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Decision No. 45148

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the application
of Darold W. and Marion MacDannald
doing business as the Keyes Water Co
for an order for the approval of an
adjustment in the water rates for
the said Keyes Water Company in the
county of Stanislaus, State of
California

Application No. 31745

Darold W. MacDannald, for applicants; Mrs. Irene Hance,
W. F. Timpson, Mrs. Samuel Best, Mrs. Josephine Grosso,
and Juanita Stiles, interested parties.

O P I N I O N

In this application, filed September 13, 1950, Darold W. and Marion MacDannald, doing business as the Keyes Water Company in Stanislaus County, California, request an order authorizing an increase in rates. *enacted*

The proposed rates, as set forth in the application, provide for flat rates of \$3 and \$3.75 per month for 3/4-inch and 1-inch connections, respectively, with \$1 for the first additional unit and 90 cents for each unit thereafter served through one connection. The requested meter rates have minimums ranging from \$2.25 to \$45 per month, depending on meter size, and quantity blocks ranging from 25 cents to 17 1/2 cents per 100 cubic feet.

A public hearing in this proceeding was held before Examiner Emerson in Keyes on November 15, 1950.

Applicants' present rates were made effective December 1, 1946, pursuant to this Commission's Decision No. 39582 and provided for both flat and meter rates. Such rates, however, made no provision for fire hydrant or flat rate school service. In addition to the increases in present rates, applicants in this proceeding requested that a fire hydrant rate and a school rate be established by the Commission.

During the summer of 1950, applicants found it necessary to add a new well and pump to the system and in order to finance such additional facilities, negotiations for a loan were undertaken with the Reconstruction Finance Corporation. Allegedly, the Reconstruction Finance Corporation had its auditors examine applicants' books, found that the water system was operating at a loss of approximately \$900 per year, and, therefore, refused a loan. Applicants' annual reports to this Commission have indicated a profit in each year except 1946. Applicant and his accountant testified, however, that the uniform system of accounts prescribed by this Commission had never been followed and, further, that the annual reports submitted were not correct. From testimony presented at the hearing, it further appears that neither fixed capital nor revenues and expenses have been correctly assessed, accounted for, or reported. It is essential that applicants maintain proper and adequate accounting methods and records. Full reliance, therefore, must be placed upon the presentation made by the Commission staff.

An accountant and an engineer of the Commission staff made a thorough investigation of the books and operations of applicants. An appraisal of the water system was made, based upon such evidence as receipted bills and cancelled checks. Records and estimates of present and future revenues and expenses were prepared. These were presented, in the form of a report, as Exhibit No. 3 in this proceeding and by supporting and additional testimony.

A summary of said appraisal, as of June 30, 1950, is as follows:

<u>Ac. No.</u>	<u>Description</u>	<u>Estimated Historical Cost</u>
C-2	Organization Costs	\$ 50.00
C-5	Land and Rights of Way	850.00
C-6	Building, Structures and Grounds	1,083.50
C-10	Wells	1,704.06
C-14	Pumping Equipment	1,839.20
C-18	Distribution Mains	15,880.46
C-19	Distribution Tanks	550.32
C-21	Services	1,960.75
C-24	General Equipment	<u>1,847.63</u>
	Total Intangible & Tangible Capital	25,765.92

Requirements for a depreciation reserve, as of June 30, 1950, were also determined by the Commission staff, and depreciation expense was computed by the "straight-line" method with lives of the individual properties being estimated by the staff. The depreciation reserve requirement appears to be \$2,068.03 and the annual depreciation expense \$884.49.

At the present time, all service is on a flat rate basis of \$2.30 and \$3.10 per month for 3/4-inch and 1-inch connections, respectively. For additional units on the same property, charges range from 80 cents to 50 cents per month. Meter rates, which have minimums ranging from \$1.50 per month to \$20 per month, depending on meter size, with quantity blocking ranging from 7½ cents to 4 cents per 100 cubic feet, are provided but at the present time, no customers are served on a metered basis. Revenue is recorded on the day of collection, and bills are rendered only to delinquent accounts. Free water service has been furnished to 11 cabins and five apartments owned by the applicants. As of November 15, 1950, the system had 205 customers (excluding applicants' cabins and apartments), 36 of which had water bills which were past due. This Commission has authorized no deviations from the rates presently in effect, thus requiring the water system's books to reflect revenues for all water service rendered. In estimating a normal year's revenues, therefore, the proper charges for applicants' cabins and apartments will be included as will be the charges set up against delinquent accounts. For the purpose of this proceeding, we shall adopt the sum of \$5,960 as representing an average annual revenue under existing rates.

The water utility expenses of applicants are so mingled with expenses connected with their other businesses that it appears impossible to determine fully, from applicants' accounting records, which expenses are properly chargeable to the water system. The Commission staff estimate, coupled with such records as are trustworthy and with testimony of record, indicates that the yearly normal operating and

maintenance expenses, including depreciation and taxes, to be expected are \$5,440.

Summarizing fixed capital, revenues and expenses, a rate of return for normal operations at present rates is developed as follows:

Intangible and Tangible Fixed Capital	\$25,766.00
Less Reserve for Depreciation	<u>-2,068.00</u>
Total Fixed Capital Depreciated	23,698.00
Operating Revenues	5,960.00
Operating Expenses	<u>5,440.00</u>
Net Revenue	520.00
Rate of Return	2.19%

It is apparent that applicants are entitled to relief in the form of increased revenues.

Applicants have requested a 5% return on invested capital plus \$1,800 yearly salary, and have stated that their proposed rates were designed to produce such a result. Such request, if granted, would result in a net profit of \$2,985 on a base of \$23,698 and a rate of return of more than 12½%. Such a return, in this instance, is excessive. The rates to be authorized herein will provide an estimated rate of return of approximately 6½%. To the extent that the present rates differ from the rates hereinafter prescribed, said existing rates are hereby found to be unjust and unreasonable.

Applicants have water mains in place to serve 166 lots in the town of Keyes, 166 lots in the Teixeira Tract, and 26 lots in the Warda Tract, a total of 358 potential customers. There are 146 lots unserved, 18 of which have service connections in place. With a comparatively small amount of additional capital outlay, applicants can completely serve the area.

Of the 55 customers present at the hearing, two testified that they had been charged for their service connections and were aware of the fact that others had paid similar charges. It is of

record that water mains were in place prior to the customers' making application for service and that only the installation of a service connection from the main to the customer's property line was required for establishment of service. Applicant admitted making such charges but claimed the amounts collected were payments for main extensions. He stated, however, that he had considered the collected amounts to be "income" and had so recorded them on his books.

Charging customers for making a service connection is an irregular practice, directly contrary to applicants' filed Rule and Regulation No. 18 and contrary to long established policies of this Commission. Applicants were therefore directed, at the hearing, to submit as Exhibit No. 4 in this proceeding a complete listing of customers who had been charged for service connections. Said list has been received and shows that 15 customers have paid a total of \$450, individual amounts ranging from \$10 to \$40. We are of the opinion that all of said amounts must be returned. Four methods of refunding may be considered: (1) immediate cash refunds, (2) refunding in cash within a specified period of time, (3) refunds of specified percentages at stated intervals with interest on the unrefunded balances, and (4) immediately crediting consumers' water accounts with the total amount of refund due. Because of applicants' present unsatisfactory earning position and lack of ready cash and because of their obligations to meet regularly recurring operating expenses and concurrently to provide adequate and dependable service to all of their customers, we believe the most equitable method to be the second suggestion; that is, refunding in cash within a specified period of time. The order herein will so provide.

Schedule No. 1

FLAT RATE SERVICEAPPLICABILITY

Applicable to all water service rendered on a flat rate basis.

TERRITORY

In and adjacent to the town of Keyes, Stanislaus County.

RATES

	<u>Per Month</u>
For water used in one dwelling, store or industry, or other single unit establishment within the premises on which the same is located:	
For 3/4-inch service connection	\$2.75
For 1-inch service connection	3.50
Additional units on the same premises taking service through the same connection:	
For first additional unit	1.00
For second additional unit75
For third additional unit and each unit in excess of four50
For each fire hydrant	1.00
School	25.00

SPECIAL CONDITIONS

1. Charges for flat rate service are payable in advance.
2. Meters may be installed at the option of the utility or the customer, in which event service thereafter will be rendered only on the basis of Schedule No. 2, General Metered Service.

Schedule No. 2

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

In and adjacent to the town of Keyes, Stanislaus County.

RATES

Quantity Charge:	<u>Per Meter</u> <u>Per Month</u>
First 800 cubic feet, or less	\$2.25
Next 1,200 cubic feet, per 100 cubic feet.....	0.25
Next 3,000 cubic feet, per 100 cubic feet	0.20
All over 5,000 cubic feet, per 100 cubic feet	0.15
 Minimum Charge:	
. For 5/8 x 3/4-inch meter	2.25
For 3/4-inch meter	2.75
For 1-inch meter	3.50
For 1 1/2-inch meter	5.00
For 2-inch meter	9.00
For 3-inch meter	15.00
For 4-inch meter	30.00
For 6-inch meter	45.00

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

Refunding of Collections for Service Connections

<u>Name</u>	<u>Total Amount to be Refunded</u>	<u>Refund to be Made Prior to Date</u>
Mattie Stevens	\$20.00	March 1, 1951
Walter Thompson	40.00	May 1, 1951
C. M. Morris	20.00	June 1, 1951
R. J. Stover	40.00	July 1, 1951
Samuel Best	40.00	Sept. 1, 1951
Loyd Tennison	35.00	Jan. 1, 1952
Elsie Pomeroey	40.00	Mar. 1, 1952
L. S. Small	15.00	Mar. 1, 1952
R. W. Shaw	40.00	Mar. 1, 1952
J. T. Yarbrough	40.00	Apr. 1, 1952
Ferrell Morris	10.00	May 1, 1952
Everett Knee	40.00	June 1, 1952
Mose Mattux	40.00	June 1, 1952
G. C. Nichols	15.00	June 30, 1952
Billy Sullivan	15.00	June 30, 1952

O R D E R

Darold W. and Marion MacDannald (Keyes Water Company) having applied to this Commission for an order authorizing increases in rates and charges, a public hearing having been held, the matter having been submitted and being now ready 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 as follows:

1. Applicants are authorized and directed to file the schedule of rates shown in Exhibit A attached to this order on or after the effective date hereof, and, after not less than five (5) days' notice to the Commission and the public, to make said rates effective for service rendered on and after January 15, 1951, said filing to be by advice letter in quadruplicate and in conformity with the Commission's General Order No. 96.
2. Applicants shall refund in cash, and without interest thereon, to the persons named in Exhibit B attached to this order the total amounts specified in said exhibit not later than the dates set forth therein or on any date prior thereto when any such persons shall permanently discontinue receiving service from applicants. Each refund may be made in whole or in part prior to the dates specified.

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

Dated at San Francisco, California, this 19th day of December, 1950

R. F. Anderson
Justin F. Casper
Walter H. Hille
Walter H. Hille
Walter H. Hille
Commissioners.