

Decision No. 83261

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of the COUNTY WATER COMPANY, a)
California Corporation, for authority to
INCREASE ITS RATES, and to issue a long-
term note in lieu of a short term note.

Application No. 54299
(Filed September 4, 1973)

John A. Erickson, for applicant.
Gordon E. Bosserman, for himself,
and for the users of County Water
Company service, protestants.
Cass Strelinski, for Park Water Co.;
Ronald C. Catchings, for California
Department of Health; and Hazel P.
Grisham, for herself, interested
parties.
Andrew Tokmakoff, for the Commission
staff.

O P I N I O N

County Water Company, applicant, a public utility water corporation, requests authority to increase its rates and to substitute a long-term note for a short-term note.

A public hearing on the application was held before Examiner Rogers in Los Angeles on June 5, 1974^{1/} and the matter was submitted. Prior to the hearing, notice thereof was mailed, posted, and published as required by this Commission.

^{1/} The hearing was originally noticed for and called on April 18, 1974 but was taken off calendar on that date due to failure of applicant to give proper notice of hearing.

Rates

Applicant's present metered rates were established in 1972 (Decision No. 80500 dated September 19, 1972 in Application No. 53334).^{2/}

Applicant has a County Suburban Tariff Area and a Bellflower Tariff Area. In each area the present tariff provides for a charge of \$3.00 for the first 600 cubic feet, or less. In the County Suburban Tariff Area, depending on quantity, charges per 100 cubic feet vary from 40 cents per ccf to 24 cents per ccf. In the Bellflower Tariff Area, depending on quantity, charges per 100 cubic feet vary from 31 cents per ccf to 19 cents per ccf. Applicant had 2,494 metered connections at the end of 1973.

By the application herein, applicant proposes to reduce the initial allowance in each area to 400 cubic feet and charge \$3.50 therefor. The base charges for the various meter sizes would be increased 50 cents in each instance. In all other respects, the charges would remain the same.

As justification for the increases applicant alleges that it has incurred increased taxes, salaries, power costs, purchased water costs, postage, and office rental since the last increases in 1972. It further alleges that it is not earning enough money to induce further investment in its plant and that its earning rate is declining. It alleges that forgiven debt in the form of matured Advances for Construction in the amount of \$41,500 will raise its rate base subject to earnings by that amount; that other refund agreements have not been retired as agreed due to lack of available funds after construction and

^{2/} There are some flat rate customers not affected by this application (Decision No. 81317 dated May 1, 1973 in Application No. 53125).

metering obligations over the past ten years; and that no distribution of earnings has been realized over the life of the company.

Applicant further alleges that effective August 12, 1973, the cost of water purchased from the city of Bellflower increased to \$73 per acre-foot; that this is \$6.00 more than previous water delivered; and that power costs have been increased several times since the last rate of return studies by the Commission staff.

Exhibits calculating results of operation for the years 1972 (present rates only by applicant) and 1973 (proposed rates only by applicant), and at present and proposed rates for 1973 (by the staff only) were presented by the applicant and the staff. The staff went further and calculated the estimated results for 1974 at present and proposed rates. All the information is contained in the staff's Exhibit 4. The following information is from Exhibit 4.

Results of Operation

The following table shows applicant's and the staff's estimates of results of operations. Applicant used 1972 recorded data to develop a rate of return at presently authorized rates and estimated 1973 for its results of operations at proposed rates. Based on 1973 recorded and prior data the staff made an independent study of operations to arrive at 1973 adjusted and 1974 estimated results of operations. For both test years staff normalized water sales but assumed the higher level of purchased water in recent years (620 acre-feet). Applicant did not allow for income taxes.

Summary of Earnings

Item	Applicant		Staff			
	1972	1973	1973 Adjusted		1974 Estimated	
	Company	Company	Company	Company	Company	Company
	Present	Proposed	Present	Proposed	Present	Proposed
	Rates	Rates	Rates	Rates	Rates	Rates
Operating Revenues	\$185,268	\$216,632	\$178,300	\$210,700	\$178,300	\$210,700
<u>Deductions</u>						
Operating Expenses	122,647	128,000	129,675	129,675	132,775	132,775
Depreciation	23,981	25,600	19,070	19,070	19,140	19,140
Taxes, Other Than on Income	23,143	23,143	20,975	21,410	22,480	22,910
Income Taxes	-	-	200	10,160	200	7,700
Total Expenses	\$169,771	\$176,743	\$169,920	\$180,315	\$174,595	\$182,525
Net Oper. Revenue	\$ 15,585	\$ 39,889	\$ 8,380	\$ 30,385	\$ 3,705	\$ 28,175
Rate Base	\$405,692	\$453,192	\$445,120	\$445,120	\$434,100	\$434,100
Rate of Return	3.57%	8.80%	1.88%	6.83%	0.85%	6.49%

It is to be noted that the staff calculations, based on the information furnished by applicant, forecast a rate of return for 1974 of only .85 percent at present rates and 6.49 percent at the rates proposed by applicant.

Revenues

Applicant based its revenues for 1972 on recorded results and estimated revenue on a judgment basis for year 1973. As recent growth of the utility has only been due to acquisitions of mutuals, the staff used 1973 end-of-year metered connections of 2,494 for both 1973 and 1974 and based normalized water sales on an average consumption of 195.3 ccf per year per customer for Bellflower Tariff Area and 158 ccf per year per customer for County Suburban

Tariff Area. A new water use analysis was made by the staff from 1973 billings. We find the staff's estimates of revenues at present and proposed rates are reasonable and they will be used.

Operating Expenses

Summary of Operating Expenses

Item	Applicant		Staff	
	1972 Recorded	1973 Recorded	1973 Adjusted	1974 Estimated
Source of Supply	\$ 1,174		\$ 1,200	\$ 1,200
Purchased Water	50,790		57,000	57,000
Total	\$ 51,964	\$ 56,423	\$ 58,200	\$ 58,200
Power	9,549	14,455	12,000	12,000
Trans. & Distb. Exp.	11,880	8,722	11,400	13,500
Total	\$ 21,429	\$ 23,177	\$ 23,400	\$ 25,500
Salary & Labor	37,341		35,675	36,675
Office Supplies	1,823		1,700	1,700
Acctg., Leg. & Other Services				
Employees' Benefits, Uncoll. Acct.	6,588		6,400	6,400
General Expenses	3,502		4,300	4,300
Total	\$ 49,254	\$ 50,996	\$ 48,075	\$ 49,075
Total Operating Exps.	\$122,647	\$130,596	\$129,675	\$132,775

The applicant based its 1972 expenses on recorded results and estimated increased total expenses of \$128,000 for 1973 without presenting any detail. The staff used 1973 and prior recorded data as a basis for estimating expenses. It normalized production and sales but increased power expense and purchased water to latest known costs (power effective in February 1, 1974 and water July 1, 1973).

The staff estimated lower 1974 expenses than recorded 1972 and 1973, in payroll and labor, office supplies, and regulatory commission expense, legal, insurance, and employee benefits. While 1974 individual wages are higher than in 1972 the number of full-time employees is now only three. The staff used 1974 wages for both test years. It adjusted and estimated expenses for office supplies, regulatory, and legal expense using an average of several years rather than 1973 recorded. We find the staff's estimates of expenses are reasonable and they will be used.

Depreciation Expense

The last depreciation study was made by applicant in 1966 and the composite depreciation rate was set at 3.6 percent in Decision No. 71264 (Application No. 47886 dated September 8, 1965). Since that time applicant has acquired two mutual water companies and made a number of plant improvements. For this proceeding the staff has made a new depreciation review for 1974 which resulted in lowering the composite depreciation rate from 3.6 percent to 2.83 percent. The depreciation expense is based upon average plant and using 1974 composite depreciation rate for both 1973 and 1974 depreciation expense. We find the staff's estimate of depreciation expense is reasonable and it will be used.

Taxes Other Than Income

Applicant used taxes paid in 1972 as the basis for its 1972 and 1973 estimate. As the 1972 tax included one-half the 1971-1972 tax year, in which contributions were taxed, applicant's figures are slightly higher than staff estimates made from the actual 1972-1973 tax bills. The 1974 taxes estimated by staff include the effect of booking \$19,970 in plant account for the mutuals as ordered in Decision No. 81317 dated May 1, 1973. The staff's estimates of non-income taxes are reasonable and they will be used.

Income Taxes

Income taxes were calculated by the staff as the applicant failed to allow for them in its summaries of earnings.

The staff calculated that in 1973 total income taxes were \$200 at present rates and \$10,160 at proposed rates. In 1974 the staff estimates the taxes would be \$200 at present rates and \$7,700 at the proposed rates. The staff's estimates of income taxes are reasonable and they will be used herein.

Rate Base

Applicant used recorded average 1972 plant as a basis for rate base in 1972 and estimated rate base for 1973 by adding plant improvements plus \$41,500 of "forgiven" matured unpaid Advances for Construction. According to the Uniform System of Accounts unrefunded balances from advances shall be transferred to Contributions in Aid of Construction. For this proceeding the staff included in 1973 and 1974 rate bases \$19,970 for mutuals, but did not increase the rate bases by "forgiven" \$41,500 in Advances. The staff computed average rate bases are as follows:

Average Rate Base

Item	Staff	
	1973 Adjusted	1974 Estimated
Average Gross Plant	\$710,900	\$719,000
Mutuals Booked	19,970	19,970
Work in Progress	4,150	4,150
Materials & Supplies	2,000	2,000
Working Cash	19,550	20,120
Less: Depreciation Reserve	(218,120)	(237,490)
Advance for Construction	(78,000)	(78,000)
Contributions	(15,330)	(15,650)
Rate Base	\$445,120	\$434,100

(Negative)

We find the staff's rate base is reasonable for the purposes of this decision.

Rates

Applicant proposes no change in quantity rates, but proposes to increase the minimum charge for all meter sizes by \$0.50 and to decrease the minimum allowance from 600 cubic feet to 400 cubic feet. The effect of the proposed increase is to increase over-all revenues received by 18 percent. The \$0.50 increase in all minimum charges does not follow the Commission staff's Standard Practice U-25 especially for meter sizes larger than 3/4-inch. No change is proposed for public or private fire service.

Rate of Return

An effective rate of return of 7.0 percent was granted by Decision No. 79667 dated February 1, 1972 (Application No. 52764) which was an "offset" procedure. For 1973 applicant used 1973 rate base, increased by \$41,500 for "forgiven advances". If this were treated as a contribution, as we did, the rate base would become \$411,690. With this change and computed income tax, applicant's 1973 rate of return, shown as 8.80 percent, becomes 7.31 percent for 1973 at proposed rates. Staff estimates of rate of return at proposed rates, shown in the summary of earnings, are 6.83 percent for 1973 and 6.49 percent for 1974. We find the staff's rates of return are reasonable and a rate increase should be granted.

At the request of the Examiner the staff prepared Exhibit 5 which compares several rate structures, each of which gives the applicant approximately the revenues requested by the applicant but has less impact on the small water user.

We find the following rates, similar to one of these rate structures, to be more reasonable than applicant's proposal.

Proposed Rates
Per Meter Per Month
Bellflower County Suburban

Quantity Rates:

First	400 cu.ft., or less	\$3.00	\$3.00
Next	2,100 cu.ft., per 100 cu.ft. ...	.35	.45
Next	5,000 cu.ft., per 100 cu.ft. ...	.32	.35
Over	7,500 cu.ft., per 100 cu.ft. ...	.23	.29

Service

Most of the applicant's service area is over 20 years old and the plant is about one-third depreciated, but service is not a problem. Commission records for the past four years indicate only three service complaints, and only one involving water quality. In 1970 a complaint of dirty water was received which was resolved by flushing mains. In 1972 one complaint involved failure to notify of turn-off due to work on mains in a street; another complaint concerned noise from adjacent pump house. Five billing complaints were noted in that period. In 1973 no service complaints and only one billing complaint were received. Prior to the hearing herein, the staff made a field inspection of the system, examined the books and records, and concluded that applicant is furnishing reasonably good service. It found that water pressure meets the requirements of General Order No. 103.

The applicant requests authority to issue a promissory note in the principal amount of \$8,646.07, payable monthly in the principal sum of \$200 per month, plus interest at 7 percent per annum, payments to commence on April 15, 1978. This note will be used to pay the same balance due on a demand note. The protestants objected to this on the stated basis that the money owed is for work in a specific area. It is to the applicant's advantage to have a term note rather than a demand note. There is no restriction of liability on the existing note. This request should be granted.

The Protestants

A petition by many of the water users was filed and received in evidence as Exhibit 6. Insofar as the petition reflects objections to the hearing notices, the objections must be disregarded as they are based on a misreading of the law. The hearings were properly noticed.

Insofar as objection is voiced to the amount of the increase allowed, the protestants are reminded, as they were informed at the hearing, that the applicant is entitled to a reasonable return on its investment. We have changed the rates to those suggested by the Examiner at the hearing and we believe the rates will have less impact on the smaller water user and the people who can least afford an increase.

We fail to follow the protestants' objection to the form of the note. The present note is a general obligation of the applicant and is presently due in toto minus payments to date. The new note is also a general obligation and the substitution gives the applicant an opportunity to pay in installments without the threat of a law suit. In neither instance is the note a charge on specific property at present.

Findings

1. County Water Company is in need of additional revenues. The amount of revenue requested by applicant is reasonable but the proposed rate structure is improper.

2. The adopted estimates previously discussed herein of operating revenues, operating expenses, and rate base for the estimated year 1974 reasonably indicate the results of County Water Company's operations in the near future.

3. A rate of return of 6.49 percent on the adopted rate base of \$434,100 is reasonable. Such rate of return will provide a return on common equity of approximately 5.6 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. County Water Company's earnings at present rates from its operations during the test year 1974 would produce a rate of return of 0.85 percent on a rate base of \$434,100 based on adopted results of operation.

6. The authorized increase in rates is expected to provide increased net revenues of \$24,470 for the test year 1974.

7. County Water Company's service is adequate.

8. County Water Company should be authorized to substitute a term note for \$3,646.07 for the demand note in the same amount.

9. The proposed note is for a proper purpose: (a) the money, property, or labor to be procured or paid for by the issue of the note herein authorized is reasonably required for the purpose specified herein; and (b) such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

The Commission concludes that the application should be granted.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, County 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 service in both areas. 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.

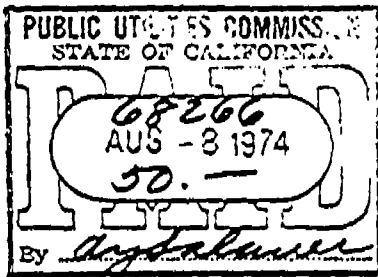
2. County Water Company, on or after the effective date hereof, for the purpose specified in this proceeding, may issue its promissory note in the principal amount of not exceeding \$8,646.07, payable \$200 per month, bearing interest at the rate of 7 percent per annum, payments to commence on April 15, 1978, in lieu of and as a replacement for a demand note which shall be cancelled and surrendered to the Commission simultaneously with the issuance of the note herein authorized.

3. Within thirty days after issuing the note herein authorized, County Water Company shall file with the Commission a copy thereof as actually issued, which filing shall be in lieu of a report under General Order No. 24-B.

4. The effective date of this order shall be twenty days after the date hereof except that the authority to issue the promissory note shall become effective when County Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$50.

Dated at San Francisco, California,
this 6th day of AUGUST, 1974.

William L. Sturgeon
President
William L. Sturgeon
William L. Sturgeon
William L. Sturgeon
Commissioners



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

APPENDIX A
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Schedule No. CS-1

County-Suburban Tariff Area

METERED SERVICE

APPLICABILITY

Applicable to all metered service.

TERRITORY

Portions of Artesia, Cerritos and Norwalk, and vicinity,
Los Angeles County.

RATES

Quantity Rates:	Per Meter Per Month
First 400 cu.ft. or less	\$ 3.00 (I)
Next 2,100 cu.ft., per 100 cu.ft. ...	.45
Next 5,000 cu.ft., per 100 cu.ft. ...	.35
Over 7,500 cu.ft., per 100 cu.ft. ...	.29 (I)

Minimum Charge:

For 5/8 X 3/4-inch meter	3.00
For 3/4-inch meter	4.50
For 1-inch meter	7.00
For 1-1/2-inch meter	13.00
For 2-inch meter	19.00
For 3-inch meter	32.00
For 4-inch meter	50.00
For 6-inch meter	90.00

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

APPENDIX A
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Schedule No. BW-1
Bellflower Tariff Area
METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

A portion of the incorporated City of Bellflower,
Los Angeles County.

RATES

Quantity Rates:	Per Meter Per Month	
First 400 cu.ft. or less	\$ 3.00	(I)
Next 2,100 cu.ft., per 100 cu.ft. ...	.35	|
Next 5,000 cu.ft., per 100 cu.ft. ...	.32	|
Over 7,500 cu.ft., per 100 cu.ft. ...	.23	(I)

Minimum Charges:

For 5/8 X 3/4-inch meter	\$ 3.00
For 3/4-inch meter	4.00
For 1-inch meter	6.25
For 1-1/2-inch meter	11.35
For 2-inch meter	17.00
For 3-inch meter	29.00
For 4-inch meter	46.00
For 6-inch meter	90.00

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