NB

Decision No. 78770

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of PARK WATER COMPANY, a California corporation, for authorization to increase its rates charged for water service.

Application No. 52118
(Filed August 10, 1970)

Chris S. Rellas, Attorney at Law, for applicant.
Alexander Googooian, Attorney at Law, for City of Bellflower, and Charles W. Thompson, Attorney at Law, for City of Downey, protestants.
Elinore C. Morgan, Attorney at Law, for the Commission staff.

OPINION

By this application, Park Water Company (Company) requests authority to establish rates in its 17 service areas which are designed to increase annual revenues in the year 1971 estimated by $897,600, or 38.68 percent, over the general metered and private fire protection service rates now in effect.

Public hearing was held before Examiner Gillanders in Los Angeles January 12 and 13, 1971, and the matter submitted upon receipt of late-filed Exhibits Nos. 4A and 5 and Company's written closing argument on February 8, 1971. Copies of the application had been served and notice of hearing had been published, posted, and mailed in accordance with this Commission's rules of procedure.

Testimony on behalf of Company was presented by two of its vice presidents, its consulting engineer and its consulting accountant. The Commission staff presentation was made by one accountant and one engineer. Twenty customers attended the hearing of whom 17 testified as to various service complaints.

Service Areas and Water Systems

Company operations are grouped into 17 service areas identified by geographic location. These locations are in rather widely separated parts of southeastern Los Angeles County and one area, identified as the Chino Service Area, is located in San Bernardino County. Each service area is served by one or more separate water systems as shown in the following table:

Service Area	Number of Separate Systems
Baldwin Park	1
Bell Gardens	1
Chino	1
Downey-Bellflower	1
East Bell Gardens	1
East Compton	2
Gardens	1
Hawaiian Gardens	1
La Mirada	1
Montebello	1
North Downey-Pico Rivera	1
Norwalk	1
Paramount	3
South Compton	1
South Gate	1
West Compton	4
West Downey	2

Water supply for the 17 service areas is provided primarily from 83 wells and five MWD connections. The wells range from 10 to 24-inch diameter and are equipped with deep well turbine pumps driven by electric motors, ranging in size from 10 to 150 hp, and one gas engine unit.

Distribution mains range in size from 2 to 20-inch diameter and total 387 miles in length.

The Company has four 500,000-gallon ground level storage tanks and a 2,000,000-gallon concrete reservoir in service.

In several service areas it is necessary to add polyphosphates and chlorine to well water containing excessive amounts of iron and manganese. Treatment is applied by hypochlorinators.

The service areas are generally flat and consequently have little difference in static pressure. Pump controls, actuated by pressure switches, operate to maintain a minimum of 50 psi at the plant.

The main office of the Company located at 4206 East Rosecrans Avenue, Compton, serves as the headquarters for the administrative, engineering, accounting, billing, and collections personnel.

The garage, storehouse, meter shop, storage and parking yard, and other general plant facilities were located at 6833 East Rosecrans Avenue in Paramount. This location was headquarters for the superintendent, radio operator and foreman. Construction and service crews were dispatched from this location.

In 1970 the Company constructed a new administrative, commercial, and operating headquarters located at 9750 Washburn Road, in the City of Downey. Applicant's construction and operating facilities were moved to this address in January 1971 and all of its commercial and administrative functions will be moved to the new general headquarters early in the year 1971.

Ownership and Affiliated Interests

The Company was incorporated December 15, 1937. All of its common stock has been issued and is currently held by five stockholders who are H. H. Wheeler, V. E. Wheeler, H. H. Wheeler, Jr., F. A. Richardson, and Title Insurance and Trust Company, trustee under the will of Helen May Wheeler. The principal officers are as follows:

H. H. Wheeler, President and Director
H. H. Wheeler, Jr., Vice President and Director
V. E. Wheeler, Treasurer and Director
J. F. McLaughlin, Assistant Secretary
William S. Cook, Vice President and General Manager.

Mr. H. H. Wheeler, Jr., owns all of the stock of San Bernardino Water Utilities Corporation and is a principal stockholder in Vandenberg Utilities Company, both of which are public utility water corporations under the jurisdiction of this Commission.

Rates

Present rates are comprised of rates for General Metered Service, General Flat Rate Service, Temporary Flat Rate Service, Public Fire Protection and Private Fire Protection. It is proposed by Company that the deficiency in income be met by increasing rates of General Metered Service, General Flat Rate Service and Private Fire Protection. The surcharge applicable to customers in the City of Norwalk to recover the business license charge will be continued.

A comparison of bills computed under present and proposed General Metered Rates for 5/8-inch meters follows:

Usage	Bills for Usage, Dollars		Increase	
Ccf	Present	Proposed	Dollars	Percent
0	1.80	2.25	0.45	25.00%
5	1.80	2.25	0.45	25.00
6	1.80	2.25	0.45	25.00
7	1.80	2.25	0.45	25.00
8	1.80	2.50	0.70	38.89
9	1.98	2.75	0.77	38.89
10	2.16	3.00	0.84	38.89
11	2.34	3.25	0.91	38.89
12	2.52	3.50	0.98	38.89
13	2.70	3.75	1.05	38.89
14	2.88	4.00	1.12	38.89
15	3.06	4.25	1.19	38.89
16	3.24	4.50	1.26	38.89
17	3.42	4.75	1.33	38.89
18	3.60	5.00	1.40	38.89
19	3.78	5.25	1.47	38.89
20	3.96	5.50	1.54	38.89
25	4.86	6.75	1.89	38.89
30	5.76	8.00	2.24	38.89
35	6.66	9.25	2.59	38.89
40	7.56	10.50	2.94	38.89
45	8.46	11.75	3.29	38.89
50	9.36	13.00	3.64	38.89
60	10.66	14.87	4.21	39.49
70	11.96	16.67	4.71	39.38
80	13.26	18.47	5.21	39.29
90	14.56	20.27	5.71	39.22
100	15.86	22.07	6.21	39.16
200	28.86	40.07	11.21	38.84
300	41.86	58.07	16.21	38.72
400	54.86	76.07	21.21	38.66
500	67.86	94.07	26.21	38.62
600	80.86	112.07	31.21	38.60
700	93.86	130.07	36.21	38.58
800	106.86	148.07	41.21	38.56
900	119.86	166.07	46.21	38.55
1,000	132.86	184.07	51.21	38.54
2,500	297.86	424.09	126.23	42.38
5,000	572.86	824.09	251.23	43.86
7,500	847.86	1,224.09	376.23	44.37
10,000	1,122.86	1,624.09	501.23	44.64

Position of Protestants

Protestant City of Downey requested that the Commission thoroughly review and investigate Park Water Company systems. If any increase is granted Downey wants the increase used to make the systems reliable and to have adequate storage of 10,000,000 gallons.

Protestant City of Bellflower believes the requested rate of return is unreasonable and that the requested rates are exorbitant. The City of Bellflower also believes that the ratepayers should not finance Company's new headquarters building as it is an imprudent investment. The City also requests improved service throughout the entire system.

Results of Operation

Witnesses for Company and the Commission staff analyzed and estimated Company's operational results. Summarized in the table below, from Company's Exhibit No. 1 and staff's Exhibit No. 3, are the estimated results of operation for the test years 1970 and 1971, under present rates and under those proposed by Company.

Summary of Earnings

ITEM	Staff Estimated 1970	Staff Estimated 1971	Applicant Estimated 1971	Applicant Estimate Exceeds Staff: Amount	Applicant Estimate Exceeds Staff: Percent
Present Rates					
Operating Revenues	$2,333,000	$2,378,700	$2,320,525	$ (58,175)	(2.4)%
Deductions					
Operating & Maint. Exp.	1,524,000	1,624,300	1,676,740	52,440	3.2
Depreciation Expense	179,600	190,500	190,550	50	-
Taxes other than Income	244,500	252,300	250,550	(1,750)	(0.7)
Taxes Based on Income	7,600	100	100	-	-
Total Deductions	1,955,700	2,067,200	2,117,940	50,740	2.5
Net Revenue	377,300	311,500	202,585	(108,915)	(35.0)
Avg.Depreciated Rate Base	6,927,100	7,033,700	7,162,300	128,600	1.8
Rate of Return	5.45%	4.45%	2.83%	(1.62)%	-

(Red Figure)

ITEM	Staff Estimated 1970	Staff Estimated 1971	Applicant Estimated 1971	Applicant Estimate Exceeds Staff: Amount	Applicant Estimate Exceeds Staff: Percent
Proposed Rates					
Operating Revenues	3,219,400	3,298,800	3,218,125	(80,675)	(2.4)
Deductions					
Operating & Maint. Exp.	1,524,000	1,624,300	1,684,540	60,240	3.7
Depreciation Expense	179,600	190,500	190,550	50	-
Taxes other than Income	245,500	256,300	250,550	(5,750)	(2.2)
Taxes Based on Income	464,900	435,700	364,500	(71,200)	(16.3)
Total Deductions	2,414,000	2,506,800	2,490,140	(16,660)	(0.7)
Net Revenue	805,400	792,000	727,985	(64,015)	(8.1)
Avg.Depreciated Rate Base	6,927,100	7,033,700	7,162,300	128,600	1.8
Rate of Return	11.63%	11.26%	10.16%	(1.10)%	-

(Red Figure)

Rate of Return

According to Company, the summary of earnings it developed in Chapter 11 of Exhibit 1 demonstrates clearly that there is a deficiency in earnings under the Company's present rates and that earnings will continue to deteriorate unless rates are promptly increased. Among the factors causing attrition of earnings are the rapidly rising costs of labor, materials, and fixed charges on capital additions and replacements made at unit costs which are continually increasing.

The revenue requirements for the future have been determined by Company after giving consideration to the many factors which are determinative of a reasonable rate of return. Primary among these factors is the cost of money. The Company must be able to demonstrate the presence of adequate earnings in order to obtain the necessary financing for improvements in its system. The Company contends that it must be recognized that the cost of obtaining funds necessary for capital investment has risen dramatically within the last few years. Rates of return on rate base must now be appreciably higher than those which were adequate in the past if the utility is to adequately cover the cost of borrowed money plus a reasonable return to the equity investor. The rates proposed by Company have, for these reasons, been designed to produce (1) a return on rate base of 10.2 percent, (2) return on common stock equity of 11 percent, and (3) earnings after income taxes of 2.10 times fixed charges.

At December 31, 1969, the Company had long-term debt of $1,150,000 at an interest rate of 3.38 percent and $350,000 at an interest rate of 9.25 percent.

To obtain additional long-term financing to complete its committed capital improvement program, Company claims it will have to refund its entire present long- and short-term debt and replace and supplement it with new long-term debt. The long-term debt at

December 31, 1970 is estimated at $4,210,000 and the estimated effective interest rate on this debt will be 9.41 percent. These data were used in this proceeding by Company to establish the cost of money and the claimed rate of return required by the Company.

According to the staff's accounting witness, the determination of a reasonable rate of return for Company in this proceeding necessarily involves a certain amount of judgment due to the inclusion of an allowance for common equity. This range of allowance is based, in part, on the following considerations:

a. Company's current need for construction funds at relatively high rates.

b. Refunding of low cost debt as a prerequisite for additional funds.

c. Substantial cushion of equity capital.

d. Maintenance of credit standing to effect short-term seasonal borrowings.

e. Extreme high cost of money.

Based on his studies and judgment, the staff financial witness recommended Company be granted a rate of return in the range of 8.80 to 9.10 percent on the staff rate base of $7,033,700 for the test year 1971. Such returns on rate base would produce a return on common stock equity of more than 8.0 percent but less than 9.47 percent.

The staff financial witness testified that even his highest recommended rate of return (9.1 percent) would result in a negative leverage for the common equity.

The effect of negative leverage according to Company is that common equity then subsidizes the ratepayer to the extent that revenues are insufficient to produce a dollar return on equity at least equal to the interest cost on debt.

Company claims that the staff's proposal for lower return on equity than cost of debt is contrary to every basic principal of financial analysis. Since debt is a lower risk investment than equity capital, it universally commands a lower cost than equity. Unless a proper return for common equity is permitted, Company will experience difficulty in future borrowing or marketing of equity securities without diluting present shares.

Adopted Results of Operation

A. Operating Revenues

The following tabulation shows the differences between Company and staff estimates for 1971 test year operating revenues at proposed rates:

Item	Staff Estimated 1970	Staff Estimated 1971	Applicant Estimated 1971	Applicant Estimate Exceeds Staff Amount	Applicant Estimate Exceeds Staff Percent
Metered Revenues					
Commercial	$2,818,900	$2,882,000	$2,845,700[1]	$(36,300)	(1.3)
Industrial	158,800	158,800	167,800	9,000	5.7
Public Authority	128,900	141,900	108,800	(33,100)	(23.3)
Sales for Resale	19,900	20,300	-	(20,300)	-
Other Sales	1,100	1,100	1,100	-	-
Total Metered Revenues	3,127,600	3,204,100	3,123,400	(80,700)	(2.5)
Total Flat Rate Revenues	91,800	94,700	94,725	25	-
Total Operating Revenues	3,219,400	3,298,800	3,218,125	(80,675)	(2.4)

(Red Figure)

1 Includes resale customer revenue separately analyzed by the staff.

The basis of the staff's estimates of operating revenues where the staff differs from applicant was explained as follows:

1. Annualized 1970 Rate Increase. In calculating present rate revenues the staff applied on a full year basis the increase in rates which became effective on July 1, 1970, whereas applicant used rates in effect prior to July 1, 1970 to compute first-half year revenues and used the increased rates which became effective July 1, 1970 to compute last-half year revenues.

2. Public Authority Revenues. The staff has included the Martin Luther King Hospital for both estimated years. Applicant added this customer as of July 1, 1970. A single customer with estimated annual revenue of $8,000 is not normal customer growth and if not included in full, in both test periods, would distort revenue change between the two estimated years.

3. Sales for Resale. The staff has identified the two public utility water companies who purchase water for resale and has separated these customers from the metered commercial customer account. These customers are increasing their purchases from applicant at a rate greater than any other customer category now served.

The staff's method of estimating test year revenues gives a more precise estimate of future revenues than does Company's estimate and therefore will be adopted.

B. Operating Expenses.

Operating expenses for the test year 1971 were developed by the staff after a review of 1969 recorded operating expenses as adjusted for accounting purposes and as adjusted for customer growth, average water sales, wage schedules adopted by applicant for 1970, water purchases, and water replenishment assessments. Cost of purchased water and the replenishment district assessments for both estimated years are based on rates in effect July 1, 1970.

Company based its cost of purchased water at the price it estimated would be in effect for the second half of each calendar year. The adopted cost of purchased water will be the cost effective from July 1, 1971 through June 30, 1972.

As shown in the tabulation below, the staff differs from Company's estimate on individual items of operating expenses but it does not appreciably differ from Company's overall estimates for 1971. The staff has reduced water treatment expenses by $5,000 on the basis that the requirement for reporting detailed chemical analysis of water supplies should be discontinued.

Operating Expenses

Item	Staff Estimated 1971	Company Estimated 1971	Company Estimate Exceeds Staff Amount	Company Estimate Exceeds Staff Percent
Source of Supply	$ 597,500	614,850	$17,350	2.9
Pumping Expenses	220,900	221,910	1,010	0.5
Water Treatment Expenses	45,000	50,970	5,970	13.3
Trans. and Distribution Expenses ..	248,800	261,240	12,440	5.0
Customer Acct. Expenses.............	280,200	280,480	280	0.1
Admin. and General Expenses.........	231,900	247,290	15,390	6.6
Total	1,624,300	1,676,740	52,440	3.2

(Red Figure)

The staff's estimates are reasonable and will be adopted.

C. Rate Base

As shown in the tabulation below, there is little difference between Company's and staff's estimate of the 1971 test year rate base.

Item	1971 Estimated Staff	1971 Estimated Company	Company Estimate Exceeds Staff Amount	Company Estimate Exceeds Staff Percent
Average Utility Plant	$13,327,600	$13,415,521	$ 87,921	0.7
CWIP	6,000	7,000	1,000	16.7
Materials and Supplies	82,800	80,000	(2,800)	(3.4)
Working Cash	300,000	329,500	29,500	9.8
Subtotal	13,716,400	13,832,021	115,621	0.8
Less Deductions				
Avg. Reserve for Depreciation	3,450,300	3,440,034	(10,266)	(0.3)
Avg. Advance for Construction	615,500	615,536	36	0.0
Avg. Contrib. in Aid of Construction	2,616,900	2,614,113	(2,787)	(0.1)
Avg. Depreciated Rate Base	7,033,700	7,162,338	128,638	1.8

(Red Figure)

The staff included $300,000 and the Company included $329,500 in rate base as an allowance for working cash on the basis that Company's investors should be compensated for monies which they have supplied, over and above the investment in tangible and intangible property, in order to enable the utility to operate economically and efficiently.

D. Rate of Return

By Decision No. 77828, dated October 14, 1970, in Application No. 52111, applicant was authorized to issue not exceeding $3,000,000 aggregate principal amount of its notes.

The decision stated:

> "The utility proposes to borrow not exceeding $3,000,000 from Pacific Mutual Life Insurance Company and The Lincoln National Life Insurance Company. The indebtedness is to be represented by notes bearing a May 1, 1990 due date, the interest rate to be 9-1/2 percent per annum with respect to $1,100,000 and 9-3/4 percent per annum for the remainder. The notes will be subject to a restricted prepayment provision until May 1, 1980, and will be issued substantially in accordance with the terms of a Loan Agreement. Among other things, the Loan Agreement will provide for a Mortgage and Security Agreement to secure the loan, Supplemental Mortgages pertaining to after-acquired property, and additional Supplemental Mortgages.
>
> "Out of the loan proceeds the utility will use $1,100,000 to refinance the $1,100,000 balance outstanding on 3-3/8 percent notes due March 1, 1976 in favor of said insurance companies and authorized by Decision No. 45673, dated May 8, 1951, in Application No. 32254. In order to meet its financial needs and to solve its cash flow problems, applicant proposes to use the $1,900,000 balance of the loan proceeds to repay $1,180,000 bank borrowings for temporary financing of a substantial portion of said improvement program and other capital expenditures, of which the amount of $650,000 was authorized by Decision No. 75120, dated December 20, 1968, in Application No. 50717, and to pay for permanent additions and betterments to its plant facilities amounting to $720,000."

The rate of return on capital originally computed by the Company is developed in the table shown below:

Park Water Company
Pro Forma Capitalization
December 31, 1970

Item	Capital Amount	Capital Ratios	Cost Factor	Rate of Return Components
Long-term debt	$4,210,000	51.3%	9.49%	4.87%
Common equity	3,994,600	48.7	11.00	5.36
Total	8,204,600	100.0		10.23
			USE	10.2

Exhibit 7 develops the receipt and disbursement of loan proceeds for the 5-year period 1968-1972. The end result of these transactions according to Company is the addition of $150,000 to working cash.

The sale of yard and shop facilities will add about $153,700 to the working cash ($225,000 gross proceeds less income taxes, etc.). The sum of these two cash inflow items is $303,700. The working cash requirement of the Company (page 54, Exhibit 1) is about $330,000.

According to Company's closing argument the net proceeds from the sale of property becomes equity capital of the Company and may be paid out as a dividend or added to the working cash. Pro forma capitalization at December 31, 1971, adjusted for the use made of the proceeds from the sale of land, is illustrated by Company in the following table.

Pro Forma Capitalization Adjusted
For Land Sale Proceeds, December 31, 1971

Item	Capital Amount	Capital Ratios	Cost Factor	Rate of Return Components
Long-term debt	$4,150,000	49.1%	9.43%	4.63%
Common equity	4,300,000	-	-	-
Plus gain on sale of land	153,700	-	-	-
Less total cash proceeds from sale of land declared a dividend	153,700	-	-	-
Adjusted common equity	4,300,000	50.9	11.00	5.60
Total	8,450,000	100.0	-	10.23

However, Company's vice president testified that the monies received from sale of properties must be used either to purchase permanent additions or used to make a prepayment on the loan. Exhibit 8 shows that this witness' testimony is correct.

Our analysis of Exhibits 1, 3, 4, 6, 7 and 8 and the testimony of the various witnesses shows that Company has committed itself to borrowing more dollars than it needs within the foreseeable future. Exhibit 1 shows, for test year 1971, plant additions of $380,500, depreciation accruals of $271,251,[1] advances for construction of $30,000, and contributions in aid of construction of $49,000. Thus for 1971 Company needs only supply $30,249 from other sources in order to meet its construction budget.

Company's vice president testified that as a result of the sale of the old office building and land $225,000 was in escrow and that he expected Company to realize $75,000 more from the sale of the building, or a total of $300,000 before taxes.

Exhibit 7 shows that under the terms and conditions of the loan agreement (Exhibit 8) Company must drawdown $1,500,000 by December 31, 1971.

Exhibit 7 also shows that approximately 50 percent of the required drawdown will be disbursed to another lending agency in 1972.

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1 Exhibit 8 shows that depreciation accruals must be used to purchase permanent additions.

The record thus shows that Company has committed itself to borrow $1,000,000, at high interest rates, more than it reasonably needs.

Calculation of Pro Forma Debt Structure and Effective Interest Rate - December 31, 1971

Item	P-M and Lincoln 9-1/2%	P-M and Lincoln 9-3/4%	Security Pacific Nat'l Bk.[1]	Title Insurance & Trust 8%	Total
Outstanding	$1,100,000	$900,000	$940,000	$210,000	$3,150,000
Annual Charge	104,500	87,810	65,800	16,800	274,910
Effective Rate	-	-	-	-	8.73%

1 One and one-fourth percent over prime bank rate, assumes 5.75 prime.

The table below shows the adopted pro forma capitalization as of December 31, 1971.

	December 31, 1971 Amount	Percent
Common Stock	$ 679,325	-%
Capital Surplus	1,320,670	-
Earned Surplus	2,300,000	-
	4,300,000	57.7
Long Term Debt	3,150,000	42.3
	7,450,000	100.0

Based upon the above tables, we find that a rate of return of 8.75 percent on the adopted rate base will produce a return on equity of 8.77 percent. Such returns for the future are reasonable. Company, therefore, is entitled to an increase in gross revenues of $590,000 instead of its requested increase of $897,600.

We do not concern ourselves with the indicated trend in rate of return (staff .37 percent; Company 1.27 percent) as both staff and Company did not consider that 1970 additions contained $451,000 of nonrevenue producing capital expenditures for the new office building, as well as system improvements previously ordered. Therefore, we believe 1971 test year results reasonably reflect future operating conditions before any consideration of increases in the price of purchase of water. We have considered, among other things, in arriving at a reasonable rate of return the service being supplied by Company as discussed hereafter and the Company's building program.

Service

Field investigations of applicant's operations were made in September and October 1970 by the staff engineer. Plant and facilities were inspected, pressures checked, customers interviewed, and records examined. In addition to these field operations, the staff engineer reviewed the pressure recording charts which were submitted by Company in compliance with Decision No. 74643, in Application No. 49080.

According to the staff engineer, Company has instituted and is continuing a program for reduction of taste, odor, and discolored water. A main cleaning and flushing program is also being carried out and is substantially reducing the number of informal complaints relating to taste, odor, and dirty water.

No informal complaints relating to taste, odor, and dirty water have been received since January 1, 1968.

Pressure complaints were investigated by the staff engineer and found to be related to dissolved air in the water supplies and the subsequent separation of air in the customers' service outlets. Company has placed in effect several items in its source of supply plants which should, with careful operating supervision, reduce this type of complaint.

Company had 14 interconnections with other water purveyors. These interconnections provide emergency sources in the event of a failure of source of supply which cannot be anticipated.

Of the 17 public witnesses who gave testimony, 10 testified that there was sand in the water, the pressure was low and that the water tasted and smelled bad; two complained that their meter size was wrong; two complained that the water was hard; and three testified that the existing rates already are too high.

In addition, four petitions containing a total of 445 names protesting the increase were presented by the public witnesses.

The examiner ordered the Company to investigate each complaint testified to by the public witnesses, and to furnish a copy of the report of investigation to each of the public witnesses. The staff was requested to review the results of Company's investigation and report thereon. Company filed its report (late-filed Exhibit 5) on January 22, 1971. The staff filed the following report on February 3, 1971:

> The Commission's staff engineer has reviewed applicant's late-filed Exhibit No. 5, relating to its investigation of service complaints. The staff verification of tests made on individual services is contained in the tabulation attached to this memorandum. This tabulation in general, verifies the Company's conclusions in its detailed report.
>
> Applicant has in progress a program for replacing existing one inch galvanized pipe services which cross streets to serve two 5/8 by 3/4-inch meters. The replacement pipe generally is either 1-1/4 inches or 1-1/2 inches. Replacements were being made in the Pico Rivera Area during January 1971 and after completion in Pico Rivera, replacements will be started in the West Compton Area. The main cleaning program in the Pico Rivera Area shows that a substantial accumulation of sand and rust is in the mains in this area. The cleaning program should produce a substantial improvement in service in Pico Rivera when completed.
>
> After completion of the cleaning program in Pico Rivera, applicant should begin a similar program in the La Mirada Area.

Subsequent to the receipt of the Company's report, two letters from the Pico Rivera Area were received by the Commission regarding the report. One letter pointed out that the pressure check was made at 11:00 a.m., a time of low water usage. The other letter questioned the method in which Company operates its pumps.

Findings and Conclusion

The Commission finds that:

1. Applicant 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 applicant's operations for the future.

3. A rate of return of 8.75 percent on the adopted rate base for the year 1971 is reasonable.

4. Filing of the reports set forth in Ordering Paragraph No. 11 of Decision No. 74643, in Application No. 49080, filed January 12, 1967, is no longer necessary.

5. Company's general flat rate service schedule should be adopted as a limited schedule applicable only to the present service locations until such time as applicant provides metered service.

6. 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:

1. After the effective date of this order Park Water Company is authorized to file the revised rate schedules attached to this order as Appendix A, and concurrently to withdraw and cancel presently effective schedules for General Metered, General Flat Rate and Fire Sprinkler Protection services. 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 to service rendered on and after the effective date thereof.

2. Park Water Company is relieved from filing the reports set forth in Ordering Paragraph No. 11 of Decision No. 74693, in Application No. 49080.

3. The general flat rate service is applicable only to the premises receiving such service on April 1, 1971.

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

Dated at San Francisco, California, this 15th day of JUNE, 1971.

Chairman

William Symons Jr.

Vernon L. Sturgeon

Commissioners

A.52118 KB/NB *

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Artesia, Baldwin Park, Bellflower, Commerce, Compton, Downey, Lynwood, Montebello, Norwalk, Paramount, Pico-Rivera, Santa Fe Springs, South Gate and vicinities, Los Angeles County, and the vicinity of Chino, San Bernardino County.

RATES

	Per Meter Per Month	
Quantity Rates:		
First 700 cu.ft. or less	$2.20	(I)
Next 4,300 cu.ft., per 100 cu.ft.	.230	
Next 95,000 cu.ft., per 100 cu.ft.	.165	
Over 100,000 cu.ft., per 100 cu.ft.	.140	(I)
Minimum Charge:		
For 5/8 x 3/4-inch meter	2.20	(I)
For 3/4-inch meter	3.00	
For 1-inch meter	5.00	
For 1½-inch meter	10.00	
For 2-inch meter	15.00	
For 3-inch meter	25.00	
For 4-inch meter	40.00	
For 6-inch meter	80.00	
For 8-inch meter	140.00	
For 10-inch meter	200.00	(I)

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

SPECIAL CONDITION

All billing under this schedule to customers in the City of Norwalk is subject to a surcharge of 2.04%.

Schedule No. 2L (T)

LIMITED FLAT RATE SERVICE (T)

APPLICABILITY

Applicable to all flat rate residential and commercial water service.(T)

TERRITORY

Portions of Artesia, Baldwin Park, Bellflower, Commerce, Compton, Downey, Lynwood, Montebello, Norwalk, Paramount, Pico-Rivera, Santa Fe Springs, South Gate and vicinities, Los Angeles County, and the vicinity of Chino, San Bernardino County.

RATES

	Per Service Connection Per Month	
For a single-family residential unit, or commercial unit, including premises not exceeding 7,500 sq. ft. in area	$ 2.80	(I)
a. For each additional single-family residential unit on the same premises and served from the same service connection	1.55	
b. For each 100 sq. ft. of premises in excess of 7,500 sq. ft.	.037	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.

2. All service not covered by the above classifications shall be furnished only on a metered basis.

3. If either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service. (T)

4. All billing under this schedule to customers in the City of Norwalk is subject to a surcharge of 2.04%.

5. Service will be provided under this schedule only to those premises receiving flat rate service as of April 1, 1971. (T) (T)

Schedule No. 4F

NON-METERED FIRE SPRINKLER SERVICE

APPLICABILITY

Applicable only for water service to privately owned non-metered fire sprinkler systems where water is to be used only in case of fire.

TERRITORY

Portions of Artesia, Baldwin Park, Bellflower, Commerce, Compton, Downey, Lynwood, Montebello, Norwalk, Paramount, Pico-Rivera, Santa Fe Springs, South Gate and vicinities, Los Angeles County, and the vicinity of Chino, San Bernardino County. (T)

RATES

Size of Service	Monthly Charge	
2 inch	$ 3.75	(I)
3 inch	5.00	
4 inch	7.50	
6 inch	11.00	
8 inch	15.00	
10 inch	19.00	
12 inch	23.00	(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. (T)

2. The minimum diameter for fire protection service shall be two 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. (T)

(Continued)

Schedule No. 4F

NON-METERED FIRE SPRINKLER 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. (T)

5. 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)

6. Any unauthorized use of water, other than for fire extinguishing purposes, shall be charged for at the regular established rate as set forth under Schedule No. 1, and/or may be the grounds for the immediate disconnection of the sprinkler service without liability to the company.