

ORIGINAL

Decision No. 85553

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

CALIFORNIA CITIES WATER COMPANY,
a California corporation,

for authorization to increase rates
for water service in its San Dimas
District.

Application No. 55713
(Filed May 28, 1975)

Gibson, Dunn & Crutcher, by
Raymond L. Curran, Attorney
at Law, for applicant.
James T. Quinn, Attorney at
Law, and Ernst G. Knolle,
for the Commission staff,

O P I N I O N

California Cities Water Company (CCWC), a California corporation, seeks authority to increase water rates in its San Dimas District in order to increase operating revenues for test year 1976 from \$1,264,600 to \$1,642,500, an increase of \$377,900 (29.88 percent) annually over the rates in effect at the time of filing of the application which would result in an estimated net operating income of \$411,410, or 10.45 percent return on its rate base of \$3,936,880.

It sought an interim rate increase of 7.90 percent to produce approximately \$99,850 of additional gross revenues in test year 1976, which would not exceed 7.70 percent of return on rate base, which was denied by Decision No. 85248 dated December 16, 1975.

CCWC, a public utility water corporation, operates water systems in a number of different communities throughout the State of California and has organized such facilities into six operating districts. This application concerns itself with the San Dimas District which is located in Los Angeles County, California. Other operating districts are located in Santa Barbara, San Luis Obispo, Lake, Orange, and San Bernardino counties. It also holds interest in several mutual water companies within the State.

CCWC's property and equipment in the San Dimas District devoted to the service of water consists of land, reservoirs, pumps, buildings, pipelines, and other material, supplies, equipment, and appurtenances necessary for the rendition of such service in that district.

Its existing rates for water service in the San Dimas District were established and authorized by Decision No. 80207 dated June 27, 1972 as modified by five offset increases, the latest being Commission Resolution W-1661 dated December 6, 1974. As of December 31, 1974 the recorded cost of utility plant in the San Dimas District was \$6,425,163 and the depreciation reserve as of that date was \$1,471,896. As of July 31, 1975 CCWC served 19,400 customers and the San Dimas District served approximately 7,900 customers, accounting for 45 percent of CCWC's operations.

After proper notice public hearings were held before Examiner James D. Tante on September 15 and 16, 1975 in San Dimas, and on October 21 and 22, 1975 in Los Angeles on the question of interim relief only, and on January 20, 21, and 22, 1976 in San Dimas on the question of a general rate increase, and the matter was submitted on the latter date.

At the hearing on September 15 two members of the public were present. One made a statement concerning lack of water pressure on occasion and the other testified that on an occasion the company had installed pipe larger than that required to provide water to a newly constructed residence.

At the hearing on January 20, six customers of CCWC were present and each made a statement or testified. Four stated that on occasion the water contained sediment or was murky and discolored. One stated that an increase in rates would create a hardship on senior citizens and persons with limited income. One stated that there should be reduced rates for persons with vegetable gardens. One stated that on occasion there was excessive chlorine in the water and there was some unexplained noise in the water pipes of his residence. One had an inquiry with respect to why there should be a standby fee for his sprinkler system in his factory building. The complaints were investigated by CCWC and the result of its investigation, as set forth in Exhibit 12, appears to adequately explain the reason for the problems as testified to by its customers. In addition, the staff stated in Exhibit 8 that it found that the utility responds promptly to customer complaints and corrects them to the satisfaction of the customers; the customers that were interviewed by a staff engineer were satisfied with the service; and the staff concluded that the utility provides satisfactory service and has no recommendation for improvements.

The general manager-vice president of CCWC and a certified public accountant, who specializes in water rate cases, testified for CCWC. Two witnesses who are utilities engineers in the Utilities Division, Hydraulic Branch, of the Commission, and a financial examiner, who is a member of the Commission's staff, testified for the Commission staff. Exhibits 1 through 13 were received in evidence.

CCWC states that at present rates the rate of return for the San Dimas District is 6.78 percent for the 1974 recorded year; 6.29 percent for the 1974 adjusted year; 5.77 percent for the estimated 1975 year; and 4.70 percent for the estimated 1976 year (Exhibit 4). It states that it is faced with the need for long-term financing by 1976 and in the absence of any rate increase the interest expense coverage for the estimated year 1975 would be 1.63 times and for the estimated year 1976 would be 1.35 times, and if an additional \$1,500,000 of bonds were sold the interest expense coverage would fall to 1.18 times for estimated year 1975 and 1.11 times for estimated year 1976, which is considerably below the 1.5 times coverage required under the terms of the indenture for the issuance of such additional bonds.

CCWC purchases water from the Pomona Valley Municipal Water District and the Covina Irrigation District and has 15 wells, six of which have in excess of 45 mg/l of nitrates, which will not prevent it from supplying sufficient water through April of 1976, but it will not be able to supply water of less than 45 mg/l of nitrates to all of its customers during the peak periods of the summer of 1976 unless this condition is corrected.

On July 15, 1974 it received a letter from the California Department of Health notifying it that in accordance with Section 4026 of the California Health and Safety Code, the company was in noncompliance with that department's water quality regulations in that several of the wells used regularly by the company and pumped directly into the company's distribution system contained nitrates in excess of 45 mg/l, the maximum permissible limit for domestic water supplies. The letter requested the company to prepare and submit a plan which, when implemented, would enable the company to supply all of its customers all of the time with a domestic water supply containing less than 45 mg/l of nitrates.

The company is now working on this problem and is not able to say at this time with any degree of certainty the extent of capital expenditure necessary to comply with the requirement of the letter of July 15, 1974. CCWC and the staff have stipulated that the order in this case should contain a provision that "If, within thirty-six months after the effective date of this order, CCWC completes the installation of facilities to alleviate the nitrate problem and to comply with the other present requirements of the California Department of Public Health in its San Dimas District, the Commission will, by supplemental order herein, authorize any further increase in rates which may be justified by such improvements."

CCWC contended that the original cost rate base should be increased by \$216,000 in recognition of the amounts paid by it to two predecessor mutual water companies in excess of the original cost of those water rights to the mutuals. The staff recommended adhering to the original cost basis and objected to that sum of \$216,000 being a part of the rate base. The staff contended that this issue had been previously litigated and CCWC's request denied in Decision No. 80207 dated June 27, 1972. The parties agreed that the \$216,000 involved in this case was a part of the \$480,000 that CCWC contended was a part of its rate base in Decision No. 80207. The issue with respect to the contention of CCWC that the \$216,000 is a part of its rate base has heretofore been litigated and decided in Decision No. 80207 and that decision has become final and conclusive with respect to the contention of CCWC and is not an issue here. (See Foothill D Company v. Wallace Ranch W Company (1938) 25 CA 2d 555, 563; People v Western Airlines (1954) 42 Cal 2d 621, 630; Sale v Railroad Commission (1940) 15 Cal 2d 612, 616; Public Utilities Code Section 1709.)

Subject to the objection of CCWC to the finding of the Commission as set forth in the previous paragraph, the parties stipulated that for the test year 1976 the depreciated rate base is \$3,929,900; the average number of customers other than fire protection customers will be 8,171; and that the summary of earnings as set forth in the following table and as contained in Exhibit 13, and based upon the rates requested by CCWC, is accurate:

Summary of Earnings
Year 1976 Estimated

Item	: CCWC and Staff Estimates (Dollars in Thousands)
Operating Revenues	\$1,667.1
<u>Operating Expenses</u>	
Operating & Maintenance	\$ 689.1
Administrative & General	130.6
Taxes Other Than Income	138.1
Depreciation	<u>135.3</u>
Subtotal	\$1,093.1
Taxes on Income	<u>149.9</u>
Total Operating Expenses	\$1,243.0
Net Operating Revenue	\$ 424.1
Depreciated Rate Base	\$3,929.9
Rate of Return	10.79%
Average number of customers, excluding fire protection	8,171

Based upon the same number of customers, CCWC estimated its revenues for test year 1976 at present rates at \$1,264,600 and the staff estimated such revenues at \$1,331,900. CCWC based its estimate on the arithmetic coverage of the past seven years of record, 1968-1974, and analyzed the classes of customers on an individual basis. The staff took into consideration the long-accepted correlation of per customer usage with time, temperature, and rainfall. During cross-examination it was discovered that an error in calculation had affected both CCWC and staff normalized usage per customer, which led to the stipulation of usage of 370 Ccf per customer for the test year. CCWC and the staff agreed that the requested rates would increase revenues 29.88 percent.

The general manager of CCWC testified that it is owned by Consolidated Water Company which is owned by G.A.C. Utilities, Inc., which is owned by G.A.C. Corporation. G.A.C. Corporation has filed bankruptcy under Chapter 11 of the Bankruptcy Act and CCWC is not going to be able to continue to borrow money from the parent company, but during 1976 it is going to be required to repay the \$1 million it owes the parent company. In addition, he testified that CCWC needs an additional \$1 million to provide for a budget of \$450,000 in order to correct the present nitrate problem and to conduct the proper construction program in the San Dimas District; \$145,000 is necessary for the acquisition of additional water in the Wrightwood District including a storage tank and a new well in order to correct the problem of water shortage in that district; \$75,000 is necessary in the Los Osos Water District; \$75,000 is necessary for construction, including water treatment augmentation and the main displacement program in the Clear Lake District; and \$180,000 is needed for additional construction in the Cowan Heights District, for a total of approximately \$925,000.

CCWC's general manager testified that CCWC needs to borrow \$2 million during 1976, but that even if the rate increase is granted in this case, it does not intend to do so because such a rate increase will not be sufficient for it to present a financial statement which will be sufficient to enable it to borrow such amount. He stated that in the event rate increases are granted in some of the other districts of CCWC, then its financial position might be such as to permit it to borrow the sum necessary for the improvements he has mentioned. CCWC's Exhibit 5 shows that its ending cash balance at the end of April 1976 is minus \$363,399. Its general manager stated that in the past its parent company has advanced the sums necessary to take care of such deficits, but is unable to do so any further; as CCWC cannot get a bank loan it will delay payments that it is required to make and pay interest on the payments due for refunds on advances for main extensions. He stated, however, that if the rate increase as requested is granted by the end of December 1976 there would be a cash balance of \$317,610 as set forth in Exhibit 5.

At present rates, estimated operating revenues for the San Dimas District for test year 1976 will be \$1,283,600 and its net operating revenues will be \$244,700, a 6.23 percent rate of return on its rate base of \$3,929,900.

An increase in rates which would result in a 10.45 percent return on rate base would increase net operating revenues for San Dimas by \$165,974 to \$410,674 (67.8 percent); increase operating revenues by \$355,130 (27.7 percent) to \$1,638,730; and result in a return on common equity of 13.50 percent and an interest coverage of 2.36 times, or 1.87 times if CCWC borrows an additional \$2 million at 10 percent and repays its parent company \$1 million. The rate of return at proposed rates is excessive.

A return on rate base in the range of 9.40 to 9.70 percent, the range recommended by the staff (Exhibit 11), would increase net operating revenues \$124,710 (51.0 percent) to \$369,410, or \$136,500 (55.8 percent) to \$381,200; increase operating revenues by \$267,900 (20.9 percent) to \$1,551,500, or \$292,800 (22.8 percent) to \$1,576,400; and result in a return on common equity of from 12.06 to 12.79 percent and an interest coverage of 2.10 to 2.20 times. The financial examiner for the staff stated that if CCWC borrows \$2 million at 10 percent during 1976 and repays the \$1 million it now owes its parent, the interest coverage would then be from 1.80 to 1.90 times. CCWC's witness testified as set forth in Exhibit 6 that if the additional \$2 million is borrowed at 10 percent and the parent is repaid, at a 9.70 percent return on rate base, the interest coverage would be 1.51 times for the overall company.

The staff's Exhibit 11 states that in the event there is a further net investment of approximately \$1 million for plant additions, the embedded cost of debt will be 8.11 percent

for 63 percent of the utility's capital. It recommends that under these circumstances the rate of return should be set at the top of the range recommended by the staff, 9.70 percent. If CCWC borrows an additional \$2 million at a return of 9.70 percent on rate base, its interest coverage would be 1.90 times and its return on common equity would be 12.41 percent based upon a ratio of 62.94 percent long-term debt to 37.06 percent common stock equity. Such a return is consistent with recent rates of return authorized by the Commission in similar cases.

The need to attract capital necessary to operate efficiently and to expand service to an increasing number of customers is a factor to consider in an application to increase rates, and when an increase granted to the San Dimas District is added to increases which may be granted to the other districts it should increase the interest coverage of CCWC to the point where it will be able to attract additional capital for investment. An increase to produce 9.70 percent on rate base of \$3,929,900 is reasonable and is adopted and the rate spread as set forth in Exhibit 2, pages 93 and 94, providing that the increases shall be less in percentage for residential and condominium users than for business, industrial, and public authority users is reasonable and is adopted.

Findings

1. A reasonable estimate of CCWC's results of operations for its San Dimas District for test year 1976 at present rates is:

Summary of Earnings
Test Year 1976

Item	Adopted at Present Rates
(Dollars in Thousands)	
Operating Revenues	\$1,283.6
<u>Operating Expenses</u>	
Operating & Maintenance	\$ 689.1
Administrative & General	130.6
Taxes Other Than Income	138.1
Depreciation	<u>135.3</u>
Subtotal	\$1,093.1
Taxes on Income	<u>(54.2)</u>
Total Operating Expenses	\$1,038.9
Net Operating Revenue	\$ 244.7
Depreciated Rate Base	\$3,929.9
Rate of Return	6.23%

(Red Figure)

2. A rate of return on rate base at authorized rates of 9.70 percent is reasonable.

3. The rates contained in Appendix A attached to this decision are reasonable for 1976. Those rates should yield operating revenues of \$1,576,400, an increase of \$292,800 (22.8 percent) over 1976 revenues at present rates.

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

5. CCWC's contention that the original cost rate base should be increased by \$216,000 in recognition of the amounts paid by it to two predecessor mutual water companies in excess of the original cost of those water rights to the mutuals has heretofore been litigated, resolved, and denied by the Commission in Decision No. 80207 dated June 27, 1972 and that decision is final and conclusive as to this issue, and CCWC is not entitled to increase its original cost rate base by \$216,000 as it has requested.

The Commission concludes that the application should be granted to the extent set forth in the order which follows. The effective date of this order should be the date on which it is signed because there is an immediate need for rate relief since the bankruptcy of applicant's parent corporation has resulted in a serious cash flow deficiency for applicant.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, California Cities Water Company is authorized to file the revised tariff schedules attached to this order as Appendix A for its San Dimas District. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be five days after the date of the filing. The revised schedules shall apply only to service rendered on or after the effective date of the revised schedules.

2. If, within thirty-six months after the effective date of this order, California Cities Water Company completes the installation of the facilities to alleviate the nitrate problem and to comply with other present requirements of the State Department of Health in its San Dimas District, the Commission will, by supplemental order herein, authorize any further increase in rates which may be justified by such improvements.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 9th
day of MARCH, 1976.

President
William J. Lyons

Thomas J. Sturgeon

Robert F. ...

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. SD-1

San Dimas Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to general metered water service.

TERRITORY

San Dimas, Charter Oak and vicinity, Los Angeles County.

RATES

		Per Meter Per Month	
Quantity Rates:			
First	500 cu.ft. or less	\$ 4.60	(I)
Next	4,500 cu.ft., per 100 cu.ft.46	
Next	15,000 cu.ft., per 100 cu.ft.38	
Over	20,000 cu.ft., per 100 cu.ft.26	(I)
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ 4.60	(I)
For	3/4-inch meter	6.00	
For	1-inch meter	8.50	
For	1-1/2-inch meter	15.00	
For	2-inch meter	23.50	
For	3-inch meter	38.00	
For	4-inch meter	57.00	
For	6-inch meter	86.00	(I)
For	8-inch meter	120.00	(N)

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

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Schedule No. SD-2

San Dimas Tariff AreaMEASURED IRRIGATION SERVICEAPPLICABILITY

Applicable to all measured irrigation service.

TERRITORY

San Dimas, Charter Oak and vicinity, Los Angeles County.

RATES

		Per Service Connection Per Month	
Quantity Rate:			
Per miner's inch hour		\$ 0.135	(I)
Minimum Charge:			
For each turn-on		\$ 6.35	(I)

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

SPECIAL CONDITIONS

1. The miner's inch is defined as a rate of flow equal to one-fiftieth of a cubic foot per second.
2. The minimum rate of delivery under this schedule is ten miner's inches.
3. A twenty-four (24) hour advance notice may be required before water is turned on under this schedule.

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Schedule No. SD-3

San Dimas Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

San Dimas, Charter Oak and vicinity, Los Angeles County.

RATE

For each inch of diameter of service connection...	<u>Per Month</u> \$3.00	(I)
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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.