

ORIGINALDecision No. 45814

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 NEWHALL WATER COMPANY, a corporation,) Application No. 32067
 for an order authorizing a change of) (Amended)
 water rates and tariff schedules.)

W. L. Arnold, Public Accountant, and Henry Dreher,
General Manager and Treasurer, for applicant;
Mrs. Paul Byrd and Mrs. Christena Ertel, protestants;
Duff Dean, interested party; Theo. Stein and
Clyde F. Norris, for the Commission staff.

O P I N I O N

Newhall Water Company, a corporation, owner and operator of a public utility water system furnishing domestic water service in and about the unincorporated town of Newhall, Los Angeles County, California, by the above-entitled application filed January 24, 1951, asks the Commission for authority to establish a schedule of increased rates and to establish rates for flat rate service. At the hearing the application was amended by a request that the Commission fix the boundaries of applicant's service area. Also at the hearing applicant requested the establishment of a rate for individual fire protection service.

A public hearing on this application as amended was held before Examiner Warner in Newhall, California, on May 23, 1951.

Newhall Water Company is a California corporation which has been operating as a public utility since 1915. Its Articles of Incorporation were filed with the Commission in Application No. 16275, in which the Commission issued its Decision No. 22168 dated February 27, 1930, and an Amendment to said Articles of Incorporation, dated November 28, 1949, was filed with the Commission in

Application No. 30911, in which the Commission issued its Decision No. 43743 dated November 1, 1950.

By its Decision No. 12117, dated May 19, 1923, in Application No. 8826, the Commission established the schedule of rates now in effect.

In the application herein being considered applicant alleges that a change in water rates is necessary in order to produce revenue sufficient to pay its costs of operation, and to provide a reasonable net revenue for the payment of dividends to its stockholders, and, thus, to establish a sound credit position, and to provide a satisfactory basis for essential, new construction. At the hearing a witness for applicant alleged that applicant faces the need to refinance its bonds outstanding which mature July 1, 1951. As shown in Exhibit No. 3, a report on applicant's financial condition and results of operation submitted at the hearing by a Commission staff accountant shows authorized funded debt as of December 31, 1950, of \$100,000 of 5% First Mortgage Bonds of which \$40,000 are outstanding.

An income and profit and loss statement for the year ending December 31, 1950, included in said Exhibit No. 3 shows that applicant sustained a loss after interest of \$1,069.10, and that dividends of \$2,450 were paid out of surplus, which effected a corporate deficit as of December 31, 1950, of \$1,980.15.

A comparison of applicant's present and proposed rates, as amended at the hearing, is shown in the following tabulation:

NEWHALL WATER COMPANY
COMPARISON OF PRESENT AND PROPOSED RATES

	<u>Present Rates</u>	<u>Proposed Rates as Amended at Hearing</u>
<u>METERED SERVICE</u>		
Quantity Rates:		
	<u>Per Meter Per Month</u>	
From 0 to 500 cu.ft. per 100 cu.ft....	\$ 0-30.	\$ -
First 500 cu. ft., or less.....	-	1.75
Next 500 cu. ft., per 100 cu. ft.....	.25	.30
Next 1,000 cu. ft., per 100 cu. ft.....	.20	.25
Next 1,000 cu. ft., per 100 cu. ft.....	.15	.20
Next 2,000 cu. ft., per 100 cu. ft.....	.15	.15
Over 5,000 cu. ft., per 100 cu. ft.....	.10	.10
Minimum Charge:		
For 5/8 x 3/4-inch meter.....	1.50	1.75
For 3/4-inch meter.....	2.50	2.50
For 1-inch meter.....	4.00	4.00
For 1 1/2-inch meter.....	5.00	6.00
For 2-inch meter.....	7.50	8.00
For 3-inch meter.....	10.00	10.00
For 4-inch meter.....	20.00	20.00
Oil Well Drilling - Temporary Service, per 100 cu. ft.	-	.25

	<u>FLAT RATE SERVICE</u>	
	<u>Per Month</u>	
For single residence on one lot:		
Served through 3/4-inch service.....	-	\$ 2.00
Served through 1-inch service.....	-	4.00
Served through 1 1/2-inch service.....	-	6.00
Served through 2-inch service.....	-	8.00
For each additional residence on lot.....	-	1.25
For courts, duplexes, apartments - per family.....	-	1.00
For auto courts, per trailer.....	-	.75

	<u>FIRE PROTECTION SERVICE</u>	
For each private fire service outlet, per inch of diameter of pipe line.....	-	\$ 1.00

NOTE: No rate for Fire Hydrant Service is presently in effect, and none was proposed by applicant.

Under the present rates, the record shows, the average monthly bill during 1950 was \$3.08. Under the proposed rates it would be \$3.67. The record further shows that approximately 55% of the consumers used, during 1950, 800 cubic feet of water, or less, per month, and, that whereas their bill was \$2.25 or less for such usage in 1950, it would increase to \$2.65 per month, an increase of 40 cents, under the proposed rates.

At the hearing a witness for applicant submitted as Exhibit No. 2 an analysis of operating revenues and expenses of applicant for the years 1949 and 1950 recorded and adjusted, and for 1951 estimated, at both present and proposed rates. This exhibit also contained a book appraisal of the estimated original cost of applicant's properties, including 10% overhead, together with the computed annual straight-line depreciation expense for the years 1950 and 1951 and the estimated depreciation reserve requirements as of December 31, 1950, and December 31, 1951. A report on the results of operations of applicant was submitted at the hearing by a Commission staff engineer as Exhibit No. 4 for the year 1950 recorded, and for the year 1951 estimated at the present and proposed rates. The information contained in said exhibits is summarized in the following tabulation:

NEWHALL WATER COMPANY
SUMMARY OF EARNINGS
YEAR 1950 RECORDED, AND YEAR 1951 ESTIMATED
AT PRESENT AND PROPOSED RATES

Item	Per P.U.C. Exh. No. 4		Per Company	
	Year 1950 Recorded	Year 1951 Estimated Present Rates	Year 1951 Estimated Proposed Rates	Exh. No. 2
<u>Operating Revenue</u>				
Metered Service	\$ 25,382	\$ 26,047	\$ 30,996	\$ 30,469
Flat Rate Service	1,821	2,118	2,783	2,400
Private Fire Protection	93	120	240	216
Fire Hydrants	-	360	360	360
Total Operating Revenue	27,296	28,645	34,379	33,445
<u>Operating Expenses</u>				
Source of Water Supply	195	800	800	250
Pumping	6,887	6,909	6,909	6,442
Distribution	3,966	2,807	2,807	4,687
Commercial	2,380	2,508	2,508	2,497
General	6,741	7,419	7,419	7,077
Subtotal	20,169	20,443	20,443	20,953
Taxes	1,267	1,530	3,032	2,633#
Depreciation (Straight-line)	4,256*	4,487*	4,487*	4,354#
Total Operating Expenses	25,692	26,460	27,962	27,940
Net Operating Revenue	1,604	2,185	6,417	5,505
<u>Rate Base</u>				
Average Fixed Capital	156,560	164,377	164,377	165,512
Materials & Supplies	1,286	1,390	1,390	1,339
Working Cash	2,950	2,360	2,360	2,478
Consumers' Advances for Construction	(4,867)	(4,867)	(4,867)	(4,867)
Donations in Aid of Construction	(326)	(326)	(326)	(326)
Less Average Depreciation Reserve	(40,360)*	(43,424)*	(43,424)*	(48,040)#
Total Rate Base	115,243	119,510	119,510	116,096
Rate of Return	1.39%	1.83%	5.37%	4.74%

(Red Figure)

* Based on federal income tax depreciation reserve and utilizing federal income tax lives and computation.

Based on a re-examination of depreciation reserve, and utilizing independent lives and computation.

In explaining Exhibit No. 2 applicant's witness testified that the amounts shown therein for fixed capital as of December 31, 1950, were determined by taking a historical cost appraisal dated December 1, 1929, prepared by Daugherty and Daugherty, Inc., consulting engineers, and entered as an exhibit in Application No. 16275, and adding thereto the additions and betterments less retirements through December 31, 1950. This witness also testified that applicant had not been consistent in its application of depreciation and that he had made a re-examination of the depreciation reserve and had lengthened some of the estimated lives and conversely had shortened others. This resulted in an increase in the depreciation reserve requirement of about \$4,864 as of December 31, 1950, compared to the recorded book figures. This witness also testified that applicant had not been consistent in its application of capital overhead charges, and that in preparing the fixed capital summary shown as Table 4 in Exhibit No. 2, the results of which are included in the summary of earnings tabulation herein, 10% overhead was added to the additions made between 1930 and 1940 and for the years 1948 through 1951. The net result of this application of overheads increased the fixed capital by about \$1,913.

With respect to the estimate of operating revenues, applicant's witness testified that water service was being furnished to 790 customers as of April 30, 1951, and that 87% of such consumers were metered. The estimate of revenues was based on an estimated average of 692 metered customers and 100 flat rate consumers for the year 1951. To this were added the estimated revenues from nine 2-inch private fire protection services and thirty 2½-inch fire hydrant services.

In his testimony regarding the analysis of operating expenses for the years 1949 and 1950 recorded, and for the year 1951 estimated, as shown in Exhibit No. 2, applicant's witness testified that in 1949 and 1950 certain items of operating expense had been charged to the wrong account and certain other items improperly charged to operating expense rather than to capital accounts, and that for those reasons he had reclassified the charges for those years. The estimate of operating expenses for the year 1951 includes, among other things, the amortization over a three-year period in the future of the estimated cost of gun perforating Well No. 5 amounting to \$250 per year or a total of \$750 over the three-year period. It also includes an increase in the manager's salary to \$6,000 per year, the cost of overhauling one of the six deep well turbine pumps each year, and the amortization, over a five-year period in the future, of the estimated cost, amounting to a total of \$2,000, of the Public Utilities Commission expense in connection with the proceeding on the application herein.

The Commission staff engineer testified that in determining the average rate base for the years 1950 and 1951 he had utilized the recorded book figures for fixed capital, as also indicated in Exhibit No. 3, the hereinbefore-referred-to Commission staff financial report.

With respect to the depreciation annuity and the amount of the average depreciation reserve deducted from the fixed capital to determine the rate base, the Commission staff engineer testified that the depreciation expense was estimated for 1951 on the basis of the 1950 expense multiplied by the ratio of the average 1951 depreciable capital to the average 1950 depreciable capital. He further testified that, in determining the estimated balance in the

depreciation reserve as of December 31, 1951, he had utilized the amount of such reserve as shown on the company's books and had added thereto the estimated annual depreciation charges plus the estimated depreciation on additions and betterments less the depreciation on net retirements.

With relation to the credits and debits to the depreciation reserve from June 1, 1930, to December 31, 1950, as shown in Exhibit No. 3, a Commission accountant testified that the depreciation reserve was of a hybrid composition; that it appeared that accruals to the reserve for the period June 1, 1930, to December 31, 1944, were based upon approximations rounded to even dollar amounts. For the subsequent period to December 31, 1950, depreciation was accrued by the straight-line method under a unit plan. Commencing in 1947 and for the years 1948 and 1949, applicant increased its book depreciation reserve by appropriations of surplus in the amount of \$11,478.74 in order, partially, to bring its reserve up to the level of the reserve computed for income tax purposes. Applicant's book depreciation reserve had been determined to be inadequate, that is, to say, to reflect the federal income tax depreciation, by the amount of \$25,478 as of December 31, 1946. Applicant plans to appropriate the remaining \$14,000 deficiency in the reserve from surplus in future years. No appropriation of surplus was made in 1950, however, due to the existence of the corporate deficit at December 31, 1950, as hereinbefore noted.

From a careful consideration of the record, it is concluded that the estimates of operating revenues and expenses for the year 1951 as shown in Exhibits Nos. 2 and 4 are not unreasonable. With respect to the annual depreciation expense estimates and the estimated average depreciation reserve requirement, it is evident that an engineering study of such should be made and the order will so

provide. However, it appears that the results of such study would not materially affect our findings of the reasonableness of applicant's estimated earnings, and the amounts computed for depreciation expense and depreciation reserve as submitted by applicant's witness are hereby adopted for the purpose of this proceeding. It is, therefore, further concluded that the estimated rate of return of 4.74% as submitted by applicant's witness as shown in Exhibit No. 2 is not unreasonable, and it is hereby adopted for the purpose of this proceeding.

It is evident that applicant is in need of certain financial relief and from a review of the record it is found that the rates requested, which will result in an estimated gross annual increase in operating revenues of \$6,149, are just and reasonable and they will be authorized by the order herein.

The protestants, Byrd and Ertel, complained of low pressures and discoloration in the water and we believe that applicant should make every effort to rectify the conditions complained of. However, the record shows that during 1949 applicant drilled Well No. 5 at a cost of \$6,783, and, in 1950, drilled Well No. 6 at a cost of \$7,951, and replaced a portion of 6-inch main with 8-inch main at a cost of \$8,646. These capital expenditures totaling \$23,380, the record shows, substantially improved the service conditions complained of and a witness for applicant testified that applicant would further improve service conditions if and when its financial position were bettered.

The record shows that applicant's service area comprises about 500 acres in and in the vicinity of the unincorporated town of Newhall, Los Angeles County, California, and that applicant has been furnishing water service therein since 1915.

The present source of water supply comprises six wells, with a total production capacity of approximately 940 gallons per minute, from which water is pumped directly into the distribution system. A 358,000-gallon reservoir is located at an elevation higher than the service area and serves, by floating on the line, to maintain adequate operating pressures throughout the system. The record shows that the number of service complaints received by applicant has been few and has been substantially mollified in the last two years by the aforementioned capital improvement installations. The record shows that the service area boundaries requested to be fixed, encompass all of applicant's present consumers. The boundaries include all of the premises of the present consumers with the exception of three which are located just outside the service area, but whose owners furnished the pipe lines to connect with applicant's service connections and meters lying within the proposed boundaries. No other public utilities of like character, mutual water companies, water districts, or municipally owned water systems are located in or adjacent to applicant's service area with which applicant might compete.

Applicant's request that its service area boundaries be fixed by the Commission in accordance with the map filed at the hearing as Exhibit No. 1 appears to be reasonable and will be authorized by the order herein.

In view of the evidence pertaining to applicant's depreciation reserve and annual depreciation expense as recorded on its books, applicant should submit a depreciation reserve requirement study based on straight-line remaining life computations for the Commission's approval and looking toward the setting up of the results of such study on its books of account.

O R D E R

Newhall Water Company, a corporation, having applied to the Commission for an order authorizing an increase in water rates, and having requested the establishment of a flat rate for domestic service and a rate for private fire protection service, and having requested the Commission to fix its service area boundaries, 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 and that present rates in so far as they differ from those herein prescribed are unjust and unreasonable; 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 July 9, 1951.

IT IS HEREBY FURTHER ORDERED that applicant's service area boundaries are fixed to conform to the boundaries as particularly delineated on the map filed at the hearing as Exhibit No. 1.

IT IS HEREBY FURTHER ORDERED that applicant shall file within thirty (30) days after the effective date of this order four copies of a comprehensive map drawn to an indicated scale of not less than 600 feet to the inch delineating by appropriate markings the various tracts of land and territories served and the locations of various properties of applicant.

IT IS HEREBY FURTHER ORDERED that applicant shall file within ninety (90) days after the effective date of this order, for the Commission's approval, the results of a straight-line remaining life depreciation reserve requirement and annual depreciation expense study, together with the proposed journal entries to adjust its books and accounts to conform to the results of such study.

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

Dated at San Francisco, California, this 12th day of June, 1951.

[Signature]
Harold A. Hill
[Signature]
[Signature]
Commissioners.

EXHIBIT A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

Throughout the authorized service area in and in the vicinity of the unincorporated town of Newhall, Los Angeles County, California.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Charge:	
First 500 cu. ft. or less	\$1.75
Next 500 cu. ft., per 100 cu. ft.30
Next 1,000 cu. ft., per 100 cu. ft.25
Next 1,000 cu. ft., per 100 cu. ft.20
Next 2,000 cu. ft., per 100 cu. ft.15
Over 5,000 cu. ft., per 100 cu. ft.12
Oil Well Drilling - Temporary Service, per 100 cu. ft.25
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 1.75
For 3/4-inch meter	2.50
For 1-inch meter	4.00
For 1 1/2-inch meter	6.00
For 2-inch meter	8.00
For 3-inch meter	10.00
For 4-inch meter	20.00

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

EXHIBIT A
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Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on an unmeasured basis.

TERRITORY

Throughout the authorized service area in and in the vicinity of the unincorporated town of Newhall, Los Angeles County, California.

RATES

	<u>Per Month</u>
For a single residence on one lot:	
Served through a 3/4-inch service	\$2.00
Served through a 1-inch service	4.00
Served through a 1 1/2-inch service	6.00
Served through a 2-inch service	8.00
For each additional residence on lot	\$1.25
For courts, duplexes, apartments, per family	1.00
For auto courts, per trailer75
For private fire service, per inch diameter of service	1.00

SPECIAL CONDITIONS

1. All water service not covered by the above classifications will be furnished on a metered basis.

2. Meters may be installed at the option of the utility or the customer for above classifications, in which event service will be rendered on the basis of the General Metered Rates.