

Decision No. 39943

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SAN GABRIEL VALLEY WATER COMPANY,
a corporation, for an order approving
new and increased rates.

Amended Application No. 26527

ORIGINAL

Paul Overton, for Applicant; J. J. Deuel,
for California Farm Bureau Federation;
Benjamin Chapran, and R. W. Hines for
Office of Price Administration.

O P I N I O N

Fontana Domestic Water Company, a corporation, heretofore was engaged in the business of supplying water for domestic and commercial purposes to customers in the unincorporated town of Fontana and adjacent suburban and rural territory, in San Bernardino County. The original application in this proceeding was filed by said company and asked the Commission to approve the new and increased rates therein set forth. Prior to hearing held in this proceeding the water system was sold to San Gabriel Valley Water Company, a corporation. The sale was authorized by the Commission in its Decision No. 33235, issued September 25, 1945. Thereafter San Gabriel Valley Water Company filed an amended application herein asking to be substituted for said Fontana Domestic Water Company and requesting the Commission to fix just and reasonable rates.

The Office of Price Administration was duly notified of the filing of the application. Public hearings in the proceeding were held before Examiner Stava at Fontana.

The service area of this utility covers approximately 34 sections of land, or approximately 22,000 acres. Fontana Farms Company developed the main portion of this service area, a large tract of some 17,000 acres, which was sold off for small acreage farms and for residential purposes, and in 1913 constructed

a domestic water system to serve the project. This water system was operated under lease by Rialto Domestic Water Company, a public utility, until the expiration of said lease in 1923, when the Fontana Domestic Water Company was organized and acquired the water system and thereafter continued the public utility service under a certificate of public convenience and necessity granted by the Commission in its Decision No. 13268, issued March 14, 1924.

The present water supply is obtained from the Fontana Union Water Company, organized by Fontana Farms Company for the purpose of producing and distributing irrigation water to its stockholders, who were property owners within the 17,000-acre tract. The mutual company obtains water by diversion of natural flow from Lytle Creek. The Domestic Company, at the time of sale to San Gabriel Valley Water Company, owned 1,500 shares of stock in the Fontana Union Water Company. Each share of this stock entitles the holder to a constant flow of 0.25 miner's inches of water, which is equivalent to a flow of 1/50 cubic feet per second. The company's stock ownership thus entitles it to a constant flow of 375 miner's inches or 7.50 cubic feet per second.

The distribution system of the Domestic Company, as of December 31, 1945, comprised 904,199 feet of pipe lines varying from one to fourteen inches in diameter. Fifty-three per cent of the mains are two inches or less in diameter. There were 3,469 customers, all metered, served on December 31, 1945.

The domestic rates at present in effect provide for a monthly minimum charge of \$1.50 for the first 1,500 cubic feet or less. Excess use is reduced through two blocks to five cents per 100 cubic feet for all water consumed over 5,000 cubic feet. The company also has a combination domestic and irrigation rate with a monthly minimum charge of \$2.00 under which all water is charged at five cents per 100 cubic feet.

The rates sought by Fontana Domestic Water Company in its application provide for a minimum monthly charge of \$1.50 for a domestic service which included the use of 1,200 cubic feet of water. For excess use the unit charges were graduated downward through five blocks to five and one-half cents per 100 cubic feet for all water delivered over 50,000 cubic feet.

Protests against the granting of increased rates were made by members of the Fontana Farm Bureau and the Fonbloom Grange No. 6021 and by various water users. The protests were made on the grounds that the service was wholly inadequate and that the customers generally were unable to pay increased charges.

According to the testimony of witnesses small farm acreages or parcels of land were sold by the original promoters throughout the Fontana area for poultry and rabbit raising and for the operation of small vegetable gardens. A community center was developed in the townsite of Fontana where several general commercial stores and similar enterprises were established to serve the surrounding residential and farming area.

Two major agricultural pursuits in this district at the present time are the raising of rabbits for the market and raising chickens for both market and egg production. It appears that in the summertime the climate frequently becomes very hot for considerable periods of time and during such periods it is absolutely necessary to control the temperature in the poultry houses and rabbit hutches in order to prevent passing above the critical temperature of 90 degrees. It is stated that temperatures in excess of 90 degrees cause hens to cease laying and results in the death of young rabbit litters which cannot survive excessive heat. To maintain proper temperature control requires the continuous and uninterrupted operation of water sprinkling systems. However, by reason of the preponderance of two-inch mains throughout the service area, the heavy demand on the water system makes it impossible to maintain the temperature below the critical point.

Mr. G. S. Templeton, Director of United States Rabbit Experiment Station at Fontana, testified that this particular area was ideally suited to the raising of poultry and rabbits, it having developed into one of the most successful poultry and rabbit raising sections in California. The continued expansion of this industry, however, requires a reliable and adequate water supply 24 hours out of each day in summer, and not subject to diminution or failure during the frequent hot spells when temperatures may rise as high as 110 degrees.

The testimony of some of the consumers indicates that during a great number of years last past the water service in the agricultural areas during

the summer has been so poor that no water was received at their premises during hours of peak demand. From the testimony of Mr. R. H. Nicholson, President of the San Gabriel Valley Water Company, it appears that he took control and possession of this utility on or about the first day of November, 1945, at which time over half of the mains in the distribution system were two inches or less in diameter. Investigation conducted by Mr. Nicholson indicated that a great number of consumers had used long stretches of 1/2-inch pipe for the distribution of water in and about their premises and in the construction of their cooling systems for chicken houses and rabbit warrens. This small-sized pipe has made it impossible to provide adequate cooling temperatures for these air-conditioning plants even in those parts of the system where the pressure in the mains was approximately 40 pounds per square inch.

When this property was acquired by the San Gabriel Valley Water Company, Mr. Nicholson immediately inaugurated an extensive survey of system layout and operating performance, in order to develop an orderly plan to remedy the low pressures and inadequate water deliveries to consumers. Several new mains ranging as high as eight inches in diameter already have been installed in certain areas where the service was poorest. In various portions of the service area, delivery capacity has been stiffened by the installation of large feeder mains. Such installations brought considerable relief. However, completion of this program of improvement has been very slow because of the difficulty of obtaining early deliveries of the large quantity of pipe and equipment necessary to rehabilitate this system covering an area of approximately 3/4 square miles. The company has budgeted for the year 1947 the amount of \$131,700 for the additional installation consisting of the following improvements:

18-inch line on Elder from Highland to Base Line	\$20,000
One million-gallon reservoir at Cypress & Highland	30,000
12-inch line from Cypress to Base Line	15,000
1 1/2 miles of 8-inch line on Base Line	15,000
6 miles of 6-inch line in Cherry and Juniper Systems	44,000
Booster plant Foothill and Beach	6,500
Electric Welder	<u>1,200</u>
Total	\$131,700

The company claims that as of December 31, 1945, the historical cost of its tangible fixed capital amounts to \$599,643. Evidence presented by the

Commission staff indicates that \$555,790 is the proper historical cost for the tangible fixed capital as of the same date, resulting in a difference of \$43,833. The company's historical cost is the amount recorded on its books, while the staff's figure is the result of a detailed inventory and appraisal on a historical cost basis as of December 31, 1944, brought forward by net additions and betterments to December 31, 1945. The difference is primarily accounted for by the failure of the company's books to reflect properly capital retirements. Accordingly, the books are subject to restatement relative to tangible fixed capital as of December 31, 1945. The company estimates tangible fixed capital will be increased by about \$60,000 during the year 1946 owing to additions to plant, while the Commission's engineers estimate this item to total \$50,000 for the same date.

Fontana Domestic Water Company purchased 500 shares of water stock from Fontana Union Water Company at \$200 a share in 1924. In 1940 an additional 250 shares of Union stock were purchased by the same company at \$100 a share, and in July, 1945, it acquired, from Fontana Farms Company, without cost to itself, an additional 750 shares of stock. This latter stock had been purchased by Fontana Farms Company at a total cost of \$49,020; this being acquired over a period of years. Thus the cost to the utility, Fontana Domestic Water Company, was \$125,000 for the 1,500 shares. The Applicant carries the stock on the books at the figure of \$174,020, including the cost to Fontana Farms Company of the last block of 750 shares of stock.

The San Gabriel Valley Water Company paid assumed indebtedness of \$254,000 and \$96,000 cash for the stock of Domestic Water Company or a total of \$350,000 for the entire plant and property, including the stock referred to, at the time of transfer, November 1, 1945.

The operating revenues of the utility for the year ending December 31, 1945, were \$108,970. The estimates of future revenues varied widely. The estimated revenue for 1946 presented by the Commission's engineer amounted to \$114,304 and excluded possible sales of water to the Kaiser Shell Plant at Fontana, closed in August of 1945. The evidence, however, does show a remarkable increase in new and potential consumers both residential and commercial as well as the very certain reconversion of industrial business. It is fair to assume, therefore, that the revenues for 1947 under present rates should be not less than \$135,000.

Future costs of operation cannot be accurately estimated. Originally the domestic water system was managed by officials and employees of the Fontana Farms Company, the parent corporation, and also similarly by representatives and employees of the mutual company. This method was far cheaper than will be possible under the independent operation by Applicant. Because of the short period of control by the new owners and the substantial expenditures now required for the rehabilitation and reconstruction of the system to afford a better water service, a condition resulting from long deferred maintenance, past performance costs are not a proper guide. Subsequent to the presentation of operating estimates by various engineers in previously prepared reports, Applicant accorded a general and substantial increase in all employee salaries. The cost of purchased water likewise has increased since the original estimates were made. Taxes also will be greater than estimated. The original estimate by the Commission's engineer for operating expenses in 1946 was \$94,747, including depreciation at \$8,311, 5% sinking fund. The company's representative estimated these expenses to be \$144,954, including, however, \$19,827 for depreciation computed by the straight line method. Giving due consideration to the testimony and evidence presented, it appears that a reasonable charge for the operations in the immediate future is the sum of \$123,000, which includes \$8,563 for annual depreciation computed by the sinking fund method at 5%.

Upon the basis of the figures presented above, Applicant's operations, under present rates, would result in a net return of \$12,000. Such a return is insufficient to justify Applicant in proceeding with a program of improvements necessary to the rendition of an adequate and satisfactory water service. However, it is also evident that the increases in rates now permitted should not be so severe as to diminish water use, nor should any attempt be made by the Commission to fix a permanent and adequate schedule of rates until the results of operation can be determined by actual experience and the company's need for a greater return fully demonstrated. In this connection the record shows that for many years immediately prior to the acquisition of this water works by Applicant, no attempt was made by the former owners to improve the poor and inadequate water service. The new

owners, however, are faced with the long continued dissatisfaction of the consumers over service conditions. Applicant is taking steps to remedy these conditions through adoption of an extensive plan for improvements.

The Order herein will continue in effect two metered rate schedules, but at increased levels, as distinguished from the single rate proposed by the Fontana Domestic Water Company in its original application, thus continuing to afford an optional schedule to those customers using water for irrigation purposes. The effect of the new rates is difficult to predict, but based on the 1943 water use data in the record should increase revenues some \$20,000. The Applicant may file and make effective the new rates upon five days' notice after the effective date of this Order, and will be expected to cancel all other rates. Applicant is expected to advise each irrigation customer of the two new rates, so as to permit the customer to select the schedule, he desires.

There exists one further problem. The existing rules and regulations of this utility are now obsolete and do not fairly and without discrimination cover existing conditions. These present rules contain provisions no longer considered proper practice by this Commission, and which are unfair and unjust to existing and potential new consumers or applicants for service. Likewise in certain cases these rules place an unfair burden on the utility. In view of these circumstances and the importance thereof, the Applicant will be required to file a revised set of rules and regulations for the consideration of this Commission.

O R D E R

Application as entitled above having been filed with the Public Utilities Commission of the State of California, a public hearing having been held thereon, the matter having been duly submitted, and the Commission now being fully advised in the premises,

IT IS HEREBY FOUND AS A FACT that the rates now charged by San Gabriel Valley Water Company, a corporation, for water supplied to its customers in and

in the vicinity of Fontana, San Bernardino 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 the further statements of fact contained in the Opinion which precedes this Order,

IT IS ORDERED that Applicant:

1. May file in quadruplicate, in conformity with General Order No. 96, within sixty (60) days from the date of this Order, the schedules of rates shown by Exhibit A attached hereto to be charged for all water service rendered its customers in and in the vicinity of Fontana, San Bernardino County, to become effective on not less than five (5) days' notice to this Commission and the public, and that concurrently therewith Applicant cancel all existing flat and metered rate schedules now on file.
2. Shall advise each irrigation customer of the optional rates authorized herein.
3. Shall within one hundred twenty (120) days from the date of this Order, submit to this Commission for its approval four sets of rules and regulations governing relations with its consumers, each set of which shall contain a suitable map or sketch, drawn to an indicated scale upon a sheet 8 1/2 x 11 inches in size, delineating thereupon in distinctive markings, the boundaries of its present service area and the location thereof with reference to the immediate surrounding territory; provided, however, that such map or sketch shall not thereby be considered by this Commission or any other public body as a final or conclusive determination or establishment of the dedicated area of service, or any portion thereof.

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

Dated at San Francisco, California, this 4th day of February, 1947.

Arnold P. Hule
Justus F. Calver
Frank J. Farrell
A. J. [Signature]

 Commissioners.

EXHIBIT A

Sheet 1

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all domestic, commercial and industrial metered water service.

TERRITORY

In and about the town of Fontana, San Bernardino County.

RATES

Quantity Charge:	<u>Per Meter</u> <u>Per Month</u>
First 1,200 cu. ft. or less	\$1.50
Next 1,300 cu. ft., per 100 cu. ft.10
Next 2,500 cu. ft., per 100 cu. ft.08
Over 5,000 cu. ft., per 100 cu. ft.065

Minimum Charge:

For 5/8 x 3/4 inch meters	\$1.50
For 3/4 inch meters	2.00
For 1 inch meters	3.00
For 1 1/2 inch meters	4.50
For 2 inch meters	7.50
For 3 inch meters	13.50
For 4 inch meters	21.00
For 6 inch meters	30.00
For 8 inch meters	40.00
For 10 inch meters	55.00

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

EXHIBIT A

Sheet 2

Schedule No. 2.

COMBINATION DOMESTIC AND IRRIGATION METERED RATE

APPLICABILITY

Applicable to all customers on lots of not less than three-quarters (3/4) of an acre, when water is used for irrigation and domestic uses combined, or for irrigation alone.

TERRITORY

In and about the town of Fontana, San Bernardino County.

RATES

Quantity Charge:	Per Meter Per Month
First 2,800 cu. ft. or less.....	2.00
All over 2,800 cu.-ft., per 100 cu.ft..	.065
 Minimum Charge:	
For 5/8 x 3/4 inch meters.....	\$2.00
For 3/4 inch meters.....	2.50
For 1 inch meters.....	3.50
For 1 1/2 inch meters.....	5.00
For 2 inch meters.....	8.00
For 3 inch meters.....	13.50
For 4 inch meters.....	21.00
For 6 inch meters.....	30.00
For 8 inch meters.....	40.00
For 10 inch meters.....	55.00

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

SPECIAL CONDITIONS

When application is made under this schedule, no change will be made to any other schedule within twelve (12) months.