

ORIGINAL

Decision No. 82741

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
Central Basin District.

Application No. 53764
(Filed December 21, 1972)

O'Melveny & Meyers, by Donn B. Miller,
Attorney at Law, for applicant.
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 establish rates in its Central Basin district designed to increase annual revenues by \$632,000, an increase of 21.3 percent. It is proposed to increase the general and limited metered service rates. No increase is proposed in the public fire protection schedule, nor in the company-wide schedules.

After duly published notice, public hearing was held before Examiner Bernard A. Peeters in Los Angeles on October 17, 18, and 19, 1973. The matter was submitted on October 19 subject to the filing of late-filed Exhibit 3, relating to customer complaints,^{1/} and Exhibit 13, a joint staff and SCWC endeavor consolidating the various adjustments and later information set forth in various exhibits and testimony.^{2/}

^{1/} Filed on November 14, 1973.

^{2/} Filed on November 12, 1973.

SCWC presented testimony and evidence through four witnesses and nine exhibits. The staff presented testimony from three witnesses and introduced two exhibits. Five customers appeared and testified at the hearing concerning the quality of their service. Also, the city of Downey, through its director of Public Works, protested the sought increase and introduced Exhibit 2, a comparison of rates. A division officer of the Downey Fire Department testified with respect to the volume of water available for fire-fighting purposes.

SCWC is a California corporation with its principal place of business located in Los Angeles. It is a privately owned public utility which provides water service in various areas in the counties of Contra Costa, Imperial, Los Angeles, Orange, Sacramento, San Bernardino, and Ventura. Administration is accomplished through 16 water districts. It also provides electric service in the vicinity of Big Bear Lake in San Bernardino County which is administered as a separate district. As of November 30, 1972 SCWC had 295 employees engaged in these operations.

The Central Basin district is located in the south-central portion of Los Angeles County and lies over the Central Basin hydrological area. Service in this district is provided to 17 municipalities and in an unincorporated territory of Los Angeles and Orange Counties (approximately 39 customers in Orange County). As of December 31, 1971, 35,265 customers were served in this district and, in addition, water service for public fire protection was provided by 1,991 fire hydrants.

There are now two tariff areas in the Central Basin district which resulted from the consolidation of various schedules in the past and which were the result of gradual internal development of the district and through acquisitions. Water service is provided through seven separate water systems which are not physically connected, but are administered and operated, through four districts as a single entity for water supply purposes. The Central Basin

districts are designated as: (1) Artesia office, (2) Bell office, (3) Bell Gardens office, and (4) Norwalk office. These offices handle matters relating to customer service such as service applications, collections, complaints, and other local matters. The billing and customer accounting is performed in the company's centralized billing operations.

The water supply for Central Basin district is obtained from 50 wells located in the district, and from purchases from the Metropolitan Water District of Southern California and minor amounts from Park Water Co. Approximately 57 percent of the water supply is obtained from the wells. The quantity of water that can be produced from the wells is limited pursuant to a "Stipulation and Agreement for Judgment" approved by the Commission in Decision No. 68316.

The distribution system consists of about 348 miles of distribution mains ranging in size up to 16 inches in diameter. Storage capacity as of December 31, 1971 was 4,549,000 gallons provided by 15 steel and concrete tanks and reservoirs and the system has 10 booster pumping stations.

The basic level of the present rates was established by Decision No. 76920 dated March 10, 1970 in Application No. 51165. Three offset rate increases have since been authorized.^{3/}

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- 3/ 1.39 percent to offset increased price of purchased water from MWD, Decision No. 78788 dated June 15, 1971, Application No. 52530.
3.19 percent to offset increased electric power pumping rates and ad valorem taxes, Decision No. 79806 dated March 14, 1972, Application No. 53088.
1.89 percent to offset increased price of purchased water from MWD, Decision No. 80342 dated August 1, 1972, Application No. 53285.

Results of Operation

Exhibit 5 contains SCWC's analysis of its operations modified by Exhibit 8 for later information. Exhibit 11 is the staff's analyses of SCWC's operations for the estimated years 1972 and 1973 at present and proposed rates for both years. Exhibit 13 brings the staff's and applicant's results of operations together as adjusted for later information.

Operating Revenues

The staff made an independent estimate of water consumption and revenues for the years 1972 and 1973 using the latest available data. The following table sets forth the staff's and SCWC's estimates, as presented in Appendix A to Exhibit 11:

TABLE 1

Year 1973 Estimated

Item	Applicant Estimated		Staff Estimated		Applicant Exceeds Staff
	Present	Co. Proposed	Present	Co. Proposed	
	Rates	Rates	Rates	Rates	

(Dollars in Thousands)

Operating Revenues	\$3,084.1	\$3,596.8	\$3,107.5	\$3,626.0	\$(23.4)
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(Red Figure)

1/ At rates requested in Application No. 53975 and granted by Decision No. 81707, signed on July 31, 1973, to be effective no sooner than August 13, 1973.

Under the staff's estimate of proposed rates, as set forth in Exhibit 13, SCWC will earn a rate of return of 8.39 percent for 1973.

The difference in revenues is accounted for by the fact that the staff estimate of public authority usage of water was based upon a separate estimate of sales to SCWC's largest customer, Metropolitan State Hospital. The staff used 1972 recorded sales for both test year estimates. For the remaining public authority sales

the staff used the least squares trend through the years 1967 to 1972. The results were then adjusted to temperature and rainfall. SCWC, on the other hand, used total yearly public authority sales, adjusted for temperature, for the recorded years 1962 through 1971, then it used the least squares method to project the trend for establishing estimated water used for the years 1972 and 1973. SCWC and the staff ultimately agreed upon the estimated revenue for 1973 as shown in Exhibit 13.

Operating Expenses

The following table shows the staff adjustments and differences between its and SCWC's estimates as set forth in Exhibit 11:

TABLE II

Operation, Maintenance, Administrative, and General Expenses

Item	1972 Estimated ^{1/}		1973 Estimated		
	Applicant	Staff	Applicant	Staff	

(Dollars in Thousands)

Oper. & Maint. Exp.

Salaries	\$ 287.9	\$ 304.4	\$ 303.7	\$ 304.4	\$ (0.7)
Purchased Water	695.4	683.7	696.1	685.8	10.3
Pump Tax	155.6	148.3	155.6	148.3	7.3
Purchased Power	142.6	144.4	148.3	144.4	3.9
Chemicals	3.5	3.5	3.5	3.5	-
EDP Allocation	76.6	78.5	83.7	78.8	4.9
Uncollectibles	10.7	10.7	10.7	10.8	(0.1)
Other O & M Exp.	153.4	150.3	155.9	152.3	3.6
Subtotal O & M	1,525.7	1,523.8	1,557.5	1,528.3	29.2

Admin. & General Exp.

Salaries	23.1	24.4	24.3	24.4	(0.1)
Other Exp.	58.9	59.7	62.3	59.7	2.6
Subtotal A & G	82.0	84.1	86.6	84.1	2.5

(Red Figure)

^{1/} Staff adjusted.

We will comment on some of these differences in Table II for explanatory purposes, since ultimately most of these differences were resolved between the parties.

Electronic Data Processing (EDP) Allocation

The difference between SCWC and the staff in customer accounts-EDP is due to the change in the method of allocating billing expense by SCWC. In prior proceedings^{4/} both SCWC and the staff assigned the general office electronic data processing expense to SCWC's districts by (1) charging billing expenses directly to the district based on the average cost per bill, and (2) allocating other data processing costs on a four-factor basis. In this proceeding SCWC changed its formula for determining the billing expense from charging the average cost per bill directly to one of using a ratio of Central Basin customers to total system customers for allocating the billing expense to the Central Basin district. The other factor causing the difference between staff and SCWC is that the staff excluded the salary of one of three programmers. This was done on the basis that the RCA programs have been fully converted to the Honeywell system and thus two programmers will be adequate to maintain existing and scheduled programs. The staff's method is consistent with the treatment of these matters in other recent rate increase proceedings of SCWC noted above. We will adopt the staff's method and estimate.

Other O & M Expenses

Here the staff used the latest recorded costs for the entire year 1972 while SCWC's 1972 data consisted of recorded costs for the last three months of 1971 and the first nine months of 1972. The use of lower 1972 cost data by the staff had a significant effect on the cost trend and resulted in a lowering of costs for the estimated years. SCWC ultimately agreed with the staff's estimate which we shall adopt.

^{4/} Applications Nos. 53512, 53594, and 53663 of SCWC.

Administrative and General Expenses

a. Salaries. The staff did not trend payroll so as not to project future wage increases which have not been firmed up. Late-filed Exhibit 13, however, contains a resolution of the Board of Directors dated October 30, 1973, which authorizes management to put into effect a new wage and salary scale, together with increased benefits effective December 29, 1973. The increase is designed so as not to exceed an increase of \$154,500 (including overtime) or 6 percent. Although SCWC brought its final estimate into line with the staff exhibit, we will provide for a 6 percent increase in salaries by increasing them \$19,800. This is consistent with our wage-offset policy.

b. Other A & G. SCWC trended injuries and damages expenses for the test year. The staff used the latest recorded costs for injuries and damages for adjusted year 1972 and estimated year 1973. We will adopt the staff estimate.

As a result of incorporating later available information, the staff and SCWC were able to resolve many of their differences, including those discussed above. For example, the staff adjusted depreciation expense upward by \$23,300 due to the fact that new depreciation rates had been adopted and approved after the staff had completed its exhibit. Table III is a summary of earnings as finally presented to the Commission jointly by the staff and SCWC (Exhibit 13).

As can be seen from Table III, the remaining differences between the staff and SCWC involve expenses for purchased water, purchased power, pump tax, and income tax. These will be discussed below:

TABLE III

CENTRAL BASIN DISTRICT

Summary of Earnings and Rate of Return
Year 1973 Estimated at Company Proposed Rates
 (Dollars in Thousands)

	Initial CPUC Staff Summary	Agreed Adjustments to Reflect Later Information			Final CPUC Staff Summary	Adjustments to Reflect Company Position Basin Pumping	Final Company Summary
		Power for Pumping	Deprecia- tion	Involuntary Conversions			
Operating Revenues	\$3,626.0				\$3,626.0		\$3,626.0
<u>Operating Expenses</u>							
Purchased Water	685.8				685.8	34.3	720.1
Pump Tax	148.3				148.3	(5.7)	142.6
Power for Pumping	144.4	32.8			177.2	(6.7)	170.5
Chemicals	3.5				3.5		3.5
Labor - O & M	304.4				304.4		304.4
Labor - A & G	24.4				24.4		24.4
Cust. Acct. - EDP	78.8				78.8		78.8
Uncollectibles	10.8				10.8		10.8
Deprec. & Amort.	235.6		23.3		258.9		258.9
Property Taxes	290.5				290.5		290.5
Payroll Taxes	18.9				18.9		18.9
Street Franch. Tax	42.9				42.9		42.9
Allocated Gen. Office	108.7				108.7		108.7
Other Expenses - O & M	152.3				152.3		152.3
Other Expenses - A & G	59.7				59.7		59.7
Subtotal	2,309.0	32.8	23.3		2,365.1	21.9	2,387.0
Income Tax	473.9	(17.3)		0.9	457.5	(11.5)	446.0
Total Operating Expenses	2,782.9	15.5	23.3	0.9	2,822.6	10.4	2,833.0
Net Operating Revenue	843.1	(15.5)	(23.3)	(0.9)	803.4	(10.4)	793.0
Rate Base	9,606.1		(36.1)		9,570.0		9,570.0
Rate of Return	8.78%				8.39%		8.29%
			(Red Figure)				

A. 53764 cm

Purchased Water

During the water year 1971-72, at the request of the Metropolitan Water District, because of an emergency,^{5/} SCWC over-pumped its adjudicated amount of water from the hydrological basin by 1,542.6 acre-feet. Although SCWC testified that this over-pumping, which must be paid back, will be paid back during 1974, it amortized this cost over a three-year period. The staff adjusted this added cost and the corresponding effect on pump tax and purchased power. The staff's rationale for this adjustment is that such emergency is a nonrecurring expense and future ratepayers should not be burdened with past loss of earnings. We will adopt the staff adjustment.

Purchased Power

SCWC used estimated power rates for this item which they expected would be in effect for 1972 and 1973. Subsequent to the preparation of its exhibits, two offset electrical rate increases for increased fuel costs and a general rate increase were authorized for Southern California Edison Company (SCE)^{6/} from whom SCWC obtains its electrical power. The staff used the latest authorized power rates in effect as of May 1, 1973 which are reflected in Table III. However, since submission of this matter, SCE was authorized another offset increase in electric power rates.^{7/} We take official notice of this fact and therefore will increase this expense item by \$35,500 to place such expense on a current basis.

^{5/} Exhibit 6.

^{6/} Resolution No. E-1366 dated July 31, 1973 effective August 13, 1973. Decision No. 81919 dated September 25, 1973, Application No. 53488 effective October 10, 1973. Resolution No. E-1377 dated October 26, 1973 effective November 1, 1973.

^{7/} Resolution No. E-1384 dated January 29, 1974 effective February 1, 1974.

Income Taxes

Since 1964 SCWC has sold properties, under threat of condemnation, to various public agencies. The gains obtained from these involuntary conversions were reinvested in other utility plant to defer payment of capital gains tax. Section 1033 of the Internal Revenue Code provides alternative methods for handling capital gains on involuntary conversions. SCWC has elected the alternative which permits it to escape immediate tax recognition of the gain. In electing this method, however, the tax basis of replacement property is its cost less the amount of the gain not recognized. Under this adjusted basis, annual depreciation charges for the future are less than prior to the involuntary conversion, thus resulting in an increase in future income for tax purposes with resultant higher taxes to be recouped through rates. The ultimate effect of this treatment of the capital gain is that instead of paying a capital gains tax of 25 percent at the time of sale, SCWC's future customers, for an indeterminate period in the future, would be called upon, through the rates authorized, to provide for SCWC's corporate income tax on the difference in depreciation charges.^{8/} The staff added back the depreciation, in accordance with the policy established in the California Water Service Co. case, supra. It estimated that the reduced depreciable tax base, which still remained in 1973, to be \$1,026,000, of which \$164,200 was allocated to Central Basin District for income tax purposes. This resulted in a downward adjustment to income tax of \$900 for rate-fixing purposes. SCWC has taken no issue with this adjustment. We will adopt the staff's position.

With respect to the state corporation franchise tax, the staff used the actual rate of 9 percent, effective July 1, 1973, which figure was not available to SCWC at the time of its preparation.

In summary, we have generally adopted the staff's position, with modifications, as set forth in Table IV.

^{8/} Cal. Water Service Co. (1962) 59 CPUC 525, 527.

TABLE IV

Summary of Earnings
Estimated Year 1973
(000's omitted)

	<u>Staff Estimate</u>		<u>SCWC Est.</u>		
	<u>Present</u>	<u>Company</u>	<u>Proposed</u>	<u>Adjusted</u>	<u>Adopted</u>
	<u>Rates^{1/}</u>	<u>Rates^{2/}</u>	<u>Rates^{3/}</u>	<u>Results^{1/}</u>	<u>Results^{4/}</u>
Operating Revenues	\$3,107.5	\$3,626.0	\$3,626.0	\$3,107.5	\$3,581.0
<u>Operating Expenses</u>					
Purchased Water	685.8	685.8	720.1	685.8	685.8
Pump Tax	148.3	148.3	142.6	148.3	148.3
Power for Pumping	177.2	177.2	170.5	212.7	212.7
Chemicals	3.5	3.5	3.5	3.5	3.5
Labor - O & M	304.4	304.4	304.4	322.7	322.7
Labor - A & G	24.4	24.4	24.4	25.9	25.9
Cust. Acct. - EDP	78.8	78.8	78.8	78.8	78.8
Uncollectibles	10.8	10.8	10.8	10.8	10.8
Deprec. & Amort.	258.9	258.9	258.9	258.9	258.9
Property Taxes	290.5	290.5	290.5	290.5	290.5
Payroll Taxes	18.9	18.9	18.9	20.0	20.0
Street Franchise Tax	36.8	42.9	42.9	36.8	42.4
Allocated Gen. Office	108.7	108.7	108.7	108.7	108.7
Other Expenses - O & M	152.3	152.3	152.3	152.3	152.3
Other Expenses - A & G	59.7	59.7	59.7	59.7	59.7
Subtotal	2,359.0	2,365.1	2,387.0	2,415.4	2,421.0
Income Tax	187.6	457.5	446.0	157.9	404.4
Total Operating Expenses	2,546.6	2,822.6	2,833.0	2,573.3	2,825.4
Net Operating Revenue	560.9	803.4	793.0	534.2	755.6
Rate Base	9,570.0	9,570.0	9,570.0	9,570.0	9,570.0
Rate of Return	5.86%	8.39%	8.29%	5.58%	7.90%

^{1/} At present rates effective August 13, 1973.

^{2/} From Exh. 13, Col. (e).

^{3/} From Exh. 13, Col. (h).

^{4/} At authorized rates.

Rate of Return

SCWC and the staff presented witnesses and exhibits on rate of return. SCWC seeks a rate of return that will average 8 percent over the next three years and produce an increase in annual gross revenues of \$632,000, an increase of 21.3 percent. The staff recommended a range for rate of return from 7.6 percent through 7.9 percent as reasonable.

It is the contention of SCWC that it needs an average rate of return of 8 percent to be able to recover rapidly increasing costs, provide a coverage of three times interest in order to maintain its "A" bond rating, and increase its return on common equity in order to attract capital and maintain its operations on a sound financial basis. Inherent in its request for an average rate of return, and by specific request, SCWC seeks a provision that will provide for attrition in the rate of return. It justifies this request on the ground of anticipated increased costs during the time the authorized rates are in effect. SCWC estimated a 0.42 percent decline in rate of return at the proposed rates. The staff estimated a decline of 0.19 percent and recommends an allowance of about 0.2 percent per year be adopted for attrition.

SCWC sets forth various factors and charts in Exhibits 4 and 8 designed to demonstrate why its recorded rate of return does not approach its authorized rate of return. Among the factors alleged to cause this deficiency are the escalating cost of money and multi-district rate regulation.

The foundation precept of utility regulation provides that a utility is constitutionally entitled to an opportunity to earn a reasonable return on its investment which is lawfully devoted to the public use. The return is generally expressed as a percentage of the capital utilized in providing service. Within this context, a fair and reasonable rate of return applied to an appropriately derived rate base quantifies the earnings opportunity available to the enterprise, after recovery of reasonable operating expenses, depreciation allowances, and taxes.

Ultimately, the rate of return determination in this proceeding must represent the exercise of informed and impartial judgment by the Commission, which must necessarily give equal weight to consumer and investor interests in deciding what constitutes a fair and reasonable rate of return. Such balancing of interests is directed toward providing SCWC's water consumers with the lowest rates practicable, consistent with the protection of SCWC's capacity to function and progress in furnishing the public with satisfactory, efficient service and to maintain its financial integrity, attract capital on reasonable terms, and compensate its stockholders appropriately for the use of their money.^{9/}

SCWC's reasons for its inability to earn the rate of return authorized are not convincing. It makes a comparison of the authorized rate of return with its recorded rate of return. Analysis of this comparison (Chart 1 and the supporting data in Table 7 of Exhibit 4) reveals that comparable data are not used. The authorized rate of return is based upon a capital structure of the total company as it existed at a given time. The recorded rate of return used by SCWC for comparative purposes is based upon averages. Furthermore, the underlying data in Table 7 consist of the rates of return authorized in 20 separate district proceedings for the period June 1966 through September 1972. Four districts are represented twice in this array. The individual authorized rates of return, determined on SCWC's total capital structure, were arrived at in consideration of a single district's operations, and after ratemaking adjustments. Thus, the comparison of authorized rates of return by districts, with a recorded rate of return for total company, which does not take into consideration ratemaking adjustments, results in the comparison of dissimilar figures.

^{9/} Decision No. 82310 dated January 8, 1974, Application No. 53250 of Francis Land & Water Co.
Decision No. 82361 dated January 22, 1974, Application No. 53288 of Jackson Water Works, Inc.

No utility can be guaranteed that it will earn the authorized rate of return. As pointed out above, all that is guaranteed, if anything, is an opportunity to earn the authorized rate of return through the higher rates authorized.

Escalating cost of money in the future, which SCWC assigns as one of the reasons for its inability to earn the authorized rate of return has been considered by the staff. In Application No. 54370 SCWC sought authority to issue 30,000 shares of \$100 preferred stock. This proposed issue was included in the staff's study. Authority to issue these securities was granted on October 10, 1973 in Decision No. 82063. The other area of escalating cost of money involved short-term bank loans. The staff did not consider short-term debt in its determination of a reasonable rate of return range because of the above application. The proceeds of this issue would be used to re-finance the short-term debt, thus reducing it to less than one percent of total capital.^{10/} SCWC estimates that its short-term bank loans will amount to 3.42 percent of total capital at the end of 1974 for which it expects to pay an 8.5 percent interest rate on \$165,800 outstanding as of December 31, 1974. It is noted that the prime interest rate has varied from a high of 10 percent and has fluctuated at lower levels in recent months. Presumably, the prime rate will continue to fluctuate for the near future, and apparently SCWC subscribes to this presumption since it assigned an 8.5 percent interest rate for 1974. Therefore, its argument of escalating cost of money falls short of the mark. In any event, SCWC is compensated, at least in part, for the cost of short-term bank loans by the fact that they are included in rate base as part of working cash, which is, in part, determined by the inclusion of the amount of noninterest bearing minimum bank balances SCWC is required to maintain for its line of credit.^{11/}

^{10/} See Table 6, Exhibit 4, 1973 estimated.

^{11/} Exhibit 10, Table 6-C, Decision No. 76920 dated March 10, 1970, Application No. 51165 of SCWC.

According to SCWC, the most important factor preventing it from earning its authorized rate of return is the fact that it is a multidistrict company. As such it has been required to present its request for authority to increase rates and rate of return on a district-by-district basis. SCWC points out that if an 8.2 percent rate of return were authorized for one district today and the resulting rates were to remain in effect for three or four years, such rate of return would not be earned on a companywide basis. Exhibit 4 presents an example demonstrating this situation. It is alleged that SCWC's rate of return can only be considered by the Commission in a "general rate increase proceeding". However, since SCWC files for such increases on a district-by-district basis, it ultimately winds up with having had several different rates of return authorized over a period of one to two years simply because of the time element involved in processing 16 or less applications.^{12/}

Although SCWC claims it was required to process its applications on a district-by-district basis, there is no evidence in the record to support the reason for this requirement, nor why a single application for the total company could not be entertained by the Commission.

However valid the multidistrict argument may be, we do not believe it justifies authorizing a rate of return in this proceeding that would have a tendency to offset the alleged deficiency in rate of return on total company operations.

12/

<u>District</u>	<u>Applica- tion No.</u>	<u>Date Filed</u>	<u>Date Hearing Submitted</u>	<u>Date of Decision</u>	<u>New Rates Effective</u>
<u>Most Recent Decision</u>					
San Bernardino	53663	10-20-72	8-9-73	12-18-73	1-11-74
<u>Hearings Complete</u>					
Central Basin	53764	12-21-72	11-14-73		
Southwest	54035	5-15-73	1-7-74	3-5-74	
Culver City	54095	6-6-73	2-1-74		
<u>Hearings Set</u>					
Simi Valley	54045	5-21-73	2-20-74		
Pomona Valley	54064	5-25-73	3-13-74		
<u>Recent Filings</u>					
Barstow	54502	12-10-73			
San Gabriel Valley	54620	1-29-74			

The last reason advanced for the alleged inability of SCWC to earn its authorized rate of return is that "escalating operating costs are not reflected in Commission decisions despite established trend." It cites the "Fuel Cost Adjustment Factor" authorized Southern California Edison Company (Edison), its power supplier, which is alleged to trend at about 20 percent annual increase in power rates. It points out that 12 of SCWC's districts are affected by Edison's quarterly increases; therefore, SCWC would have to file 48 offset rate applications to track these increases in one year. It is also claimed that the established trend in labor costs is not reflected in the Commission's decisions.

It is established Commission policy not to speculate as to future wage rate increases nor as to future tax increases (Pacific Lighting Gas Supply Co. (1957) 56 CPUC 69, 73) or upon increases in wages regarded by management as "inevitable" but not yet granted (Grayline Tours Co. (1969) 69 CPUC 445, 456). For the same reasons that the Commission will not speculate as to future wage rate or tax increase, it will not speculate as to increased costs resulting from the fuel cost adjustment factor. It is not certain or established what the future increase in fuel costs will be. It is because of this uncertainty that the Commission authorized a quarterly adjustment to be made to prevent undue hardship. The same relief, in the form of advice letter filings, is available to SCWC to offset increased costs of this nature.

As indicated above, both SCWC and the staff point out that between estimated test years 1972 and 1973, a certain amount of attrition in rate of return is shown, which results from higher cost estimates in the test year. An examination of Exhibit 13 shows a 0.17 percent decline in rate of return between 1972 and 1973 on the staff's basis. We have recognized a 6 percent increase in wages and the latest increase in power cost, which were not reflected in the exhibits present, and we have considered these added cost increases along with the attrition in determining a reasonable rate of return for this proceeding. A 0.17 percent decline in the rate of return we are adopting will average out at the lower end of the staff's recommended range for a reasonable rate of return.

Exhibit 4 shows that since 1963 there has been a continual increase in dividends per share of common stock to shareholders and that there has been a steady growth in customers served and that the book value per share of common stock has increased. Table 8-A in Exhibit 10 shows that the estimated rate of return for total company operations for test year 1973 is 7.11 percent on an unadjusted basis.

As noted above, the prime interest rate has fluctuated and future short-term borrowing costs are provided for by the inclusion of minimum bank balances in the rate base.

After consideration of the record we will adopt the upper end of the staff's recommended range for rate of return, viz., 7.9 percent. This should produce a 12.56 percent return on common equity and provide a 2.96 times interest coverage, after taxes, which should be sufficient to maintain SCWC's "A" bond rating. ✓

Service

Five customers testified at the hearing concerning the quality of their water service, one of whom presented a petition signed by 18 neighbors complaining about low water pressure and dirty water. The other complaints concerned inaccurate meter readings, leaks, billing error, and local office personnel. In addition, the director of Public Works of the city of Downey presented a statement on behalf of the Downey City Council and Exhibit 2. The statement expressed the council's concern for its citizens as to the magnitude of the increased rates being sought. The director pointed out that Downey is served by three water purveyors: Park Water Company, SCWC, and the city's own municipal water system. Exhibit 2 compares the rates of the municipal system with SCWC's proposed rates. The exhibit shows that the proposed rates are considerably higher than the city's. It was pointed out, however, on cross-examination that the city's rates are four years old, that the municipal system's costs have increased, and that the system does not incur many of the expenses of a privately owned water utility.

A representative of Downey's Fire Department also testified and pointed out that in specific areas of the city served by SCWC, the volume of water available for fire fighting is not sufficient for their needs. This could, and did, cause the city to lose points

in its fire rating by the Insurance Organization of America. He asserted that "there are a lot of dead four-inch mains lying in the areas that are a deterrent to good water service and fire hydrants for public use in case of a holocaust." He referred particularly to the northwest area which consists of hospitals, convalescent homes, and multilevel buildings. SCWC did not respond to this complaint in Exhibit 3.

The staff's investigation of applicant's service indicated that there were eight informal complaints filed with the Commission since the beginning of 1972. These complaints related primarily to high bills. The investigation also determined that the service provided by applicant was satisfactory.

At the direction of the examiner, SCWC investigated the complaints presented at the hearing and filed its report thereon as late-filed Exhibit 3, which consists of letter responses by SCWC to the individuals involved. With respect to low water pressure and volume, Exhibit 3 shows that water pressure in the mains ranges from 52 to 80 pounds per square inch, which is good pressure, and that the low volume is due to small sized, and highly tuberculated piping in the residences. A report from the county of Los Angeles Department of Health Services indicated that the water quality was found to meet the physical standards of the U. S. Public Health Drinking Water Standards, and that the sediment in the water of the particular complaint was pipe scale and not sand.

With respect to the meter reading complaints, it is shown that in one instance SCWC was unable to read meters in an area for a period of time due to construction by the county road department. It therefore estimated the consumption, which estimates were adjusted after actual meter readings were able to be resumed. In another instance, it was found that high meter readings were due to leaking fixtures in the residences. In each instance of complaint on meter readings, SCWC provided the customer with a meter reading history

covering a period of three or more years. This history contained the date of reading, meter reading, consumption, amount billed, and remarks. It also indicated which meter readings were estimated. The customer was given the opportunity to respond to these letters. The record does not show if any customer witness disputed SCWC's reply to their complaints.

The billing error complaint was resolved by the company admitting a mistake had been made and a \$95.12 refund was made to the customer.

SCWC's vice president of operations testified that insofar as the complaints about the attitude of certain district office personnel, he had taken immediate steps to correct the situation and insure that all personnel maintain a helpful and interested attitude toward customer relations.

Findings

1. SCWC is in need of additional revenues, but the proposed rates set forth in the application are excessive.

2. The adopted estimates, previously discussed herein, and the rate base for the test year 1973 indicate that results of SCWC's operations, in the near future, will produce a reasonable rate of return.

3. The total amount of the increase in annual revenue authorized by this decision is \$473,500, the rate of return on the adopted rate base is 7.90 percent, the return on common equity is 12.56 percent.

4. The increases in rates and charges authorized by this decision are justified and are reasonable, and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

5. Service meets the minimum requirements of General Order No. 103-Series.

Conclusion

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, applicant Southern California Water Company is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

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

Dated at San Francisco, California, this 16th day of APRIL, 1974.

William L. Sturgeon President
Vernon L. Sturgeon
W. L. Sturgeon
W. L. Sturgeon Commissioners

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

APPENDIX A
Page 1 of 5

Schedule No. CBA-1

CENTRAL BASIN DISTRICTArtesia-Norwalk Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the Cities of Artesia, Cerritos, Downey, Hawaiian Gardens, Lakewood, Long Beach, Norwalk, Santa Fe Springs and vicinity, Los Angeles County, and portions of the City of Los Alamitos and vicinity, Orange County.

RATES

Quantity Rate:	Per Meter Per Month	
Per 100 cubic feet	\$ 0.250	(I)
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 2.75	(I)
For 3/4-inch meter	3.00	
For 1-inch meter	3.60	
For 1-1/2-inch meter	5.00	
For 2-inch meter	8.00	
For 3-inch meter	16.00	
For 4-inch meter	25.00	
For 6-inch meter	40.00	
For 8-inch meter	70.00	
For 10-inch meter	100.00	(I)

APPENDIX A
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Schedule No. CBA-1

CENTRAL BASIN DISTRICT

Artesia-Norwalk Tariff Area

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 Rate.

APPENDIX A
Page 3 of 5Schedule No. CBB-1
CENTRAL BASIN DISTRICT
Bell-Florence Tariff Area
GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the Cities of Bell, Bell Gardens, Cudahy, Downey, Huntington Park, Paramount, Pico Rivera, South Gate, Vernon and vicinity, Los Angeles County.

RATES

Quantity Rate:		Per Meter Per Month	
Per 100 cubic feet		\$ 0.234	(I)
Service Charge:			
For 5/8 x 3/4-inch meter		\$ 2.45	(I)
For 3/4-inch meter		2.75	
For 1-inch meter		3.60	
For 1-1/2-inch meter		5.00	
For 2-inch meter		8.00	
For 3-inch meter		16.00	
For 4-inch meter		25.00	
For 6-inch meter		40.00	
For 8-inch meter		70.00	(I)
For 10-inch meter		100.00	

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 Rate.

APPENDIX A
Page 4 of 5

Schedule No. CBA-1L

CENTRAL BASIN DISTRICT

LIMITED METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished to the Metropolitan State Hospital, City of Norwalk.

TERRITORY

Within the established Central Basin District.

RATES

	Per Meter Per Month	
Quantity Rate:		
Per 100 cubic feet	\$ 0.176	(I)
Service Charge:		
For 10-inch meter	\$100.00	(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 Rate.

SPECIAL CONDITION

Service under this schedule will be furnished only between the hours of 9:00 p.m. and 6:00 a.m. The utility will provide adequate controls to prevent use of water any other time.

APPENDIX A
Page 5 of 5

Schedule No. CB-5

CENTRAL BASIN DISTRICT

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

Within the established Central Basin District.

RATES

	<u>Per Hydrant</u> <u>Per Month</u>	
For each hydrant	\$2.00	(C)
		(D)

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.
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.
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.