

ORIGINAL

Decision No. 44844

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of CITY WATER COMPANY OF BANNING,
A California Corporation, for an
Order Authorizing it: To Increase
its Rates and Charges

Application No: 31452
Amended

Sarau, Adams, Neblett & Sarau, by
Donald G. Adams and Kenneth B. Husby,
for applicant.

O P I N I O N

City Water Company of Banning, a corporation, owner and operator of a water system serving domestic and industrial customers in the City of Banning, Riverside County, California, filed the above-entitled application on May 29, 1950, seeking authority to establish a schedule of increased rates, and requesting that its service area boundaries be fixed by the Commission. At the hearing, the application was amended by a request that the company be permitted to adjust its books of account to conform to a recent appraisal of a portion of its properties.

A public hearing on this application as amended was held before Examiner Warner in Banning, on August 17, 1950.

City Water Company of Banning is a California corporation which has been operating as a public utility since February 18, 1913. On that date, the stockholders of Banning Water Company, a mutual company, furnishing irrigation water service to its stockholders, organized applicant for the purpose of providing public utility water service to domestic customers in Banning and vicinity. As of December 31, 1949, applicant furnished domestic water service to

2,176 customers, and industrial water service to 20 customers. Fire hydrant service was furnished without charge to 147 single-outlet hydrants and four double-outlet hydrants. The water system is entirely metered. No flat rate service is furnished.

The water system lies entirely within the corporate limits of the City of Banning, California. The 1950 census population of Banning is 7,022. No other water system, municipal, mutual, or public utility operates within the city limits.

Applicant's entire water supply is obtained from Banning Water Company, a mutual water company, through the ownership by applicant of shares of the mutual company's stock. In accordance with the Commission's Decision No. 44024, dated April 11, 1950, in Application No. 30866, applicant will purchase 1,174.035 shares of stock which will bring its total ownership thereof to 1,301.735 shares. This will represent approximately 30% of the outstanding shares of Banning Water Company stock and will entitle applicant to approximately 130 miner's inches of water.

Applicant's distribution system consists of 270,136 feet of steel mains, ranging in size from 1 inch to 20 inches. There are two storage tanks having a combined capacity of 1,200,000 gallons from which water is distributed by gravity.

In its application, applicant alleged that in order to effect the issuance and sale of the \$350,000 of bonds, as authorized by Decision No. 44024, to obtain the additional stock, retire some indebtedness, and to finance the cost of certain capital improvements to its distribution system, its credit standing must be improved through increased rates.

The present rates, which have been in effect since 1943, specify a minimum charge of \$1 per meter per month, which entitles

the consumer to 700 cubic feet of water usage, with the next 700 cubic feet at 12 cents per 100 cubic feet, the next 48,600 cubic feet at 6 cents per 100 cubic feet, and all over 50,000 cubic feet at 4 cents per 100 cubic feet. There is no fire hydrant rate at present.

The applicant's proposed rates provide for a monthly minimum charge of \$2 per meter per month for a 5/8-inch meter, with charges for larger meters ranging up to \$15 for a 4-inch meter. The quantity rates are \$2 per meter per month for the first 1,000 cubic feet of water or less, with the next 2,000 cubic feet at 15 cents per 100 cubic feet, the next 7,000 cubic feet at 10 cents per 100 cubic feet, the next 10,000 cubic feet at 8 cents per 100 cubic feet, and all over 20,000 cubic feet at 6 cents per 100 cubic feet.

An agreement has been reached with the City of Banning regarding a fire hydrant standby service charge, for the future, of \$1 per hydrant per month. According to the agreement, the City will own, operate, and maintain the hydrants.

An appraisal of a portion of applicant's property, as of December 31, 1948, was introduced as Exhibit No. 4 by witness for applicant. This appraisal, reflecting distribution mains, services, and meters, was based on historical costs, including 10% overheads.

In addition, Exhibit No. 5, introduced by Witness Rowe, sets forth a tabulation of fixed capital as of May 1, 1950, totaling \$660,884. Included in this total is an amount of \$325,437 for franchises and water right, being the estimated present value of 1,301.735 shares of Banning Water Company stock at \$250 per share, including the 127.7 shares originally owned by applicant.

Estimates of operating revenues, expenses, and net income, assuming that the proposed rates were in effect for the full year 1950, were submitted by applicant's witness as Exhibits Nos. 6 and 7. A report on applicant's results of operation was submitted as

Exhibit No. 8 by a Commission staff engineer. The earnings data set forth in those exhibits are summarized and compared in the following tabulation:

<u>CITY WATER COMPANY OF BANNING</u>					
<u>SUMMARY OF EARNINGS</u>					
<u>YEAR 1949 RECORDED AND ADJUSTED, AND YEARS</u>					
<u>1950 AND 1951 ESTIMATED</u>					
Item	Year 1949 Recorded	Year 1949 Adjusted	Year 1950 Proposed	Year 1950 Present	Year 1951 Proposed
	Rates	Rates	Rates	Rates	Rates
Operating Revenue	\$63,159*	\$62,901	\$101,381	\$ 68,500	\$117,900
<u>Operating Expenses</u>					
Water Purchased for Resale	12,766	12,766	13,187	12,810	13,210
Pumping Labor and Expense	1,560	2,180	-	2,180	2,280
Distr. Labor and Expense	1,120	6,600	4,845	6,680	7,580
Repairs, Mains and Tanks	2,386	2,386	2,500	3,300	3,300
Repairs to Services and Hydrants	4,691	450	4,500	500	500
Collection Expense	1,495	1,495	1,500	1,600	1,800
General Officers	13,010	2,280	15,000	2,500	3,300
General Office Clerks	-	3,388	-	3,600	4,500
Miscellaneous Supplies & Expense	-	1,843	-	2,400	3,000
Law Expense - General	150	150	300	150	150
P.U.C. Expense	-	-	-	1,770	1,770
Miscellaneous General Expense	275	2,674	500	3,000	3,050
Insurance	647	647	1,500	800	900
Repairs, Gen. Structures & Equip.	786	786	800	1,150	1,350
Subtotal	38,886	37,645	44,632	42,440	46,690
Taxes Other Than Income	3,408	3,408	4,500	5,380	6,620
State Corp. & Federal Inc. Tax	3,148	3,148	6,849#	1,930#	14,130#
Subtotal	6,556	6,556	11,349	7,310	20,750
Depreciation (S.L.)	7,171	8,985	12,110	11,000	11,800
Total Operating Expenses	52,613	53,186	68,091	60,750	79,240
Net Revenue	10,546	9,715	33,290	7,750	38,660
Rate Base (Undepreciated)				468,000	654,600
Average Accrued Depreciation				89,150	99,350
Rate Base (Depreciated)				378,850	555,250
Rate of Return				2.05%	6.96%

* Reflects provision for uncollectible bills.

Federal income tax computed at present rates, year 1950 estimated; year 1951 estimated federal income tax rates at 25% of first \$25,000 of net taxable income and 45% of excess over \$25,000.

In commenting on applicant's earnings exhibits, Rowe pointed out that the estimate of operating labor and expenses was based on an average of the three prior years' recorded amounts, plus the cost of salary of an intake keeper, including his residence, and the cost of painting of storage tanks at \$1,000 per year; that salaries and expenses included the transfers to applicant of certain irrigation expenses of Banning Water Company, which he considered properly chargeable to domestic expenses of applicant; that insurance included an allowance for estimated additional insurance on tanks and additions under construction; that the income tax estimate was computed at present income tax rates; that estimated depreciation expense does not include depreciation on additions made in 1950; and, finally, that the 1950 estimate does not include legal and engineering expenses amounting to an estimated \$5,000 and \$6,000 respectively, nor Public Utilities Commission expense in connection with appraisals and hearings.

A Commission staff engineer testified that, in his opinion, applicant's books and accounts could not be entirely relied upon, particularly with respect to fixed capital, depreciation reserve requirements, depreciation expense, and certain other expenses. New amounts were computed by him and estimated for these items. Certain reallocations of recorded expenses, as between individual account groups, were also found to be necessary. The summary of earnings tabulation for the adjusted year 1949, hereinbefore included, reflects these facts.

The staff's estimate for the years 1950 and 1951 includes the amortization, over a five-year period, of estimated Public Utilities Commission expense of \$8,850 of legal and engineering expense in connection with hearings in the bond issue and the rate

increase applications. The annual amount of such amortization is estimated to be \$1,770.

Exhibit No. 8 shows an estimated rate of return of but 2% for 1950 under the present water rates. The exhibit further shows that under the water rates proposed by applicant, the estimated 1951 rate of return would approximate 7%; and it appears that the rate of return would be substantially the same either under the present federal income tax rates or under the 25% normal tax and 20% surtax rates which have been proposed to Congress.

The record shows that the rate base utilized by the staff includes fixed capital in service substantially as set forth in Exhibit No. 4 with an adjustment, however, of approximately \$21,106 to reflect the historical cost of 127.7 shares of Banning Water Company stock, instead of the \$250 per share present value, included in the appraisal. For the purpose of this proceeding, we believe that this adjustment is appropriate. Otherwise, fixed capital in service, as shown in Exhibit No. 5, appears to be reasonable and it will be adopted for the purpose of determining the rate base for this proceeding.

After a careful review of the record, it is evident that the present rates will not provide a fair rate of return and that applicant is entitled to certain financial relief. The record indicates that the proposed rates will produce excess earnings, and the order will provide for establishment of rates at a somewhat lower level than requested. It is estimated that these rates will produce domestic revenues of approximately \$107,390 and fire hydrant revenues of \$1,900, and will result in a rate of return of 6.14% for the year 1951.

A copy of a resolution of applicant's board of directors submitted at the hearing as Exhibit No. 2 includes, as Exhibit A,

a map setting forth the service area boundaries which applicant requests the Commission to fix. Exhibit B of the resolution is a legal description of the boundaries. Applicant's witness stated that no presently served customers would be excluded from the service area or be denied water service if the boundaries were fixed as requested. He stated that the boundaries lie entirely within the corporate limits of the City of Banning and comprise the area now being served.

Since the record shows that there are no other water systems within the boundaries of the City of Banning; that applicant's water supply will be, upon acquisition of additional shares of Banning Water Company stock, adequate to serve the area; that the distribution system is also adequate to serve the area; that the water has been tested at regular intervals by Riverside County Health Department authorities and found to be potable; and that no major complaints regarding service, either as to water pressure or other general water service matters, have been filed with the Commission either formally or informally within recent years, the boundaries of the service area will be fixed as applied for.

With respect to applicant's request that the appraisal of a portion of its property, submitted as Exhibit No. 4, be entered in its books of accounts and that such accounting adjustments as are necessary be authorized, applicant shall file with the Commission for its approval, the proposed journal entries reflecting such adjustments.

Although the record shows that notices of the hearing in this matter were sent to all customers, no protest or objection was made during the course of the proceeding.

O R D E R

City Water Company of Banning, a corporation, having applied to the Commission for an order authorizing an increase in water rates and charges, to have its service area boundaries fixed, and to be granted permission to adjust its books of accounts and records to conform to an appraisal of certain of its properties, a public hearing having been held, and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges 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 the Commission's General Order No. 96, a 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 20, 1950. ✓

IT IS HEREBY FURTHER ORDERED as follows:

1. That applicant's service area boundaries be fixed to conform to the boundaries as particularly delineated on the map submitted as Exhibit A, and more particularly described in Exhibit B, of Exhibit No. 2, submitted at the hearing in this matter.
2. That applicant shall file, within forty (40) days after the effective date of this order, four copies of a comprehensive map, drawn to an indicated scale of not less than 400 feet to the inch, delineating by appropriate markings the various tracts of land and territory served, and the locations of various properties of applicant.
3. That applicant, within sixty (60) days after effective date of this order, submit for the Commission's approval the proposed journal entries to adjust its books of accounts to conform to the appraisal of a portion of its properties, submitted at the hearing as Exhibit No. 4.

Schedule No. 1

GENERAL METERED RATES

APPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

City of Banning and vicinity.

RATES

Quantity Charge:	<u>Per Meter</u> <u>Per Month</u>
First 1,000 cubic feet	\$ 2.00
Next 1,000 cubic feet, per 100 cubic feet12
Next 8,000 cubic feet, per 100 cubic feet10
Next 10,000 cubic feet, per 100 cubic feet08
Over 20,000 cubic feet, per 100 cubic feet06
 Minimum Charge:	
For 5/8-inch meter	\$ 2.00
3/4-inch meter	3.00
1 -inch meter	5.00
1 1/2-inch meter	7.50
2 -inch meter	10.00
3 -inch meter	14.00
4 -inch meter	17.50

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

Meters may be installed at the option of either the consumer or the utility.

Schedule No. 2

FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to public fire hydrant service from direct connections to distribution mains.

TERRITORY

City of Banning and vicinity.

RATES

	<u>Per Hydrant</u> <u>Per Month</u>
For each fire hydrant.	\$ 1.00

- 4. That applicant shall file, within forty (40) days after the effective date of this order, four copies of rules and regulations, and tariff service area map acceptable to this Commission and in accordance with the requirements of General Order No. 96.

This order shall become effective twenty (20) days after the date hereof. ✓

Dated at San Francisco, California, this 26th day of September, 1950.

R. E. Murray
Justin F. Carlson
Walter Lawrence
Harold P. Hill
Kenneth W. Potter
 Commissioners.