

Decision No. 43210

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
WATER WORKS OF MONTA VISTA, LTD.,
for authority to borrow money and to
increase rates.

Application No. 30234

Chester Damico Jr. for applicant,
Abe Brass for Monta Vista Improvement
Association.

O P I N I O N

Water Works of Monta Vista, Ltd., a corporation, engaged in the business of selling and distributing water for domestic, commercial and other purposes in and about the unincorporated town of Monta Vista, requests authority to establish an increased schedule of rates and to issue a promissory note for \$35,525, upon the terms and conditions set forth in the application, in order to develop an additional source of water supply.

Public hearings were held at Cupertino before Examiner Kimball on July 6, and before Examiner Ross on July 28, 1949.

Monta Vista is located about ten miles west of San Jose along and near the Stevens Creek Road in Santa Clara County. The territory served comprises approximately 440 acres, a portion of which for many years has been subdivided into town lots.

The main source of water supply for the system is obtained from infiltration tunnels and pits along Stevens Creek. The secondary supply is obtained from two drilled wells, 285 and 475 feet in depth, which are also along the banks of Stevens Creek.

The infiltration pits and wells are equipped with turbine pumps directly connected to electric motors and can be operated either manually or automatically. The water is pumped directly into the distribution system with the surplus being delivered into two storage tanks which have a total capacity of 200,000 gallons. The tanks float on the line with a static head of 270 feet above the pumping plants. The distribution system consists of approximately 64,500 feet of mains varying in size from 3/4 inch to six inches in diameter. There were 568 customers served by the system as of June 15, 1949, all on a measured basis.

The utility's present rate schedule was established by this Commission in Decision No. 32679 and has been in effect since January 1, 1940. The present and proposed monthly quantity rates are set forth below:

Present Monthly Quantity Rates

For the first	550	cubic feet, or less.	.	.	\$2.00
Next	4,450	cubic feet, per 100 cubic feet	.	.	.25
Next	6,000	cubic feet, per 100 cubic feet	.	.	.20
Next	2,000	cubic feet, per 100 cubic feet	.	.	.18
All over	13,000	cubic feet, per 100 cubic feet	.	.	.16

Proposed Monthly Quantity Rates

For the first	600 cubic feet, or less	. . . . .	\$2.50
Next	900 cubic feet, per 100 cubic feet.	. . . . .	.35
Next	2,500 cubic feet, per 100 cubic feet.	. . . . .	.30
Next	6,000 cubic feet, per 100 cubic feet.	. . . . .	.25
Next	10,000 cubic feet, per 100 cubic feet.	. . . . .	.20
All over	20,000 cubic feet, per 100 cubic feet.	. . . . .	.18

The applicant also requests an increase in the minimum monthly rates from \$2 to \$2.50 for a 5/8 x 3/4-inch meter and generally proportionate increases for meters of larger size. Applicant also has on file a schedule of Summer Home Rates and at the hearing it requested authorization to cancel these rates. Witness for the applicant testified that there are no subscribers presently served under the Summer Home Rate schedule.

The applicant presented an inventory and appraisal of the utility properties showing a total appraisal of \$91,595.21. Applicant also estimated future revenues under proposed rates at \$25,000 and future expenses for the year 1949 at approximately \$21,000. A report on an investigation of the operations of the Water Works in Monta Vista, Ltd., prepared by this Commission's staff, was placed in evidence as Exhibit No. 2. This report included estimates of future operating expenses and revenues under present and proposed rates, together with estimates of the fixed capital and rate base, and an appraisal showing the estimated historical cost of the properties as of June 15, 1949, at \$80,670.40. The staff estimates of revenues and expenses were as follows:

	<u>Present Rates</u>	<u>Proposed Rates</u>
Revenues	\$21,300	\$26,600
Expenses	<u>18,741</u>	<u>20,087</u>
Net Revenue	2,559	6,513

The principal difference between applicant's appraisal and that of the Commission's staff is in Account C-18, Distribution Mains. Witness for applicant testified that the ledger entry for this account, as of February 4, 1949, was \$31,924.59. He further testified that a

1938 credit of \$7,585.88, resulting from retirement of old mains, and subsequent retirement credits were incorrect due to the use of excessive unit cost figures. If the retirements were adjusted to the unit costs in accordance with those used in the 1938 inventory and appraisal prepared by the Commission staff engineers, the resultant difference would be \$3,109.71. If this amount, plus 10% for overheads subsequent to 1930, were added to the ledger balance, a figure of \$37,977.88 would result which represents the adjusted book figure included in the company appraisal. This figure differs from that included in the staff appraisal by \$5,018. Witness for applicant urged that the book figures, as adjusted, be accepted by the Commission as a proper figure for determining a rate base.

The evidence shows that an inventory was taken by the Commission's staff in June, 1949, and that, based upon the inventory, an appraisal was prepared to determine the estimated historical cost of the water system. The cost of facilities which were in service prior to the last Commission appraisal in 1938 were included at the cost shown in that appraisal. Invoices of materials purchased were used to check many of the charges to the company's capital accounts since 1946. In order to allow for overhead expenses, a charge of 10% was added to the historical cost for all capital items except land and office and distribution equipment. This charge, however, was not included in the amounts recorded by the company in its capital accounts.

The Commission is of the opinion that the inventory and appraisal as prepared by the staff engineers provides a reasonable figure for total tangible and intangible capital. This figure of \$80,670, together with a working cash allowance of \$1,700 and allowance for material and supplies of \$2,812, or a total of about \$85,183 is a reasonable amount to be used as the rate base in determining results of operation.

Using this rate base and the staff's estimate of revenues and expenses under the requested rates, a return of 7.6% is indicated. Mr. Abe Brass, appearing on behalf of the Monta Vista Improvement Association, questioned the staff's allowance of \$3,950 for source of water supply expense, maintaining that such was clearly out of line with past expenses in this category. The total of \$3,950 is comprised of \$650 for superintendence, labor and truck expense, and \$3,300 for cost of water purchased for resale. It was explained that heavy purchases of water were anticipated during the next year, due to the depressed level of the underground water table. Mr. Brass expressed the opinion that it was improper to base future rates upon an all-time high cost of purchased water. It is the opinion of the Commission that there is merit to this argument, and although this level of expense might be actually incurred in the coming year, rates should be based upon conditions reasonably representative of normal future operations, rather than special conditions. An amount of \$3,000, instead of \$3,300, is considered appropriate for this expense category, and this will result in a rate of return upon applicant's proposed rates of 7.9%. The Commission is of the opinion that the requested rates will thus provide an excessive return and the order will provide a schedule of rates which is estimated to yield a rate of return of about 6.5%.

In view of the insufficient supply of water which is produced by present sources of supply, the applicant proposes to drill a 14-inch cased well in the proximity of the intersection of Stelling and Homestead Roads, which is allegedly the nearest proven water area. Witness for applicant testified that it was anticipated a minimum yield of 400 gallons per minute could be expected from such a well. Upon completion of the well, a test thereof would be made to determine its yield and the advisability of completing the project. The initial cost to the utility would be approximately \$7,000, including the cost of testing and drilling the well. If a satisfactory yield is obtained, applicant

proposes to lay 13,000 feet of eight-inch O.D. steel pipe to the present pumping station. A 75-horsepower motor would be installed to lift the water to the present pumping station whence it would be re-pumped with present facilities into the mains and reservoirs. Applicant estimates the cost of the total project to be \$35,525 and asks authority to issue a promissory note in that amount to be payable in annual installments of \$1,750 or more, with interest at the rate of 5% per annum, and to be secured by a deed of trust and a mortgage of chattels on the facilities to be constructed. Applicant reports that the present rate of consumption at peak periods is 200 gallons per minute on a 24-hour basis and that should the proposed project result in a flow of 400 gallons per minute, a margin of 200 gallons per minute would be available for growth. The witness estimated that this would take care of the requirements of the Monta Vista area for a period of ten years.

In view of the necessity for obtaining additional water supply, the applicant will be authorized to issue its promissory note as requested and to proceed with the project. It is estimated by applicant that the project could be completed within 60 days after the date of commencement.

O R D E R

Water Works of Monta Vista, Ltd. having applied to this Commission for an order authorizing increases in rates and authority to issue a promissory note in the sum of \$35,525, and to execute a deed of trust and a mortgage of chattels, 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 and that the purpose for which the note is to be issued is reasonable and necessary; therefore,

IT IS HEREBY ORDERED as follows:

1. That applicant is authorized to file with this Commission after the effective date of this order in conformity with the Commission's General Order No. 96 the schedule of rates shown in Exhibit A attached hereto and on not less than five (5) days' notice to the Commission and the public to make said rates effective for service rendered on and after October 1, 1949, and to cancel its Schedule No. 3 covering Summer Home Rates concurrently therewith.
2. That applicant, within forty (40) days from the effective date of this order shall file with this Commission four copies of a suitable map or sketch, drawn to an indicated scale upon a sheet 8½ x 11 inches in size, delineating thereon by distinctive markings the boundaries of its present service area and the location thereof with reference to the immediate surrounding territory; provided, however, that such filing shall not be construed as a final or conclusive determination or establishment of the dedicated area of service or any portion thereof.
3. That applicant, after the effective date hereof and on or before November 30, 1949, may issue a note in the principal amount of not exceeding \$35,525, payable as indicated in the preceding opinion, for the purpose of financing the cost of the proposed facilities referred to in this application, and may execute a deed of trust and a mortgage of chattels to secure the payment thereof, said note, deed of trust and mortgage of chattels to be in, or substantially in, the same form as those filed in this proceeding as Exhibits Nos. 5, 6, and 7, respectively, it being the opinion of the Commission that the money, property or labor to be procured or paid for through the issue of said note is reasonably required by applicant for the purpose specified herein and that said purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.
4. That applicant shall file with this Commission a copy of the note, deed of trust and mortgage of chattels as actually issued and executed under the authority herein granted, said filing to be made within thirty (30) days after the date of such instruments, and shall also file reports as required by General Order No. 24-A, which order, in so far as applicable, is made a part of this order.

The authority herein granted to issue a note and to execute a deed of trust and a mortgage of chattels will become effective when applicant has paid the fee prescribed by Section 57 of the Public

Utilities Act, which fee is \$36. In other respects the effective date of this order shall be twenty (20) days after the date hereof.

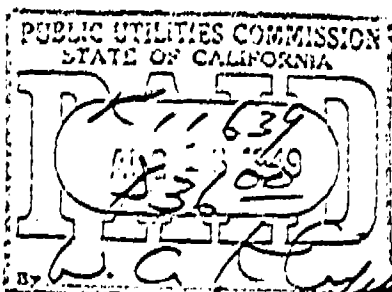
Dated at San Francisco, California, this 16th day of August, 1949.

R. F. Indurana

Ernest K. Kucera

Harold P. Kula

Commissioners.



Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water service rendered on a measured basis.

TERRITORY

In and in the vicinity of the unincorporated area known as Monta Vista.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Monthly Minimum Charge:	
For 5/8 x 3/4-inch meter.	\$2.25
For 3/4-inch meter.	3.00
For 1-inch meter.	4.00
For 1 1/2-inch meter.	5.00
For 2-inch meter.	8.00
For 3-inch meter.	15.00

Each of the foregoing "Monthly Minimum Payments" will entitle the customer to the quantity of water which that minimum monthly payment will purchase at the following monthly rates:

Quantity Rates:

First 500 cubic feet or less.	2.25
Next 1,500 cubic feet, per 100 cubic feet. . . . .	.32
Next 3,000 cubic feet, per 100 cubic feet. . . . .	.28
Next 5,000 cubic feet, per 100 cubic feet. . . . .	.25
Next 10,000 cubic feet, per 100 cubic feet. . . . .	.20
Over 20,000 cubic feet, per 100 cubic feet. . . . .	.18