

Decision No. 86970

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  
an increase in water rates in its  
Central Basin District.

Application No. 56158  
(Filed December 23, 1975;  
amended November 3, 1976)

Guido R. Henry, Jr., Attorney at Law, for  
applicant.  
Daniel M. Conway, for Park Water Company,  
interested party.  
William J. Jennings, Attorney at Law, and  
Ernst Knolle, for the Commission staff.

#### O P I N I O N

By this application, Southern California Water Company (Company) requests authority to establish rates in its Central Basin District which are designed to increase annual revenue by \$671,100, or 16.9 percent over the revenues produced by the rates in effect at the time of filing based on test year 1977 operations. In addition, Company requests step increases in rates averaging \$56,300, or 1.2 percent in each of the test years 1978 and 1979.

Public hearing was held before Examiner Gillanders in Los Alamitos on November 3, 1976, and the matter was submitted upon receipt of three late-filed exhibits on November 17, 1976. Copies of the application had been served and notice of hearing had been published and posted in accordance with this Commission's rules of procedure.

Oral testimony on behalf of Company was presented by two of its vice presidents and its manager of the Rate and Evaluation Department. The Commission staff presentation was made by two engineers. Two customers attended the hearing, one of whom presented

testimony regarding rates and service. Financial testimony and exhibits were incorporated by reference from Application No. 56157 - Orange County District - received on August 31, 1976.

General Information

Company, a California corporation organized under the laws of the State of California on December 31, 1928, is a public utility rendering water service in various areas in the counties of Contra Costa, Imperial, Los Angeles, Orange, Sacramento, San Bernardino, and Ventura. It also renders electric service in the vicinity of Big Bear Lake in San Bernardino County.

Central Basin District

The Central Basin District is located in south central Los Angeles County and derives its name from that of the hydrological basin ("Central Basin Hydrological Area"), underlying all of the service area of Company within the district. On December 31, 1974 Company served 35,991 customers in this district and in addition water service for public fire protection was provided by 2,149 fire hydrants. Company renders service in this district in 17 municipalities and in unincorporated territory of Los Angeles and Orange County (approximately 40 customers in Orange County).

There are three tariff areas in the Central Basin District. The separate tariff areas result from the gradual development of this district internally and through acquisition. The latest acquisition, Coast Water Company, was authorized by Decision No. 81743 dated August 14, 1973 in Application No. 52919.

There are seven separate water systems serving Company's Central Basin customers. Although these systems are not physically interconnected, they operate as a single entity for water supply purposes.

The water supply for the Central Basin District is obtained from Company-owned wells, a leased well, State Project and Colorado River water from Metropolitan Water District connections, and minor purchases from neighboring utilities.

Under the terms of a water rights stipulation and agreement approved by Decision No. 68316 dated December 9, 1964 in Application No. 44614, Company's pumping allocation in the Central Basin Hydrologic Area is limited to 15,438 acre feet of water per year. However, not all of the 15,438 acre feet is available for use in the Central Basin District, as 2,455 acre feet is assigned to pumping plants of Company which produce water from the Central Basin Hydrological Area but deliver water to its Southwest District, or have been preempted as "pool requirements" as permitted by the decree, leaving a total of 14,976 acre feet available for pumping in the Central Basin District on a normal year basis. All water requirements in excess of those allowed by pumping must be met by purchased water.

In addition to transmission and distribution mains used to supply water to its customers, Company also has water treatment, storage, booster pumps, and other auxiliary equipment at various locations in the district. At December 31, 1974, the original cost of utility plant in service in the Central Basin District was \$14,553,500, the depreciation and amortization reserves \$3,540,200, with net plant of \$11,013,300.

#### Rates

The basic present rates for this district were set by Decision No. 82741 dated April 16, 1974 in Application No. 53764. The Commission authorized a rate of return of 7.90 percent on rate base and 12.56 percent on common equity for the test year 1973. Since that decision the Commission has authorized the following offset rate increases:

<u>Advice Letter</u>	<u>Resolution</u>		<u>Date Rates Effective</u>	<u>Increased Expense Offset</u>
	<u>Number</u>	<u>Dated</u>		
438-W	W-1573	6-18-74	7-1-74	Power for pumping and pump taxes, \$45,900.
455-W	W-1707	4-1-75	4-6-75	Power for pumping, labor, and property taxes offset by a reduction in purchased water cost, \$50,700.
461-W	W-1743	6-5-75	7-1-75	Purchased water and pump taxes offset by the full effect of a reduction in federal income taxes covered by a temporary increase in the Investment Tax Credit, \$167,500.

### Rate Proposals

Company proposes to increase and consolidate the three general metered service tariffs into one and eliminate the special metered tariff. An increase is also proposed in the private fire service schedule. As no service is now being rendered under the flat rate schedule it will be withdrawn.

Results of Operation

Witnesses for Company and the Commission staff have analyzed and estimated Company's operational results. At the hearing, Company stipulated to the staff results of operation shown in Exhibit 14. However, Company believes that for ratemaking purposes Exhibit 14 should be adjusted for later information regarding certain costs. (Exhibit 5.) According to Company, on October 1, 1976 its costs for gas used for pumping were increased. It expects a slight increase in its cost of purchased power. On December 25, 1976 Company will start paying its employees an average of 6.8 percent more than they are now being paid. As of October 1, 1976 the Company began paying a 278 percent increase in its liability insurance. The effects of these increases are shown on the following table:

## SOUTHERN CALIFORNIA WATER COMPANY

## CENTRAL BASIN DISTRICT

Functional Summary of Earnings and Rates of Return  
 CPUC Staff Report Adjusted for Later Information  
 (Dollars in Thousands)

Item	CPUC Staff Report Exhibit 14		Effect of Adjustment For Later Information	Exhibit 14 Adjusted for Later Information	
	Present Rates Estimated Year	Proposed Rates Estimated Year		Present Rates Estimated Year	Proposed Rates Estimated Year
	1977	1977		1977	1977
Operating Revenues	\$ 3,965.3	\$ 4,626.9	\$ -	\$ 3,965.3	\$ 4,628.5
<u>Operating Expenses</u>					
Purchased Water	945.8	945.8	-	945.8	945.8
Pump Tax	272.6	272.6	-	272.6	272.6
Power for Pumping	250.5	250.5	0.9	251.4	252.4
Chemicals	10.0	10.0	-	10.0	10.0
Labor - Direct	399.3	399.3	27.2	426.5	426.5
Common Cust. Acct. Labor	27.9	27.9	1.9	29.8	29.8
Common Cust. Acct. Supplies	10.5	10.5	-	10.5	10.5
Common Cust. Acct. Postage	32.5	32.5	-	32.5	32.5
Common Cust. Acct. EDP Rental	13.7	13.7	-	13.7	13.7
Uncollectibles	16.9	19.7	-	16.9	19.7
Advertising	3.5	3.5	-	3.5	3.5
Office Supplies	12.8	12.8	-	12.8	12.8
Injuries and Damages	23.2	23.2	27.1	50.3	50.3
Pensions and Benefits	46.6	46.6	5.2	51.8	51.8
Franchise Requirements	0.3	0.3	-	0.3	0.3
Regulatory Commission Dues, Memberships, and Employee Expenses	1.5	1.5	-	1.5	1.5
Rent	2.0	2.0	-	2.0	2.0
Depreciation and Amortization	1.9	1.9	-	1.9	1.9
Property Taxes	289.9	289.9	-	289.9	289.9
Payroll Taxes	332.5	332.5	-	332.5	332.5
Street Franchise Taxes	26.7	26.7	1.7	28.4	28.4
Allocated General Office	52.7	61.5	-	52.7	61.5
Other Expenses	129.9	129.9	9.1	139.0	139.0
Subtotal	220.4	220.4	-	220.4	220.4
	<u>3,223.6</u>	<u>3,235.2</u>	<u>73.1</u>	<u>3,296.7</u>	<u>3,208.3</u>
State Income Tax	36.1	44.6	(6.6)	29.5	37.2
Federal Income Tax before ITC	173.1	457.1	(31.9)	141.2	421.6
Investment Tax Credit	(48.2)	(48.2)	-	(48.2)	(48.2)
Total Income Tax	161.0	503.5	(38.5)	122.5	440.5
Total Operating Expenses	<u>3,224.6</u>	<u>3,638.7</u>	<u>34.6</u>	<u>3,319.2</u>	<u>3,668.8</u>
Net Operating Revenue	680.7	988.2	(34.6)	646.1	949.7
Rate Base	10,470.3	10,470.3	-	10,470.3	10,470.3
Rate of Return	6.50%	9.44%	-	6.17%	9.07%

Rate of Return

Any rate of return determination necessarily requires the weighing of a number of economic intangibles which are difficult to measure by statistical comparisons. It devolves upon the judgment of the Commission, after weighing the evidence presented by all of the experts, to determine and set a fair and reasonable rate of return. (Pac. Tel. & Tel. Co. (1968) 69 CPUC 53.) It was the testimony of Company's expert in investment banking and utility finance that a 9.73 percent rate of return on rate base or approximately 15 percent rate of return on common stock equity is needed to enable Company to sell its shares at a price which would not be punitively dilutive to the present stockholders and destructive to the market for Company's common stock.

The staff's financial witness recommended a rate of return of 9.15 percent on rate base, or approximately 13.33 percent return on common stock equity. We have considered the arguments advanced by Company and staff and adopt as reasonable a rate of return of 8.85 percent on rate base, or approximately 12.5 percent return on common stock equity.

Company has requested step increases in rates averaging \$56,300 or 1.2 percent in each of the test years 1978 and 1979 in order to cover increases in rate base which historically occur every year.

The staff financial witness in the testimony incorporated by reference opposed the concept of step rates for financial attrition as originally supported by the Company. The record is silent as to his position regarding step rates based on increased rate base. The staff uses a test year to measure estimated future year operations. Table 1, Exhibit 16, shows a continuous increase in earnings per share, thus the recommended rate of return is sufficient for the near future.

It is not necessary to set rates in this proceeding that would automatically grant Company a rate increase. If circumstances are such that Company needs a further increase it can avail itself of the numerous options open to it.

A rate of return of 8.85 percent applied to the adopted test year 1977 rate base of \$10,470,300 requires an increase of \$603,400 over present rates.

For purposes of setting rates, we will adopt the Company's 1977 estimated results of operation as shown in Exhibit 5.

Service

The record shows that there were 23 informal complaints to the Commission from the district during the period January 1975 through May 1976. Complaints on file in applicant's office by types are as follows:

1975 Complaints to Company

Billing	781
Pressure	183
Dirty Water	126
Taste and Odor	35
Miscellaneous	<u>      </u>
Total	1,125

According to the staff, Company's records indicate that customer complaints received at its district office were quickly resolved. Most of the complaints concern billing; service is satisfactory.

Conservation

Company started its conservation information program in 1972, which consists of advertisements in the local paper in all districts. These appear about once a month, and they are highly specific. The advertisements provide the customers with definite education, for instance, on how to read a water meter, how to check



for pipe leaks, and how to check the notorious water thief, toilet tank leaking.

In addition to the advertisements, the Company provides bill inserts with the same information. It is well aware of what happens to most bill inserts that are included with utility bills, so it attempts to design those inserts to have a little grab. When a customer opens the envelope he will see some ideas that might intrigue him to read further. If he does, he will find the kind of information that is conducive to lowering water use and lowering water bills. Much of the advertising and bill inserts have been related to the energy conservation idea of reduced water volumes. The advertisements stress that it takes electric energy and sometimes gas energy to pump water and to boost it, and that any savings in water use automatically reduces the energy needs of the community. This is the program that Company has followed in the past and intends to follow in the future.

The Company believes that its program has resulted in reduced water sales, whether looked at from a recorded basis or a temperature- and rainfall-adjusted basis. Company plans to continue its current program as it has produced good results. Company has other pilot programs that it is working on now in preparation for the water conservation case. Company believes it has had an aggressive conservation program and that the recorded results prove it. Company will continue that program, plus others as recommended by the Commission.

#### Rate Spread

We have concluded that Company's increase in revenue requirement, based on our adopted 1977 test year results of operation, is \$603,400. Company and staff do not agree on how the increase should be spread to consumers.

Company has proposed a general metered service schedule with monthly service charges based on a cost-of-service study and inverted block rates. The staff recommends, in accordance with the lifeline principle, that there be no increase for 5/8 x 3/4-inch meters for the first 500 cubic feet per month. By Decision No. 86708 dated December 7, 1976 in Application No. 56157 - Company's Orange County District - we adopted the lifeline type of rate schedule. We will do so in this matter.

Findings

1. Company is in need of additional revenues, but the proposed rates set forth in the application are excessive.

2. The estimates, previously discussed herein, of operating expense and rate base for the test year 1977 reasonably indicate the results of Company's operations for the future and are adopted.

3. A rate of return of 8.85 percent on the adopted rate base for the year 1977 will produce a return on common equity of approximately 12.5 percent. Such rate of return requires an increase in gross revenues of \$603,400 which amount is reasonable.

4. The establishment of a lifeline form of rate is reasonable.

5. The staff's rate spread is reasonable and should be adopted.

6. 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.

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 after the effective date of this order, Southern California Water Company is authorized to file the revised rate schedule attached to this order as Appendix A, and concurrently to withdraw and cancel its presently effective schedules. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be five days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.

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

Dated at San Francisco, California, this 15<sup>th</sup> day of FEBRUARY, 1977.

*I dissent because of the Lifeline rates.*  
*William Lyons, Jr.*  
Commissioner

*Robt. Belmont*  
\_\_\_\_\_  
President  
*[Faint stamp]*  
*[Signature]*  
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*[Signature]*  
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Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A  
Page 1 of 4

Schedule No. CB-1

Central Basin District

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the Cities of Artesia, Bell, Bell Gardens, Cudahy, Cerritos, Downey, Hawaiian Gardens, Huntington Park, Lakewood, Long Beach, Norwalk, Paramount, Pico Rivera, Santa Fe Springs, South Gate, Vernon and vicinity, Los Angeles County and portions of the City of Los Alamitos and vicinity, Orange County.

RATES

Quantity Rates:	Per Meter Per Month	
First 500 cubic feet, per 100 cubic feet .....	\$ 0.288	(I)
Over 500 cubic feet, per 100 cubic feet .....	0.302	(I)

(Continued)

APPENDIX A  
Page 2 of 4

Schedule No. CB-1

Central Basin District

GENERAL METERED SERVICE

RATES - (Continued)

Service Charge:	<u>Per Meter</u> <u>Per Month</u>	
For 5/8 x 3/4-inch meter .....	\$ 2.75	(I)   (I)
For 3/4-inch meter .....	4.25	
For 1-inch meter .....	7.00	
For 1-1/2-inch meter .....	10.40	
For 2-inch meter .....	16.50	
For 3-inch meter .....	21.00	
For 4-inch meter .....	46.00	
For 6-inch meter .....	70.00	
For 8-inch meter .....	115.00	
For 10-inch meter .....	165.00	

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 Rates.

APPENDIX A  
Page 3 of 4

Schedule No. AA-4

All Districts

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

- Rate A - Applicable within the Orange County and Central Basin Districts. (C)
- Rate B - Applicable within the Barstow, Culver City, Pomona Valley, San Gabriel Valley, Simi Valley and Southwest Districts.
- Rate C - Applicable within the Arden-Cordova, Bay, Big Bear, Calipatria-Miland, Desert, Ojai and San Bernardino Valley Districts. (C)

RATES

	<u>Per Month</u>			
	<u>A</u>	<u>B</u>	<u>C</u>	
For each inch of diameter of service connection .....	\$3.00	\$2.25	\$2.00	(D)

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.

(Continued)

APPENDIX A  
Page 4 of 4

Schedule No. AA-4

All Districts

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - (Continued)

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.
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 will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.