

ORIGINAL

Decision No. 81258

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of)	
SOUTHERN CALIFORNIA WATER COMPANY)	
for an order authorizing it to in-)	Application No. 53594
crease water rates in its Calipatria-)	(Filed September 15, 1972;
Wiland District.)	amended September 26, 1972)
)	

O'Melveny & Myers, by Harold M. Messmer, Jr., Attorney at Law,
for applicant.
C. C. Irwin, for Wiland Chamber of
Commerce, protestant.
Cyril M. Saroyan, Attorney at Law,
and John E. Brown, for the Com-
mission staff.

O P I N I O N

A public hearing was held before Examiner Rogers in Calipatria on January 24, 1973 and the matter was submitted. Prior to the hearing, notice thereof was mailed to each customer and published.

Applicant's showing regarding its overall operations is contained in Exhibit No. 2. The applicant has certain expense and rate base items common to all districts. We have allocated these items according to the staff's recommendations which we find reasonable. These allocations, generally, are the same as the applicant's except for minor differences.

The Service Area

Applicant's Calipatria-Wiland District (district) is comprised of two separate water systems, one serving the city of Calipatria and environs, and one serving the unincorporated community of Wiland. The wholesale water supplier for both is the Imperial Irrigation District. The water for Calipatria is delivered to settling basins and pumped into an elevated steel tank and thence to the distribution system. The water for the

Willand area is delivered to settling basins and then flows by gravity to the distribution system. All water is treated as it enters the basins with chlorine, copper sulfate, and aluminum sulfate. The two systems serve approximately 815 services.

Applicant's Request

Applicant seeks increased revenues amounting to \$39,370 for the estimated year 1973, an increase of 52.44 percent, by increasing its flat, metered, and private fire protection rates. According to applicant's showing, the increase would give it a return of 8.33 percent on its \$301,454 depreciated district rate base.

The present rates have been in effect since 1962. Approximately 7 percent of the customers (56) are metered, the balance are on flat rates. Applicant proposes to change the metered rates from a minimum charge form to a service charge form. The present and proposed metered rates are:

		Per Meter Per Month	
		<u>Present</u>	<u>Proposed</u>
Quantity Rates:			
First	1,000 cu.ft., or less.....	\$ 4.00	
Next	4,000 cu.ft., per 100 cu.ft.30	
Next	5,000 cu.ft., per 100 cu.ft.25	
Next	10,000 cu.ft., per 100 cu.ft.20	
Over	20,000 cu.ft., per 100 cu.ft.12	
First	20,000 cu.ft., per 100 cu.ft.		\$ 0.330
Over	20,000 cu.ft., per 100 cu.ft.		0.164
		Minimum Charge	
		<u>Charge</u>	<u>Service Charge</u>
Charge:			
For	5/8 x 3/4-inch meter	\$ 4.00	\$ 5.00
For	3/4-inch meter	5.30	5.50
For	1-inch meter	6.60	6.50
For	1 1/2-inch meter	9.00	8.50
For	2-inch meter	12.50	11.50
For	3-inch meter	25.00	15.50
For	4-inch meter	40.00	35.00
For	6-inch meter	60.00	60.00
For	8-inch meter	100.00	80.00

The present and proposed flat rates are:

	Per Service Connection Per Month	
	<u>Present</u>	<u>Proposed</u>
1. For each single unit of occupancy, with inside plumbing, served through a 3/4-inch service connection	\$6.00	\$ 9.25
2. For each single unit of occupancy, with inside plumbing, served through a 1-inch service connection.....	7.50	11.50
3. For each additional unit of occupancy, with inside plumbing, on the same premises and served from the same service connection of 1 or 2 above	3.25	5.00
4. For each single unit of occupancy, without inside plumbing, served through a 3/4-inch service connection	3.00	4.60

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.

Assuming a usage of 2,000 cubic feet per month by a customer with a 5/8 by 3/4-inch meter, the cost of metered water would increase from \$7 per month to \$11.60, an increase of over 65 percent. Under applicant's proposed flat rates the customers with 3/4-inch service connections will have their rates increased by only \$3.25 per month from \$6.00 to \$9.25, an increase of about 54 percent. ✓

Private fire protection rates are to be increased from \$1.00 per inch to \$2.00 per inch of service connection.

Results of Operations

The applicant and the Commission's staff presented exhibits and testimony respecting the results of operations at the present and proposed rates. The showings for the estimated year 1973 are:

Item	Applicant		Staff	
	Present	Proposed	Present	Proposed
	Rates	Rates	Rates	Rates
Operating Revenues	\$ 75,080	\$114,450	\$ 75,080	\$114,450
<u>Operating Expenses</u>				
Oper. & Maintenance	46,170	46,170	45,040	45,040
Admin., Genl. & Misc.	6,830	6,830	6,640	6,640
Taxes Other Than Income	11,380	12,440	11,990	12,550
Depreciation	7,430	7,430	7,430	7,430
Allocated Common	4,300	4,300	4,200	4,200
Subtotal	\$ 76,610	\$ 77,170	\$ 75,300	\$ 75,860
Income Taxes	(7,990)	12,170	(7,310)	12,850
Total Expenses	\$ 68,620	89,340	67,990	88,710
Net Operating Revenues	6,460	25,110	7,090	25,740
Depreciated Rate Base	301,454	301,454	301,454	301,454
Rate of Return	2.14%	8.33%	2.35%	8.54%

() Negative

We do not include the 1972 results of operation for the reason that we are looking to the future in fixing the reasonable rates.

Revenues

The staff conceded that applicant's earning position under existing rates is less than fair and reasonable and that applicant's estimates of revenues should be adopted. We find that applicant's revenues for 1973 will be \$75,080 at its present rates and \$114,450 at its proposed rates. We further find that applicant is entitled to some increased rates.

Rate Base

The staff investigated applicant's estimated rate bases of \$293,794 for the year 1972 and \$301,454 for 1973, and adopted them as reasonable for the purposes of this decision. There is no year-end construction work in progress or new advances or contributions in this district for 1973.

A field inspection was made by the staff of completed and proposed plant additions and retirements for the year 1973. It determined they were reasonable.

Applicant included no working cash for 1973 and the staff accepted applicant's materials and supplies estimates as reasonable.

Depreciation reserve and expense were computed on June 30 depreciable plant using the 1972 recorded composite depreciation rate. Depreciation reserves and expenses as computed by the applicant were accepted by the staff as reasonable for 1973.

The applicant is installing a new booster pump and gas engine at the Calipatria station at a cost of \$6,000. This item is 29 percent of the 1972 district construction budget and is included in the January 1, 1972 plant as an item not likely to recur in the foreseeable future. The staff accepted this procedure as being in accordance with standard practice. Applicant's estimated district average utility plant for 1973 will be \$449,266.

We find that applicant's district depreciated rate bases will be \$293,794 in 1972 and \$301,454 in 1973.

Operating & Maintenance,
Administrative & General Expenses

The following tabulation compares the applicant's and the staff's estimates of the expenses for 1973:

Item	Year 1973 Estimated	
	Applicant	Staff
<u>Operating & Maintenance Expenses</u>		
Purchased Water	\$ 4,750	\$ 4,750
Purchased Power	3,720	3,720
Purchased Chemicals	6,200	6,100
Payroll	19,800	19,210
E.D.P. Billing Expense	1,900	1,760
Uncollectibles	200	200
Other	9,600	9,300
Subtotal O&M Expenses	46,170	45,040
<u>Administrative & General Expenses</u>		
Regulatory Commission Expense	1,700	1,700
Injuries & Damages	1,230	1,190
Employee Pensions & Benefits	1,700	1,700
Administrative & General Salaries	1,000	950
Maintenance General Plant	400	300
Other	800	800
Subtotal A&G Expenses	6,830	6,640
Total O&M and A&G Expenses	\$53,000	\$51,680

The staff analyzed applicant's report, supporting work papers, proposed maintenance budgets, and methods of estimating the operating, maintenance, administrative, and general expenses. It determined that in most cases the results presented by the applicant should be accepted as reasonable. The larger differences between applicant and staff are:

Payroll

The applicant estimated the 1972 payroll based on wage rates placed in effect on January 1, 1972, and increased these rates by 6 percent for all classes of employees in its estimate for 1973. As of October 24, 1972, the applicant's Board of Directors adopted a resolution increasing the wage rates of all employees, except those on the executive list, by 5.52 percent effective January 1, 1973. The staff used the payroll resulting from this projected wage increase for 1972 and 1973, in accordance with staff policy to eliminate attrition in the rate of return that might result from wage increases. The effect of this treatment of payroll is also reflected in Account No. 794, Injuries and Damages. We find the staff's figure reasonable. It will be adopted.

Data Processing Expense

The difference between applicant and staff is due to the method of allocating the system-wide billing expense, and the staff's exclusion of the salary of one of three programmers. In our opinion, two programmers will be adequate to maintain existing and scheduled programs. We find the staff's estimate of the expense to be reasonable and it will be adopted.

Injuries and Damages

The record shows that the staff's estimate is reasonable. This is a small operation and the difference between the applicant's and the staff's estimate is minor. We find the staff's estimate should be adopted.

We find that the staff's estimates of total expenses are correct. ✓

We find that the total operation and maintenance and administrative and general expenses for 1973 will be \$51,680.

Taxes Other Than Income

Payroll taxes estimated by the staff are based on the 1973 estimated payroll using the effective tax rates and tax bases for 1972 and 1973. The increases in FICA taxes established by Public Law 92-603, effective January 1, 1973, are included in the staff's estimate thereby accounting for the difference between applicant and staff. Street franchise taxes vary with the gross revenue and were estimated by the staff based on historical effective tax rates.

In estimating the ad valorem taxes for 1972 and 1973, the applicant based its estimates on January 1 depreciated plant, less transportation, Account No. 373, and transportation depreciation reserve. An assessment ratio of 25 percent and the recorded tax rate for 1971-1972 taxes were used to develop the estimated taxes for 1972-1973 and 1973-1974. One-half of each tax year taxes was used to develop the calendar year taxes. Applicant's estimates of ad valorem taxes for both years are accepted for the purposes of this decision.

The total differences between the applicant's and the staff's estimates for 1973 at present and proposed rates is precisely \$110. We adopt the staff's estimates. We find that for 1973 non-income taxes will be \$11,990 at present rates and \$12,550 at proposed rates.

Income Taxes

We find the income taxes for 1973 will be as calculated by the staff.

For the purposes of this decision we adopt the staff results of operation for the years 1972 and 1973.

Rate of Return

The applicant will have a rate of return in 1972 of 2.37 percent at present rates and 8.64 percent at the proposed rates. For the estimated year 1973, applicant will have a rate of return of 2.35 percent at present rates and 8.54 percent at the proposed rates. The applicant's witness stated that the proposed increases, when considered with the rate of return decline, are cost justified, noninflationary, and consistent with the government's Phase III program. He said the decline in rate of return between 1972 and 1973 is due to numerous small items and that the applicant is attempting to set rates for five years. He said that if the decline is not considered, the applicant's rate of return will be below the accepted level and it will be necessary to request another rate increase. He pointed out that this proceeding cost the applicant \$8,500 or 7.5 percent of the annual revenues of the district. The witness adjusted the applicant's request somewhat and stated that a rate of return for 1973 of 8.21 percent (on the applicant's summary of earnings basis) would average out for five years at a 7.61 percent rate of return which equates to an 11.79 percent return on common equity.

A staff witness recommended that applicant be given a 7.60 percent rate of return on total capitalization, which he said equated to about an 11.73 percent return on common equity. The staff witness did not set the initial rate of return to allow for attrition. He said that a 7.60 percent rate of return would be reasonable, but not necessarily over a five-year period.

The staff's calculations show that between 1972 and 1973 the rate of return will decline .02 percent at the present rates and .1 percent at the proposed rates.

Considering the minimum rate of return recommended by the staff witness of 7.6 percent and recognizing that there is an annual decline in the rate of return of .1 percent per year, the increased rates authorized herein should produce a return of 7.8 percent for the test year, and an average return of 7.6 percent over the next five years. We find this rate of return to be reasonable. It is estimated that the 7.6 percent rate of return will provide a return on common equity of approximately 11.73 percent. The 7.8 percent rate of return related to the adopted rate base of \$301,454 will yield fair and reasonable rates. Applying such rate of return to the adopted rate base indicates a need for \$23,513 in net revenues or approximately \$16,423 more than the net revenues produced at existing rate levels. The rates hereinafter authorized should produce the required amount.

Customers

Mr. C. C. Irwin appeared as a protestant in behalf of the Niland Chamber of Commerce and read into the record a letter filed as Item D. The chamber, generally, opposed the same rates for Niland as for Calipatria on the basis that Niland water is gravity supplied and Calipatria's is pumped. The resulting higher cost of power for Calipatria was \$2,618.16 in 1972, he said. The witness also challenged the applicant's statements relative to increased costs (Application page 4). In addition, he called attention to the claimed fact that until recently several customers did not pay for water used, and that there has been a considerable loss of water due to leaks in the system. He referred to one which had continued from the second week in August 1972 to the date of hearing, January 24, 1973, and which leak he said was equivalent to a two-inch pipe free flowing.

He also objected to the high volume of chlorination and the poor water pressure. In addition, he objected to the 52 percent proposed increase and compared the rates to other purveyors in the area receiving water from the same supplier.

Mr. Irwin called several Miland residents who had specific complaints concerning the water, water pressure, or water costs. The applicant investigated the complaints and filed Exhibit No. 5 which is a report of the applicant's investigation of each complaint.

The city of Calipatria also filed a letter dated October 15, 1972, which stated that water service in many parts of the city is inadequate due to old, cast-iron mains. A company witness stated that the pressure will be corrected in 1973 by the installation of parallel mains.

Rate Structure

Applicant proposes to change the form of rates for metered service from minimum charge to service charge. Applicant has previously been authorized to make this change for general metered service in thirteen other tariff areas. The service charge type meter rates authorized herein are designed to give an increase in billing for typical residential service with a 5/8 by 3/4-inch meter proportional to the 47.5 percent increase authorized for basic residential flat rate service through a 3/4-inch service connection.

Findings

1. The applicant is in need of additional revenues, but the rates proposed by applicant are excessive.
2. The adopted estimates, referred to above, of operating revenues, operating expenses, and rate base for the year 1973 reasonably indicate the results of applicant's operations for the year 1973.
3. A rate of return of 7.6 percent on applicant's rate base and the corresponding 11.73 percent return on common equity are reasonable.

4. The increases in 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.

5. In compliance with Rule 23.1 of the Commission's Rules of Procedure:

a. The increased rates are expected to provide an increase of \$16,423 in applicant's annual revenues.

b. The rate of return on the herein adopted rate base is expected to be 7.8 percent for the test year 1973 as compared to 2.35 percent at present rates.

c. The increases are cost-justified and do not reflect future inflationary expectations; the increases are reduced to reflect productivity gains; the increases are the minimum rates which are necessary to assure continued and adequate service; and 7.8 percent is the minimum rate of return needed to attract capital at reasonable cost and which will not impair applicant's credit.

6. The request for authority to change from the minimum allowance type rate structure to a service charge type rate structure should be granted.

Conclusion

The Commission concludes that the application should be granted to the extent set forth in the following order.

O R D E R

IT IS ORDERED that after the effective date of this order, applicant, Southern California Water Company, is authorized to file for its Calipatria-Niland District the revised rate schedules attached to the order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of such

revised schedules shall be ten days after the date of filing.
The revised schedules shall apply only to service rendered on and
after the effective date thereof.

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

Dated at San Francisco, California, this 10th
day of APRIL, 1973.

Vernon L. Stinson
President
William J. Lyons
[Signature]
[Signature]
Commissioners

Commissioner J. P. Vukasin, Jr., being
necessarily absent, did not participate
in the disposition of this proceeding.

APPENDIX A
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Schedule No. CN-1

Calipatria-Niland District

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

City of Calipatria and community of Niland, and adjacent territory in Imperial County.

RATES

Service Charge:

	Per Meter Per Month	
For 5/8 x 3/4-inch meter	\$ 4.00	(C)
For 3/4-inch meter	5.30	
For 1-inch meter	6.50	
For 1-1/2-inch meter	8.50	
For 2-inch meter	11.50	
For 3-inch meter	15.50	
For 4-inch meter	35.00	
For 6-inch meter	60.00	
For 8-inch meter	80.00	

Quantity Rates:

For the first 20,000 cu.ft., per 100 cu.ft.	\$ 0.317	(C)
For all over 20,000 cu.ft., per 100 cu.ft.	0.164	

(Continued)

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Schedule No. CN-1

Calipatria-Niland District

GENERAL METERED SERVICE

RATES—Contd.

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates.

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Schedule No. CN-2

Calipatria-Niland District

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

City of Calipatria and community of Niland, and adjacent territory in Imperial County.

RATES

	Per Service Connection Per Month	
1. For each single unit of occupancy, with inside plumbing, served through a 3/4-inch service connection	\$ 8.85	(I)
2. For each single unit of occupancy, with inside plumbing, served through a 1-inch service connection	11.00	
3. For each additional unit of occupancy, with inside plumbing, on the same premises and served from the same service connection of 1 or 2 above	4.75	
4. For each single unit of occupancy, without inside plumbing, served through a 3/4-inch service connection	4.40	(I)

(Continued)

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Schedule No. CN-2
Calipatria-Niland District

GENERAL FLAT RATE SERVICE
(Continued)

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. For service covered by the above classifications, if either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. CN-1, General Metered Service.

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Schedule No. AA-4

All Districts

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Rate A - Applicable to the San Bernardino County District. (C)

Rate B - Applicable within all other districts served by the Company.

RATE

	<u>Per Month</u>	
	<u>A</u>	<u>B</u>
For each inch of diameter of service connection	\$1.00	\$2.00

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.

(Continued)

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Schedule No. AA-4

All Districts

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS—Contd.

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 standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage, or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

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