

Decision No. 78154

ORIGINAL

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 in-
 crease the rates for water service in
 its Southwest District.

Application No. 51857
 (Filed April 28, 1970)

O'Melveny & Myers by Donn B. Miller, Attorney
 at Law, for Southern California Water
 Company, applicant.
Cyril M. Saroyan, Attorney at Law, and John D.
Reader, for the Commission staff.

O P I N I O N

By this application, Southern California Water Company
 (Company) requests authority to establish rates in its Southwest
 District which are designed to increase annual revenues in the
 year 1971 estimated by \$478,700, or 13.4% over the general metered
 rates now in effect.

Public hearing was held before Examiner Gillanders in
 Gardena on October 27 and 28, 1970, and the matter submitted on
 November 12, 1970 upon receipt of late-filed Exhibit No. 10.
 Copies of the application had been served and notice of hearing
 had been published and posted in accordance with this Commission's
 rules of procedure.

Testimony on behalf of Company was presented by its
 Chairman of the Board, its President, two of its Vice Presidents
 and an Assistant Secretary. The Commission staff presentation was
 made by two accountants and two engineers. Fifty customers appeared
 of whom 13 testified as to various service complaints.

General Information and Total Utility Operations

Southern California Water Company was incorporated on December 31, 1929, under the name of American States Water Service Company of California. It was formed by a consolidation of twenty corporations under common control, each of which was a water public utility operating under the jurisdiction of this Commission. Except for the Bear Valley electric system, the Company's utility operations relate solely to water service.

At the time of its incorporation in 1929, the Company had a total of approximately 42,000 water customers. The Company has grown rapidly and at December 31, 1969 there were 164,283 water customers and 8,451 electric customers.

The Company's general and executive offices are located at 3625 West Sixth Street, Los Angeles, California.

The Company has centralized administrative engineering, construction, general accounting, customer accounting and billing, rate and valuation, purchasing and personnel functions. These departments are located at the Company's General Office except for the Data Processing operations which are performed at the Company's Data Center at 10926 South La Cienega Boulevard, Inglewood,^{1/} and the Construction Department headquartered at 14401 South Chadron Avenue, Hawthorne.

In 1965 the Company initiated its electronic data processing activities and it is now preparing all customer bills and related accounting records and processing payroll, cash receipts and disbursements, accounts payable, district revenue and expense ledgers and materials and supplies on its electronic data processing equipment.

^{1/} This operation is being junked and is to be replaced by a new system in 1971 to be housed in the General Office.

Additional accounting functions are being programmed for electronic data processing.

The Company renders water service in Contra Costa, Imperial, Los Angeles, Orange, Sacramento, San Bernardino and Ventura Counties.

There are 17 operating districts, 16 water and one electric, grouped into five divisions.

During 1969 the Company produced 30,727,405 ccf of water from wells and surface sources and purchased 22,880,301 ccf, principally from member units of The Metropolitan Water District of Southern California.

At December 31, 1969 the Company had 1,395,133 shares of common stock outstanding, owned by more than 4,600 individual and institutional shareholders. The largest single ownership of common shares is less than 5% of the total common shares that are outstanding. There are a total of 132,800 shares of preferred stock outstanding consisting of three series. All of the preferred stock is held by institutional investors. The common stock has 1/5 vote per share and the preferred stock has one vote per share. At December 31, 1969 the Company had outstanding debt in the form of First Mortgage Bonds, totaling \$22,670,000; \$3,000,000 of 5.75% Convertible Subordinated Debentures; other long-term debt of \$807,069; and bank loans of \$1,900,000.

The Company is not affiliated with any other public utility. However, it does own approximately 34% of the outstanding stock of the Claremont Basin Mutual Water Company. This stock is owned for the purpose of securing a water supply for its Pomona Valley District.

Southwest District Service Area and Water System

Company's Southwest District service area includes all of the Cities of Lawndale and Gardena, a portion of the Cities of Inglewood, Hawthorne, Compton and Carson, and unincorporated territory in the County of Los Angeles. Company served 42,034 customers in its Southwest District at December 31, 1969 and, in addition, public fire protection was provided by 2,677 fire hydrants. Company supplies water to those customers through a distribution system composed of approximately 1,969,264 feet (373 miles) of main ranging in size up to 18 inches in diameter. In 1969 it purchased 72% of the water now supplied to this district through seven connections to the facilities of the West Basin Municipal Water District, a member agency of the Metropolitan Water District of Southern California. It also produces water from 19 Company-owned wells and purchases a small quantity from the City of Inglewood. Company has water treatment, storage, booster pumps and other auxiliary equipment at various locations in the district.

Sixteen of the Company's wells are located in the hydrologic area known as the West Basin and the quantity of water that can be produced from these wells is limited pursuant to an Interim Agreement approved by this Commission in Decision No. 51024. The remaining three wells are located in the hydrologic area known as the Central Basin and the quantity of water that can be produced from these three wells is limited pursuant to the terms of a Stipulation and Agreement for Judgment approved by this Commission in Decision No. 68316.

As of December 31, 1969 the book costs of utility plant in the Southwest District amounted to \$17,016,015 and depreciation reserve \$3,221,577, or a net depreciated cost of \$13,794,438.

Rates

Company's basic rate level for the Southwest District was established by Decision No. 73827 dated March 12, 1968 in Application No. 49420. The effective date of these rates was April 5, 1968.

By Decision No. 74836 dated October 15, 1968 in Application No. 50484 Company was authorized to add a surcharge of 2.45% to the basic metered rates set by Decision No. 73827 to offset the 10% Federal Income Tax Surcharge. The 10% tax surcharge expired December 31, 1969 as did the surcharge water rate. By Resolution No. W-1210 in Advice Letter 387-W, effective January 13, 1970 the Company was authorized to add a 1.22% surcharge to cover the 5% Federal Tax Surcharge imposed January 1, 1970. The 5% tax surcharge and the consequent offset to water rates expired June 30, 1970.

The Company renders water service in the Southwest District under four separate schedules: General Metered Service, Optional Special Metered Service, Private Fire Protection Service and Public Fire Hydrant Service.

In addition, Company renders service in the Southwest District under two Company-wide schedules: Construction and Other Temporary Flat Rate Service and Service to Company Employees.

Rate Proposals

Company proposes to increase the general metered service rates, transfer the only customer on the optional schedule to the general service schedule and withdraw the optional schedule. No other change in rates is proposed.

Company's Schedule No. SW-1, applicable to general metered service, showing present and proposed rates and the present optional special metered service, Schedule No. SW-9m are set forth as Exhibit C attached to the application.

The proposed general service schedule will result in the following dollar and percentage increase to the customers by class of service.

	Present Rates \$	Proposed Rates \$	Revenue Year 1971 Estimated (Dollars in Thousands)	
			Increase \$	%
<u>General Metered Rates</u>				
Commercial	3,144.8	3,570.2	425.4	13.5
Industrial	304.6	341.5	36.9	12.1
Public Authority	<u>135.4</u>	<u>151.8</u>	<u>16.4</u>	<u>12.1</u>
Total General Metered Service	3,584.8	4,063.5	478.7	13.4

At the proposed rates the average users of 2,000 cubic feet per month will receive an increase of 80¢ per month. This 80¢ increase represents 13.9% of the basic billing of \$5.75 per month.

Results of Operation

Witnesses for Company and the Commission staff have analyzed and estimated Company's operational results. Summarized in the table below, from the Company's Exhibit No. 2 and staff's Exhibit No. 7, are the estimated results of operation for the test years 1970 and 1971, under present rates and under those proposed by Company.

Southern California Water Company
Southwest District

SUMMARY OF EARNINGS

Estimated Years 1970 and 1971

Item	Company		Staff		Company Exceeds Staff
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	
	(Dollars in Thousands)				
<u>Estimated Year 1970</u>					
Operating Revenue	\$ 3,680.6	\$ 4,152.0	\$ 3,680.1	\$ 4,152.1	\$ 0.5
<u>Operating Expenses</u>					
Oper. & Maint.	1,807.5	1,807.5	1,704.3	1,704.3	103.2
Admin. & Genl.	70.1	70.1	69.1	69.1	1.0
Taxes Other than Income	404.0	410.8	403.6	410.4	.4
Depreciation	310.3	310.3	310.3	310.3	-
Allocated Common	125.9	125.9	121.0	121.0	4.9
Subtotal	2,717.8	2,724.6	2,608.3	2,615.7	109.5
Income Taxes	228.1	468.0	293.0	533.3	-
Total Expenses	2,945.9	3,192.6	2,901.3	3,148.4	-
Net Operating Rev.	734.7	959.4	778.8	1,003.7	-
Depr. Rate Base	12,130.2	12,130.2	12,091.2	12,091.2	39.0
Rate of Return	6.06%	7.91%	6.44%	8.30%	-

<u>Estimated Year 1971</u>					
Operating Revenue	\$ 3,760.3	\$ 4,239.0	\$ 3,760.3	\$ 4,239.6	\$ (0.6)
<u>Operating Expenses</u>					
Oper. & Maint.	1,869.3	1,869.3	1,753.8	1,753.8	115.5
Admin. & Genl.	71.1	71.1	69.1	69.1	2.0
Taxes Other than Income	422.8	429.7	422.3	429.2	.5
Depreciation	317.9	317.9	317.9	317.9	-
Allocated Common	130.6	130.6	122.5	122.5	8.1
Subtotal	2,811.7	2,818.6	2,685.6	2,692.5	126.1
Income Taxes	204.5	448.1	278.4	522.3	-
Total Expenses	3,016.2	3,266.7	2,964.0	3,214.8	-
Net Operating Rev.	744.1	972.3	796.3	1,024.8	-
Depr. Rate Base	12,152.1	12,152.1	12,112.2	12,112.2	39.9
Rate of Return	6.12%	8.00%	6.57%	8.46%	-

(Red Figure)

Explanation of Differences -
Estimated Years Results of Operations

A. Operating and Maintenance Expenses

The 1970 and 1971 differences are principally in six categories as follows:

	<u>1970</u>	<u>1971</u>
Cost of purchased water	\$ 87,200	\$ 90,700
Chemicals for water treatment	2,100	1,700
Meter repair materials	1,200	800
Operating and maintenance labor	6,600	14,900
Billing expense	7,000	8,200
Uncollectible accounts	(900)	(800)
Total	103,200	115,500

(Red Figure)

The difference in the cost of purchased water is due to the application of July, 1970 water costs to estimated quantities of water to be purchased during 1970 and 1971, rather than Company's method of applying the July 1, 1971 rates to essentially the same quantities of water in both estimated years.

The expense for chemicals estimated by the staff is less than Company's estimate because recent purchases of chlorine indicate that the cost of this chemical has been reduced.

The difference in meter repair expense is essentially due to a lower staff estimate of materials for field meter repairs.

Operating and maintenance labor as estimated by the staff is less than Company's estimate in 1970 due to detailed account-by-account analyses and estimates by the staff, and this difference is larger in 1971 principally due to the elimination by the staff of an assumed 5% salary increase as of January 1, 1971.

Billing expense which includes general office cash clerks' salaries is allocated on the basis of the number of bills rendered in each district. The staff estimate of this expense is lower than

A. 51857 ms

Company's estimates because staff study of the electronic data processing machine time necessary to process all programs indicates that while the Company must pay for a fixed minimum number of machine-hours monthly, all programs can easily be processed in less than 80% of these machine-hours. A portion of the E.D.P. machine rental has therefore been excluded. Postage expense has also been estimated at about 7% less than Company's estimates based upon recent recorded experience. The staff estimate of billing expense amounts to 30.45 cents^{2/} per bill for 1970 as compared with 33.15 cents per bill as estimated by Company.

Uncollectible accounts expense differs from Company's estimate as the staff figures are based on variations of uncollectible revenue over several years and an average of such expense between the present and proposed levels of revenue. Company used only its 1969 experience and did not give any consideration to proposed revenues.

B. Administrative and General Expenses

The \$1,000 difference in this 1970 estimate and an identical amount in 1971 results from the elimination of certain dues and donations. The additional \$1,000 difference in 1971 is due to the elimination by the staff of the assumed 5% salary increase as of January 1, 1971.

C. Taxes Other than Income

These small adjustments reflect differences in payroll taxes which result from the differences in operation and maintenance labor, discussed above.

^{2/} 31.11 cents for 1971 at Exhibit 10 salaries.

A. 51857 ms

D. Allocated Common Expenses

The difference in the total company common expense results mainly from adjustments to administrative and general salaries. In 1970 \$15,100 to be paid to one director was eliminated, and in 1971 a similar amount plus a 5% assumed salary increase to all general office personnel have been eliminated. The reduction in the electronic data processing equipment rental explained above under operating and maintenance expenses also results in a \$6,300 reduction in E.D.P. charges to the administrative and general expenses. Miscellaneous expenses have been increased \$3,500 for fees to the director whose other compensation was eliminated and was reduced for certain dues and donations excluded. Advertising expense has been reduced to the four-year average of this expense and payroll taxes have been adjusted due to the reduced salary allowances. These adjustments and the allocation of the adjustment applicable to the Southwest District are summarized following. The staff has reviewed Company's allocation factors to each district, finds that it has used staff methods and that the allocations are reasonable.

	<u>1970</u>	<u>1971</u>
Administrative and Gen. Salaries	\$15,100	\$28,400
Rental of E.D.P. Equipment	6,300	6,300
Misc. and General Expenses	(1,000)	(700)
Advertising Expense	400	400
Payroll Taxes	500	900
Depreciation on Common Plant	100	100
Total	21,400	35,400
Allocation of this Common Exp. Adjust. to the Southwest Dist. (22.92%)	\$ 4,900	\$ 8,100

(Red Figure)

E. Income Taxes

The difference in income taxes is principally due to the differences in expenses. The staff has accepted Company's interest

A. 51857 ms

and miscellaneous deductions, but differs with its estimates of state and federal income tax depreciation. The staff has used income tax depreciation consistent with the method used for the Central Basin District depreciation on the 1969 income tax returns.

F. Rate Base

The very small difference in the rate bases for the two test years results from the staff adjustment to the electronic data processing equipment rental as it affects the capitalization of conversion programs and a difference in the staff working cash allowance. The staff computation of working cash differs from Company's only to the extent that it does not include the minimum monthly balances required by a bank in Chicago extending credit to Company where such credit is utilized principally for constructing capital improvements or replacements. With the exception of the above-mentioned adjustments to common utility plant the staff takes no exception to Company's allocation of common utility rate base or its development of the district rate base.

Rate of Return

Company's Chairman of the Board presented Exhibit No. 3 entitled "1970 Report on Financial Statistics" and Exhibit No. 3-A which updated certain schedules contained in Exhibit No. 3. He testified that in his opinion a fair rate of return for Company would be 8% on rate base and a range of 12-1/2% to 14% on equity with a minimum of 3 times interest coverage on debt.

A staff accountant presented Exhibit No. 9 entitled "Report on Cost of Money and Rate of Return." This witness recommended that the rate of return for Company's Southwest District be set in the range of 7.30% to 7.6%. Such a rate of return would produce earnings on common equity in the range of 11.25% to over 12.00%.

Adopted Results of Operation

A. Cost of Water

It is apparent from the record that neither the staff's method nor the Company's method of estimating the cost of purchased water will produce a result in harmony with the costs which could actually be incurred by the Company in the test year 1971. If the staff method is adopted and the Company authorized to file an offset increase--if, in fact, the price of purchased water is raised as scheduled for July 1, 1971--then and only then will the expenses reflect the actual water cost per acre-foot during the entire test year. To adopt the Company's method would not only penalize its customers for 6 months' inflated costs of water, but would put this Commission in the position of approving events which may or may not come to pass. The adopted cost of purchased water for the test year 1971 will be based upon the cost of water as of January 1, 1971. The Company should file an application for an offset increase if and when the cost of water changes.

B. Wages

On the second day of hearing, staff and Company stated that for the test year 1971 it would be agreeable to use the actual wage and benefit scales which would be placed in effect by resolution of the Board of Directors of Company meeting early in November. Late-filed Exhibit No. 10 is a certified copy of the wage and benefits package granted by the Board at its meeting held November 3, 1970. In accordance with the resolution, test year 1971 results include the company-wide composite increase of 7.5% for certain employee classifications.

A. 51857 ms

C. Other Expenses

Other expense items as estimated by the staff and adjusted for the adopted wage scales are reasonable and will be adopted.

D. Rate Base

Rate base items as estimated by the staff are reasonable and will be adopted.

The tabulation below shows the results of operation for the test year 1971 using revenues at present and proposed rates, and expenses and rate base as discussed above.

	<u>Present Rates</u> (Dollars in Thousands)	<u>Proposed Rates</u>
Operating Revenue	\$ 3,760.3	\$ 4,239.6
<u>Operating Expenses</u>		
Operation and Maintenance	1,772.5	1,772.5
Administrative and General	70.2	70.2
Taxes Other than Income	422.7	429.6
Depreciation	317.9	317.9
Allocated Common	124.3	124.3
Subtotal	<u>2,707.6</u>	<u>2,714.5</u>
Income Taxes	267.0	511.0
Total Expenses	<u>2,974.6</u>	<u>3,225.5</u>
Net Operating Revenue	785.7	1,014.1
Depreciated Rate Base	12,112.2	12,112.2
Rate of Return	6.49%	8.37%

The record shows that both Company and staff indicate an upward trend in rate of return between test years 1970 and 1971.

Taking into account the apparent trend in rate of return of 0.15% per year and the various factors used by the Company and by the staff rate of return experts in determining their recommended rates of return, we find that a rate of return of 7.30% on the adopted rate base, which will produce earnings on common equity of 11.25% (in the test year), and over a three-year period should

A. 51857 ms

produce an average rate of return of 7.45% and a return on common equity of approximately 11.75%, is reasonable.

Based on the above, Company is entitled to an increase in gross revenues of \$206,600 instead of its requested increase of \$478,700.

Service

No informal complaints related to this district have been filed with the Commission during the last two and one-half years. A field check by a staff engineer and a review of company complaint files indicate, according to the engineer, that the service rendered in this district is satisfactory. However, 50 customers appeared at the hearing and 13 testified to various problems and complaints which covered all of the items which the public wished to bring to the Commission's attention.

The testimony of these witnesses may be summarized as follows: the rates are already too high; the pressure is low; pipes are corroded by "terrible water"; the water is dirty; the water has gravel in it; and the water is very hard.

One witness presented a petition containing 100 names stating that when the distribution pipes serving their area were owned by another entity (City of Torrance) the pressure was 70 lbs. per square inch and their service was good. Now that Company owns the pipes, the pressure is between 50-60 lbs. per square inch and the service is poor. It is the Company's position that pressures of 50-60 lbs. per square inch are adequate under this Commission's General Order No. 103 and that the trouble (if any) lies in the customers' own piping.

The Company produced Exhibit No. 6 which contained the results of its investigation regarding most of the complaints

testified to on the first day of hearing. According to this exhibit, there are no grounds for the complaints. One complaint regarding low pressure was to be investigated at a later date.

The record reveals that the water supplied by Company meets the standards for potable water prescribed by the appropriate public health authorities.

Findings and Conclusion

The Commission finds that:

1. Company is in need of additional revenues but proposed rates set forth in the application are excessive.
2. The adopted estimates, previously discussed herein, of operating revenues, operating expense and rate base for the test year 1971, reasonably indicate the results of Company's operations for the future.
3. A rate of return of 7.30% on the adopted rate base for the year 1971, which should produce a rate of return of 7.45% over a three-year period, 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 to the extent set forth in the order which follows.

O R D E R

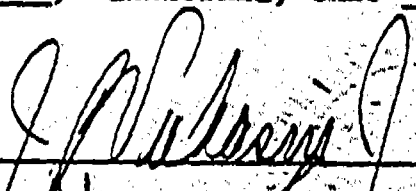
IT IS ORDERED that after the effective date of this order Southern California Water Company is authorized to file the revised rate schedule attached to this order as Appendix A, and concurrently to withdraw and cancel presently effective Schedule No. SW-9m. Such

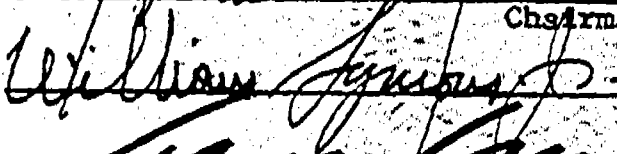
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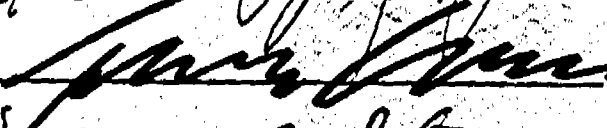
filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.

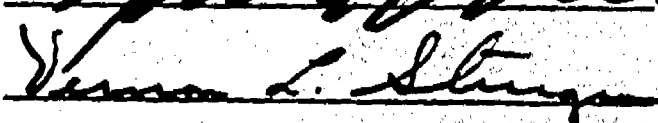
The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 5th
day of JANUARY, 1974.



Chairman






Commissioners

APPENDIX A

Schedule No. SW-1

Southwest Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

All or portions of the Cities of Carson, Compton, Gardena, Hawthorne, Inglewood and Lawndale, the communities of Athens, Lennox and Moneta, and vicinity, Los Angeles County.

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 1.85	(I)
For 3/4-inch meter	3.15	
For 1-inch meter	4.25	
For 1 1/2-inch meter	8.00	
For 2-inch meter	10.50	
For 3-inch meter	12.50	
For 4-inch meter	16.00	
For 6-inch meter	26.00	
For 8-inch meter	32.00	(I)
For 10-inch meter	64.00	(N)
Quantity Rates:		
First 10,000 cu.ft., per 100 cu.ft.	0.211	(I)
Over 10,000 cu.ft., per 100 cu.ft.171	(I)

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.