

Decision No. 85628

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
PEERLESS WATER CO. for authority to  
increase rates and charges. }

Application No. 55689  
(Filed May 13, 1975)

Knapp, Stevens, Grossman & Marsh,  
by Gary H. Giesler, Attorney  
at Law, for applicant.  
Alexander Googooian, City Attorney,  
for the City of Bellflower; and  
Cass Strelinski, for Park Water  
Co.; interested parties.  
Ernst G. Knolle, for the Commission  
staff.

O P I N I O N

Applicant requests rate increases designed to increase gross revenues by \$61,148 annually (35.5 percent in metered service revenues). A public hearing was held on January 14, 1976 at Los Angeles before Examiner Charles E. Mattson. At hearing applicant filed a written request for a preliminary order authorizing increased rates. The matter was submitted on January 14, 1976 on oral argument.

Applicant's 1975 Results of Operations

Applicant Peerless Water Co., (Peerless) based its original request for rate increases on a revenue requirement study (Exhibit 6) for the test year 1975. However, at hearing applicant conceded that the staff's estimated 1975 results of operations (Exhibit 17) were based on more recent data and accurately reflected applicant's 1975 test year operations.

As a result of applicant's acceptance of the staff's estimates, only two matters remained in dispute. The applicant request that the estimated regulatory expense of the present rate be spread over two years. The staff recommended that the cost be spread over three years. Applicant further requests that its authorized rate of return be increased to 10.10 percent. The staff recommends a 9.20 percent rate of return.

The regulatory expense of the present case will be spread over three years. We will not assume that this utility will incur the expense of a major rate case proceeding every two years. Peerless has been able to secure rate increases by advice letter filings in 1974 and 1975. The numerous rate increases of the past few years are clearly the result of abnormal economic conditions. As conditions return to normal, applicant's regulatory expenses should abate.

Applicant's and staff's differences are reduced to the rate of return to be authorized. Table 1 sets forth a summary of earnings at returns of 9.2 percent and 10.1 percent (Exhibit 10) for the test year 1975.

#### Rate of Return

Applicant urges that it should be authorized a 12 percent return on common equity and 10.1 percent on its rate base. Applicant correctly points out that equity returns exceeding 12 percent have been recently authorized to other water utilities under the jurisdiction of this Commission. Applicant noted that Del Este Water Company (Del Este) was authorized rate increases based on a rate of return of 10.5 percent and a return on common equity of 12.3 percent by D.85335 dated January 13, 1976 in A.55202. An examination of that matter discloses that Del Este (with a 1975 rate base of \$2,157,200) had budgeted \$643,000 over a period of three years for necessary

TABLE 1

SUMMARY OF EARNINGS

Estimated 1975

Item	Present Rates	Applicant's Original Request	Staff's Proposed Return	Applicant's Requested Return
(Dollars in Thousands)				
Operating Revenue	\$190.1	\$230.8	\$224.5	\$228.8
Operating Expenses				
Operating Expenses	154.3	154.3	154.3	154.3
Taxes Other Than Income	14.6	14.6	14.6	14.6
Depreciation	16.9	16.9	16.9	16.9
Income Taxes	.2	8.6	6.8	8.0
Total Expenses	186.0	194.4	192.6	193.8
Net Operating Revenues	4.1	36.4	31.9	35.0
Depreciated Rate Base	346.7	346.7	346.7	346.7
Rate of Return	1.18%	10.50%	9.20%	10.10%

improvements. In the Del Este matter the magnitude of required improvements, the difficulty of obtaining long-term debt financing, and anticipated requirements for internally generated funds were among the many factors considered in arriving at the appropriate rate of return. Were we to accept applicant's claim that Peerless should be authorized substantially the same return on common equity as Del Este we would have to assume the companies have comparable risks and financial requirements. That assumption would not be correct.

Peerless was authorized a 7.5 percent rate of return (8.8 percent on common equity) by D.78462 dated March 23, 1971 in A.52112. The staff's recommended return of 9.2 percent will provide an allowance of 10.60 percent for common stock equity. The staff's recommended increase for the common equity allowance is reasonable.

At the staff's recommended return Peerless should be able to provide adequate service to the public and meet its financial obligations. At present rates Peerless will achieve a rate of return of 1.18 percent for estimated 1975, a return which is unreasonably low. Rates must be increased immediately or Peerless will be unable to provide adequate service to the public.

#### Service

A customer served by applicant appeared at the hearing and presented evidence that the water received from applicant is of poor quality. Rust and dirt appear in the water. Applicant's president testified that the company has a regular program of flushing the lines. To improve water quality, the company is injecting chlorine and sodium hexametaphosphate to prevent oxidation of iron and manganese and chlorine. This program is at the request of the State Department of Public Health.

Applicant's president stated that imported surface water received from the Metropolitan Water District (MWD) is chlorinated, and that the chlorine loosens the mineral build-up in the pipes. The president states that the company's mains are cleaned by the periodic flushing program of the company, and that the customer's problems are a result of MWD chlorinated water reacting with minerals in iron pipe water lines on the customer's premises. The situation will apparently continue under present conditions unless the customers replace old iron pipes on their premises.

Findings

1. Applicant's estimated 1975 operating revenues, expenses, and rate base as set forth in Table 1 are reasonable.

2. Applicant's present rates are estimated to produce a rate of return of 1.18 percent. Applicant is entitled to rates estimated to produce a rate of return of 9.2 percent on its 1975 rate base (an allowance of 10.6 percent on common equity).

3. Based on adopted 1975 estimates, an increase in operating revenues of approximately \$34,400 (18 percent) will produce a rate of return of 9.2 percent.

4. The increased rates set forth in Appendix A attached hereto are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

5. Because of applicant's poor financial condition rates should be made effective at once.

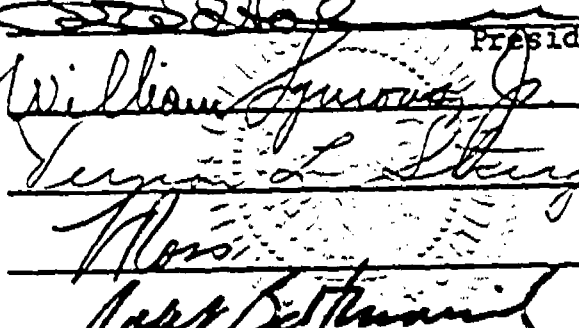
The Commission concludes that the application should be granted to the extent set forth in the order which follows, and in all other respects denied.

O R D E R

IT IS ORDERED that after the effective date of this order, applicant Peerless Water Co. 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 apply only to service rendered on and after the effective date of the revised schedules.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 30<sup>th</sup>  
day of MARCH, 1976.

  
*William J. ...* President  
*Virginia L. Sturgeon*  
*Norm ...*  
*Robert ...* Commissioners

APPENDIX A  
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Schedule No. GA-1

Governmental Agency Tariff

METERED SERVICE

APPLICABILITY

Applicable to all metered service furnished to governmental agencies.

TERRITORY

Within portions of the Cities of Bellflower, Lakewood, and Paramount, and vicinity, Los Angeles County.

RATES

	Per Meter Per Month
Quantity Rates:	
First 10,000 cu.ft., per 100 cu.ft. ....	\$ .34
Over 10,000 cu.ft., per 100 cu.ft. ....	.29
Service Charge:	
For 5/8 x 3/4-inch meter .....	\$ 2.25
For 3/4-inch meter .....	2.50
For 1-inch meter .....	3.35
For 1-1/2-inch meter .....	4.50
For 2-inch meter .....	6.05
For 2-1/2-inch meter .....	9.00
For 3-inch meter .....	11.25
For 4-inch meter .....	15.30

SPECIAL CONDITION

An agency installing its own meter and facilities on a fire hydrant for a temporary use shall be exempt from the Service Charge.

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Schedule No. LP-1

Lakewood-Paramount Tariff Area

METERED SERVICE

APPLICABILITY

Applicable to all metered service.

TERRITORY

Within portions of the Cities of Lakewood and Paramount and vicinity,  
Los Angeles County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 500 cu.ft. or less .....	\$ 3.60	(I)
Over 500 cu.ft., per 100 cu.ft. ....	.46	(I)
Minimum Charge:		
For 5/8 x 3/4-inch meter .....	\$ 3.60	(I)
For 3/4-inch meter .....	4.85	
For 1-inch meter .....	7.40	
For 1-1/2-inch meter .....	13.80	
For 2-inch meter .....	21.20	
For 2-1/2-inch meter .....	31.40	
For 3-inch meter .....	39.30	
For 4-inch meter .....	64.80	(I)

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. 2-1

Bellflower Tariff AreaMETERED SERVICEAPPLICABILITY

Applicable to all metered service.

TERRITORY

Within portions of the City of Bellflower and vicinity, Los Angeles County.

RATES

	Per Meter Per Month	
Quantity Rates:		
First 500 cu.ft. or less .....	\$ 3.66	(I)
Over 500 cu.ft., per 100 cu.ft. ....	.46	(I)
Minimum Charge:		
For 5/8 x 3/4-inch meter .....	\$ 3.66	(I)
For 3/4-inch meter .....	4.91	
For 1-inch meter .....	7.46	
For 1-1/2-inch meter .....	13.86	
For 2-inch meter .....	21.26	
For 2-1/2-inch meter .....	31.46	
For 3-inch meter .....	39.36	
For 4-inch meter .....	64.86	(I)

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