

ORIGINAL

Decision No. 4584S

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
 DEL ESTE WATER COMPANY, a corporation,) Application No. 31810
 for authorization to increase its)
 rates and charges for water service.)

Francis O. Hoover, attorney, for applicant;
William Stava and George F. Tinkler, for the
 Commission staff; Jack Eik, interested party.

O P I N I O N

By this application, filed October 3, 1950, Del Este Water Company, a corporation, requests authority to increase its rates and charges for water service.

A public hearing in this proceeding was held before Examiner Emerson in Modesto on May 22, 1951.

The basic rates presently in effect and those proposed by applicant are compared in the following tabulation:

Flat Rate Service

	<u>Monthly Rate</u>	
	<u>Present</u>	<u>Proposed</u>
For 1/2-inch connection	\$1.75	\$ -
For 3/4-inch connection	2.30	3.00
For 1-inch connection	3.10	4.00
For first additional unit through same connection80	1.00
For second additional unit through same connection60	.75
For each unit over three through same connection50	.60

Metered Service

	Rate	
	<u>Per Meter</u>	<u>Per Month</u>
Minimum Charges:	<u>Present</u>	<u>Proposed</u>
For 5/8 x 3/4-inch meter	\$ 1.00	\$ 2.00
For 3/4-inch meter	1.75	2.25
For 1-inch meter	2.50	3.00
For 1 1/2-inch meter	3.50	5.00
For 2-inch meter	5.00	7.50
For 3-inch meter	10.00	15.00
For 4-inch meter	15.00	20.00
For 6-inch meter	20.00	30.00
For 8-inch meter	-	50.00

Quantity Charges:

First	800 cu. ft., per 100 cu. ft.	.075	.25
Next	1,200 cu. ft., per 100 cu. ft.	.075	.20
Next	3,000 cu. ft., per 100 cu. ft.	.075	.15
Next	35,000 cu. ft., per 100 cu. ft.	.06	.15
Next	10,000 cu. ft., per 100 cu. ft.	.06	.10
Over	50,000 cu. ft., per 100 cu. ft.	.04	.075

The increased rates proposed by applicant, if applied to 1950 consumption, would have produced an increase in gross revenues of approximately \$45,000. On the average, such increase would amount to 33%. However, increases in individual monthly billings would range between 29% and 193%, the greatest increase being assigned to those metered consumers using 2,000 cubic feet of water per month.

Applicant was incorporated in September, 1938, for the purpose of acquiring and operating as a public utility various water systems installed and previously operated by the Beard Land and Investment Company, subdividers and developers of lands in Stanislaus County. Applicant's operations presently consist of seven distinct water systems, three adjoining the City of Modesto, one at Waterford, one at Empire, one at Salida, and one adjoining the southerly boundary of the City of Turlock. As of December 31, 1950, a total of 5,812 active services, of which 555 were metered, were supplied by means of approximately 431,000 feet of distribution mains from 47 pumped wells with pressure being maintained by means

of steel pressure tanks.^{1/} Well water is readily obtainable in almost any portion of applicant's service areas. It is of excellent quality and needs but little purification treatment. Sand traps are installed at eight locations.

Testimony and exhibits with respect to the present and prospective earning position of applicant were presented by witnesses for applicant and by the Commission staff. As shown in applicant's annual reports to this Commission, customer growth since World War II has been steadily upward and has more than doubled in the last five years. During the same period, reported operating revenues have also more than doubled. In justification for the requested rate increases, however, applicant presented evidence indicating substantial increases in material and labor costs for nearly all phases of its operations. In the postwar years, this utility's costs for common labor have increased by 40% and its costs for supervisory labor by 32%. Materials used in repairs, as well as in fixed capital, have likewise shown substantial increases; costs of service cocks increasing 165%, gate valves 123%, service pipe 110%, meters 94%, and well casing 38%. Taxes of all kinds have also increased for this company as they have for all others, tax payments being 60% higher in 1950 than they were in 1948.

The utility has expanded operations by means of water main extensions and other capital additions amounting, in 1950, to approximately \$224,000, an increase of about 54% in that one year. Because of the absence of defense industries in the utility's areas and the present restriction of credit for residential building, capital expenditures for 1951 will be considerably less though still estimated at \$80,000 for the year. In this connection, it is

^{1/} For a detailed description of the systems as existing in 1938, see Decision No. 31588 issued December 19, 1938, in Application No. 22301.

apparent that a major portion of engineering and supervision charges heretofore made against fixed capital accounts must in the future be chargeable to operation and maintenance expenses as the rapid growth and expansion of plant facilities of the past several years declines to what may be considered a more normal level.

Applicant's witness and the Commission staff are in relatively close agreement with respect to revenue estimates. In this connection, however, we note that applicant has in the past allowed billing discounts for advance payments by its customers. On the average, its 1950 recorded revenues for flat rate services are some 3.9% lower than its tariff schedules would produce. Such discounting practice is irregular and not in accordance with its filed tariffs and must be discontinued. In developing revenues for the purpose of testing the utility's earning position and the reasonableness of its rate proposal, we shall, therefore, use as total operating revenues the sums which its tariff schedules would produce if properly applied. These are \$158,000 for 1950 and \$168,570 for the estimated year 1951 at present rates. Applying the proposed rates to 1950 consumptions yields total operating revenues of \$203,800. For the estimated year 1951, the staff indicates total revenues of \$224,700 and applicant \$227,489.

Applicant's recorded operating expenses for 1950 totaled, before taxes and depreciation expense, \$93,798. Such amount was adjusted downward by the Commission staff to a total of \$79,420. Adjustments by the staff, as shown in Exhibit No. 8 in this proceeding, consisted primarily of deducting overhead construction costs, which applicant had included in both fixed capital and operating expense, deducting certain contributions and donations in accordance with long-established Commission policy, and averaging law expense and certain repair expenses considered as either nonrecurring or

unusual. After addition of depreciation expenses on a straight-line basis, plus taxes, the sum of \$123,604 appears to be the properly adjusted total of 1950 operating expenses under normal operations and at existing rates.

With respect to operating expenses for the year 1951, the staff based its estimate on the adjusted year 1950 figures, adding thereto sums reflecting anticipated system growth, increases in wage rates, and increases in general price levels. Also included was one-fifth of the estimated cost of the present rate proceeding. A total of \$142,870 was thereby derived as the estimated 1951 operating expenses under present rates. Increased taxes, due to increased revenues, increase the staff estimate for 1951 operating expenses to \$168,835 under the rates proposed by applicant. Applicant's estimate of 1951 operating expenses under the proposed rates is contained within its comparative profit and loss statement entered as Exhibit No. 4 in this proceeding and indicates a total of \$181,704.

A summary of the above is shown in the following tabulation:

Item	Adjusted Year 1950		Estimated Year 1951		
	Present Rates	Proposed Rates	Present Rates Staff	Proposed Rates Applicant	Proposed Rates Staff
Operating Revenues	\$158,000	\$203,800	\$168,570	\$227,489	\$224,700
Operating Expenses	123,604	146,487	142,870	181,704	168,835
Net Revenues	34,396	57,313	25,700	45,785	55,865

With respect to the bases by which the reasonableness of applicant's present and proposed rates may be tested, the Commission staff developed rate bases using the results of its field and office investigation of applicant's capital accounts and prior appraisals to which were added normal allowances for working cash, materials and supplies, and sums for construction work in progress, and from which were deducted average amounts of construction advances by consumers, donations in aid of construction and nonoperative land. By such method, average rate bases for the year 1950 and the estimated year

1951 were determined by the staff upon historical and estimated historical costs in accordance with long-established Commission practices. Applicant, on the other hand, presented book figures of total fixed capital and work in progress practically identical with those of the staff but contended recognition should be given to such elements as going concern value, present market value of lands, costs to reproduce the system, present value, value of all assets regardless of the manner acquired, and inferred that a rate of return of 8% should be allowed on the value so resulting. No evidence to support such contentions was presented, however, applicant apparently relying solely on statements of its counsel that such matters should be considered. The utility should receive a fair return on moneys expended in acquiring and constructing its facilities actually and properly in use in serving the public.

After thorough examination of the evidence presented in this proceeding and after consideration of all the pertinent testimony, we find that the depreciated rate bases which are fair and reasonable, and on which applicant is entitled to earn a return, are \$517,240 for the year 1950 and \$673,000 for a normal 12-month period in 1951. Applying the above tabulated net revenues to such bases yields rates of return as follows:

Item	Year 1950		Year 1951	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Net Revenues	\$ 34,396	\$ 57,313	\$ 25,700	\$ 45,785
Depreciated Rate Base	517,240	517,240	673,000	673,000
Rate of Return	6.6%	11%	3.8%	6.8%

From the above, it is apparent that applicant was not in need of rate relief in 1950, but the estimates indicate a less than satisfactory earning position for the future if present rates were to continue. It is also apparent that the rates proposed by applicant would yield, in this instance, an excessive return. In view of the

declining yield to be experienced if present rates were continued, relief in the form of increased revenues is justified and the rates hereinafter to be authorized are designed to produce gross revenues of \$209,800, which will result in a net revenue of \$41,000, or slightly over 6% return on the rate base hereinabove found to be reasonable.

About 30 of applicant's customers attended the hearing in this matter. Of these, four presented testimony, three in opposition to any rate increases. In the main, these customers made minor service complaints that had either never previously been brought to the company's attention or were recognized by the company as existing and already scheduled for correction, and theorized regarding rate fixing methods. We appreciate that no customer desires increased charges but the record in this proceeding fully substantiates the justification for the increases to be authorized.

Applicant's present meter rates appear to be entirely too low and hardly adequate to meet the full costs to serve. The proposed meter rates would, on the other hand, place a greatly disproportionate increase on metered consumption. The rates to be authorized are designed equitably to distribute the required increased revenues among both the metered and the flat rate users.

O R D E R

Del Este Water Company having applied to this Commission for an order authorizing increases in rates and charges, 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 the present

EXHIBIT A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all domestic and industrial metered water service.

TERRITORY

Throughout the entire territory served, as delineated on maps included in the tariff sheets.

RATES

Quantity Charge:	Per Meter Per Month
First 1,000 cubic feet, or less.....	\$ 2.00
Next 2,000 cubic feet, per 100 cubic feet.....	.18
Next 7,000 cubic feet, per 100 cubic feet.....	.15
Next 40,000 cubic feet, per 100 cubic feet.....	.10
Over 50,000 cubic feet, per 100 cubic feet.....	.075
 Minimum Charge:	
For 5/8-inch meter.....	\$ 2.00
For 3/4-inch meter.....	2.25
For 1-inch meter.....	3.00
For 1 1/2-inch meter.....	5.00
For 2-inch meter.....	7.50
For 3-inch meter.....	15.00
For 4-inch meter.....	20.00
For 6-inch meter.....	30.00
For 8-inch meter.....	50.00

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

DOMESTIC FLAT RATE SERVICE

APPLICABILITY

Applicable to all unmeasured water service rendered to domestic or residential consumers.

TERRITORY

Throughout the entire territory served, as delineated on maps included in the tariff sheets.

RATES

For water used in one dwelling house, apartment, store, or industry or other single unit establishment on one lot or building site, with the premises on which the same is located, the charges shall be as follows:

	<u>Per Month</u>
For 3/4-inch connection.....	\$2.70
For 1-inch connection.....	3.50

Additional unit taking service through the same connection:

	<u>Per Month</u>
For the first additional unit.....	\$1.00
For the second additional unit.....	.75
For the third additional unit and each unit in excess of three.....	.60

SPECIAL CONDITIONS

1. Charges are payable monthly 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. 1, General Metered Service. A customer's request for change from flat rate to metered service must be made in writing.

Schedule No. 3

SPRINKLER AND PRIVATE FIRE SERVICE

APPLICABILITY

Applicable to all water service rendered to privately owned fire sprinkler and fire protection systems.

TERRITORY

Throughout the entire territory served, as delineated on maps included in the tariff sheets.

RATES

	<u>Per Month</u>
Per inch of diameter of service.....	\$1.00

SPECIAL CONDITIONS

The above rate is applicable only to private fire extinguishing facilities to which no connections for other than fire protection purposes are allowed. The company may install the standard detector type of meter, or by-pass check valve with pressure alarm system approved by the Board of Fire Underwriters, for protection against theft, leakage or waste of water.

