

ORIGINAL

Decision No. 82762

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 Culver City District.

Application No. 54095
(Filed June 6, 1973)

O'Melveney & Myers, by Harold M.
Messmer, Jr., Attorney at Law,
for Southern California Water
Company, applicant.
Cyril M. Saroyan, Attorney at Law,
and John E. Brown, for the Commission
staff.

O P I N I O N

Southern California Water Company (SCWC) seeks authority to increase its Culver City District private fire protection and general service metered water rates^{1/} approximately \$109,600 (10.3 percent) annually over the rates authorized by Decision No. 81680 dated July 31, 1973.

SCWC 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 Culver City District lies substantially within the boundaries of Culver City in the west central portion of the Los Angeles basin. On December 31, 1972 Culver City District served 8,126 general service metered customers, 103 flat rate private fire connection customers, and 602 public fire hydrants.

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

SCWC purchases approximately 90 percent of its Culver City District water supply through three connections to the facilities of West Basin Municipal Water District, a member agency of the Metropolitan Water District of Southern California. The balance of the Culver City District water supply is obtained from company-owned wells located at the Charnock and Sentney Plants.

After notice, public hearing was held before Examiner Johnson on January 2 and 3, 1974 at Culver City and the matter was submitted on February 1, 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^{3/} was made through a financial examiner and two engineers. Seven customers of SCWC presented testimony alleging that inferior quality water was being distributed in the Culver City

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. In addition, testimony and exhibits relating to SCWC's overall operations and rebuttal testimony and cross-examination on directors' fees presented by witnesses for SCWC in Application No. 54035 for the Southwest District rate proceeding were incorporated by reference into this proceeding.

3/ Staff testimony, exhibits, and related cross-examination on SCWC's overall operations presented in Application No. 54035 for the Southwest District rate proceeding were incorporated by reference into this proceeding.

District by SCWC. The objectional features cited in this testimony were excessive hardness, unpleasant odor, corrosion of house plumbing, and dirt in the water.

Rates

The basic level of rates for the Culver City District was established by Decision No. 77365 dated June 16, 1970 in Application No. 51412 for a general rate increase for this district. Subsequent offset increases were granted as follows:

<u>Decision No.</u>	<u>Dated</u>	<u>Application No.</u>	<u>Percent Increase</u>	<u>Increased Expense Offset</u>
78976	7-27-71	52662	2.7	Purchased Water
81680	7-31-73	54083	7.7	Purchased Water

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:			
For all water delivered, per 100 cu. ft....		\$ 0.312	\$ 0.342
Service Charge:			
For	5/8 x 3/4-inch meter	\$ 1.90	\$ 2.10
For	3/4-inch meter	2.10	2.30
For	1-inch meter	2.70	3.00
For	1-1/2-inch meter	4.50	5.00
For	2-inch meter	7.00	7.50
For	3-inch meter	14.00	15.00
For	4-inch meter	21.00	22.00
For	6-inch meter	35.00	37.00
For	8-inch meter	60.00	65.00
For	10-inch meter	90.00	95.00

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 Culver City 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. Such an increase provides the same private fire protection rate that was authorized for SCWC's Southwest District by Decision No. 82539 dated March 5, 1974.

Results of Operation

SCWC's original estimated summary of earnings for its Culver City District was dated June 6, 1973 and a similar independent estimate prepared by the Commission staff was dated December 7, 1973. SCWC reviewed and updated its estimates and for the test year 1974 was able to agree with the staff on operating revenues, district administrative and general expenses, taxes other than income taxes, and depreciation expenses. The amounts and bases for the differences between the staff's and SCWC's final 1974 test year estimates for operating and maintenance expense and allocated common expense are summarized in Exhibit 5. 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/} Results	
	: Present ^{1/} Rates :	: Proposed Rates :	: Present Rates :	: Company :		
				: Proposed Rates :		: Results
Operating Revenues	\$1,093.9	\$1,205.9	\$1,093.9	\$1,205.9	\$1,093.9	
<u>Operating Expenses</u>						
Oper. & Maint.	610.8	610.8	606.9	606.9	610.8	
Adm., Gen. & Misc.	32.7	32.7	32.7	32.7	32.7	
Taxes Other Than Income	107.7	109.6	107.7	109.6	107.7	
Depreciation	79.1	79.1	79.1	79.1	79.1	
Allocated Common	34.3	34.3	33.5	33.5	33.8	
Subtotal	864.6	866.5	859.9	861.8	864.1	
Income Taxes	52.2	112.0	56.5	114.5	52.5	
Total Expenses	916.8	978.5	916.4	976.3	916.6	
Net Operating Revenue	177.1	227.4	177.5	229.6	177.3	
Dep. Rate Base	2,757.5	2,757.5	2,757.5	2,757.5	2,757.5	
Rate of Return	6.42%	8.25%	6.44%	8.33%	6.43%	
Avg. Comm. Customers	7,996	7,996	7,996	7,996	7,996	

^{1/} SCWC final figures at proposed rates shown in Exhibit 5 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 \$1,093,900. These agreed upon revenues reflect the adoption by SCWC of the staff's estimates based on later data.

Operating and Maintenance Expense

SCWC's estimate of 1974 test year operating and maintenance expense is \$3,900 higher than the staff's estimate and reflects higher estimated electric power for pumping expense of \$2,700 and higher postage expense of \$1,200.

SCWC purchases its electric power for pumping from the Los Angeles Department of Water and Power (LADWP) and the Southern California Edison Company (Edison). SCWC's estimated 1974 test year purchased electric power expense reflects the inclusion of a trended 0.3 cents per kilowatt hour fuel cost increment added to the latest effective electric rates as contrasted to the staff's use of the latest effective rates applied to the same number of kilowatt hours. Subsequent to the Culver City District hearing, LADWP increased its fuel cost adjustment from 0.354 to 0.574 cents per kilowatt hour and Edison increased its fuel cost adjustment from 0.169 to 0.642 cents per kilowatt hour. The application of these presently effective fuel cost adjustment increments to the staff's estimated electric power for pumping expense results in a test year 1974 expense of \$32,800, which will be adopted as reasonable.

The difference in postage expense of \$1,200 reflects use by the staff of the then presently effective postal 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 SCWC's estimate will be adopted.

Depreciation Expense

Both the Commission staff and SCWC estimated the depreciation expense for the test year 1974 to be \$79,100. 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 its 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 5.43 percent for the Culver City District.

The initial Commission staff 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 differential consists of the staff estimates of \$6,200 more general office rents, \$25,400 less general salaries and payroll taxes, \$1,900 less injuries and damages, and \$11,500 less miscellaneous expense. The staff estimate of general office rents is based on the assumption that the present vacancy rate, used as a basis for SCWC's estimate, will reduce by one-half for the test year 1974. The staff estimate of general salaries and payroll taxes reflects the continuation of the latest payroll level and an adjustment to the recorded salary for SCWC's chairman of the finance committee to 20 percent of SCWC's average vice president's salary commensurate with the time spent by the finance committee chairman on SCWC's affairs. The staff adjusted SCWC's estimated miscellaneous expenses downward \$11,500 to reflect the elimination of Chamber of Commerce dues and one-half the dues to the California Water Association, the substitution of local for out-of-state board of directors' meetings, and a reduction of directors' fees from a recorded figure of \$11,550 (\$3,850 per director per year annual retainer for three directors) to \$2,400 (four 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. The application of the Culver City District four-factor percentage of 5.43 percent to the non-capitalized portion of the disputed executive salary increase and board of directors' salary adjustment yields an unresolved difference of \$500 for executives' wage increase and \$300 for directors' salaries for the test year 1974 as shown in Exhibit 5.

SCWC's estimate assumed a 6 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 directors' salaries for the year 1972 were \$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 \$2,757,500. 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 advances, contributions, and 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 0.28 percent per year compared to the staff's estimated attrition rate of 0.08 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 utilization of an average of these attrition ratios 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 which will be adopted as reasonable for this proceeding. Applied to the adopted rate base of \$2,757,500 it is estimated that this return will provide earnings of 12.37 percent on common stock equity.

Service

The staff investigation disclosed that 258 complaints were recorded in the Culver City District office during the period January 1, 1972 through June 30, 1973. These are summarized as follows: high bills 115, low pressure 78, dirty water 38, taste or odor 14, and miscellaneous 13. SCWC's records indicate that these complaints were quickly resolved.

As a result of testimony by seven of SCWC's Culver City District customers alleging the water had an unpleasant odor, was excessively hard, and extremely corrosive, SCWC was requested to file, as late-filed Exhibit 11, a service area map delineating the location of these witnesses' premises as related to SCWC's reservoirs, pumping plants, and Metropolitan Water District connections, together with a tabulation of the hardness and

total dissolved solids for these and other locations throughout the Culver City District. This exhibit indicates that the witnesses' premises are generally located so they would receive their water primarily from the Charnock wells and/or the MWD connection at Charnock.

With respect to the unpleasant odors SCWC's vice president, operations, testified that: Such odors are caused by hydrogen sulfide in the water, the Sentney plant is equipped with charcoal filters to eliminate such odors but the Charnock plant is not, the Charnock well supplies the bulk of the local well water used in the district, and that the MWD water was comparatively free of hydrogen sulfide.

With respect to the hardness of the water, this vice president testified that the currently used northern California water is less hard and has less total dissolved solids than either the MWD Colorado River water or the local well water, and that the only definition of hardness that he has been able to find refers to water with zero to 60 parts per million as being soft water, from 60 to 120 ppm as being moderately hard, from 120 to 180 ppm as being hard water, and anything over 180 ppm as being excessively hard. The water samples at the twelve locations summarized in late-filed Exhibit 11 ranged in hardness from 125 to 180 ppm and would, therefore, be classified as hard water by the above definition.

This witness further testified that the complained of corrosion was caused by the water reacting with galvanized iron pipe to absorb zinc and iron from the pipe and then when it became saturated with these elements, redeposit it on the pipes. Such a reaction does not occur when copper pipe is used.

The record is clear that the major source of the hardest water and the odor-causing hydrogen sulfide is the Charnock plant and that the residences of seven witnesses who alleged inferior water are located so as to receive most of their water from this

plant. Under these circumstances it is desirable to explore the feasibility of installing charcoal filters at this plant and/or changing the method of mixing and distributing water throughout the district. The order that follows will provide for such a review.

Findings

1. Southern California Water Company is in need of additional revenues for its Culver City 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 Culver City District in the near future.

3. A rate of return of 7.9 percent on the adopted rate base of \$2,757,500 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 and "Present Rates" from its operations during the 1974 test year would produce a rate of return of 6.43 percent on a rate base of \$2,757,500 based on adopted results of operation.

6. The authorized increase in rates is expected to provide increased revenues of \$87,100 in SCWC's Culver City District for the full year 1974.

7. The authorized rates are estimated to produce an average rate of return between 7.7 and 8.0 percent for the period 1974 through 1976.

8. SCWC's Culver City District operations should be reviewed to ascertain the feasibility of installing carbon filters at the

Charnock plant and/or modifying the mixing and distributing practices to improve the quality of water delivered.

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

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Southern California Water Company (SCWC) is authorized to file the revised rate schedules attached to this order as Appendix A and concurrently to cancel and withdraw the presently effective schedules. 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.

2. On or before December 1, 1974 SCWC shall file with the Commission a report summarizing the advantages and disadvantages of the alternative methods available for mixing and distributing water throughout the Culver City District and the economic feasibility and effect of installing carbon filters at the Charnock plant.

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

Dated at San Francisco, California, this 23rd.
day of APRIL, 1974.

William L. Stearns
President
William L. Stearns
John M. ...
...
Commissioners

APPENDIX A
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Schedule No. CC-1

Culver City DistrictGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Culver City and vicinity, Los Angeles County.

RATES

		Per Meter Per Month	
Quantity Rate:			
For all water delivered, per 100 cu.ft.		\$ 0.337	(I)
Service Charge:			
For 5/8 x 3/4-inch meter		\$ 2.05	
For 3/4-inch meter		2.25	
For 1-inch meter		2.90	
For 1 1/2-inch meter		4.85	
For 2-inch meter		7.50	
For 3-inch meter		15.00	
For 4-inch meter		22.00	
For 6-inch meter		37.00	
For 8-inch meter		65.00	
For 10-inch meter		95.00	(I)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.

APPENDIX A
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Schedule No. AA-4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

- Rate A - Applicable within the Culver City and Southwest Districts. (C)
Rate B - Applicable within coast tariff area of Central Basin District.
Rate C - Applicable within all other districts served by the company.

RATE

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

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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 undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.