

Decision No. 86994

**ORIGINAL**

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 )  
Southwest District. )

Application No. 56440  
(Filed April 27, 1976)

Harold M. Messmer, Jr., Attorney at Law,  
for applicant.  
William J. Jennings, Attorney at Law, and  
Ernst G. Knolle, for the Commission staff.

O P I N I O N

By this application Southern California Water Company (Company) seeks authority to establish rates in its Southwest District which are designed to increase annual revenues by \$566,400, or 10.9 percent over the revenues produced by the rate levels in effect at the time of filing. In addition, Company requests step increases in rates of approximately \$91,000, or 1.5 percent in each of the test years 1977, 1978, and 1979.

After duly published and posted legal notice, public hearing was held before Examiner Gillanders in Gardena on November 22 and 23, 1976.

Company presented testimony and evidence through four witnesses and twelve exhibits. The staff presented testimony from three witnesses and introduced four exhibits. One customer testified at the hearing in opposition to the rate increase. All exhibits were received as of December 8, 1976 and the matter is ready for decision.

General Information

Company is a California corporation with its principal place of business located in Los Angeles. It is a privately owned public utility which provides water service in fifteen districts in the counties of Contra Costa, Imperial, Los Angeles, Orange, Sacramento, San Bernardino, and Ventura. It also provides electric service in the vicinity of Big Bear Lake in San Bernardino County.

Southwest District

The Southwest District service area includes all of the cities of Gardena and Lawndale, a portion of the cities of Carson, Compton, El Segundo, Hawthorne, and Inglewood, and unincorporated territory in the county of Los Angeles. Company served 42,050 customers in its Southwest District on December 31, 1975 and, in addition, public fire protection was provided by 2,965 fire hydrants. It supplies water to those customers through a distribution system of mains ranging in size up to 18 inches in diameter. In 1975 it purchased 70 percent of the water now supplied to this District through seven connections to the facilities of the West Basin Municipal Water District, a member agency of the Metropolitan Water District of Southern California. It also produces water from 19 Company-owned wells and purchases a small quantity from the city of Inglewood. Company has water treatment, storage, booster pumps, and other auxiliary equipment at various locations in the District.

Sixteen of the wells are located in the hydrologic area known as the West Basin and the quantity of water that can be produced from these wells is limited pursuant to an Interim Agreement approved by this Commission in Decision No. 51024. The remaining three wells are located in the hydrologic area known as the Central Basin and the quantity of water that can be produced from these three wells is limited pursuant to the terms of a Stipulation and Agreement for Judgment approved by this Commission in Decision No. 68316.

As of December 31, 1975 the book cost of utility plant in service in the Southwest District amounted to \$20,813,720 and the depreciation reserve was \$5,049,302 for a net depreciated plant of \$15,764,418.

Rate History

The basic present rates for this District were set by Decision No. 82539 dated March 5, 1974 in Application No. 54035. Since that decision the Commission has authorized the following offset rate increases:

<u>Advice Letter</u>	<u>Resolution Number</u>	<u>Dated</u>	<u>Date Rates Effective</u>	<u>Increased Expense Offset</u>
462-W	W-1742	6-17-75	7-1-75	Purchased water, pump tax, power for pumping, labor, and property taxes offset by the full effect of a reduction in Federal income taxes caused by an increase in the Investment Tax Credit \$250,000.
481-W	W-1920	6-8-76	7-1-76	Purchased water, power for pumping, labor, and property taxes \$115,000.

Rate Proposals

Company proposes to increase its general metered and private fire protection schedules. Present and proposed rates are shown in Exhibit D attached to the application.

The dollar and percentage increase to the customers by class of service at proposed rates is shown on the page following.

## SOUTHERN CALIFORNIA WATER COMPANY

## SOUTHWEST DISTRICT

Proposed Revenue Increases

(Dollars in Thousands)

<u>Classification</u>	<u>Estimated Year 1976</u>			
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Increase Amount</u>	<u>Per-Cent</u>
<u>Metered Revenues</u>				
Commercial	\$4,418.5	\$4,884.9	\$466.4	10.6%
Industrial	339.1	377.7	38.6	11.4
Public Authority	204.7	232.7	28.0	13.7
Resale	0.9	1.3	0.4	44.4
Other	6.3	6.9	0.6	9.5
Total	4,969.5	5,503.5	534.0	10.7
<u>Flat Rate Revenues</u>				
Private Fire Protection	97.1	129.5	32.4	33.4
Public Fire Protection	75.2	75.2	-	-
Total Flat Rate	172.3	204.7	32.4	18.8
<u>Other Revenues</u>				
Miscellaneous	10.0	10.0	-	-
Rent	2.2	2.2	-	-
Other	24.6	24.6	-	-
Total Other	36.8	36.8	-	-
Total Operating Revenues	5,178.6	5,745.0	566.4	10.9

Increases in Metered Revenue  
at Proposed Step Rates

<u>Year</u>	<u>Amount</u>	<u>Percent</u>
1977	\$ 81.6	1.61%
1978	141.3	2.73
1979	50.7	0.95

Results of Operation

Witnesses for Company and the Commission staff have analyzed and estimated Company's operational results. Summarized on the page following, from Company's Exhibit 4 and staff's Exhibit 15, are the estimated results of operations for the test years 1976 and 1977 under present rates and under those proposed for 1977 by Company.

Company and the staff were in agreement as to water sales of 250 Ccf per commercial customer per year under normal rainfall and temperature conditions. The major difference in revenues at present rates was caused by the staff's use of the offset rates authorized effective July 1, 1976. For operating expenses the staff made use of later information including the then latest known rates for power for pumping and payroll tax. For income taxes the staff used a full flow through of the Investment Tax Credit and the current 10 percent rate rather than the 4 percent rate existing at the time of the filing of this application.

With respect to plant additions Company's vice president of operations testified that the Metropolitan Water District of Southern California was unable to complete its portion of a new connection in 1976 but that it will be completed in 1977. This, in turn, shifted installation of its part of the connection into the year 1978. He also testified that a reservoir originally planned for 1976 would not be constructed until 1977 and that the design had been changed from an underground reservoir to a steel tank. These changes were provided the staff, accounting for the major amount of the staff differences of \$241,200 in rate base.

## Southern California Water Company

## Southwest District

## SUMMARY OF EARNINGS

Years 1976 and 1977 Estimated

Item	Applicant Estimated		Staff Estimated		Applicant
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	Exceeds Staff#
	(A)	(B)	(C)	(D)	(E)

(Dollars in Thousands)

## Year 1976

Operating Revenues	\$ 5,178.6	\$ N/G <sup>2/</sup>	\$ 5,313.1	\$ 5,842.0 <sup>1/</sup>	\$(134.5)
<u>Operating Expenses</u>					
Oper. & Maintenance	2,768.5	N/G	2,730.5	2,733.7	38.0
Admin. & General	110.9	110.9	112.7	112.7	(1.8)
Taxes Other Than Income	524.0	N/G	524.1	532.2	(.1)
Depreciation	339.2	339.2	335.1	335.1	4.1
Prorated General Office	156.0	156.0	152.0	152.0	4.0
Subtotal	3,898.6	-	3,854.4	3,865.7	44.2
Taxes on Income	355.9	N/G	404.9	677.5	(49.0)
Total Operating Exps.	4,254.5	-	4,259.3	4,543.2	(4.8)
Net Operating Revenue	924.1	-	1,053.8	1,298.8	(129.7)
Depreciated Rate Base	12,994.6	12,994.6	12,858.1	12,858.1	136.5
Rate of Return	7.11%	-	8.20%	10.10%	(1.09)%
Average No. of Customers					
Excluding Fire Protection	41,596	41,596	41,648	41,648	(52)

## Year 1977

Operating Revenues	\$ 5,200.0	\$ 5,851.0	\$ 5,346.2	\$ 5,878.9 <sup>2/</sup>	\$(146.2)
<u>Operating Expenses</u>					
Oper. & Maintenance	2,779.2	2,782.5	2,749.5	2,752.8	29.7
Admin. & General	113.6	113.6	115.7	115.7	(2.1)
Taxes Other Than Income	531.3	541.3	529.9	538.1	1.4
Depreciation	350.5	350.5	344.3	344.3	6.2
Prorated General Office	156.7	156.7	153.2	153.2	3.5
Subtotal	3,931.3	3,944.6	3,892.6	3,904.1	38.7
Taxes on Income	297.4	623.4	389.5	664.1	(92.1)
Total Operating Exps.	4,228.7	4,572.0	4,282.1	4,568.2	(53.4)
Net Operating Revenue	971.3	1,273.0	1,064.1	1,310.7	(92.8)
Depreciated Rate Base	13,284.5	13,284.5	13,043.3	13,043.3	241.2
Rate of Return	7.31%	9.58%	8.16%	10.05%	(0.85)%
Average No. of Customers					
Excluding Fire Protection	41,653	41,653	41,768	41,768	(115)

(Red Figure)

# At present rates.

1/ At proposed rates for 1977 applying to both 1976 and 1977 test years.

2/ Not given at 1977 proposed rates.

3/ Before 1976 offset increase.

Company Stipulation on Results of Operation

At the hearing, Company stipulated to the staff's revenues, expenses, and rate base included in its summary of earnings for years 1976 and 1977 updated for certain known changes in expenses since the preparation of the staff's report. These changes included in Exhibit 5 are to reflect: a 6.8 percent wage increase to all employees (other than executives and Bear Valley Electric District employees covered under a union contract) that was authorized by the board of directors to become effective December 25, 1976, increases in liability insurance effective October 1, 1976, increases in the cost of pensions and benefits effective December 25, 1976, and increases in payroll taxes effective January 1, 1977. Consistent with its stipulation and included in Exhibit 5 was a schedule of rates that was, according to the witness, designed to effect the lifeline recommendation of the staff and to produce a 9.15 percent rate of return on rate base. While the staff was familiar with some of these changes it did request and was granted time to study and investigate Exhibit 5 and supporting work papers in detail. The staff, after review, offered no objection to the updated material on costs presented by Company but did find arithmetic errors in Company's revised proposal on rates.

We will adopt the staff's summary of earnings as updated for later information included in Exhibit 5 as shown on the page following. The rate design authorized will reflect the staff's corrections.

SOUTHERN CALIFORNIA WATER COMPANY  
SOUTHWEST DISTRICT

Functional Summary of Earnings and Rates of Return  
CFCO Staff Report Adjusted for Later Information

(Dollars in thousands)

	CFCO Staff Report dated 11-16-76			Effect of Adjustment for Later Information	CFCO Staff Report Adjusted for Later Information			
	Present Rates		Proposed Rates		Present Rates		Proposed Rates	
	Estimated Year 1976	1977	Estimated Year 1976		Estimated Year 1977	Estimated Year 1976	Estimated Year 1977	
Operating Revenues	5,313.1	5,346.2	5,643.0	5,678.9	5,313.1	5,346.2	5,643.0	5,678.9
Operating Expenses								
Purchased Water	1,706.6	1,719.9	1,706.6	1,719.9	1,706.6	1,719.9	1,706.6	1,719.9
Pump Tax	179.3	179.3	179.3	179.3	179.3	179.3	179.3	179.3
Power for Pumping	245.0	246.2	245.0	246.2	245.0	246.2	245.0	246.2
Chemicals	22.0	22.5	22.0	22.5	22.0	22.5	22.0	22.5
Labor - Direct	361.3	361.3	361.3	361.3	361.3	361.3	361.3	361.3
Common Cust. Acct. Labor	32.5	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Common Cust. Acct. Supplies	12.0	12.2	12.0	12.2	12.0	12.2	12.0	12.2
Common Cust. Acct. Postage	37.6	37.9	37.6	37.9	37.6	37.9	37.6	37.9
Common Cust. Acct. EDP Rental	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5
Uncollectibles	26.0	26.1	29.2	29.4	26.0	26.1	29.2	29.4
Advertising	3.8	3.9	3.8	3.9	3.8	3.9	3.8	3.9
Office Supplies	14.5	14.8	14.5	14.8	14.5	14.8	14.5	14.8
Injuries and Damages	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
Pensions and Benefits	40.0	42.7	40.0	42.7	40.0	42.7	40.0	42.7
Regulatory Commission Fees, Memberships and Employee Expenses	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Rent	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Depreciation and Amortization	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Property Taxes	335.1	344.3	335.1	344.3	335.1	344.3	335.1	344.3
Payroll Taxes	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2
Street Franchise Taxes	80.7	81.2	80.7	81.2	80.7	81.2	80.7	81.2
Allocated General Office	152.0	152.0	152.0	152.0	152.0	152.0	152.0	152.0
Other Expenses	124.2	127.0	124.2	127.0	124.2	127.0	124.2	127.0
Sub-Total	3,854.6	3,892.6	3,865.7	3,904.1	3,854.6	3,892.6	3,865.7	3,904.1
State Income Tax	79.3	76.7	135.9	123.6	79.3	76.7	135.9	123.6
Federal Income Tax before ITC	379.7	366.9	603.7	594.6	379.7	366.9	603.7	594.6
Investment Tax Credit	(54.1)	(54.1)	(54.1)	(54.1)	(54.1)	(54.1)	(54.1)	(54.1)
Total Income Tax	404.9	389.5	685.5	668.1	404.9	389.5	685.5	668.1
Total Operating Expenses	4,259.5	4,282.1	4,501.2	4,572.7	4,259.5	4,282.1	4,501.2	4,572.7
Net Operating Revenue	1,053.6	1,064.1	1,137.8	1,106.2	1,053.6	1,064.1	1,137.8	1,106.2
Rate Base	12,459.1	13,043.3	12,459.1	13,043.3	12,459.1	13,043.3	12,459.1	13,043.3
Rate of Return	8.47%	8.16%	9.14%	8.48%	8.47%	8.16%	9.14%	8.48%

(Red Figure)



### 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. Such rate of return requires an increase in gross operating revenues of \$266,500.

### Step Rates

Company's proposal for step rates was based on two factors: (1) an estimated increase in the cost of money each year through 1979, and (2) an estimated increase in rate base each year through 1979.

The staff vigorously opposed step rates based on estimates of financing costs that far into the future. We concur. With respect to trend in rate of return caused by operations, including rate base, the decline in rate of return between 1976 and 1977 of the adopted summary of earnings of Company's rates originally proposed for 1977 is .05 percent per year. Company at the hearing withdrew its proposal with respect to step rates in the Southwest District.

Service

Our staff stated that service in the Southwest District appears to be satisfactory.

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 \$266,500, 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 schedules 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 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.

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

Dated at San Francisco, California, this 23<sup>rd</sup> day of FEBRUARY, 1977.

\_\_\_\_\_  
President

\_\_\_\_\_  
  
\_\_\_\_\_  
Commissioners

Commissioner William Simons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

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

APPENDIX A  
Page 1 of 3

Schedule No. SW-1

Southwest District

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

All or portions of the Cities of Carson, Compton, El Segundo, Gardena, Hawthorne, Inglewood, and Lawndale, the communities of Athens, Lennox, and Moneta, and vicinity, Los Angeles County.

RATES

	<u>Per Meter</u>	
	<u>Per Month</u>	
Quantity Rates:		
First 500 cu.ft., per 100 cu.ft. ....	\$ 0.292	(C)
Over 500 cu.ft., per 100 cu.ft. ....	0.295	(I)
Service Charge:		
For 5/8 x 3/4-inch meter .....	\$ 2.40	
For 3/4-inch meter .....	3.90	(I)
For 1-inch meter .....	6.00	
For 1-1/2-inch meter .....	9.90	
For 2-inch meter .....	15.00	
For 3-inch meter .....	19.00	
For 4-inch meter .....	37.00	
For 6-inch meter .....	63.00	
For 8-inch meter .....	103.00	
For 10-inch meter .....	148.00	(I)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge at the Quantity Rates.

APPENDIX A  
Page 2 of 3

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

RATE

	Per Month		
	A	B	C
For each inch of diameter of service connection	\$3.00	\$2.25	\$2.00

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.

(Continued)

Schedule No. AA-4

All Districts

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS - Contd.

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.