first two months of the construction period	\$6.00	(N)
For each dwelling unit for each additional month or portion thereof	3.00	

SPECIAL CONDITIONS

1. This rate is available only to real estate developers who undertake the construction of all or a substantial portion of the dwelling units in a tract as part of the tract development. It does not apply to builders of houses in tracts which have been subdivided for lot sales.

2. The water service under this tariff schedule applies only to use of water for construction of residences. It does not include water for garden irrigation or for model homes or for general tract improvement work.

(N)

APPENDIX A
Page 5 of 7

Schedule No. 9MC

METERED CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all metered water service furnished for construction.

TERRITORY

Tustin and portions of Santa Ana, Orange and vicinity, Orange County.

RATES

Quantity Rate:

All water sold, per 100 cubic feet \$0.20

Connection Charge:

	<u>Per Meter</u>
For 2-inch meter	\$ 7.00
For 3-inch meter	10.00
For 4-inch meter	20.00
For 6-inch meter	24.00

The Connection Charge is a one time charge
per application.

SPECIAL CONDITIONS

1. A \$250.00 refundable deposit will be required for each meter.
2. Tustin Water Works reserves the right to discontinue the service without notice if water is not used for a period of 15 consecutive days.
3. The customer shall notify Tustin Water Works when he wishes to discontinue service. The regular rates including connection charge shall continue until such notice has been received, unless the service is discontinued under Special Condition 2 above.

(Continued)

Schedule No. 9MC

METERED CONSTRUCTION SERVICE

SPECIAL CONDITIONS - Contd.

4. If during the course of obtaining flood water the applicant causes any damage to the water company's facilities, the company will bill the applicant for such damages.

A. 51558 ms

APPENDIX A
Page 7 of 7

Schedule No. 9M2

HAULAGE SERVICE

(T)

APPLICABILITY

Applicable to all measured water service furnished for delivery to customers' tanks or containers.

TERRITORY

Tustin and portions of Santa Ana, Orange and vicinity, Orange County.

RATE

All water sold, per 100 gallons \$0.04 (I)(C)

SPECIAL CONDITIONS

1. Water service under this schedule will be furnished only when surplus water is available and under conditions which will not adversely affect domestic service. The utility will be the sole judge as to the availability of such surplus water.
2. The utility will determine the locations at which the service will be provided and the conditions governing said service.