

Decision No. 38383

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

CITY OF NORTH SACRAMENTO, a
Municipal Corporation,

Complainant,

vs.

PUBLIC UTILITIES CALIFORNIA
CORPORATION, a corporation,

Defendant.

ORIGINAL

Case No. 4746

Raymond McClure, City Attorney, for Complainant.

Orrick, Dahlquist, Neff, Brown and Herrington,
by Hillyer Brown, for Defendant.

CRAEMER, Commissioner:

O P I N I O N

The City of North Sacramento, a municipal corporation, asks the Commission to investigate the rates being charged for the water service rendered by the Public Utilities California Corporation in and in the vicinity of North Sacramento, and that a flat rate of \$1.25 per month be fixed for a dwelling of five rooms, including the irrigation of the lot, or that a flat rate be fixed which will be just and reasonable.

The complaint alleges that the rates at present in effect are unjust and unreasonable as compared to the rates charged by similar private and publicly-owned water utilities; that the rates produce a monthly charge in excess of \$10 during the summer for a single family dwelling, including irrigation of the lot; and, that other utilities in the State serving the same number of customers and with the same capital investment are able to show a reasonable return at the flat rates requested by the city. It is further alleged that the return earned by

defendant on the fixed capital installed has increased from 4.19% in 1935 to 9.30% for the year 1943, and therefore the rates should be reduced to produce a reasonable return on the investment.

Defendant's answer alleges that the present rates in effect in the City of North Sacramento and vicinity are just and reasonable; denies that said rates produce a revenue resulting in more than a fair return on the investment; and, further alleges that a flat rate would be discriminatory and impractical to apply on an equitable basis and, therefore, would be unfair and unreasonable. The Commission is asked to dismiss the complaint.

A public hearing in the matter was held at Sacramento.

Water for this system is obtained from nine wells varying from 165 to 415 feet in depth and is delivered directly into the mains, pressure being maintained by automatic control switches and pressure tanks. Water also is delivered into a 70-foot elevated 60,000-gallon steel tank which acts as a pressure regulator and serves as a reserve and stand-by storage supply for fire protection purposes. The distribution system consists of 167,316 feet of mains ranging from 1 to 8 inches in diameter. There are 2,455 customers being served all through meters. Fire fighting service is supplied by 38 hydrants, all owned by the city.

The rates at present in effect provide for a minimum charge of \$1.25 per month with an allowance of 600 cubic feet of water. The next block of 4,400 cubic feet has a rate of 10¢ per 100 cubic feet, all use over 5,000 cubic feet is delivered at a rate of 5¢ per 100 cubic feet.

North Sacramento is largely a residential city. In the past it had no heavy industries but served as a business center for a large area lying north of the American River. A considerable proportion of the population have their business and occupations in Sacramento and their homes in this community.

In this proceeding, neither the city nor the company presented any factual data pertaining to the results of operation of the system. Both parties relied upon the report of the engineers of the Commission on the performance of this utility. Complainant and defendant each filed statements showing comparative

rates of nearby water systems, however, neither party presented any evidence whatsoever concerning the capital investment, operating revenues, expenses, taxes or depreciation of any of said waterworks.

R. S. Melvin and D. L. Duncan of the Commission's staff prepared a report on the North Sacramento Water System of defendant company, setting forth an appraisal of the physical properties in the system and giving an analyses of the operating revenues and expenses for the five-year period, 1940 to 1944, both inclusive, together with an estimate thereof for the year 1945. The depreciation allowance was computed by the 5% sinking fund method. The recorded maintenance and operating expenses were analyzed and adjusted for any improperly allocated charges. Set forth below is a summary of the report of the Commission's engineers:

	1940	1941	1942	1943	1944	Estimated	
						1945 (1)	1945 (2)
Fixed Capital:							
Undepreciated	\$175,200	\$193,800	\$218,200	\$233,100	\$242,000	\$252,700	\$252,700
Depreciated	154,734	171,517	193,005	203,941	208,453	214,910	214,910
Operating Revenues:	37,157	42,575	50,585	62,303	68,257	67,654	68,890
Operating Expenses-							
Sinking Fund	21,988	26,087	30,098	39,485	48,390	48,284	47,542
Interest on Deprec. Reserve - 5%	<u>994</u>	<u>1,052</u>	<u>1,176</u>	<u>1,344</u>	<u>1,572</u>	<u>1,783</u>	<u>1,783</u>
Total Expenses - Mod. Sinking Fund	22,982	27,139	31,274	40,829	49,962	50,067	49,325
Net Oper. Revenue:							
Sinking Fund	15,169	16,488	20,487	22,818	19,867	19,370	18,348
Mod. Sinking Fund	14,175	15,436	19,311	21,474	18,295	17,587	16,565
Rate of Return:							
Sinking Fund	8.66%	8.51%	9.39%	9.79%	8.21%	7.67%	7.26%
Mod. Sinking Fund	9.16%	9.00%	10.00%	10.53%	8.78%	8.18%	7.71%
Number of Customers:	1,709	1,996	2,354	2,367	2,460		
Water Deliveries - in 100 Cubic Feet:	201,574	246,584	306,909	418,969	435,091		

Analysis of the above report and the evidence presented shows the company's earnings have produced a return varying from a maximum of 10.53% in 1943

to an estimated return of 8.18% for the year 1945 on a depreciated basis, and 9.79% to 7.67% respectively on the undepreciated capital investment. The estimated return for the immediate future is reduced to 7.71% on the depreciated and to 7.26% on the undepreciated rate base principally by reason of the reduction in rates to the Government Parker House Project.

At the beginning of the war, the United States Government erected a repair base for army airplanes known as McClellan Field. This repair depot is now a permanent institution and furnishes employment to several thousand people, a great number of which now reside in North Sacramento. In order to provide additional housing for the employees at McClellan Field, the Government constructed the Parker Housing Project of 332 homes. Water is furnished to this project under the terms of a contract entered into by and between the United States Government and the company, under date of April 18, 1942, providing for the installation, at the expense of the company, of the water producing and transmission facilities, the costs thereof to be reimbursed by the government through payment at the rate of 20¢ per 100 cubic feet for water delivered to the project until a total of \$18,000 be accumulated. Thereafter the rate is reduced to 10¢ per 100 cubic feet. According to the evidence the company spent \$9,788 to December 31, 1944, in constructing the facilities necessary to supply water to the housing project. The total gross revenue of \$18,000 was realized during June, 1945.

According to the testimony, prior to the filing of this formal complaint by the city the utility had made a proposal to increase the monthly minimum quantity of water delivered under the existing charge of \$1.25 per month from 600 cubic feet to 1,000 cubic feet during six summer months and to install additional water main capacity primarily for fire protection purposes at an estimated cost of \$12,000. It is estimated that the establishment of this proposed rate schedule will reduce the company's annual gross revenue about \$5,000. Analysis of the record shows that this reduction in revenue lowers federal income taxes by \$2,130 and also lowers the charges of the Citizens Utility Company of Minneapolis, the holding company of this California corporation, by \$460. The

rates charged the Government's Parker Housing Project also will be subject to a reduction of \$370 under the terms of the controlling contract which provides as follows:

"If the company shall reduce its rates for similar service in the City of North Sacramento the rates herein named shall be reduced in proportion to such reduction."

The company claims that its office in North Sacramento is too small to accommodate its present staff and also that an additional employee is required to carry on its business. The additional rent and salary are estimated to increase the operating expenses from \$2,500 to \$3,000 per year.

The results of future operations based on the \$5,000 reduction in revenue and the effects on taxes and other adjustments show that the company would earn 6.12% on the undepreciated rate base. The company's claim of an increase of \$3,000 in the operating expenses would reduce this return to 5.43%.

It is clear from the record that the present rates in effect produce an excessive return. It is also equally clear that by increasing the present allowance of 600 cubic feet to 1,000 cubic feet under the minimum monthly charge of \$1.25, the net return still will be in excess of 6% under present operating conditions. However, the evidence also shows the slightly reduced net earnings which the company will realize if compelled to enlarge its office quarters and add the additional employee soon will be offset by the rapid growth of the community served. The city contends that its residents should have the benefit of flat rates for the service furnished similar to those prevailing on the municipally-owned system of the City of Sacramento.

The testimony conclusively shows that under flat rate operation consumer demand will necessitate an increase in main capacity, production and pumping facilities at a bare minimum of 40% over and above existing facilities designed for measured distribution of water. This additional investment immediately required for flat rate operation ultimately would result in higher charges to the consumers.

A careful review of the evidence and testimony presented herein shows that although the utility has not renewed its previous informal offer of a reduced schedule of rates, that nevertheless it is now enjoying revenues producing a yield in excess of a reasonable and fair rate of return. The record justifies the finding that the resident water users of North Sacramento are fairly entitled to an adjustment in rates which will give them cheaper water than the present rate structure permits.

The newly-established rate schedule will accomplish this reduction by providing for a very substantially increased volume of water at no additional cost to the customer during the summer months when climatic conditions demand the greatest use of water. The Order will provide for an allowance of 1,000 cubic feet for the minimum monthly charge of \$1.25 effective during the six summer months, April to September, both inclusive.

The following form of Order is recommended:

O R D E R

Complaint having been filed as entitled above, a public hearing having been held thereon, the matter having been duly submitted and the Commission being fully advised in the premises,

IT IS HEREBY FOUND AS A FACT that the rates now charged by Public Utilities California Corporation, a corporation, for water supplied to its consumers in and in the vicinity of the City of North Sacramento, Sacramento County, are unjust and unreasonable in so far as they differ from the rates herein established, and that the rates herein established are just and reasonable rates to be charged for the service rendered, and basing its Order upon the foregoing findings of fact and upon further statements of fact contained in the Opinion which precedes this Order,

IT IS HEREBY ORDERED that Public Utilities California Corporation, a corporation, be and it is hereby directed to file in quadruplicate, within twenty

(20) days from the date of this Order, the following schedule of rates to be charged for all water delivered on its North Sacramento System, subsequent to December 1, 1945:

Schedule No. 1

METERED CHARGES

Applicability:

Applicable to all existing metered services during the winter months of January, February, March and October, November and December.

Territory:

Within the area now served in the City of North Sacramento and adjacent thereto.

Rates:

<u>Quantity Charge:</u>	<u>Per Meter Per Month</u>
From 0 to 600 cubic feet, minimum charge	\$1.25
From 600 to 5,000 cubic feet, per 100 cubic feet10
All over 5,000 cubic feet, per 100 cubic feet05

Minimum Charge:

5/8 x 3/4 inch meters	\$1.25
3/4 inch meters	1.50
1 inch meters	2.00
1 1/2 inch meters	2.75
2 inch meters	5.00
3 inch meters	10.00
4 inch meters	20.00
6 inch meters	35.00

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

Schedule No. 2

METERED CHARGES

Applicability:

Applicable to all existing metered services during the summer months of April, May, June, July, August and September.

Territory:

Within the area now served in the City of North Sacramento and adjacent thereto.

Schedule No. 2 - Continued

METERED CHARGES

Rates: Per Meter
Per Month

Quantity Charge:

From 0 to 1,000 cubic feet, minimum charge . . .	\$1.25
From 1,000 to 5,000 cubic feet, per 100 cubic feet . .	.10
All over 5,000 cubic feet, per 100 cubic feet : . .	.05

Minimum Charge:

5/8 x 3/4 inch meters	\$1.25
3/4 inch meters	1.50
1 inch meters	2.00
1 1/2 inch meters	2.75
2 inch meters	5.00
3 inch meters	10.00
4 inch meters	20.00
6 inch meters	35.00

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

The effective date of this Order shall be twenty (20) days from and after the date hereof.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 6th day of November, 1945.

David Rudman
Justice F. Coe
Francis Coe

Justus Powell
Commissioners.