

ORIGINAL

Decision No. 82516

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  
Barstow District.

)  
Application No. 54502  
(Filed December 10, 1973)

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Attorneys at Law, for Southern  
California Water Company, applicant.  
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staff.

O P I N I O N

Southern California Water Company (SCWC) seeks authority to increase its Barstow District private fire protection and general service metered water rates<sup>1/</sup> approximately \$179,400 (28.4 percent) annually over the rates authorized by Decision No. 74889 dated October 29, 1968 in Applications Nos. 49861 and 50451.

SCWC renders public utility water service in 15 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 Barstow District includes two separate systems which are not physically interconnected. One serves the city of Barstow

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

and its immediate vicinity and the other serves the community of Lenwood which is approximately seven miles from the central portion of Barstow. As of December 31, 1972 the Barstow District provided water service to 6,051 metered customers, private flat rate fire protection service to nine customers, and had 478 fire hydrants for public fire protection connected to the system.

SCWC produces water for the Barstow District from 16 company-owned wells equipped with automatically controlled deep well turbine pumps. Some portion of the water produced is stored at night and then allowed to flow by gravity, or is pumped from storage by booster stations, to the distribution system to meet peak demands. Water produced from the wells is of a good quality, and with the exception of a sand trap installed at one of the wells, requires no treatment.

After notice, public hearing was held before Examiner Johnson on July 24, 1974 at Barstow, and the matter was submitted.

Testimony<sup>2/</sup> on behalf of SCWC was presented by its chairman of the finance committee, two of its vice presidents, the manager of its rates and valuation department, and its secretary

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2/ Testimony and exhibits relating to the cost of money and rate of return for SCWC's operations had been presented by a witness for SCWC in Application No. 53764 for the Central Basin District rate proceeding. This exhibit, together with related testimony and cross-examination, was included in this record by reference. 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.

and treasurer. The Commission staff's presentation<sup>3/</sup> was made through a financial examiner and three engineers. In addition, a former employee of SCWC presented testimony alleging that contrary to SCWS's contention that it is conscientiously serving the best interests of the public, SCWC is defrauding customers, misusing company vehicles and personnel at the expense of the consumer, and encouraging unrestrained and wasteful use of water by company employees.

#### Rates

The basic level of rates for the Barstow District was established by Decision No. 74889 dated October 29, 1968 in Applications Nos. 49861 and 50451 for a general rate increase for this district. Subsequent offset increases were granted as follows:

Authorization	Dated	Request	Percent Increase	Increased Expense Offset
D-74889	10/29/68	A-50451		10% tax surcharge (The 10% tax surcharge expired 1/1/70).
R-W 1210	1/13/70	Adv.Ltr. 387-W		Reduce 10% tax surcharge offset to 5% (offset expired 6/30/70).
R-W 1550	5/5/74	Adv.Ltr. 432-W	8%	Increased gas and electric pumping costs.

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<sup>3/</sup> Staff testimony, exhibits, and related cross-examination on SCWC's overall operations presented in Application No. 54035 for the Southwest District rate proceeding, and the staff exhibit and related testimony on cost of capital and rate of return presented in Application No. 54045 for the Simi Valley District rate proceeding were incorporated by reference into this proceeding.

The presently effective rates were authorized by Commission Resolution dated May 5, 1974. The staff exhibit and testimony reflected the inclusion of these rates on annualized test year 1973 and 1974 bases.

At the hearing, SCWC presented revised tables reflecting the presently effective rates and later information than was available at the time of preparation of the application. It proposed new step rates designed to earn SCWC a 7.9 percent rate of return in its Barstow District through the year 1976. The following tabulation sets forth the presently effective metered rates, the original proposed rates, and the proposed step rates.

GENERAL METERED SERVICE

		Per Meter Per Month				
		Proposed	Adjusted Proposed			
Present	Per		1/1/75	1/1/76		
After	Applica-	Before	Through	Through	After	
5/5/74	tion	1/1/75	12/31/75	12/31/76	12/31/76	

Quantity Rates:

First 10,000 cubic ft., per 100 cubic ft.	\$0.186	\$0.210	\$0.194	\$0.200	\$0.206	\$0.212
Next 140,000 cubic ft., per 100 cubic ft.	0.146	0.171	0.155	0.161	0.167	0.173
Over 150,000 cubic ft., per 100 cubic ft.	0.103	0.115	0.099	0.105	0.111	0.117

Service Charge:

For 5/8 x 3/4-inch meter	\$ 2.15	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00
For 3/4-inch meter	2.50	3.30	3.30	3.30	3.30	3.30
For 1-inch meter	3.00	3.90	3.90	3.90	3.90	3.90
For 1 1/2-inch meter	4.00	5.10	5.10	5.10	5.10	5.10
For 2-inch meter	8.00	8.50	8.50	8.50	8.50	8.50
For 3-inch meter	10.00	11.00	11.00	11.00	11.00	11.00
For 4-inch meter	20.00	22.00	22.00	22.00	22.00	22.00
For 6-inch meter	35.00	36.00	36.00	36.00	36.00	36.00
For 8-inch meter	40.00	48.00	48.00	48.00	48.00	48.00
For 10-inch meter	-	90.00	90.00	90.00	90.00	90.00

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.

OPTIONAL SPECIAL METERED SERVICE

Per Meter Per Month						
:	Proposed	:	Adjusted	Proposed	:	:
:Present	: Per	:	:1/1/75	:1/1/76	:	:
:After	:Applica-	:Before	:Through	:Through	: After	:
:5/5/74	:tion	:1/1/75	:12/31/75	:12/31/76	:12/31/76:	:

## Quantity Rates:

First 10,000 cubic ft., per 100 cubic ft.	\$0.176	\$0.210	\$0.194	\$0.200	\$0.206	\$0.212
Next 140,000 cubic ft., per 100 cubic ft.	0.127	0.146	0.130	0.136	0.142	0.148
Over 150,000 cubic ft., per 100 cubic ft.	0.093	0.100	0.084	0.090	0.096	0.102

## Service Charge:

For 3-inch meter	-	\$11.00	\$11.00	\$11.00	\$11.00	\$11.00
For 4-inch meter	20.00	22.00	22.00	22.00	22.00	22.00
For 6-inch meter	35.00	36.00	36.00	36.00	36.00	36.00
For 8-inch meter	40.00	48.00	48.00	48.00	48.00	48.00
For 10-inch meter	-	90.00	90.00	90.00	90.00	90.00

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.

In addition SCWC has modified its proposed private fire protection service rates for its Barstow District to conform to similar rates recently authorized for SCWC's Culver City, Pomona Valley, Simi Valley, and Southwest districts. We will authorize this modified private fire protection service proposed rate.

Results of Operation

SCWC's original summary of earnings for its Barstow District was revised to reflect later recorded data and its present Barstow District rates which became effective May 5, 1974. The staff's estimated summary of earnings also reflects present rates on an annualized basis.

In general, the staff reviewed SCWC's estimating methods and supporting work papers and prepared its own independent estimates.

The differences in some instances were caused by the staff's use of later recorded data. The larger differences and the basis for the adopted results are discussed in the following paragraphs.

For the test year 1974 the staff's estimate of revenues for the public authority class exceeded SCWC's estimate by \$6,400 due to the staff's use of the Modified Bean Method of adjusting the unit sales to average temperature and rainfall conditions as contrasted to SCWC's use of the same unit consumption, a judgment estimate for both 1973 and 1974. The staff's estimate will be adopted.

Both SCWC and the staff calculated purchased power costs for 1973 and 1974 at Southern California Edison Company's (Edison) rates effective May 8, 1974 and Southwest Gas Corporation's (Southwest) rates, effective February 16, 1974. The staff's estimate was \$2,500 higher than SCWC's estimate for the test year 1974 to reflect the higher sales estimates. SCWC later revised its estimate to reflect Edison's proposed fuel cost adjustment increase from .707 to .941 cents per kilowatt hour, and Southwest's increases of .134 cents per therm effective May 1, 1974, and 1.765 cents per therm effective July 10, 1974. The staff's estimated kilowatt hours of purchased power was included in the record to permit the inclusion of the effect of Edison fuel cost adjustments authorized subsequent to the hearing and prior to the issuance of the decision. By Resolution No. E-1402 dated July 30, 1974 Edison was authorized to increase the fuel cost adjustment from .707 cents to .818 cents per kilowatt hour and to increase it an additional .020 cents per kilowatt hour by Decision No. 83226 dated August 6, 1974 on Application No. 54933. We will adopt this new fuel cost adjustment of 0.838 cents per kilowatt hour which when applied to the estimated kilowatt hours for water pumping, increases the staff's estimated purchased power expense by \$6,800.

The staff's estimated maintenance expense for the test year 1974 is \$4,100 less than SCWC's estimate and reflects

trending of later recorded data than was available to SCWC at the time its estimates were prepared. The staff's estimate will be adopted.

The staff's estimate of 1974 test year rate base is \$5,000 less than SCWC's estimate and reflects a lower estimate for net additions and the utilization by the staff of weighting factors obtained by averaging data for recorded years as contrasted to SCWC's use of a 50 percent weighting factor. The staff's estimates will be adopted.

The following tabulation compared the 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)

	SCWC Estimated		Staff Estimated		
	Present <sup>1/</sup>	Company	Present <sup>1/</sup>	Company	Adopted <sup>1/</sup>
Item	Rates	Rates	Rates	Rates <sup>2/</sup>	Results
(Thousands of Dollars)					
Operating Revenues	\$ 693.7	\$ 824.4	\$ 699.4	\$ 831.1	\$ 699.4
<u>Operating Expenses</u>					
Oper. & Maint.	265.4	265.4	263.2	263.2	273.2 <sup>3/</sup>
Adm. & Gen.	24.6	24.6	24.0	24.0	24.0
Taxes Other Than Income	80.9	82.5	81.0	82.6	81.0
Depreciation	76.2	76.2	75.9	75.9	75.9
Allocated Common	23.7	23.7	23.7	23.7	23.7
Subtotal	470.8	472.4	467.8	469.4	477.8
Income Taxes	62.8	130.9	67.2	135.7	62.0
Total Expenses	533.6	603.3	535.0	605.1	539.8
Net Operating Revenue	160.1	221.1	164.4	226.0	159.6
Depreciated Rate Base	2483.3	2483.3	2478.3	2478.3	2478.3
Rate of Return	6.45%	8.90%	6.63%	9.12%	6.44%

<sup>1/</sup> At rates authorized by Commission Resolution No. W-1550.

<sup>2/</sup> At the hearing SCWC proposed rates estimated to yield 1974 test year revenues of \$781,900 to provide a rate of return of 7.9 percent as set forth in Exhibit 7.

<sup>3/</sup> Reflects presently effective Edison fuel cost adjustment and presently effective Southwest Gas Corporation rates.



Rate of Return

SCWC and the Commission staff had included in this record by reference the exhibits, testimony, and related cross-examination on regulatory effects, cost of money, and rate of return presented 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 company-wide rate of return of 8 percent was necessary to be able to attract common equity money. SCWC estimated that an 8 percent rate of return will provide a 12.67 percent return on equity and a times interest coverage of 2.87.

The Commission staff's financial examiner recommended as reasonable a rate of return ranging from 7.7 to 8.0 percent. He testified that a 7.7 percent rate of return would earn 11.81 percent on common stock equity and that an 8.0 percent rate of return would earn 12.65 percent on common stock equity. Some of the factors considered by the staff's 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 return of other water utilities.

In our opinion a 7.9 percent rate of return is reasonable. Applied to the adopted rate base of \$2,478,300 it is estimated that it will provide earnings of 12.37 percent on common stock equity.

The Commission staff recommended that an attrition allowance of 0.35 percent per year in rate of return be included in our decision. This recommended allowance includes no attrition for wage increases or for increases in unit water pumping costs as the same wage rates and unit costs were utilized for both the 1973 and 1974 test years. Consequently, the attrition in rate of return may be attributed primarily to increases in rate base and rate-base-related items, i.e., ad valorem taxes and depreciation expense.

One method of allowing for attrition is the establishment of rates sufficiently high to produce the authorized rate of return on the average over a specified period of time. Another method of counteracting the effect of rate of return attrition is the use of step rates. Such rates provide the utility the opportunity to earn the authorized rate of return on a uniform basis and are considered more equitable to the customers in that they do not pay any excesses during the first years to offset future anticipated deficiencies. Another advantage to step rates is that they afford an opportunity for a review of future changes in rate of return and initiation of appropriate action if a reduction in rates is indicated.

Decision No. 83050 dated June 25, 1974 on SCWC's Application No. 54064 for a general rate increase for its Pomona Valley District authorized step rates designed to reflect an attrition in the rate of return of 0.27 percent per year. SCWC's vice president testified that as a result of that decision, he designed step rates for the Barstow District that would yield a 7.9 percent rate of return on staff estimated summary of earnings basis as adjusted to reflect anticipated unit water pumping expense increases, and to provide for a 0.35 percent per year attrition in the rate of return. He recommended that the Commission adopt these new rates.

Service

The staff investigation disclosed that 172 complaints were recorded in the Barstow District office from January 1, 1973 through April 30, 1974. These are summarized as follows: high bills 122, low or high pressure 23, dirty water 3, taste or odor 3, and miscellaneous 21. SCWC's records indicate that these complaints were quickly resolved.

Practices Alleged Detrimental to Ratepayers

One of SCWC's former employees testified that there are instances of customers not receiving full benefit from one-inch services because such services are connected to the water main with a one-inch to three-quarter-inch nipple; that employees use company vehicles for their own personal use, that employees only pay the demand portion of their water bills and are therefore encouraged to waste water; that employees are told to repair leaks only during duty hours unless property is being damaged; that there are unconnected customers who have been unnecessarily paying for flat rate water service for years with no benefit; that pavement repairs are done in an unsightly and unworkmanlike manner; that some areas have low water pressure; and that there are numerous ineffective fire hydrant installations.

In response to these allegations SCWC's vice president testified that there is no perceptible difference in the operation of a one-inch service pipe connected to the main with a three-quarter-inch nipple than with a one-inch nipple; that personal use of company vehicles is generally prohibited but that Barstow District employees are permitted to store company vehicles at home because they are afforded better protection that way; that the employees are billed for water in accordance with filed tariffs; that the public is generally adverse to repairs being made during off-duty hours; that there are flat-rate customers who are paying for water they do not receive but

that such billing stops when SCWC is made aware of those instances; that all street repairs must pass rigid city inspection; that all areas now enjoy adequate water pressure; and that fire hydrant installations all conform to the local fire protection agency requirements.

Each allegation by SCWC's former employee appears to have been adequately answered by testimony by SCWC's vice president.

Findings

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

3. A rate of return of 7.9 percent on the adopted rate base of \$2,478,300 is reasonable. Such rate of return will provide a return on equity of approximately 12.37 percent.

4. An operational slippage of approximately 0.35 percent at proposed rates will be experienced and is sufficient to justify the authorization of a stepped progression of rates.

5. 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.

6. The authorized increase in rates is expected to provide increased revenues of \$77,400 in SCWC's Barstow District for the first 12-month period, and an additional \$18,600 each 12-month period for the next three periods.

7. The allegations that SCWC's employee practices testified to by SCWC's former employee are detrimental to the ratepayer are unfounded and contradicted by the evidence.

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 April 1, 1975 SCWC shall file with the Commission an earnings statement by the Barstow District for 1974 normalized and adjusted to the rate levels authorized herein for 1974, together with an estimate of earnings for 1975, under similar normalized conditions. On or before April 1, 1976 SCWC shall file similar normalized and estimated earnings statements for 1975 and 1976.

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

Dated at San Francisco, California, this 1st day of OCTOBER, 1974.

Vernon L. Stinson  
President  
William J. Symons, Jr.  
[Signature]  
[Signature]  
[Signature]  
Commissioners

APPENDIX A  
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Schedule No. BA-1

Barstow DistrictGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Barstow and vicinity, San Bernardino County.

RATES

		Per Meter Per Month				
		1-1-75	1-1-76			(N)
		Before	Through	Through	After	
		1-1-75	12-31-75	12-31-76	12-31-76	(N)
Quantity Rates:						
First	10,000 cu.ft., per 100 cu.ft.	\$ 0.193	\$ 0.199	\$ 0.205	\$ 0.211	(I)
Next	140,000 cu.ft., per 100 cu.ft.	.154	.160	.166	.172	
Over	150,000 cu.ft., per 100 cu.ft.	.098	.104	.110	.116	
Service Charge:						
For	5/8 x 3/4-inch meter	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	
For	3/4-inch meter	3.30	3.30	3.30	3.30	
For	1-inch meter	3.90	3.90	3.90	3.90	
For	1 1/2-inch meter	5.10	5.10	5.10	5.10	
For	2-inch meter	8.50	8.50	8.50	8.50	
For	3-inch meter	11.00	11.00	11.00	11.00	
For	4-inch meter	22.00	22.00	22.00	22.00	
For	6-inch meter	36.00	36.00	36.00	36.00	
For	8-inch meter	48.00	48.00	48.00	48.00	(I)
For	10-inch meter	90.00	90.00	90.00	90.00	(N)

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.

(Continued)

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Schedule No. BA-1

Barstow District

GENERAL METERED SERVICE  
(Continued)

SPECIAL CONDITION

For The Atchison, Topeka and Santa Fe Railway Company, all meter readings will be combined for the purpose of computing month bills at the Quantity Rates, and there will be a monthly service charge in the amount of the sum of the Service Charges for all of that customer's meters.

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Schedule No. BA-9

Barstow District

OPTIONAL SPECIAL METERED SERVICE

APPLICABILITY

Applicable to all optional special metered water service.

TERRITORY

Barstow and vicinity, San Bernardino County.

RATES

		Per Meter Per Month				
		1-1-75	1-1-76			(N)
		Before	Through	Through	After	(I)
		1-1-75	12-31-75	12-31-76	12-31-76	(N)
Quantity Rates:						
First	10,000 cu.ft., per 100 cu.ft.	\$ 0.193	\$ 0.199	\$ 0.205	\$ 0.211	(I)
Next	140,000 cu.ft., per 100 cu.ft.	.129	.135	.141	.147	(I)
Over	150,000 cu.ft., per 100 cu.ft.	.083	.089	.095	.101	(I)
Service Charge:						
For	3-inch meter .....	\$11.00	\$11.00	\$11.00	\$11.00	(N)
For	4-inch meter .....	22.00	22.00	22.00	22.00	(I)
For	6-inch meter .....	36.00	36.00	36.00	36.00	(I)
For	8-inch meter .....	48.00	48.00	48.00	48.00	(I)
For	10-inch meter .....	90.00	90.00	90.00	90.00	(N)

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.



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Schedule No. BA-9

Barstow District

OPTIONAL SPECIAL METERED SERVICE  
(Continued)

SPECIAL CONDITIONS

1. Service under this schedule will be furnished only when 75% of the water used is taken between the hours of 12 midnight and 10 a.m. The utility will provide adequate controls to conform with this condition.
2. This schedule applies only to service furnished through a 3-inch (C) meter or its equivalent capacity, or larger meter.
3. For The Atchison, Topeka and Santa Fe Railway Company, all meter readings will be combined for the purpose of computing monthly bills at the Quantity Rates, and there will be a monthly service charge in the amount of the sum of the Service Charges for all of that customer's meters.

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Schedule No. AA-4

PRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

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

TERRITORY

- Rate A: Applicable within the Barstow, Culver City, Pomona Valley (C)  
Simi Valley, 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

	<u>Per Month</u>			
	<u>A</u>	<u>B</u>	<u>C</u>	
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.

(Continued)

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Schedule No. AA-4

PRIVATE FIRE PROTECTION 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 connection 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.

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Schedule No. BA-5

Barstow District

(T)

PUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

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

TERRITORY

Within the established Barstow District.

(C)

RATEPer Month

For each hydrant ..... \$2.00

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in the appropriate metered service schedule. (C)  
(D)

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.