

Decision No. 82257

ORIGINAL

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 increase water rates in its  
San Bernardino County District.

Application No. 53663  
(Filed October 20, 1972)

O'Melveny & Myers, by Donn B. Miller, Attorney  
at Law, for Southern California Water Company,  
applicant.  
Cyril M. Saroyan, Attorney at Law, for the Com-  
mission staff.

O P I N I O N

Southern California Water Company seeks authority to establish rates in its San Bernardino County District designed to increase annual revenues by \$88,450. Changes in certain tariff structures are also requested so that customers presently receiving service on a minimum charge rate form would be served under a service charge rate form.

Public hearing was held before Examiner Meaney in San Bernardino on July 24, 1973, and the matter was submitted on that date subject to the filing by applicant of late-filed Exhibit 6<sup>1/</sup> relating to service complaints.

Applicant presented testimony of its vice president in charge of operations, its vice president in charge of revenue requirements, and its assistant secretary for rates and valuations.

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1/ Exhibit 6 was filed on August 9, 1973.

The staff presented the testimony of a staff engineer and a member of the rate of return branch. Five customers testified as to service complaints.

Applicant's principal place of business is in Los Angeles. Its San Bernardino County District serves a portion of the city of San Bernardino and certain unincorporated areas east and west of the city. The district consists of two separate systems. The Highland system on the easterly end of San Bernardino is the larger, serving about 3,000 customers as of June 1973. This system consists of nine company-owned wells, seven pumping plants, three reservoirs, and one small purchased water connection. The Muscoy system, at the westerly end of San Bernardino, consists of two former systems which have now been interconnected so that all four pumping plants and the one reservoir may be used to serve all the customers.

#### Rate of Return

The staff recommended a rate of return of 7.60 percent, which would result in an allowance of 11.73 percent on common equity.

The Commission adopted a 7.60 percent rate of return for applicant as to its Calipatria-Niland District in April 1973 in Decision No. 81258 (Application No. 53594) based upon the same capital structure as is in existence at the present time (common equity constituting 36.14 percent of the applicant's capital structure).

The Commission finds that 7.60 percent is a reasonable rate of return in this proceeding.

#### Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated the results of operation for the San Bernardino District. The staff's Exhibit 4 sets forth the estimated results of operation under both the present and proposed rates for years 1972 and 1973 estimated. The following table shows these results for the 1973 test year as well as those adopted for that period:

Southern California Water Company  
San Bernardino County District

SUMMARY OF EARNINGS  
1973 Estimated

A. 53663 am

Item	Applicant Estimated		Staff Estimated		Adopted <sup>1/</sup> Results	Adopted <sup>2/</sup> Results
	Present	Co. Proposed	Present	Co. Proposed		
	Rates	Rates	Rates	Rates		
Operating Revenues	\$ 259,680	\$ 348,130	\$ 264,820	\$ 351,490	\$ 264,820	\$ 351,490
<u>Operating Expenses</u>						
Oper. & Maint.	110,720	110,720	111,150	111,150	121,320	121,320
Admin., Gen'l. & Misc.	14,980	14,980	14,230	14,230	14,230	14,230
Taxes Other Than Inc.	42,720	43,520	40,330	41,120	40,330	41,120
Depreciation	37,100	37,100	38,580	38,580	38,580	38,580
Allocated Common	12,700	12,700	12,500	12,500	12,500	12,500
Subtotal	218,220	219,020	216,790	217,580	226,960	227,750
Income Taxes	(3,260)	42,280	970	46,210	(4,290)	40,950
Total Expenses	214,960	261,300	217,760	263,790	222,670	268,700
Net Operating Revenues	44,720	86,830	47,060	87,700	42,150	82,790
Depreciated Rate Base	1,073,376	1,073,376	1,072,500	1,072,500	1,072,500	1,072,500
Rate of Return	4.17%	8.09%	4.4%	8.2%	3.93%	7.72%
Avg. Commercial Cust.	3,657	3,657	3,615	3,615	3,615	3,615

(Red Figure)

<sup>1/</sup> At Present Rates.

<sup>2/</sup> At Proposed Rates.

District Operating Revenues

Differences in company and staff development of operating revenues for commercial customers are set forth in the following table:

Commercial Customers

	<u>Avg. of Temp.</u>	<u>Inches of Rainfall</u>	<u>Avg. Cust.</u>	<u>Ccf Per Cust.</u>	<u>Total Ccf Sales</u>
1971 Recorded	64.5	11.93	3628	269.8	978,800
1972 Recorded	64.7 <sub>1</sub>	7.65 <sub>2</sub>	3558	275.4	979,800
1972 Est. (Appl.)	64.1 <sub>1</sub>	12.99 <sub>2</sub>	3629	254.3	922,900
1972 Adj. (Staff)	64.1	12.99	3558	261.6	930,800
1973 Est. (Appl.)	64.1	12.99	3657	259.2	947,800
1973 Est. (Staff)	64.1	12.99	3615	266.7	964,300

1/ 30-year Average Temperature.

2/ 30-year Rainfall adjusted to exclude over 4" in any one month.

The above development reflects the sale of the Bloomington system to the West San Bernardino County Water District. It also reflects the fact that in one part of the service area, the company lost about 150 customers who abandoned their properties after a freeway was built in the vicinity.

The staff's estimates for 1973 will be accepted since the staff had the 1972 recorded information available to it when its calculations were made.

Operation, Maintenance, Administration,  
and General Expenses

Differences in company and staff development of operation, maintenance, administrative, and general expense are set forth as follows:

Item	1972 Estimated <sup>1/</sup>		1973 Estimated		Exceeds
	Applicant:	Staff	Applicant:	Staff	
Oper. & Maint. Exp.					
Purchased Power	\$ 40,670	\$ 43,220	\$ 42,880	\$ 44,130	\$(1,250)
EDP Billing	7,880	7,720	8,620	7,800	820
O & M Labor	38,250	40,500	40,500	40,500	-
Other O & M Exp.	17,970	17,970	18,720	18,720	-
Subtotal O & M	104,770	109,410	110,720	111,150	(430)
Admin. & Gen. Exp.					
A & G Salaries	3,820	3,300	4,050	3,300	750
Other A & G	10,310	10,310	10,930	10,930	-
Subtotal A & G	14,130	13,610	14,980	14,230	750

(Red Figure)

<sup>1/</sup> Staff adjusted.

Power is purchased from Southern California Edison Company. The company's testimony indicated its figure was based upon an estimated 10 percent increase in the cost of purchased power. Since this case has been submitted, Southern California Edison was authorized rate relief in Decision No. 81919, effective October 5, 1973 (Application No. 53488). Such relief included a 14.1 percent increase in Edison's Schedule PA-1, under which applicant purchases power. Thereafter, Edison experienced additional fuel cost increases which resulted in a fuel clause adjustment filing effective November 1, 1973. This adjustment, on a uniform cents per kwhr basis, will add 0.169 cents per kwhr (above the 14.1 percent increase) to the cost of purchased power under Edison's Schedule PA-1.<sup>2/</sup>

<sup>2/</sup> The staff's estimate in Exhibit 4 of \$44,130 for purchased power for 1973 would increase to \$50,300 with the increase authorized by Decision No. 81919, and by an additional \$4,000 with the November fuel clause adjustment filing.

Under the circumstances, it is reasonable to adopt the staff's 1973 estimate for purchased power, adjusted for the aforementioned increases occurring since the submission of this proceeding.

The staff's adjustment for EDP billing was also upon methodology adopted in other recent proceedings and also upon the fact that a new EDP system will allow two programmers, rather than three, to maintain the system. The staff's adjustment is reasonable and is adopted.

The company trended wages upward by 5.5 percent. The staff used January 1, 1973 wage levels for both the 1972 and 1973 test periods. The company did not offer any results of negotiations for wages as of January 1, 1974 and the trend is simply the result of general inflationary expectations. Under these circumstances, the staff's figures will be adopted.

The staff also adjusted district labor to reflect the transfer of the Mountain Division and the resulting proration of the Mountain Division manager's salary. This adjustment is reasonable.

#### Taxes

Included in this category are city and county ad valorem taxes, street franchise taxes, social security taxes, unemployment taxes, and federal and state income taxes.

Differences other than those resulting from revenue and expense differences set forth in the summary of earnings are attributable to later information available to the staff. In making its analysis of taxes for ad valorem property, the staff used 1972-73 tax rates and valuations which were not available to the applicant. The staff also used the latest state corporation franchise tax rate of 9 percent which became effective July 1, 1973, while the company used the old 7.6 percent rate.

The staff development resulted in ad valorem taxes for 1973 that are 3.9 percent lower than the company's estimate. The staff treatment of taxes is reasonable and will be adopted.<sup>3/</sup>

#### Utility Plant

Applicant and staff both included in their estimates \$31,000 for drilling and equipping a new well for the Dunkirk Pumping Plant, for both test periods on a full year basis. At the hearing, the company indicated that the well was placed in service on July 23, 1973. Under the circumstances, such treatment is reasonable.

#### Rate Levels

The application points out that neither the Highland system nor the Muscoy system has had any recent general rate relief.

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<sup>3/</sup> The staff exhibit notes (page 4, paragraph 8): "Deferred capital gains in the amount of \$278,940 resulted from the sale in 1970 of depreciable plant of Bloomington System to East San Bernardino County Water District (involuntary conversion). This was used to reduce 1971 and 1972 eligible depreciable total company plant additions for computing federal income tax depreciation. This reduction is not appropriate for rate-making purposes because it would result in higher income taxes than would have been paid in a normal course of business. Neither the staff nor applicant has reduced for rate-making purposes the estimated income tax depreciation expense to reflect the above sale."

Present rates for the Highland system were set 22 years ago by Decision No. 46588 dated December 21, 1951 (Application No. 32128).

The Muscoy system has never been the subject of general rate relief under present ownership. That portion of the Muscoy system which was formerly the Berdooco system of Pacific Water Company last had its rates set over 12 years ago in Decision No. 60385 dated July 12, 1960.<sup>4/</sup> In that portion of the Muscoy system formerly owned by the Delmann Water Company, the last general rate relief was afforded in Decision No. 45945 dated July 10, 1951 (Application No. 32324).

Both staff and company estimates indicate necessity for rate relief. The company estimate indicates an anticipated rate of return for 1973 of 4.17 percent; the staff estimate for the same period is 4.4 percent.

The company requests rates which will achieve an average of 7.60 percent rate of return over the next five-year period. Such rates, according to the company development, would cause it to earn an 8.09 percent rate of return for 1973. The company did not propose step rates.

The staff opposes this treatment. The staff's development shows an upward trend in rate of return, but the staff's witness conceded that this was not considered representative of the future and was due to the fact that certain costs such as wages, power, and taxes were rolled back--that is, the 1973 costs were used for the 1972 period.

The company estimates that its rate of return will have an attrition rate of approximately 0.2 percent annually, and wishes rate levels to be set for a five-year period allowing for such attrition.

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<sup>4/</sup> Advice Letter No. 300-W, effective July 1, 1964, adjusted rates downward by approximately 4 percent.



It is clear that due to the fuel shortage and increased costs of environmental planning on the part of Edison and Edison's power suppliers, applicant can anticipate significant increases in the cost of purchased power over the next few years. As stated, there have already been two major increases since the submission of this application which result in an adjustment of the staff's 1973 estimate of purchased power from \$44,130 to \$54,300 (see Foot-note 2, supra).

Applicant projects increases in salaries and also in payroll and ad valorem taxes based on recent history. As stated, the company's 5.5 percent wage trend is based upon general inflationary considerations and is therefore not adopted for 1973; however, it is safe to assume some wage increases will occur over the next two years and therefore may be considered in measuring attrition.

The Commission believes that while a five-year period is too long for consideration of attrition, it would be reasonable to set rate levels allowing it to earn an average of 7.60 percent for the remainder of 1973 and for the 1974-1975 period. This was the

approach found reasonable for this company as to its Arden and Cordova Districts (Application No. 53512, Decision No. 81176 dated March 20, 1973). The Commission also believes that an 0.2 percent attrition rate per annum for 1974 and 1975 is a reasonable assumption.

The existing purchased power increases mean that, if the company is granted the rates it has requested, it will earn a rate of return for its San Bernardino District of 7.72 percent for test year 1973, and therefore rates that will produce less than 7.60 percent averaged over 1974-1975 and assuming an 0.2 percent attrition annually (specifically, 7.42 percent for that period).<sup>5/</sup>

Rate Structure

The company proposes to change from a minimum charge rate form to a service charge rate form. The company witness pointed out that such a change had been effected in most of the company's other districts. The proposed rates are cost-of-service rates, designed to recover from each customer the cost of serving that customer. This change is reasonable and will be adopted.

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<sup>5/</sup> See the summary of earnings table, supra, under the column indicating adopted results at proposed rates.

The company also proposes that the private fire protection service schedule be increased from a charge of \$1 per inch to \$2 per inch of service size. This will make this charge the same as authorized in all other recent district rate proceedings for the company. The present fire hydrant service rate is currently applied via a 25 cents per month additive to certain customers on the general metered rate in the Highland area. The company proposes to withdraw this limited fire hydrant rate, and does not propose any change in the company-wide schedules. The company witness stated that this rate, which makes a surcharge on certain customers in the Highland area, is inequitable because it distinguishes certain customers from others in the application of the surcharge. The change in the private fire protection service schedule and the withdrawal of the aforementioned limited fire hydrant rate are reasonable.

#### Service Complaints

Five witnesses testified to service complaints, which included (1) water pressure, (2) water quality, and (3) high water temperature.

Water pressure complaints were presented from two witnesses, one of whom stated that water pressure was low at about 7 p.m. and also early in the morning. The second witness complained of low water pressure and stated the company had blamed his own regulator, which a plumbing company had inspected and found in sound condition. This witness stated that the dishes and laundry could not be done simultaneously. He traced the trouble to the installation by the company of a certain pressure regulator.

In late-filed Exhibit 6, the company responded to these complaints by pointing out that as to the first of the two witnesses, the low water pressure was due to temporary mechanical problems which were corrected. On July 27, 28, and 29, 1973, readings showed pressure at 60 psig or better except for a few short periods when it would drop to between 40 and 50 psig. The second witness' problem,

according to the company, was caused by the condition of his own pipes. During 1972, because of an informal complaint filed by this witness, the company had surveyed the pressure and found it to be generally 50 psig or better. The company denied that the new regulator installation triggered any problem because company records indicated it had been installed in 1961. The company stated it was replacing a main on Church Street, which should upgrade service.

A third witness complained of low quality water, stating it contained "grit", and that the bills were too high. On July 31, 1973 the company flushed the area in the vicinity of this witness' residence and found no sand in the water. The company was of the opinion that the "grit" was calcium carbonate, primarily a product of heating the water, and suggested flushing of the witness' hot water heater.

A fourth witness complained both as to pressure and sand. The company suggested the same procedure as it did to the previous witness. Pressure tests showed pressure at 50 psig or better.

The final witness complained of high water temperature, particularly in the months of April through September. He stated the water ran 80 to 90 degrees and that this was generally true in his neighborhood.

The company conceded that there is a problem as to water temperature. The company recently drilled a new well on Dunkirk Avenue and expected it to produce cooler water than three other wells regarded as "warm water wells", but that this did not occur. The company has no short-range solution to this problem but estimates that in the summer of 1975, supplemental sources of purchased water will be available. The company is of the opinion that such water can be blended with existing supplies and will result in lower water temperatures.

Findings

1. Applicant is in need of additional revenue in its San Bernardino County District.
2. A rate of return averaging 7.60 percent or less on applicant's rate base through the year 1975 is not in excess of a reasonable return.
3. It is reasonable to anticipate an attrition on rate of return of 0.2 percent through 1975.
4. The authorized increase in rates is expected to provide increased gross revenues for this district in the amount of \$86,670, or 32.7 percent for test year 1973. The rates authorized herein will result in a rate of return of 7.72 percent for test year 1973 and an average of 7.42 percent for the 1974-1975 period.
5. The company proposal to change from a minimum charge rate form to a service charge rate form is reasonable.
6. The company proposal to increase the private fire protection service schedule from a charge of \$1 per inch to \$2 per inch of service sizes is reasonable.
7. It is reasonable to withdraw the 25 cents per month additive fire hydrant rate presently surcharged to certain customers on the general metered rate in the Highland area.
8. 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.
9. Present service meets the requirements of General Order No. 103.

O R D E R

IT IS ORDERED that Southern California Water Company is authorized to file for its San Bernardino County District, on or after the effective date of this order, the rate schedules attached to this order as Appendix A, and to cancel and withdraw its presently filed Schedule No. SBH-4L. Such filing shall comply with General

Order No. 96-A. The effective date of the new or revised schedules shall be four days after the date of filing. The schedules so filed shall apply only to service rendered on and after the date thereof.

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

Dated at San Francisco, California, this 18<sup>th</sup> day of DECEMBER, 1973.

William J. Sturgeon, Jr. President

[Signature]

[Signature] Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

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

APPENDIX A  
Page 1 of 3

Schedule No. SB-1  
San Bernardino County District  
GENERAL METERED SERVICE

(T)

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Highland and portions of Muscoy and vicinity, San Bernardino County. (T)

RATES

Quantity Rates:

First 50,000 cu.ft. per 100 cu.ft. ....	\$ 0.259 (I)
Over 50,000 cu.ft. per 100 cu.ft. ....	0.181

Service Charge:

	Service Charge	
For 5/8 x 3/4-inch meter .....	\$ 2.00	
For 3/4-inch meter .....	2.20	
For 1-inch meter .....	2.60	
For 1-1/2-inch meter .....	3.40	
For 2-inch meter .....	4.60	
For 3-inch meter .....	6.20	
For 4-inch meter .....	13.40	
For 6-inch meter .....	23.80	
For 8-inch meter .....	31.80 (I)	

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.

APPENDIX A  
Page 2 of 3

Schedule No. AA-4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Applicable within all districts served by the applicant. (C)

RATE

Per Month

For each inch of diameter of service connection ..... \$2.00 (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.

2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

(Continued)



APPENDIX A  
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Schedule No. AA-4

PRIVATE FIRE PROTECTION 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.

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.