

Decision No. 42308

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

IN THE MATTER OF THE APPLICATION
of
CITIZENS DOMESTIC WATER COMPANY
FOR AUTHORITY TO INCREASE ITS RATES.

ORIGINAL

Application No. 29419

Cosgrove, Clayton, Cramer, & Diether, by S. H. Rindge
for applicant; Milton Graham for La Sierra Chamber of
Commerce; and Myron W. Tilden for the consumers.

O P I N I O N

Citizens Domestic Water Company, a corporation, owns and operates a water works in the vicinity of Arlington, Riverside County, California, and filed the above-entitled application seeking authority to establish an increased schedule of rates. Public hearings were held before Examiner Warner in Riverside, California, on November 1, 1948, and at La Sierra Heights, Arlington, California, on November 23, 1948.

The applicant's system serves about 1,600 consumers residing in an unincorporated rural area located just west of the city limits of Riverside and adjacent to the community of Arlington. The water system is divided into two zones. (1) A high zone, designated as Zone I, in which water is served from reservoirs located on two widely separated hills. Water is elevated approximately 300 feet to these reservoirs. In this zone, water pressures are as high as 100 pounds per square inch, and approximately 77% of the total system customers are served therein. (2) A lower zone, designated as Zone II, in which water is served from a reservoir at a lower elevation requiring less pumping. In this zone, water pressures are as low as 15 pounds

per square inch, and approximately 23% of the total system customers are served therein. Interconnection of the reservoirs between Zones I and II for water distribution is not possible due to the existence of concrete distribution pipe installations, throughout Zone II, installed originally as an irrigation system, which will not withstand the higher operative pressures of Zone I.

System average customer usage is about 2,200 cubic feet per month, although some 14 or 15 customers utilize in excess of 10,000 cubic feet per customer per month, and the usage of one of these is over 100,000 cubic feet per month.

Rates of the applicant are segregated between Zones I and II; rates in each zone specifying a minimum charge of \$1.85 per month for 1,000 cubic feet or less, with a quantity charge of 15 cents per 100 cubic feet for all water supplied over 1,000 cubic feet in Zone I, and five cents per 100 cubic feet for all usage over 1,000 cubic feet in Zone II. The rates requested provide for the elimination of the two zone rates, but retain the \$1.85 minimum monthly charge with an allowance of 1,000 cubic feet. For excess use, the charge is reduced to 18 cents per 100 cubic feet for quantities over 1,000 cubic feet.

The applicant introduced evidence regarding the actual revenues, expenses, taxes, depreciation, and rate base for the years 1943 through 1947, and including the first eight months of 1948, as recorded on the company's books. It also presented evidence of the estimated results of operation for the 12 months' period ending August 31, 1949, and a customer water usage tabulation for the year 1947. The original cost of public utility property and the related depreciation reserve as of August 31, 1948, were also shown.

Engineer J. D. Reader of the Commission's staff introduced a report of an investigation of the operations of the applicant for the year 1947 and the estimated year 1948, under both present and proposed

rates, together with revenue and expense data for the years 1943 through 1947. The following tabulation shows the results for the years 1947 and 1948 for comparison:

<u>Item</u>	<u>Recorded Year 1947 Company's Exhibit 2</u>	<u>Adjusted Year 1947- PUC Ex. 12 Present Rates</u>	<u>Estimated Year Ending 8-31-49 Co.'s Ex. 8 Present Rates</u>	<u>Estimated Year 1948 PUC Ex. 12 Present Rates</u>
Operating Revenues	\$47,957.97	\$47,958	\$50,804	\$60,000
Operating Expenses	28,951.07	24,227	33,560	27,315
Operating Taxes	3,641.41	4,268	3,275	5,735
Depreciation	8,627.17*	5,112**	13,151*	5,750**
Total Operating Expenses	41,219.65	33,637	49,986	38,800
Net Operating Revenue	6,738.32	14,321	818	21,200

* Straight line
** 5% sinking fund

Using a rate base of \$350,600 for the adjusted year 1947; Mr. Reader estimated the rate of return for the year 1947 was 4.03%; using an estimated rate base of \$399,100 for the year 1948, Mr. Reader estimated the rate of return for the year 1948, under present rates, would be 5.31%.

In explaining the company's recorded and estimated operating expenses, Mr. Samuel K. Rindge, president of the company, testified that no salaries had ever been paid to the president or officers of the company and no provision for such was included in the company's estimate for the year ending August 31, 1949.

Adjustments to the company's recorded figures for the year 1947 by Mr. Reader included the proration, over a three-year period, of unusual repairs to a natural gas engine; the capitalization of two insurance items; the proration, over a five-year period, of a depreciation reserve audit; and the credit to general expense, as non-operating income, of rent by the W. J. Hole Ranch. Depreciation expense was recomputed by Mr. Reader using longer lives on certain items of property and the 5% sinking fund method. Neither his 1947

adjusted expenses nor his 1948 estimates of operating revenues, expenses, taxes, depreciation, and rate base were successfully challenged, although there were differences between his estimates and the company's estimates of gross revenues depending on rainfall conditions and growth of the area.

Considerable question regarding the value of the property dedicated to the public service properly includable in the rate base, was raised by Mr. Tilden, attorney for consumers. It was implied that the public utility water system had been overextended in its early days in order to promote real estate development of the La Sierra Rancho, then owned by Mr. W. J. Hole, but sold to the applicant under the authorization contained in the Commission's Decision No. 14770, dated April 10, 1925. This implication was refuted by Mr. Rindge, and the reasonableness of the rate base was further substantiated by Mr. Reader's testimony that his examination of the company's records, covering a several years' period, had revealed that unit construction costs were in many cases lower than average due to the utilization, from time to time, of ranch labor by the water company.

Evidence adduced at the hearing indicated that there is a differential of approximately two cents per 100 cubic feet in the pumping costs between Zone I and Zone II. The present difference in quantity rate between Zone I and Zone II is not warranted. It is noted, also, that the water service in Zone II has been improved by the relining of the reservoir in 1947. Present rates contain no block for large quantity consumption.

The company, in this application, submitted two suggested rate schedules entitled Schedule B-1 and Schedule B-2. The effect of the application of these proposed rates indicates that they would yield rates of return of 7.38% and 7.34%, respectively. It is concluded that the rates requested by the applicant would yield an excessive return. However, the applicant is entitled to certain relief and

the order herein will provide for rates which will increase revenues approximately \$4,400 annually resulting in the rate of return shown below:

<u>Item</u>	<u>1948 Estimate</u>
Operating Revenue	\$ 64,400
Operating Expenses, Including Taxes and Depreciation	40,000
Net Revenues	24,400
Rate Base	399,000
Rate of Return	6.1%

O R D E R

Citizens Domestic Water Company, having applied to this Commission for an order authorizing increases in water rates and charges, public hearings having been held, and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates authorized herein are justified, therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, the schedules of rates shown in Exhibit A attached hereto, and, after not less than five (5) days' notice to the Commission and to the public, to make said rates effective by billing periods for service rendered on and after February 1, 1949.

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

Dated at San Francisco, California, this 14th day of December, 1948.

B. J. Induray
Justice J. Baller
Joseph K. Kelle
Harold K. Kelle
Kenneth Patten
Commissioners

EXHIBIT A

Schedule No. 1

ZONE I METER RATE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

In the area designated as Zone I.

RATES

Monthly Minimum Rate:

	<u>Per Meter</u> <u>Per Month</u>
For 3/8 x 3/4-inch meter.	\$ 1.85
For 3/4-inch meter.	2.00
For 1-inch meter.	3.00
For 1 1/2-inch meter.	5.00
For 2-inch meter.	7.50

Monthly Quantity Rate:

First 1,000 cubic feet or less	\$ 1.85
Next 9,000 cubic feet, per 100 cubic feet16
All over 10,000 cubic feet, per 100 cubic feet15

The minimum charge will entitle the customer to the quantity of water which that monthly minimum charge will purchase at the quantity rate.

EXHIBIT A

Schedule No. 2

ZONE II METER RATE

APPLICABILITY

Applicable to all measured water service.

TERRITORY

In the area designated as Zone II.

RATES

Monthly Minimum Rate:

	<u>Per Meter</u> <u>Per Month</u>
For 3/8 x 3/4-inch meter.	\$ 1.85
For 3/4-inch meter.	2.00
For 1-inch meter.	3.00
For 1 1/2-inch meter.	5.00
For 2-inch meter.	7.50

Monthly Quantity Rate:

First 1,000 cubic feet or less.	\$ 1.85
Next 9,000 cubic feet, per 100 cubic feet.14
All over 10,000 cubic feet, per 100 cubic feet.13

The minimum charge will entitle the customer to the quantity of water which that monthly minimum charge will purchase at the quantity rate.