

Decision No. 38640

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of DEL ESTE WATER COMPANY, a corporation, for a certificate of public convenience and necessity covering its operations in the Rice area.

Application No. 26143

In the Matter of the Application of DEL ESTE WATER COMPANY, a corporation, for authority to establish rates in the Rice area uniform with rates heretofore established in other systems operated by it.

Application No. 26144

Francis O. Hoover, for Applicant.
Ronald D. Bates, City Attorney for City of Modesto,
L. W. Chaffee, in propria persona.

BY THE COMMISSION:

O P I N I O N

In these proceedings Del Este Water Company, a corporation, asks the Commission to grant it a certificate of public convenience and necessity to operate a public utility water system in a 400-acre section of land known as the Rice area, located across from the company's Del Este System No. 1 which adjoins the City of Modesto, Stanislaus County, and also to establish increased rates for the service rendered. The Commission is asked to approve a schedule of flat and metered rates at present in effect on the Del Este System No. 1 and on the other systems operated by the company in the Modesto area. The flat rates provide for a monthly minimum flat rate charge of \$2.30 for a 3/4-inch service and \$3.10 for a 1-inch service, and the meter rates provide for a minimum monthly charge of \$1.50 with an allowance of 2,000 cubic feet of water. Use over the minimum is reduced in charges through two blocks to 4¢ per 100 cubic feet for

quantities over 50,000 cubic feet. The company has given the required notice to the Office of Price Administration of its application to the Commission for an increase in rates.

A public hearing in these matters was held at Modesto before Examiner Stava and they were combined for hearing and decision.

The proposed service area is located on both sides of Highway 99, directly south of the Tuolumne River. The river is also the southerly boundary of the applicant's Del Este System No. 1, which serves the adjoining territory lying east of the City of Modesto. At present only 40 acres of land have been subdivided in this section. The balance of the area is owned in 10 and 15-acre tracts which are planted to orchards and field crops. Applicant expects these small holdings to be gradually re-subdivided into residential and commercial properties.

The system was constructed in 1938 by James L. Rice for the purpose of developing a business area in the vicinity of his mercantile establishment, but no certificate was obtained to operate a public utility water system. It was sold to the Del Este Water Company in 1944 and the transfer was authorized by the Commission in its Decision No. 37123, dated June 13, 1944. Water is obtained from two deep wells, equipped with electrically driven turbine pumps, and distributed with the aid of pressure tanks through approximately 3,900 feet of mains ranging in size from 1 to 4 inches in diameter. The system serves 23 domestic and commercial consumers at a flat rate of \$2.00 per month for a dwelling or business building.

Mr. Kennan Beard, General Manager for applicant, testified that at present there are 35 residences and commercial establishments within the subdivided area that obtain water from individual wells but that these properties can be served by extending the existing mains. He estimated the required extension to cost approximately \$5,000 and stated that his company would make the installation when the certificate was granted.

The Del Este Water Company now owns and operates five separate water systems in Stanislaus County which have uniform rate schedules, except for the one system at Salida. Applicant desires to make the Rice system a part of its Del Este No. 1 System for combined operation under a uniform rate schedule, as the service, water production and distribution conditions are the same. The flat rates in effect on the four systems provide for a monthly minimum charge of \$1.75 for 1/2-inch service in addition to the rates requested in the application. When applicant's attention was directed to the fact that the \$1.75 charge had not been included in the proposed rate schedule, Mr. Beard testified that very few consumers used the small service, but, that in order that the charges be uniform throughout the proposed combined area, he asked to amend the application to make the \$1.75 charge also effective within the Rice system.

Mr. D. L. Duncan, one of the Commission's engineers, submitted a report covering an appraisal of the system, an estimate of operating expenses, a comparison of revenues obtained from present rates and the revenues produced by the requested rates. A summary of the information presented is shown as follows:

	<u>Present Rates</u>	<u>Requested Flat Rates</u>
Estimated historical cost, undepreciated	\$6,064.12	26,064.00
Operating Revenue	\$1,152.00	\$ 966.00
Operating Expenses*	606.00	606.00
Net Operating Revenue	<u>\$ 546.00</u>	<u>\$ 360.00</u>
Rate of Return	9.01%	5.94%

(* Depreciation by Sinking Fund Method at 5%.

The report shows that the application of the requested rates to the service furnished produces less revenue than the rates at present in effect. This difference is due to the fact that the proposed rates will result in reduced charges to motels and other multiple residential premises, but will also produce a slight increase in charges to some residential and business establishments. The result of operations shows a return on the estimated historic cost of the property of 9.01% under present rates and 5.94% under the proposed rates.

Applicant does not require an additional franchise or authority from Stanislaus County to operate in the Rice area as the Resolution of the Board of Supervisors, dated July 27, 1936, gave the company authority to install mains in, upon, or across all roads and highways in Stanislaus County.

No other public utility serves water in the Rice area and no protests were made to the granting of the certificate or to the establishment of the requested rates. Under the circumstances, it appears to be in the public interest that the authority sought herein be granted.

The certificate of public convenience and necessity granted herein is subject to the following provision of law:

"That the Commission shall have no power to authorize the capitalization of this certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right."

O R D E R

Application as entitled above, and as amended, having been filed with the Railroad Commission, a public hearing having been held thereon, the matter having been duly submitted and the Commission now being fully advised in the premises,

THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA HEREBY DECLARES that public convenience and necessity requires, and will require, the establishment and operation of a public utility water system by the Del Este Water Company, a corporation, in and in the vicinity of the so-called "Rice area," Stanislaus County, said area being located south of and adjoining the southerly boundary of applicant's Del Este System No. 1, and consisting of 400 acres more or less, and delineated upon Exhibit "B" attached to the original application herein and hereby made a part of this Order by reference.

IT IS HEREBY ORDERED AS FOLLOWS:

1. That a certificate of public convenience and necessity be and it is hereby granted to Del Este Water Company, a corporation, to operate a public utility for the distribution and sale of water within the territory hereinabove described.

2. That Del Este Water Company, a corporation, be and it is hereby authorized to serve said Rice area with water at the rates and subject to the rules and regulations now in force in its Del Este System No. 1, or that may hereafter be made effective therein.

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

Dated at San Francisco, California, this 24th day of January, 1946.

Edward Anderson
Justin J. Cooney
William E. Brown
Samuel H. Hill
Harold P. Hill
Commissioners