

ORIGINAL

Decision No. 82539

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application
of the SOUTHERN CALIFORNIA WATER
COMPANY for an order authorizing
it to increase the rates for water
service in its Southwest District.

Application No. 54035
(Filed May 15, 1973)

O'Melveney & Myers, by H. M. Messmer, Jr., and
Donn B. Miller, Attorneys at Law, for
Southern California Water Company,
applicant.
William R. Hartzell, for City of Hawthorne,
interested party.
Cyril M. Saroyan, Attorney at Law, and Andrew
Tokmakoff, for the Commission staff.

O P I N I O N

Southern California Water Company (SCWC) seeks authority to increase its Southwest District private fire protection and general service metered water rates^{1/} approximately \$486,100 (10.8 percent) annually over the rates authorized by Decision No. 81707 dated July 31, 1973.

SCWC, a California corporation, renders public utility water service in 17 districts located in portions of Contra Costa, Imperial, Los Angeles, Orange, Sacramento, San Bernardino, and Ventura Counties. It also renders electric service in the vicinity of Big Bear Lake in San Bernardino County.

The Southwest District includes all or portions of the cities of Carson, Compton, El Segundo, Gardena, Hawthorne, Inglewood, and Lawndale, and unincorporated territory in Los Angeles County. As of December 31, 1972 the Southwest District provided metered water service to 41,549 customers and private flat rate fire

^{1/} No increase is proposed for its public fire protection service.

protection service to 414 customers. It also provided public fire protection through 2,870 fire hydrants. Water is supplied from 19 owned wells, 7 connections to the West Basin Municipal Water District, and minor purchases from the city of Inglewood.

After notice, public hearing was held before Examiner Johnson on December 4, and 5, 1973 at Gardena, California, and the matter was submitted on January 7, 1974 upon receipt of the transcripts.

Testimony^{2/} on behalf of SCWC was presented by its chairman of the finance committee, two of its vice presidents, the assistant manager of its rates and valuation department, and its secretary and treasurer. The Commission staff presentation was made through a financial examiner and two engineers. A statement in opposition to the proposed private fire protection increases was made on behalf of the city of Hawthorne by its fire chief. A representative from the Hawthorne City Attorney's office stated the city felt that an allowance should be included in public fire protection rates for maintenance work done by cities. Two of SCWC's customers made statements protesting alleged inadequate water pressure.

Rates

The basic level of rates for the Southwest District was established by Decision No. 78154 dated January 5, 1971 in

^{2/} Testimony and exhibits relating to cost of money and rate of return had been presented by a witness for SCWC in Application No. 53764 for the Central Basin District rate proceeding. This testimony and exhibits together with related cross-examination were included as exhibits in this proceeding.

Application No. 51857 for general rate increase for the Southwest District. Subsequent offset increases were granted as follows:

<u>Decision No.</u>	<u>Dated</u>	<u>Appl. No.</u>	<u>Percent Increase</u>	<u>Increased Expense Offset</u>
78788	6-15-71	52530	2.32	Purchased water
79806	3-14-72	53088	2.11	Electric power & ad valorem tax
80342	8- 1-72	53285	1.41	Purchased water, pump tax, electric power, and reduced ad valorem tax
80930	1- 9-73	53667	1.23	Purchased water
81707	7-31-73	53975	6.69	Purchased water, pump tax, electric power, and street franchise tax.

The following tabulation sets forth the present and proposed general service metered water rates.

	<u>Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
Quantity Rates:		
First 10,000 cu. ft., per 100 cu. ft. ..	\$ 0.249	
Over 10,000 cu. ft., per 100 cu. ft. ..	0.209	
First 50,000 cu. ft., per 100 cu. ft. ..		\$ 0.263
Over 50,000 cu. ft., per 100 cu. ft. ..		0.236

Service Charge:

For 5/8 x 3/4-inch meter	\$ 1.97	\$ 2.40
For 3/4-inch meter	3.36	3.50
For 1-inch meter	4.53	4.85
For 1-1/2-inch meter	8.53	9.00
For 2-inch meter	11.20	11.50
For 3-inch meter	13.33	14.00
For 4-inch meter	17.06	17.50
For 6-inch meter	27.72	28.50
For 8-inch meter	34.12	38.00
For 10-inch meter	68.24	75.00

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.

In addition SCWC proposes to increase its private fire protection service rates for its Southwest District from \$2.00 to \$3.00 for each inch of diameter of service connection. SCWC's vice-president testified that this 50 percent increase was based on a comparison of the rates of other utilities and recommendations contained in a staff report on the modification of General Order 103 for uniform fire protection. Neither basis is persuasive of an increase of this magnitude and we will, therefore, authorize a 12.5 percent increase for this service to approximate the authorized increase for the industrial class of service.

Results of Operation

SCWC's original estimated summary of earnings for its Southwest District was dated May 14, 1973 and a similar independent estimate prepared by the Commission staff was dated October 26, 1973. Both SCWC and the Commission staff reviewed and updated these estimates and for the test year 1974 were able to agree on operating revenues, district administrative and general expenses, district miscellaneous expenses, taxes other than income taxes, and depreciation expenses. The amounts and bases for the differences between SCWC's and the staff's final 1974 test year estimates for operating and maintenance expense and allocated common expense are summarized in Exhibit 3. The following tabulation compares the updated estimated summary of earnings for the test year 1974, under present and proposed rates, prepared by SCWC and by the Commission staff, and the adopted summary of earnings at present rates for the test year 1974:

SUMMARY OF EARNINGS
(Estimated Year 1974)
(000)

Item	SCWC Estimated		Staff Estimated		Adopted ^{2/}
	Company		Company		
	Present ^{1/}	Proposed	Present	Proposed	
	Rates	Rates	Rates	Rates	Results
Operating Revenues	\$ 4,565.5	\$ 5,061.9	\$ 4,565.5	\$ 5,061.9	\$ 4,565.5
Operating Expenses					
Oper. & Maint.	2,479.5	2,479.5	2,449.4	2,449.4	2,493.5
Adm., Gen. & Misc.	93.4	93.4	93.4	93.4	93.4
Taxes other than Income	461.9	469.5	461.9	469.5	461.9
Depreciation	320.5	320.5	320.5	320.5	320.5
Allocated Common	142.8	142.8	139.4	139.4	140.5
Subtotal	3,498.1	3,505.7	3,464.6	3,472.2	3,509.8
Income Taxes	275.6	533.0	293.0	550.6	269.2
Total Expenses	3,773.7	4,038.7	3,757.6	4,022.8	3,779.0
Net Oper. Rev.	791.8	1,023.2	807.9	1,039.1	786.5
Dep. Rate Base	12,604.1	12,604.1	12,604.1	12,604.1	12,604.1
Rate of Return	6.28%	8.12%	6.41%	8.24%	6.24%
Avg. Comm. Cust.	40,988	40,988	40,988	40,988	40,988

^{1/} SCWC final figures at proposed rates shown in Exhibit 3 recomputed to reflect present rates.

^{2/} At present rates. Basis for adopted results are discussed in the following paragraphs.

Operating Revenues

SCWC and the Commission staff agree on test year 1974 estimated revenues at present rates of \$4,565,500. These agreed upon revenues reflect the adoption by SCWC of the staff's industrial class estimates and the adoption by the staff of SCWC's estimates for the other classes of service.

Operating and Maintenance Expense

SCWC's estimate of 1974 test year operating and maintenance expense is \$30,100 higher than the staff's estimate and reflects higher estimated electric power for pumping expense of \$24,300 and higher postage expense of \$5,800.

SCWC's witness testified that the Southern California Edison Company (Edison) electric rates for the agricultural pumping schedule have increased in SCWC's Southwest District an average of 0.3 cents per kilowatt hour per year since the last general increase authorized by Decision No. 78802 dated July 15, 1971. SCWC added this trended increase of 0.3 cents per kilowatt hour to the latest effective rates in computing its 1974 test year estimate as contrasted to the staff use of the latest effective rates applied to the same number of kilowatt hours. Subsequent to the hearings, Edison filed an additional fuel cost adjustment, effective February 1, 1974, which adds 0.473 cents per kilowatt hour to the \$0.169 cents per kilowatt hour fuel cost increment which became effective November 1, 1973. Applying this recently authorized fuel cost adjustment to the staff estimated kilowatt hours of electric energy results in an electric power for pumping expense of \$208,600 for the test year 1974. This amount will be adopted.

The difference in postage expense of \$5,800 reflects use by the staff of the presently effective rate of eight cents per ounce for first class mail as compared to the use by SCWC of an anticipated effective rate of ten cents per ounce. This latter postage rate became effective March 2, 1974 and will be adopted.

Depreciation Expense

Both the Commission staff and SCWC estimated the depreciation expense for the test year 1974 to be \$320,500. This figure will be adopted.

Allocated Common Expenses

Included in this category are administrative and general expenses incurred by SCWC as a whole, ad valorem taxes on common utility plant, and payroll taxes on the general office payroll. In addition, SCWC receives revenues from the rental of space in the general office building which are netted against the above expenses. These net common expenses are allocated to the various districts on the basis of the arithmetical average of four factors; district plant, active number services, district operating payrolls, and district operating expenses. Both the Commission staff and SCWC used a four-factor percentage of 22.56 percent for the Southwest District.

The initial Commission staff's estimate of net general expense for the test year 1974 was \$608,400 as compared to SCWC's estimate of \$653,400. The \$45,000 difference in net common expense estimates consists of the following: The staff's estimate of general office rents is \$6,200 higher than SCWC's estimate due to the staff assumption that the present office vacancy rate, used by SCWC, would reduce by one-half for the test year 1974; the staff's estimate of general salaries and payroll taxes is \$25,400 less than SCWC's estimate and reflects the continuation of the latest known payroll level and an adjustment to the salary of SCWC's chairman of the finance committee to 20 percent of SCWC's average vice president's salary commensurate with time spent by the finance committee chairman on SCWC affairs; a difference of \$1,900 in estimated injuries and damages expenses; and \$11,500 less miscellaneous expense to reflect the elimination of Chamber of Commerce dues and one-half the dues to the California Water Association, the substitution by the staff of expenses for local rather than out-of-state board of directors' meetings, and a staff reduction of directors' fees from a recorded figure of \$11,550

(\$3,850 per director per year annual retainer for 3 directors) to \$2,400 (4 meetings at \$200 per director per meeting). After reviewing the updated data and estimates, the staff revised its general salaries and related payroll taxes upward by \$9,200 to reflect wage increases granted general office employees excluding executives. SCWC accepted the staff's estimates of rents, injuries and damages expenses, dues and donations, and expenses, other than directors' fees, associated with local rather than out-of-state board of directors meetings.

SCWC did not, however, accept either the staff's adjustments to the board of directors' salaries or the exclusion by the staff of the application of SCWC's general salary increase to its executives. Applying the Southwest District four-factor percentage of 22.56 percent to the expensed (non-capitalized) portion of the disputed executive salary increase and board of directors' salary adjustment yields an unresolved difference in allocated common expense of \$3,400 for the test year 1974, as shown in Exhibit 3.

SCWC's estimate assumed a six percent salary increase would be made to executives to parallel the general wage increases granted SCWC's non-executive employees. The staff estimate did not include such an increase on the basis that it had not been granted nor was it assured. The staff estimate is consistent with past practices and will be adopted.

The recorded director's salaries for the year 1972 was \$11,550 representing three directors' salaries of \$320.83 a month. The staff witness testified that he allowed \$2,400 for directors' salaries representing three directors attending four meetings and being paid a fee of \$200 a meeting. He further testified that his estimate was based on a review of the annual reports of seven utilities which indicated a range of directors' fees from \$100 per meeting up to \$300 per meeting, with \$200 per meeting being the

most representative figure. SCWC's vice-president testified that in response to his telephone inquiries, seven other major utilities informed him that their directors were paid an annual retainer fee in addition to or instead of a per board meeting fee. He further testified that such a procedure represents a change from past practices to compensate the directors for additional work presently being performed. When consideration is given to the complexity of the problems facing a multi-district water utility in the current financial climate, SCWC's position appears well founded and will be adopted.

Rate Base

The Commission staff and SCWC have estimated the 1974 test year rate base at \$12,604,100. This figure will be adopted as reasonable.

Rate of Return

SCWC and the Commission staff had included in this record as exhibits the testimony and related cross-examination on regulatory effects, cost of money, and rate of return by SCWC's witness at the hearings on Application No. 53764 for a general rate increase in SCWC's Central Basin District. SCWC's position in this matter was that it should be authorized rates that would yield an average rate of return of 8.0 percent over the next three years. This testimony also indicated that a companywide rate of return of 8 percent was necessary to be able to attract common equity money. SCWC estimated that 8 percent rate of return will provide a 12.67 percent return on equity and a times interest coverage of 2.87.

In this proceeding, the Commission staff financial examiner recommends as reasonable a rate of return ranging from 7.7 to 8.0 percent. He testified that a 7.7 rate of return would earn 11.81 percent on common stock equity and an 8.0 percent rate of return would earn 12.65 percent on common stock equity. Some of the factors considered by the staff financial examiner in arriving

at his recommended earnings allowance for common stock equity are: the financial requirements for future construction, funds available from other sources, SCWC's capital structure and the impact of high interest rates on the imbedded costs of senior securities, and the earnings and recently authorized rates of returns of other water utilities.

SCWC's estimates indicate an attrition in rate of return of 0.24 percent per year compared to the staff's estimated attrition rate of 0.06 percent per year. The difference in the computed attrition results from the use of trended wages and electric power for pumping expenses by SCWC as compared to the staff utilization of the same wage and electric rates for both periods. The staff believes that for rate making purposes an attrition allowance of about 0.10 percent per year is reasonable. The utilization of either of these attrition rates rounded to the nearest one-tenth of one percent and applied to the below adopted rate of return of 7.9 percent will produce an average rate of return for the period 1974 through 1976 within the Commission staff recommended range.

The midpoint of the staff's recommended rate of return (7.7 to 8.0 percent) rounded to the nearest one-tenth of one percent is 7.9 percent. We will adopt this rate of return as reasonable. Applied to the adopted rate base of \$12,604,100 it is estimated that it will provide earnings of 12.37 percent on common stock equity.

Service

A staff investigation indicated that the service provided by SCWC was generally satisfactory. A letter dated November 15, 1973 from the mayor of the city of Inglewood was read into the record. This letter alleged that SCWC was currently inadequately maintaining facilities in Inglewood. SCWC's vice-president testified

that the maintenance referred to was the trimming of the ivy on the fence at SCWC's Yukon plant and that such work had subsequently been completed. The fire chief from the city of Hawthorne stated that SCWC's system is inadequate to maintain required fire flow. In response to this allegation SCWC's vice-president testified that facilities are designed to meet the insurance service organization's regulations, then taken to the local fire department for review. In some instances the fire department reduces the fire flow requirement because the cost of the original requirement was exorbitant. This vice-president further testified that the water pressure at the premises of two customers who had made statements about inadequate pressure was found to be 82 and 72 psi, respectively, and, therefore, entirely adequate.

Findings

1. Southern California Water Company is in need of additional revenues for its Southwest District, but the proposed rates set forth in the application are excessive.
2. The adopted estimates previously discussed herein of operating revenues, operating expenses, and rate base for the test year 1974 reasonably indicate the results of SCWC's operations in its Southwest District in the near future.
3. A rate of return of 7.9 percent on the adopted rate base of \$12,604,100 is reasonable. Such rate of return will provide a return on equity of approximately 12.37 percent.
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. SCWC's earnings at "Present Rates" from its operations during the 1974 test year would produce a rate of return of 6.24 percent on a rate base of \$12,604,100 based on adopted results of operation.

6. The authorized increase in rates is expected to provide increased revenues of \$449,000 in SCWC's Southwest District for the full year 1974.

7. The authorized rates are estimated to produce an average rate of return between 7.7 and 7.8 percent for the period 1974 through 1976.

8. SCWC's service in the Southwest District is adequate.


The Commission concludes that the application should be granted to the extent set forth in the order which follows:

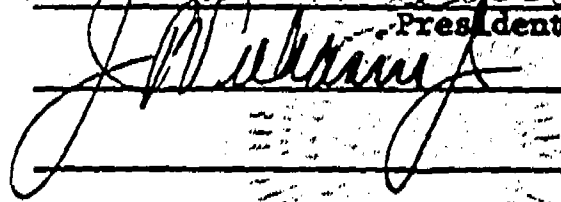
O R D E R


IT IS ORDERED that after the effective date of this order, Southern California Water Company is authorized to file the revised rate schedules attached to this order as Appendix A, and concurrently to cancel and withdraw presently effective schedules for the general metered 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 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 ✓ 14
day of MARCH, 1974.



President


Commissioners


Commissioners

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

Commissioner Thomas Moran, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
Page 1 of 5

Schedule No. SW-1

Southwest District

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

Quantity Rates:

	Per Meter Per Month
First 50,000 cu.ft., per 100 cu.ft.	\$0.262 (I)
Over 50,000 cu.ft., per 100 cu.ft.	0.230

Service Charge:

For 5/8 x 3/4-inch meter	\$ 2.40
For 3/4-inch meter	3.50
For 1-inch meter	4.85
For 1 1/2-inch meter	9.00
For 2-inch meter	11.50
For 3-inch meter	14.00
For 4-inch meter	17.50
For 6-inch meter	28.50
For 8-inch meter	38.00
For 10-inch meter	75.00 (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 5

Schedule No. SW-5

Southwest DistrictPUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, organized fire districts and other political subdivisions of the State.

TERRITORY

Within the established Southwest District.

(T)

RATES

	<u>Per Hydrant</u> <u>Per Month</u>	
CITY OF EL SEGUNDO:		
For each hydrant	\$2.50	(N)
CITY OF GARDENA:		
4-inch Riser Type Hydrant, with one 2½-inch outlet:		
Attached to 4-inch main	\$1.50	
Attached to 6-inch main, or larger	1.75	
6-inch Standard Type Hydrant, with one 2½-inch outlet, or one 4-inch outlet:		
Attached to 4-inch main	\$2.00	
Attached to 6-inch main, or larger	2.50	
6-inch Standard Type Hydrant with two 2½-inch outlets, or one 2½-inch and one 4-inch outlet:		
Attached to 4-inch main	\$2.25	
Attached to 6-inch main, or larger	2.75	
CITY OF HAWTHORNE:		
Riser Type Hydrant, with one 2½-inch outlet	\$1.50	
Standard Type Hydrant, 6-inch diameter, or smaller ..	2.50	

(Continued)

APPENDIX A
Page 3 of 5

Schedule No. SW-5

Southwest District
PUBLIC FIRE HYDRANT SERVICE

RATES—Contd.

	Per Hydrant Per Month
CITY OF INGLEWOOD:	
Riser Type Hydrant, with one 2½-inch outlet	\$1.50
Standard Type Hydrant, 6-inch diameter, or smaller ..	2.50
COUNTY OF LOS ANGELES AND OTHER PUBLIC AGENCIES:	
For each hydrant	\$2.00

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in the appropriate metered service schedule. (N)
2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.
3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size. (N)
4. 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)
(T)

APPENDIX A
Page 4 of 5

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 within the Southwest District. (I)
Rate B - Applicable within all other districts served by the company.
Rate C - Applicable within Coast tariff area of Central Basin District.

RATES

	Per Month		
	A	B	C
For each inch of diameter of service connection ...	\$2.25	\$2.00	\$1.50

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
Page 5 of 5

Schedule No. AA-4

All Districts

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.