

Decision No. 82887

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of PARK WATER COMPANY, a
California Corporation, for
Authorization to Increase Its
Rates Charged for Water Service.

Application No. 53875
(Filed March 5, 1973)

Chris S. Rellas, Attorney at Law, for Park
Water Company, applicant.
Al Palladino, for Norwalk Citizens Action
Council, and Bob Coates, for the City
of Downey, protestants.
James T. Quinn, Attorney at Law, Andrew
Tokmakoff, and Ichiro Nagao, for the
Commission staff.

O P I N I O N

After due notice, public hearing in this matter was held before Examiner Coffey at Norwalk on November 27, 28, 29, and 30, 1973. The matter was submitted on the receipt of late-filed exhibits and the transcript on February 21, 1974.

Applicant provides water service to approximately 42,000 customers in and around the cities of Gardena, Paramount, Downey, Bellflower, Baldwin Park, Bell Gardens, Pico Rivera, Compton, Southgate, Lynwood, La Mirada, Norwalk, and Hawaiian Gardens in Los Angeles County. It also serves 271 customers adjacent to the city of Chino, San Bernardino County.

Subsequent to the preparation of the Revenue Requirement Study, Exhibit A attached to this application, applicant filed Application No. 54029 for authority to increase rates to offset increased cost of purchased water. Decision No. 81744 dated August 14, 1973 granted the relief requested.

Applicant has obtained Commission authorization by Decision No. 81891 dated September 14, 1973 in Application No. 54231 to merge with and absorb Vandenberg Utilities Company and Vandenberg Disposal Company. By Decision No. 82612 dated March 19, 1974, Vandenberg Utilities Company was authorized to increase its rates for water service.

Rates

Applicant proposes to increase rates for metered service, limited flat rate service, and private fire sprinkler service. No increases are proposed for construction and other temporary flat rate service, public fire hydrant service, and private fire hydrant service.

Applicant presently charges the following minimum charge rates for metered service:

Present Metered Service

Quantity Rates:

Per Meter
Per Month

First	700 cu.ft. or less	\$2.33
Next	4,300 cu.ft. per 100 cu.ft.248
Next	95,000 cu.ft. per 100 cu.ft.186
Over	100,000 cu.ft. per 100 cu.ft.157

Minimum Charge:

5/8 x 3/4-inch meter	2.33
3/4-inch meter	3.25
1-inch meter	5.35
1-1/2-inch meter	10.65
2-inch meter	16.00
3-inch meter	26.75
4-inch meter	42.90
6-inch meter	85.75
8-inch meter	149.75
10-inch meter	213.00

All billings under this schedule to customers in the city of Norwalk are subject to a surcharge of 2.04 percent.

Applicant proposes to change the rate structure to rates which include monthly service charges which vary with meter sizes and which are to be paid in addition to the quantity charges:

Proposed Metered Service

Quantity Rates:

Per Meter
Per Month

First 5,000 cu.ft. per 100 cu.ft.	\$ 0.24
Over 5,000 cu.ft. per 100 cu.ft.	0.20

Service Charge:

5/8 x 3/4-inch meter	2.50
3/4-inch meter	3.50
1-inch meter	5.50
1-1/2-inch meter	10.00
2-inch meter	15.00
3-inch meter	30.00
4-inch meter	50.00
6-inch meter	100.00
8-inch meter	150.00
10-inch meter	205.00

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 Rates, for water used during the month.

The monthly minimum charge shall be the monthly service charge.

All billings under this schedule to customers in the city of Norwalk are subject to a surcharge of 2.04 percent.

Applicant presently charges for limited flat rate service the following:

Present Limited Flat Rate ServiceRatesPer Service Connection
Per Month

For a single-family residential unit,
or commercial unit, including pre-
mises not exceeding 7,500 sq.ft. in
area \$ 2.80

a. For each additional single-family
residential unit on the same pre-
mises and served from the same
service connection 1.55

b. For each 100 sq.ft. of premises in
excess of 7,500 sq.ft.037

All billings under this schedule to customers in
the city of Norwalk are subject to a surcharge
of 2.04 percent.

Applicant proposes the following rates for limited flat
rate service:

Proposed Limited Flat Rate ServiceRatesPer Service Connection
Per Month

For a single-family residential unit,
or a commercial unit \$ 7.85

All billings under this schedule to customers in
the city of Norwalk are subject to a surcharge
of 2.04 percent.

The present and proposed rates for nonmetered fire sprinkler service are compared in the following tabulation:

Nonmetered Fire Sprinkler Service

<u>Size of Service</u>	<u>Monthly Charge</u>	
	<u>Present</u>	<u>Proposed</u>
2-inch	\$ 3.75	\$ 5.00
3-inch	5.00	6.70
4-inch	7.50	10.00
6-inch	11.00	14.75
8-inch	15.00	20.00
10-inch	19.00	25.00
12-inch	23.00	31.00

The proposed change from a minimum rate structure to a service charge rate structure was opposed by a number of residential customers. The staff objected to the spread of proposed charges for meters larger than 5/8 x 3/4 inch.

Table 12-2 of applicant's Exhibit 1 shows that for a 5/8 x 3/4-inch meter, such as used to serve the typical residence, under applicant's proposed rates the monthly bill would increase from 11 percent if no water were consumed to a peak percentage increase of 86 percent at a consumption of 7 Ccf. For consumption greater than 7 Ccf the percentage increase would progressively decrease to 13 percent at 200 Ccf. Relatively, the burden of the increased rates would fall most severely on the consumers of small amounts of water. Applicant by its proposed change in rate structure hopes to minimize fluctuation in revenue and to recover from each customer equitable amounts for variable and fixed charges. This latter objective can be attained with either rate structure if proper allocations of customer and other costs are made between meter and quantity charges. It appears that the shift from a minimum to a service charge type of rate may lead to less customer concern for amounts

of water consumed. We note that the quantity rate in the first variable block under present rates* of 24.8 cents per Ccf decreases to 24 cents per Ccf under proposed rates. While stabilization of revenue may be desirable, we believe that consumers should be encouraged to consider the amounts of water utilized. Since applicant's proposed rate structure counters this objective, we shall prescribe minimum charge rates.

Results of Operation

The following tabulation compares the estimated summaries of earnings for the test year 1974, under present and proposed rates, prepared by applicant and by the staff, and the results of operation adopted for the purposes of this proceeding:

Item	Applicant		Staff		Adopted
	* Company		* Company		
	Present	Proposed	Present	Proposed	
	Rates	Rates	Rates	Rates	
(Dollars in Thousands)					
Oper. Revenues	\$3,136.3	\$4,200.3	\$3,257.5	\$4,363.7	\$4,028.3
<u>Oper. Expenses</u>					
Oper. & Maint.	2,393.0	2,399.1	2,331.6	2,337.7	2,336.2
Deprec. Exp.	221.7	221.7	233.3	233.3	233.3
Taxes-Except Inc.	298.2	298.2	311.6	317.1	317.1
Income Taxes	.2	426.9	0.2	521.8	345.9
Total Expenses	2,913.1	3,345.9	2,876.7	3,409.9	3,232.5
Net Oper. Revenue	223.2	854.4	380.8	953.8	795.8
Average Rate Base	8,376.5	8,376.5	8,376.5	8,376.5	8,376.5
Rate of Return	2.66%	10.20%	4.55%	11.39%	9.5%

*Rates effective August 20, 1973.

Operating Revenues

The staff estimated \$121,200 more revenue in 1974 under present rates than was estimated by applicant. The staff included in the revenue the 2.04 percent surcharge added to bills for service within the city of Norwalk. This surcharge revenue was offset by the staff by an allowance for the Norwalk business license tax. Applicant excluded from its estimates both the surcharge revenue and offsetting tax. However, the difference between the revenue estimates results primarily from differences in average customer estimates.

The staff testified that its revenue estimate is based on beginning of year 1973 and subsequent monthly customer records which were not available to applicant when its study was made.

For the year 1974 the average number of metered customers was estimated by the staff to be 42,089 and by applicant to be 39,704. During the hearing applicant increased its estimate to 40,300.

Applicant reduced recorded customers by 900 to reflect the future loss of customers due to the construction of the Century Freeway. Of the 1,800 customers involved in this construction, applicant testified that 900 had been lost by the end of 1971. Exhibit 7 sets forth the results of a customer survey of the proposed freeway conducted subsequent to hearings in this proceeding. The survey revealed that of 1,782 units involved, 455 houses were still occupied in December 1973. The difference in customer estimates appears to stem from billing computer data difficulties in 1972 and difficulties in estimating the effect of the proposed freeway, which has become entangled in environmental problems.

Considering the steady loss of customers in 1973 shown by Exhibit 2 and the 455 units served in the freeway right-of-way shown in Exhibit 7, we will adopt as reasonable applicant's estimate of 40,300 total metered customers in 1974.

Both applicant and staff estimated an upward trend in water usage per customer using the modified Bean method. Applicant adjusted its results to reflect full operation of a new hospital. We will adopt applicant's estimate of 250 Ccf for average customer usage in 1974.

Operating and Maintenance Expenses

Differences between the staff's and applicant's estimates of operating and maintenance expenses are outlined as follows:

- a. Staff estimates of purchased power and pumping assessments for ground water extraction are based on utilization by applicant of the maximum pumping entitlement after allowing latest known number of acre-feet for exchange pool commitment. Applicant based its estimate on 1971 recorded data when the full entitlement was not used. This results in a lower acre-foot estimate for purchased water by the staff compared to applicant's estimate.
- b. Staff estimates of cost of purchased water and replenishment assessments are based on the latest known unit prices.
- c. Staff estimates of office supplies, property insurance, injuries and damages, and other operating and maintenance expenses other than payroll are based on 1972 recorded information which was not available to applicant at the time it made its study.
- d. Staff estimates of regulatory commission expenses include the unamortized portion of the previous rate proceeding and the estimated cost of this proceeding amortized over a period of three years. Applicant has included only amortization of this proceeding over a two-year period.

After making a detailed analysis of other administrative and general expenses other than payroll, the staff accepted applicant's estimates of those expenses as being reasonable. The staff has accepted applicant's 1974 payroll estimate as a reasonable estimate of 1974 payroll expenses at the present level of wages and salaries.

We will adopt as reasonable the staff estimates of 1974 operating and maintenance expenses, but we shall reduce the allowed expenses by \$47,140 for the decreased cost of water which results from our adoption of applicant's estimates of customers and customer water usage, and we shall increase the allowed expenses by \$49,320 for the greater cost of purchased power which will result from increases in electric rates authorized Southern California Edison Company through February 1, 1974, subsequent to the hearings in this proceeding. A net adjustment of \$2,180 will be added to the expense estimate made by the staff.

Utility Plant, Depreciation, and Rate Base

The staff used recorded December 31, 1972 utility plant balances which were not available to applicant at the time of its investigation. After review the staff has accepted applicant's estimated 1973 and 1974 utility plant additions and retirements. Since the staff finds reasonable the depreciation rates proposed by applicant, the difference in depreciation expense estimates stems in the main from differences in plant estimates.

Differences between the staff's and applicant's estimates of the several items that make up the total rate base for the year 1974 nearly offset each other. Therefore, the staff accepted applicant's estimated total rate base for this proceeding.

We will adopt the proposed estimates of depreciation expense and rate base.

Taxes Other Than Income

Differences between the staff's and applicant's estimates of taxes result from the following:

- a. The staff estimate of ad valorem taxes is based on 1972-1973 tax bills which were not available to applicant at the time its study was made.
- b. The staff estimates of payroll taxes are based on the latest federal and state social security and unemployment insurance rates and tax bases effective during 1974 as applied to the estimated earnings of each employee on the payroll.
- c. The staff estimates of other state and local taxes are based on recorded amounts during 1972 and include the Norwalk business license tax collected from customers in the city of Norwalk.

We will adopt the staff estimate of taxes other than income.

Rate of Return

In Decision No. 82612 dated March 19, 1974, which authorized increased water rates for Vandenberg Utilities Company, we found reasonable a rate of return of 9.5 percent which would produce a return of 9.57 percent on the equity portion of the combined total capital of applicant and Vandenberg.

In this proceeding applicant requests a rate of return of 10.2 percent which would result in earnings on common equity of 10.5 percent. The staff recommended that the rate of return be set in the range of 9.30 percent to 9.60 percent which would result in an allowance for equity ranging from 9.21 percent to 9.76 percent.

Considering the recent date of Decision No. 82612 and that this record does not contain cause for reconsideration of the rate of return adopted therein, we will adopt for this proceeding the same rate of return and return on equity as adopted in Decision No. 82612.

Public Presentation and Service

The staff report summarizes the results of its investigation of applicant's service as follows:

"During the period from January 1, 1972 through October 31, 1973, only one informal complaint involving service provided by applicant was filed with this Commission. The majority of conditions involving service deficiencies are adequately processed by applicant before they become informal complaints. Records at applicant's office indicate some service deficiencies including dirty water, taste and odor of chlorine, rusty colored water, entrapped air and low pressure. Crenothrix which exists in applicant's Hawaiian Gardens area is being treated with chlorine. Applicant has a periodic flushing program and an effective quality control procedure.

"Applicant has a Health Department permit for each of its systems, covering all of its pumping plants. Chlorine is added according to the recommendation of the California Department of Public Health.

"Field inspections were made of the major pumping plants and the service area was inspected during the months of August, September, and October 1973 and several customers were interviewed. When problems arise company personnel is dispatched without delay and the condition corrected or alleviated, usually to the satisfaction of the customer.

"In general, service provided by applicant is considered by the staff to be adequate."

Of the approximately 75 customers who attended the hearing to protest the proposed rate increase, about 20 testified or made statements relating to the rate increase, rate structure, water quality, or service. The customers variously complained of dirty or rusty water, odor, leaking mains, chlorine, low pressure, no notice of planned outages, meters not readily identifiable with customers' premises, and meters not being read.

A representative of the City Council of the city of South Gate stated that industrial water pressure is inadequate for fire hydrants and plant sprinkler systems.

A representative of the City Council of the city of Pico Rivera stated that the council opposed the rate increase because of its magnitude and because of service complaints received by the city.

A representative of the City Council of the city of Downey conveyed the council's concern that applicant's requested rate of return is excessive.

A representative of the City Council of the city of Norwalk conveyed the council's concern relative to the amount of the increase sought and its belief that the proposed billing structure is inequitable.

The representative of the Norwalk Citizens Action Council requested that applicant be required to conduct a survey of its customers to determine where the various types of complaints exist so that remedial action could be taken and that the impact of the proposed billing structure change be mitigated.

Applicant investigated the complaints received at the hearing and indicated the corrective action either taken or to be taken. For instance, a well which was pumping sand has been shut down pending installation of a sand separator, a new well is being drilled, new mains are being installed to eliminate dead ends, a meter reader who practiced "curb reading" was terminated, and a customer's meter had been relocated. Applicant stated its policy was to give each customer a 24-hour notice of planned outages. If every effort to contact the customer in person is unsuccessful, a notice is left at the customer's door. Applicant testified that they do not have any problem identifying all areas with service problems, did not need to make a customer survey to identify them, and had been

working to improve the service problems for the past year. Applicant's vice president of operations stated that a three- to five-year program of improvements could be submitted to the Commission after a resurvey of the system without creating a substantial burden or extra expense.

This record indicates that no specific corrective action needs to be ordered herein, but we shall require applicant to survey its system for service problems and submit a program to improve service further.

Findings

1. Applicant is in need of additional revenues, 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 applicant's operations in the near future.
3. A rate of return of 9.5 percent on the adopted rate base and a 9.57 percent on that portion of common equity applicable to utility operations are reasonable.
4. Revenues will be increased by \$853,700 by the rates herein authorized.
5. The increases in rates and charges authorized herein are justified, the 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.
6. Applicant should study and program further service improvements.

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, Park 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 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 August 1, 1974, Park Water Company shall submit in writing to the Commission a program to improve its service based upon a study of present service deficiencies. The program will set forth in detail the items proposed for improvement, the estimated cost of each item, and a recommended date when the items should be implemented.

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

Dated at San Francisco, California, this 21st
day of MAY, 1974.

Herman L. Sturgeon
President
William J. Moran
[Signature]
[Signature]
Commissioners

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

Commissioner D. W. Holmes, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Artesia, Baldwin Park, Bellflower, Commerce, Compton, Downey, Lynwood, Montebello, Norwalk, Paramount, Pico Rivera, Santa Fe Springs, South Gate and vicinities, Los Angeles County, and the vicinity of Chino, San Bernardino County.

RATES

Quantity Rates:		Per Meter Per Month	
First	700 cu.ft. or less	\$ 3.00	(I)
Next	4,300 cu.ft., per 100 cu.ft.32	
Next	95,000 cu.ft., per 100 cu.ft.24	
Over	100,000 cu.ft., per 100 cu.ft.20	
Minimum Charge:			
For	5/8 x 3/4-inch meter	3.00	
For	3/4-inch meter	4.00	
For	1-inch meter	7.00	
For	1 1/2-inch meter	14.00	
For	2-inch meter	21.00	
For	3-inch meter	35.00	
For	4-inch meter	55.00	
For	6-inch meter	110.00	
For	8-inch meter	190.00	
For	10-inch meter	275.00	(I)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

(Continued)

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Schedule No. 1

METERED SERVICE
(Continued)

SPECIAL CONDITION

All billing under this schedule to customers in the City of Norwalk is subject to a surcharge of 2.04 percent.

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Schedule No. 2L

LIMITED FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential and commercial water service.

TERRITORY

Portions of Artesia, Baldwin Park, Bellflower, Commerce, Compton, Downey, Lynwood, Norwalk, Paramount, Pico Rivera, Santa Fe Springs, South Gate and vicinities, Los Angeles County, and the vicinity of Chino, San Bernardino County.

RATES

Per Service Connection
Per Month

For a single-family residential
unit, or commercial unit \$ 7.85 (I)

(D)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.

2. All service not covered by the above classifications shall be furnished only on a metered basis.

3. If either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service.

4. All billing under this schedule to customers in the City of Norwalk is subject to a surcharge of 2.04%.

5. Service will be provided under this schedule only to those premises receiving flat rate service as of April 1, 1971.

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Schedule No. 4F

NON-METERED FIRE SPRINKLER SERVICEAPPLICABILITY

Applicable only for water service to privately owned non-metered fire sprinkler systems where water is to be used only in case of fire.

TERRITORY

Portions of Artesia, Baldwin Park, Bellflower, Commerce, Compton, Downey, Lynwood, Norwalk, Paramount, Pico Rivera, Santa Fe Springs, South Gate and vicinities, Los Angeles County, and the vicinity of Chino, San Bernardino County.

RATES

<u>Size of Service</u>	<u>Per Service Per Month</u>	
2 inch	\$ 5.00	(I)
3 inch	6.70	
4 inch	10.00	
6 inch	14.75	
8 inch	20.00	
10 inch	25.00	
12 inch	31.00	(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 two inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

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Schedule No. 4F

NON-METERED FIRE SPRINKLER SERVICE

SPECIAL CONDITIONS - Contd.

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

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

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

6. Any unauthorized use of water, other than for fire extinguishing purposes, shall be charged for at the regular established rate as set forth under Schedule No. 1, and/or may be the grounds for the immediate disconnection of the sprinkler service without liability to the company.