

Decision No. 78462

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
PEERLESS WATER CO. for authority to)
increase its public utility water)
rates, to issue long-term notes in)
lieu of outstanding short-term)
notes, and to reissue a long-term)
note. }

Application No. 52112
(Filed August 6, 1970)

Knapp, Gill, Hibbert and Stevens, by
Wyman C. Knapp, Attorney at Law, for
applicant.
Casimir Strelinski and Jerry J. Levander,
for the Commission staff.

O P I N I O N

By the herein considered application, applicant requests authority (1) to increase its general metered rates and (2) to issue notes in lieu of existing notes.

A public hearing on the application was held before Examiner Rogers in Los Angeles on February 1, 1971, and the matter was submitted. Prior to the hearing, notice thereof was mailed to consumers and published as required by this Commission. There were no protests.

Applicant's schedule of outstanding debt at July 1, 1970 and proposed financing is as follows:

Lender	Current Status				Proposed Financing			
	Date of Note	Date Note Due	Principal Amount	Invest Rate	Outstanding July 1, 1970	Term	Interest Rate	Amount
Sarah G. Zastrow	3/9/70	3/9/71	\$ 27,450	8%	\$ 25,450)	10 Yrs.	8½%	\$ 35,950
Sarah G. Zastrow	3/9/70	3/9/71	10,500	8%	10,500)			
J. W. Zastrow (Trustee for the estate of C.L. Zastrow)	3/9/70	3/9/71	6,070	8%	6,070)	10 Yrs.	8½%	15,570
" " "	1/10/70	1/10/71	2,500	8%	2,500)			
" " "	5/1/70	5/1/71	7,000 ^{6/}	8%	7,000)			
Total Short-Term Debt					\$ 51,520			\$ 51,520
Water Well Supply Company	7/25/69	Until Pd	\$ 17,331	8½%	\$ 15,006 ^{5/}	Until Pd	8½%	\$ 14,612 ^{5/}
Sarah G. Zastrow	5/1/63 ^{1/}	5/1/73	50,900	6%	42,150	10 Yrs.	6%	42,150
Bellake Investment Co., Inc.	^{2/} 7/14/58	Until Pd ^{3/}	49,568	-0-	17,393)	Until Pd	0%	21,965
" " " "	^{2/} 8/1/58	Until Pd ^{4/}	15,072	-0-	4,572)			
Total Long-Term Debt					\$ 79,121			\$ 78,727

Notes: Both Sarah G. and J. W. Zastrow are affiliated with the utility. Mrs. Zastrow is the principal stockholder, and J. W. Zastrow is the current president of Peerless Water Company.

Bellake Investment Co., Inc. is a corporation owned by the Zastrow family.

- 1/ Authorized by Commission Decision No. 65214.
 2/ Authorized by Commission Decision No. 59726.
 3/ Approximately 6 years at present payments at \$225 per month.

- 4/ Approximately 5 years at present payments of \$75 per month.
 5/ Difference between \$15,006 and \$14,612 is due to current payments of \$500 per month.
 6/ Authorized by Commission Decision No. 65214.

The staff objected to the rewriting of the non-interest bearing Belllake notes at 6 percent interest. The applicant agreed that the Belllake notes should remain non-interest bearing. With such modification the staff agreed to the financing proposal.

The histories of the original issuances of the indebtednesses are set out in the decisions referred to in the footnotes to the preceding table. We find that the application for authority to issue notes in lieu of existing notes should be granted; that the money, property or labor to be procured or paid for by the notes herein authorized is reasonably required for the purposes specified herein; and that such purposes are not reasonably chargeable to operating expenses or to income.

Results of Operation

Due to the fact that the City of Bellflower levies a franchise tax of approximately \$1,300 per year on mains in its streets, there is a differential in rates for Bellflower services and other areas served. Applicant serves a total of approximately 1,970 customers.

The present and proposed rates in both areas are as follows:

Bellflower Tariff Area

		<u>Present Rates</u>	<u>Per Meter Per Month</u>
Quantity Rates:			
First	500 cu.ft. or less		\$ 2.01
Next	1,000 cu.ft., per 100 cu.ft. . . . .		.27
Next	3,500 cu.ft., per 100 cu.ft. . . . .		.22
Next	5,000 cu.ft., per 100 cu.ft. . . . .		.17
Over	10,000 cu.ft., per 100 cu.ft. . . . .		.13

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 2.01
For	3/4-inch meter	2.66
For	1-inch meter	4.16
For	1½-inch meter	6.16
For	2-inch meter	10.16
For	3-inch meter	20.16

		<u>Proposed Rates</u>	<u>Per Meter Per Month</u>
Quantity Rates:			
First	500 cu.ft. or less	\$ 2.55	
Next	2,500 cu.ft., per 100 cu.ft. . . . .	.34
Next	7,000 cu.ft., per 100 cu.ft. . . . .	.25
Over	10,000 cu.ft., per 100 cu.ft. . . . .	.20

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 2.55
For	3/4-inch meter	3.45
For	1-inch meter	5.30
For	1½-inch meter	7.80
For	2-inch meter	12.85
For	2½-inch meter	18.40
For	3-inch meter	25.55
For	4-inch meter	43.45

Lakewood-Paramount Tariff Area

		<u>Present Rates</u>	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:			
First	500 cu.ft. or less		\$ 1.95
Next	1,000 cu.ft., per 100 cu.ft. . . . .		.27
Next	3,500 cu.ft., per 100 cu.ft. . . . .		.22
Next	5,000 cu.ft., per 100 cu.ft. . . . .		.17
Over	10,000 cu.ft., per 100 cu.ft. . . . .		.13

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 1.95
For 3/4-inch meter	2.60
For 1-inch meter	4.10
For 1½-inch meter	6.10
For 2-inch meter	10.10
For 3-inch meter	20.10

		<u>Proposed Rates</u>	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:			
First	500 cu.ft. or less		\$ 2.45
Next	2,500 cu.ft., per 100 cu.ft. . . . .		.34
Next	7,000 cu.ft., per 100 cu.ft. . . . .		.25
Over	10,000 cu.ft., per 100 cu.ft. . . . .		.20

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 2.45
For 3/4-inch meter	3.35
For 1-inch meter	5.20
For 1½-inch meter	7.70
For 2-inch meter	12.75
For 2½-inch meter	18.30
For 3-inch meter	25.45
For 4-inch meter	43.35

In each instance the minimum charge will entitle the customer to the quantity of water which that minimum charge will purchase at the quantity rates.

Applicant has fire hydrants for which it has a tariff rate of \$1.50 per month. The revenues from the hydrants amounted to approximately \$1,500 in 1969. Applicant does not propose to increase such rate.

The applicant estimated that in 1970 at present rates it would have a rate of return of 0.54 percent and at proposed rates a rate of return of 8.5 percent. The staff estimated that in 1970 at present rates the applicant would have a rate of return of 2.57 percent and at the proposed rates 10.11 percent.

Comparisons of the applicant's and the staff's estimates of results of operation at present and proposed rates are as follows:

Summary of Earnings
(Year 1970 Estimated)

Item	1970 Estimated		Applicant Exceeds Staff	
	Applicant	Staff	Amount	Percent
<u>Present Rates</u>				
Operating Revenues	\$ 115,997	\$116,000	\$ (3)	-
<u>Deductions</u>				
Operating Expenses	85,682	81,000	4,682	5.8
Depreciation Expenses	16,609	15,000	1,609	10.7
Taxes Other than Income	11,951	11,900	51	0.4
Income Taxes	100	100	-	-
Total Revenue Deduction	114,342	108,000	6,342	5.9
Net Operating Income	1,655	8,000	(6,345)	(79.3)
Avg. Depreciated Rate Base	307,800	311,500	3,700	(1.2)
Rate of Return	0.54%	2.57%	(2.03%)	
<u>Proposed Rates</u>				
Operating Revenues	149,058	150,900	(1,842)	(1.2)
<u>Deductions</u>				
Operating Expenses	85,775	81,000	4,775	5.9
Depreciation Expenses	16,609	15,000	1,609	10.7
Taxes Other than Income	11,951	11,900	51	0.4
Income Taxes	8,560	11,500	(2,940)	(25.6)
Total Revenue Deduction	122,895	119,400	3,495	2.9
Net Operating Income	26,164	31,500	(5,337)	(16.9)
Avg. Depreciated Rate Base	307,800	311,500	(3,700)	(1.2)
Rate of Return	8.5%	10.11%	(1.61%)	-

(Negative)

The staff recommends a rate of return of 7 1/2 percent as fair and states that this return will give a return on common equity of approximately 8.8 percent.

The applicant requests a return of 8.5 percent. It says this rate of return may be less than fully compensatory, since borrowed funds, if available from conventional sources, would probably cost the company in excess of $10\frac{1}{2}$ percent based on the current prime rate of 8 percent. In Exhibit No. 8, applicant's engineer estimated that an 8.5 percent rate of return would give a rate of return of 10.3 percent on common equity.

Revenues

The applicant and the staff agreed on the revenues at existing rates. They also agreed on the revenues at the proposed rates with the exception that applicant inadvertently failed to consider the public fire protection revenues and miscellaneous revenues. We find that revenues at present rates for the estimated year 1970 was \$116,000, and at proposed rates would have been \$150,900.

1/We can take official notice of the fact that the cost of money has been declining in the past year and that applicant is getting money at 8 and $8\frac{1}{2}$ percent plus two loans with no cost of interest.

Operating Expenses

The following table shows the differences between the applicant's and the staff's estimates of operating expenses for 1970.

:Ac.:	:No.:	Classification	1970 Estimated			
			Applicant	Staff	Exceeds Staff Amount	Percent
	701	Source of Supply	\$ 2,930	\$ 2,830	\$ 100	3.5
	704	Purchased Water	8,960	8,960	-	-
	721	Operation, Supervision & Labor	6,100	5,400	700	13.0
	726	Purchased Power	7,620	7,620	-	-
	729	Maintenance of Structure & Equipment	5,150	4,980	170	3.4
	741	Water Treatment	1,287	1,290	(3)	(0.2)
	751	Transmission & Distribution	1,700	1,650	50	3.0
	758	Maintenance of Structures & Plants	12,280	12,415	(135)	(1.1)
	771	Customer Accounts	13,200	13,100	100	0.8
	775	Uncollectible Accounts	325	325	-	-
	781	Sales	100	100	-	-
	791	Admin. & General Salaries	15,000	13,500	1,500	11.1
	792	Office Supplies	3,760	3,640	120	3.3
	793	Insurance	1,440	1,440	-	-
	797	Regulatory Commission Exp.	2,700	1,620	1,080	66.7
	798	Miscellaneous General	1,910	1,910	-	-
	805	Maintenance of General Plant	420	420	-	-
	811	Rents	1,800	1,800	-	-
	812	Expenses Capitalized	(1,000)	(2,000)	1,000	(50.0)
		Total Operating Expense	85,682	81,000	4,682	5.8

(Negative)

The staff engineering witness testified that the principal difference in the figures, with the exception of regulatory Commission expense, is due to the fact that the staff estimated that 2-1/2 men would be sufficient for field labor with a company of this size. The staff capitalized \$1,000 of this expense. We find that the staff's estimate of operating expenses is correct with the exception of the item of regulatory Commission expense (Account No. 797). The applicant estimated \$8,000 for this item and amortized it over a period of three years while the staff used a period of five years. We agree with the applicant on this item. For the purposes of this application, we find that operating expenses for the year 1970 will amount to \$82,080.

Depreciation Expense

The applicant's estimate of depreciation expense exceeds that of the staff by \$1,609. The applicant presented a study (Exhibit No. 7) which convinces us that the applicant's estimate of depreciation expense should be used. We find that depreciation expense for the year 1970 will be \$16,609.

Non-Income Taxes

Inasmuch as we have accepted the staff's estimate of operating expenses except for regulatory expenses, we will adopt its estimate of payroll taxes. The staff determined the actual ad valorem taxes for 1970 while the applicant estimated such taxes. We will adopt the staff's figure of \$11,900 for taxes other than on income for the purposes of this decision.

Income Taxes

On the record herein, we find that the income taxes for the year 1970 will be \$100 at present rates and \$9,708 at proposed rates. These income taxes consider interest expense totaling \$8,150 as payment of interest at the rates authorized by this decision. The applicant charged interest at the rates authorized at the time this application was filed.

Rate Base

Applicant's 1970 average utility plant, plus \$1,000 of capitalized expenses, totals \$488,805, which we find reasonable. We find that the applicant's estimates of depreciation accruals and depreciation reserve are correct. Both parties agree on materials and supplies. Working cash is an estimate. We find that \$16,300 will be reasonable in consideration of the operating expenses we have adopted herein. We find that applicant's rate base will be \$308,148, which will include \$1,000 for materials and supplies and \$16,300 for working cash.

We find that applicant's results of operations for the estimated year 1970 at present and proposed rates will be as follows:

Adopted Summary of Earnings for 1970
at Present and Proposed Rates

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Revenues	\$116,000	\$150,900
Expenses	82,080	82,080
Depreciation	16,609	16,609
Non-Income Taxes	11,900	11,900
Income Taxes	100	10,008
Total Revenue Deductions	<u>\$110,689</u>	<u>\$120,697</u>
Net Income	\$ 5,311	\$ 30,203
Rate Base	308,148	308,148
Rate of Return	1.72%	9.80%

Rate of Return

The applicant requested a rate of return of 8.5 percent on its adjusted rate base of \$307,800. The reason given by applicant was that borrowed money will probably cost it over 10 percent. We will take official notice of the fact that the cost of money has declined since the applicant's study was prepared in July, 1970, and the applicant failed to consider the lowered cost of money at which it will be able to borrow any needed funds.

The staff recommends a 7.5 percent rate of return. In our opinion such a rate of return is reasonable. This will enable applicant to realize a return on common equity at approximately 8.8 percent. At the 7.5 percent rate of return recommended herein, the applicant will have net operating revenues of \$23,100 an increase of \$17,900 over its present net income, and gross revenues of \$139,400 an increase of \$23,400 over its present gross income.

We find that a rate of return of 7.5 percent on applicant's herein adopted rate base of \$308,148 is reasonable for the future. Said rate of return will be adequate to service the anticipated fixed capital and provide a return on equity in the range of 8.8 percent.

Rate Differential

The applicant now has only two rates. One is applicable to service in the City of Bellflower which assesses applicant a franchise tax of approximately \$1,300 per year. All other areas served by applicant are not subject to this tax. The existing rates in Bellflower are six cents higher for each rate step at present. Applicant proposes to increase this to 10 cents. The staff opposes this four-cent increase in the differential. We agree and will leave the six-cent differential in effect.

Findings

We find that:

1. Applicant is a public utility water corporation under the jurisdiction of this Commission furnishing water to a total of approximately 1,970 metered consumers and 84 fire hydrants. Applicant is requesting authority to increase the metered rates only. Fire hydrant service charges (\$1.50 each per month) are to remain as at present.
2. Approximately 1,770 of the metered customers are in the City of Bellflower, which levies a franchise tax for the facilities in the city streets. This tax totals approximately \$1,300 per year. At present, each of the approximately 1,770 customers in Bellflower pays six cents more for water in each rate bracket than the 200 customers in the balance of the service area. This differential now repays applicant approximately \$1,280 of its \$1,300 per year franchise fee. Applicant proposes to increase the rate differential to 10 cents in each rate bracket for a total rate differential of approximately \$2,130. We find that this proposed differential is unwarranted

and unnecessary and that the existing six-cent differential should be continued.

3. Revenues for 1970, as adjusted, were \$116,000 at present rates and would be \$150,900 at applicant's proposed rates.

4. Operating expenses will be \$82,080 for the year 1970.

5. Depreciation expenses will be \$16,609 for 1970.

6. Taxes other than income will be \$11,900 for the year 1970.

7. Income taxes will be \$100 at the present rates and \$10,108 at the proposed rates.

8. Net revenues for the year 1970 will be \$5,311 at the present rates and \$30,203 at the proposed rates.

9. Applicant's average adjusted rate base for the year 1970 is \$308,148.

10. Based on the above findings applicant's rate of return for the year 1970 will be 1.72 percent at the present rates and 9.80 percent at the proposed rates.

11. The rate of return applicant is receiving at the present rates is deficient and applicant is in need of financial relief. The estimated rate of return of 9.80 percent which would be produced by the rates proposed by the applicant is excessive.

12. Filings of new schedules of rates for general metered service should be authorized. The rate schedules should maintain a differential of six cents higher for each minimum rate block for the City of Bellflower customers than the remaining area customers. The order which follows will allow the filing of new schedules of rates which will produce gross annual operating revenues of \$139,400, an increase of \$23,400, or 20.2 percent over the gross annual revenues

produced at the existing rates. This increase is \$11,500 less than the increase at proposed rates. When the authorized rates are related to the rate base of \$308,148, which is just and reasonable, after deducting operating expenses, depreciation and taxes, a rate of return of 7.5 percent will result. We find such rate of return to be reasonable. The present rates insofar as they differ from those authorized herein are, for the future, unjust and unreasonable.

13. The application for authority to issue the increases of indebtedness referred to herein should be granted. The money, property or labor to be procured or paid for by the issue of the notes herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

We conclude that the application should be granted to the extent set forth herein.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Peerless Water Company, Inc., is authorized to file the revised rate schedules attached to this order as Appendix A, and concurrently cancel its present Schedule No. B-1, Bellflower Tariff Area, and Schedule No. LP-1, Lakewood-Paramount Tariff Area. Such filings shall comply with General Order No. 96-A. The effective date of the new and revised tariff sheets shall be four days after filing. The new and revised tariff sheets shall apply only to service rendered on and after the effective date hereof.

2. Peerless Water Company, on and after the effective date hereof, may issue to:

- a. Sarah G. Zastrow, a promissory note in the principal sum of \$35,950 due 10 years after date and bearing interest at the rate of 8-1/2 percent per annum on the unpaid balance, interest to be paid semi-annually in the form set out as Exhibit "A" attached to the application. Said note is in satisfaction of and to cancel out the remaining obligations listed on page 1 of Exhibit "B" on the application herein.
- b. J. W. Zastrow, Trustee under the will of C. L. Zastrow, deceased, a promissory note in the principal sum of \$15,570, due 10 years after date and bearing interest at the rate of 8-1/2 percent per annum on the unpaid balance, interest to be paid semi-annually in the form set out as Exhibit "C" attached to the application, said note to be in satisfaction of and to cancel out the obligations listed on page 2 of Exhibit "B" on the application herein.
- c. Water Well Supply Company, a promissory note in the principal sum of not to exceed \$13,000 payable at the rate of \$500 or more per month, with interest at the rate of 8-1/2 percent per annum on the unpaid balance, in the form set out as Exhibit "D" attached to the application, said note to be in satisfaction of and to cancel out the remaining obligations to Water Well Supply Company listed on page 3 of Exhibit "B" on the application herein.
- d. Sarah G. Zastrow, a promissory note in the principal sum of \$42,150 payable in 10 years after date, with interest at the rate of 6 percent per annum on the unpaid balance, in the form approved in Decision No. 65214, dated April 16, 1963, in Application No. 45271, said note to be in satisfaction of and to cancel out the obligation to Sarah G. Zastrow exemplified by the authority granted to applicant by Decision No. 65214.

- e. Bellake Investment Co., Inc., a non-interest bearing promissory note in the principal sum of \$21,965.15, payable at the rate of \$300 per month, without interest, in the form set out as Exhibit "E" attached to the application, minus the provision for interest, said note to be in satisfaction of and to cancel out the remaining obligations under the contracts reflected by Decision No. 59726, dated February 29, 1960, in Application No. 41148.

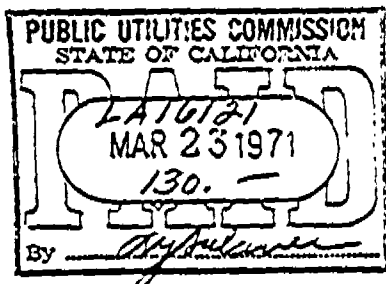
3. Peerless Water Company, Inc., shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is made a part of this order.

The authority herein granted to issue notes will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$130. In other respects the effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 23rd day of MARCH, 1971.

[Signature]
Chairman

[Signature]
Commissioners



Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Schedule No. B-1

Bellflower Tariff Area

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

(T)

TERRITORY

Within portions of the City of Bellflower and vicinity,
Los Angeles County.

RATES

Quantity Rates:	Per Meter Per Month	
First 500 cu. ft. or less	\$ 2.49	(I)
Next 2,500 cu. ft., per 100 cu. ft. . . . .	.30	|
Next 7,000 cu. ft., per 100 cu. ft. . . . .	.24	|
Over 10,000 cu. ft., per 100 cu. ft. . . . .	.16	(I)
 Minimum Charge:		
For 5/8 x 3/4-inch meter	2.49	(I)
For 3/4-inch meter	3.26	|
For 1-inch meter	5.06	|
For 1 1/2-inch meter	7.46	|
For 2-inch meter	12.26	|
For 2 1/2-inch meter	18.06	|
For 3-inch meter	24.31	|
For 4-inch meter	43.21	(I)

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

Schedule No. LP-1

Lakewood - Paramount Tariff Area

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

(T)

TERRITORY

Within portions of the Cities of Lakewood and Paramount, and vicinity, Los Angeles County.

RATES

Quantity Rates:	<u>Per Meter Per Month</u>	
First 500 cu.ft. or less	\$ 2.43	(I)
Next 2,500 cu.ft., per 100 cu.ft. . . . .	.30	|
Next 7,000 cu.ft., per 100 cu.ft. . . . .	.24	|
Over 10,000 cu.ft., per 100 cu.ft. . . . .	.16	(I)
Minimum Charge:		
For 5/8 x 3/4-inch meter	2.43	(I)
For 3/4-inch meter	3.20	|
For 1-inch meter	5.00	|
For 1 1/2-inch meter	7.40	|
For 2-inch meter	12.20	|
For 2 1/2-inch meter	18.00	|
For 3-inch meter	24.25	|
For 4-inch meter	43.15	(I)

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