

Decision No. 45510**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)

MILLBRAE HIGHLANDS WATER COMPANY)

Application No. 31604

for an order authorizing it to increase)
rates charged for water service.)

For applicant: Gaylord and Gaylord by
Robert B. Gaylord; McCutchen, Thomas,
 Matthew, Griffiths and Greene, by Robert
Minge Brown.

O P I N I O N

In this application, filed July 21, 1950, and as amended on February 8, 1951, Niels Schultz (Millbrae Highlands Water Company) requests authority to increase rates charged for general water service rendered in the City of Millbrae, California.

A public hearing was held before Examiner Emerson in Millbrae on March 19, 1951, at which time the matter was submitted for decision. No one appeared at the hearing in protest of the requested increase in rates.

Applicant supplies domestic, commercial, and industrial water service in the portions of the City of Millbrae known as Millbrae Highlands and Bayside Manor subdivisions under certificates of public convenience and necessity granted by this Commission's Decisions Nos. 22071 and 37499. The service area is approximately three-tenths of a mile wide and 2 miles long, extending from Skyline Boulevard, at an elevation of about 600 feet, easterly through residential areas and the main business section of Millbrae to the flat lands, near sea level, adjacent to the Bayshore Highway. Adjacent territories are served by California Water Service Company,

Millbrae Public Utility District, and Millbrae Hills Mutual Water Company, the latter two being wholesale customers of applicant.

The water system was begun in 1927 in conjunction with the real estate development of the area by Mr. Schultz and has grown step by step with the subdivision development until, at the present time, about 75% of the entire service area (1,121 out of 1,492 lots) receives water service. In order to maintain reasonable pressures, the system is divided into zones. The zone at the higher elevations, with a service density of 56%, is served from two wood-stave storage tanks, of an aggregate capacity of 255,000 gallons, into which water is pumped from lower levels. The lower zone, with a 91% density, is fed by gravity flow and the pressure of the San Francisco Water Department line. Nearly all expansion of the distribution system can occur only at the higher elevations where higher costs to serve prevail.

During the early years of development this water system sustained financial losses. Notwithstanding such losses, water rates were reduced voluntarily by about 10% in 1934 and by a second 10% in 1940. A comparison of the principal monthly charges for water service is as follows:

<u>Item</u>	<u>1930 Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Service Charges			
5/8" meter	\$0.78	\$0.70	\$1.00
3/4" meter	1.20	1.10	-
1" meter	1.80	1.60	2.20
Quantity Charges			
First 1,600 cu.ft./100 cu.ft.	.288	.24	.35
Next 1,700 cu.ft./100 cu.ft.	.288	.22	.31
Next 30,000 cu.ft./100 cu.ft.	.252	.20	.26
Over 33,300 cu.ft./100 cu.ft.	.216	.18	.19

Applicant's entire supply of water is purchased from the City of San Francisco Water Department and is received through three combinations of metered connections. The cost of purchased

water during the past four years has been approximately 61% of all of applicant's utility operating expenses. Effective February 1, 1951, the City of San Francisco increased by 4.2¢ per 100 cubic feet the rates charged for all water deliveries over 333,000 cubic feet per month to its consumers on the San Francisco Peninsula.

An engineering consultant, on behalf of applicant, and members of the Commission staff presented testimony and entered exhibits in this proceeding relative to past and present operating revenues and expenses, together with estimates of such items for the year 1951 at both present and proposed rates. Because applicant is engaged in enterprises other than the utility water business, applicant's consultant estimated "normal" operating expenses on the basis of anticipated operations of the utility if it were operated as a completely separate enterprise, with revenues estimated on a revenue-per-customer basis normalized for weather conditions. The staff presentation was made on the basis of book figures, adjusted as a matter of judgment gained from knowledge of other water system operations, with revenue estimates on a consumption-per-customer basis with recognition accorded the numbers and types of customers. In essence both presentations regarding operating revenues and expenses are on the same basis, differing only in details of the methods used. Both presentations indicate that the utility will operate at a net loss if present rates are to continue in effect during 1951.

Using the proposed rates and assuming full year operation under them, 1951 revenues as estimated by the staff and applicant are in relatively close agreement at approximately \$85,800. Estimates of 1951 operating expenses, before taxes, depreciation, and amortization of the extraordinary costs of a rate proceeding, are even closer in agreement at approximately \$57,970.

Taxes applicable to this utility are levied by city, county, state, and federal taxing authorities. Although state and federal income taxes are not charged on the utility's books, these items must be given proper consideration in a rate-fixing proceeding. In estimating such taxes, applicant's consultant used tax rates and computations applicable to a large corporation, thus assuming that this utility's operations are only a part of a larger utility corporation. The staff used tax rates and computations applicable to a single individual. The two methods produce a difference of about \$2,200 on an annual basis, the utility's being the higher amount. A third method by which taxes may be estimated is to consider the utility to be a single corporation. It can be shown that such a method will indicate an income tax liability slightly lower than that estimated by the staff. For the purposes of this proceeding, however, we shall adopt the staff method of determining income tax liability.

With respect to 1951 depreciation expense the staff developed a weighted average figure, while the utility considered that 1951 additions to plant were completed in the beginning of the year. Testimony relative to actual construction corroborates applicant's position in this regard and we shall consider applicant's depreciation expense figure as being applicable. The staff, in estimating nonrecurring expenses connected with this rate proceeding, arrived at its expense figure as a matter of judgment based on experience gained in other similar proceedings, assigned such costs on a per-customer basis and assumed a five-year amortization of such expenses. The utility indicated the costs already incurred and obligated and assumed they would be amortized over a four-year period. We shall recognize applicant's total figure and, in this instance, the suggested four-year period for amortization of such expenses.

In summary of the above, we conclude that the following tabulation shows fair and reasonable estimates of operating revenues, operating expenses, and net revenue for an assumed 12-month period in 1951 at the rates proposed and requested by applicant:

<u>Item</u>	<u>Amount</u>	
	<u>Detail</u>	<u>Total</u>
Operating Revenues		\$85,800
Operating Expenses		
Excluding taxes, depreciation, proceeding costs	\$57,970	
Taxes	12,160	
Depreciation (5% S. F. annuity)	1,400	
Amortization of rate proceeding costs	1,970	
Total operating expense		<u>73,500</u>
Net Revenue		12,300

The system of applicant has been installed from time to time to keep pace with the development of real estate properties in which Mr. Schultz or a member of his family has had an interest. The initial installations through the year 1927 represented an investment of about \$20,000. From the system's beginning to the end of 1949, however, the installation work has been done by employees of Mr. Schultz who also have been engaged in other private construction projects. No accurate records as to the actual cost of installations made prior to 1950 are available, the figures entered on applicant's books being simply incomplete allocations of costs and without allowances for construction, engineering, or general utility overheads. From January 1, 1950, to date, applicant has, in the main, contracted for installation work and complete and reliable records have since been kept. In order to provide a base by which the reasonableness of applicant's proposed rates might be tested, five rate bases were presented in this proceeding; one by applicant and four by the staff. Applicant's determination of fixed capital and rate base was determined as the result of an appraisal as of December 31, 1949, known as the Kennedy report.

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The staff's rate base determinations were derived by (a) using the utility book capital based on the Wade appraisal, (b) using the Melvin appraisal plus book additions since 1939, (c) using utility book capital of the Wade appraisal plus estimated overheads, and (d) using the 1939 Melvin appraisal plus utility book additions plus estimated overheads. Rate bases so determined range between \$212,841 and \$176,900.

In view of the urgent need for early rate relief occasioned by the increase in water supply costs already in effect, and also in view of the fact that determination of estimated original historical cost figures which this Commission would authorize as entries on applicant's utility books will require a thorough investigation and considerable time to prepare and present, neither applicant nor the staff presented evidence that will permit a conclusive determination of the investment on which applicant is entitled to earn a return. With respect to the five estimated rate bases before us, evidence presented in this proceeding indicates that the base to be finally determined will undoubtedly be above the lowest presented. For the purpose of this proceeding, therefore, we shall adopt a historical rate base of \$195,000 which amount is derived by using the utility's book capital plus overheads, materials and supplies, and working cash as estimated by the staff. Using such rate base for the purposes of this proceeding shall not, however, be construed to be a final determination of such base nor shall its use herein preclude applicant from having a proper base established by this Commission in an appropriate future proceeding.

In summary of the above, an estimated net revenue of \$12,300 applied to a rate base of \$195,000 produces a rate of return of 6.3%. It has been shown that continuation of present

rates will produce a net loss in 1951. We conclude, therefore, that applicant is entitled to relief in the form of increased rates and substantially in the amount sought. Minor revision of the requested rates for the first two quantity blocks will be made, however, and the order herein will provide for rates which will yield a return of slightly less than 6.3% on the assumed rate base of \$195,000.

Applicant has urged that increased rates be authorized at the earliest possible date in view of the water purchase cost increase already in effect. If serious reductions in applicant's earning position are to be avoided, it appears that the requested increase in rates must be promptly authorized and made effective. Applicant will prorate water quantities indicated by readings of meters subsequent to April 10, 1951, on the basis of average daily consumptions.

O R D E R

Niels Schultz (Millbrae Highlands Water Company) having applied to this Commission for an order authorizing increases in rates, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and, to the extent that the present rates differ from the rates hereinafter prescribed, said present rates are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission, in conformity with General Order No. 96, the schedule of rates shown in Exhibit A

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

In and about the tracts known as Millbrae Highlands and Bayside Manor, in the City of Millbrae, San Mateo County, as delineated on the map included in the Tariff Schedules.

RATES

Quantity Rates:		Per Meter Per Month
First	1,600 cu.ft., per 100 cu.ft.....	\$ 0.35
Next	1,700 cu.ft., per 100 cu.ft.....	.30
Next	30,000 cu.ft., per 100 cu.ft.....	.25
Over	33,300 cu.ft., per 100 cu.ft.....	.19

Service Charge:

For	5/8 x 3/4-inch meter.....	\$ 1.00
For	3/4-inch meter.....	1.50
For	1-inch meter.....	2.20
For	1 1/2-inch meter.....	3.00
For	2-inch meter.....	5.00
For	3-inch meter.....	10.00
For	4-inch meter.....	15.00
For	6-inch meter.....	30.00
For	8-inch meter.....	48.00

The monthly Service Charge will be added to the charges for water at the monthly Quantity Rates.

Schedule No. 2

FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all fire hydrants within the area of service.

TERRITORY

In and about the tracts known as Millbrae Highlands and Bayside Manor, in the City of Millbrae, San Mateo County, as delineated on the map included in the Tariff Schedules.

RATES

For each fire hydrant connected with distribution system,
per hydrant per month..... \$2.00

attached hereto and to make said rates effective for all service rendered thereunder on and after April 10, 1951.

The effective date of this order shall be the date hereof.

Dated at San Francisco, California, this 3rd day of April, 1951.

R. T. [Signature]
Justice J. Cassen
Harold A. Kula
[Signature]
[Signature]
Commissioners: