

ORIGINAL

Decision No. 46194

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
CALWA CITY WATER COMPANY,)	
for an order authorizing it to increase	)	Application No. 32390
rates charged for water service in the)	
community of Calwa City and surrounding)	
territory.)	

Robert M. Simpson, applicant, by
J. H. Jamison; John D. Reader, for the
Commission staff.

O P I N I O N

In this application, filed May 9, 1951, Robert M. Simpson, doing business as Calwa City Water Company, seeks authority to increase rates for water delivered throughout the service area in the unincorporated town of Calwa, Fresno County.

A public hearing in the matter was held before Examiner Emerson in Calwa on August 29, 1951. At the hearing applicant requested authority to restate its capital accounts and depreciation reserve account to conform to an appraisal of the system made as of December 31, 1950.

The rates requested by applicant would increase the present minimum charges for residential customers by 25 cents per month. Increases in quantity charges are also proposed together with reblocking of the rate schedule which, for the average domestic customer, would increase the meter rate by

5 cents per 1,000 gallons. Present and proposed rates, for the usual meter sizes are compared as follows:

	<u>Present Rates</u>	<u>Proposed Rates</u>
Monthly Minimum Charge:		
For 5/8 x 3/4-inch meter	\$1.00	\$1.25
For 3/4-inch meter	1.75	2.00
Monthly Quantity Rates:		
First 5,000 gallons, per 1,000 gallons	\$0.20	\$0.25
Next 5,000 gallons, per 1,000 gallons .....	.20	.20
Next 10,000 gallons, per 1,000 gallons .....	.15	.15
Next 10,000 gallons, per 1,000 gallons .....	.10	.15
Next 10,000 gallons, per 1,000 gallons .....	.075	.10
Over 40,000 gallons, per 1,000 gallons .....	.065	.10

The proposed rates would have increased gross revenues in 1950 by approximately \$3,500 or 16.6%.

Applicant serves an area in and about Calwa, Fresno County, with a population of approximately 3,000. The system presently has 850 active service connections, including a school. All but 40 of the services are metered. Applicant acquired the system through private family financing in 1946, and has operated the system personally with the assistance of his wife and brother and one regular part-time employee. In 1946 the system had but 417 customers and the growth since that time has required applicant to make capital improvements and additions in excess of \$35,000 which he has financed through reinvestment of earnings and substantial borrowings.

At the present time the operation consists of two separate areas. A small area known as Industrial Homesites is served by a single well equipped with a 15 hp turbine pumping unit and a 2,000-gallon pressure tank. The mains in this area include 6-inch, 4-inch, 3-inch, and 2-inch pipes which are installed in a looped system. The balance, and major portion, of the area served is composed of Calwa Townsite, North Calwa, Calwa Acres, Sunset Heights, Esperanza and Sequoia Village tracts. These tracts are

supplied by two wells pumped by 20 hp and 10 hp units. Pressure tanks of 2,000-gallon capacity maintain pressures of between 40 and 55 psi at the sources of water supply. In addition, until August, 1951, an independent source of supply was available by purchase from the Santa Fe Railroad on a standby basis. Applicant is hopeful that such source will again be available as an emergency or standby service. Over 90% of the distribution mains in this area are of 4-inch or larger diameter, so interconnected that a complete network of mains is now in operation. In total, the system has some 47,700 feet of distribution mains.

Testimony and exhibits with respect to the present and prospective earning positions were presented by applicant and by the Commission staff. In justification for the requested rate increase, applicant presented uncontroverted evidence showing higher operating expenses occasioned by increased costs of materials used in repairing and maintaining the system. In addition, applicant averred that because of the growth of the system and the continuing and increasing demands for expansion and improved service, it has become no longer feasible to operate the system on a one-man or one-family basis. Heretofore, applicant's wife and brother have materially assisted in operating the system and to date no compensation has been afforded them for any of their services, nor have any charges therefor been recorded on the books of the company. It is claimed that the work involved in maintaining, operating, and expanding the system has grown beyond the point where past methods of operation will suffice and that hereafter, if service is not to deteriorate, adequate help must be obtained through additional paid employees and a proper office must be established in which the business of the company may be transacted. Obviously, such changed methods of operation will

entail some expenses not heretofore incurred. We are of the opinion that the claims of applicant have merit, and that the public interest will be enhanced by placing the affairs of this utility on the businesslike basis urged by applicant.

Applicant entered the water utility business inexperienced in matters of accounting, finance, and regulatory requirements and employed a public accountant to maintain his books and other records. Testimony given in this proceeding indicates that proper accounting methods and practices have not been followed, nor have books been kept in conformity with the uniform classification of accounts prescribed by this Commission. As a result, the book figures are in the main unreliable. Because of such situation, applicant early in 1951 contracted for professional, engineering, and accounting services, had an inventory and appraisal of the system made, and obtained corrected statements of accounts. Such work revealed a number of previously unrecorded expense items and the fact that the previously recorded capital and depreciation figures did not reflect actual properties or their condition. A Commission staff engineer, in making an investigation of the operations of this utility for the purpose of this proceeding, verified the above-discussed discrepancies, and by making appropriate adjustments arrived independently at figures which check the corrected figures of applicant very closely. He testified that the appraisal which applicant requests permission to enter on its books is reasonable and reflects the original cost of the existing properties.

Applicant and the Commission staff presented estimates of 1951 operations. With respect to revenues for the year 1951, the two estimates are in close agreement at \$26,000 under the proposed rates. Estimates of expenses, however, differed by about \$3,200, the staff's being the lower of the two. It is noted that the staff

estimate did not include some \$900 for office rental which applicant considered essential, nor did it include some \$1,200 in wages which would allow full-time employment instead of part-time employment of an additional employee.

Applicant heretofore has attempted to use the 5% sinking fund method of depreciation accounting but, because of the accounting difficulties and discrepancies above discussed, has used the straight-line method of computing depreciation expense for the purpose of this proceeding, and requests permission to continue such method hereafter. The Commission staff presented both the sinking fund method and the remaining life straight-line method, and recommended adoption of the latter by applicant. We shall use the staff method of computing this expense and will adopt a corresponding depreciation reserve of \$16,048 as being applicable as of December 31, 1950.

As it appears that the appraisal made as of December 31, 1950, more nearly reflects the true original cost of the existing properties than do the books of the utility, such appraisal will be accepted for the total of \$69,624.77, a figure which is approximately \$6,800 less than that appearing in the 1950 annual report to this Commission. Net capital additions during 1951, both known and estimated, total \$8,700. Total fixed capital as of December 31, 1951, will approximate, therefore, \$78,300. Expansion of the system during 1952 will increase fixed capital to an estimated \$88,000 by the end of that year.

At the present time applicant is repaying four sub-dividers' advances for construction. Two of these are in accordance with regularly filed rules and regulations. The other two are being refunded at one-half the annual revenue received from customers in those tracts, plus 6% interest annually on the remaining balance.

Such procedure, while an unauthorized deviation from filed extension Rule No. 19-B, in this particular instance only will be considered as constituting regular loans for improvement of the system upon which applicant is entitled to earn a return. The interest charges, however, will not be included in the operating expenses considered reasonable for the purposes of this proceeding.

Applicant and the Commission's staff both indicated that their respective estimates of operating revenues and expenses would be substantially the same for the year 1952 as those presented for 1951, due consideration being given to normal growth. In summary, therefore, we conclude from the record that the following tabulation shows fair and reasonable estimates of the results of operation of this utility for the periods indicated.

Item	Present Rates		Proposed Rates	
	1950	1951	1951	1952
Operating Revenues	\$21,342	\$22,700	\$26,000	\$27,000
Operating Expenses				
Excluding Taxes and Depreciation	13,175	18,900	18,900	18,900
Taxes	1,768	1,400	2,200	2,300
Depreciation (Straight-Line)	2,026	2,370	2,300	2,600
Total Operating Expenses	16,969	22,670	23,400	23,800
Net Revenues	4,373	30	2,600	3,200
Average Rate Bases				
Average Fixed Capital	62,652	73,975	73,975	83,000
Working Cash	1,000	1,200	1,200	1,200
Materials and Supplies	200	200	200	400
Advances for Construction	(2,844)	(2,444)	(2,444)	(2,000)
Depreciation Reserve	(15,035)	(17,181)	(17,181)	(19,600)
Rate Bases (Depreciated)	45,973	55,750	55,750	63,000
Rates of Return	9.5%	.05%	4.7%	5.1%

(Inverse Item)

From the above, it is apparent that applicant is in need of increased revenues and substantially in the amount sought. The rates hereinafter authorized should produce returns approximately the same as those in the above tabulation on the rate bases therein set forth, which bases we find to be reasonable.

Of the 54 customers present at the hearing, only two came forward to enter any protest with respect to the requested rate increase or to offer any complaint with respect to service. One complained of an alleged discourtesy in 1948, and protested that the present rates are higher than those in surrounding areas. The other questioned the advisability of increasing rates until such time as existing water pressures were improved.

Upon the basis of the record in this proceeding, the Commission concludes that the return on the investment which the proposed rates are estimated to produce is not unreasonable to applicant's customers, and that said increased rates are necessary to provide applicant with some improvement in his financial position. In addition, we conclude that applicant should place in the utility's fixed capital accounts the appraisal of December 31, 1950, should restate its depreciation reserve account to show a total as of December 31, 1950, of \$16,048.38, and should thereafter make charges to the depreciation expense account on the remaining life straight-line basis.

O R D E R

Robert M. Simpson, doing business as Calwa City Water Company, having applied to this Commission for an order authorizing increases in rates and charges and for authority to restate its books, 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 rates, in so far as they differ from those prescribed herein, are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission, after the effective date

EXHIBIT A

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all water service rendered on a metered basis.

TERRITORY

In and in the vicinity of Calwa City, Fresno County.

RATES

Quantity Charge:	<u>Per Meter Per Month</u>
First 5,000 gallons, or less.....	\$1.25
Next 5,000 gallons, per 1,000 gallons.....	.20
Next 20,000 gallons, per 1,000 gallons.....	.15
Over 30,000 gallons, per 1,000 gallons.....	.10
 Minimum Charge:	
For 5/8-inch meters.....	\$1.25
For 3/4-inch meters.....	2.00
For 1-inch meters.....	2.75
For 1 1/2-inch meters.....	3.50
For 2-inch meters.....	5.00
For 3-inch meters.....	10.00
For 4-inch meters.....	15.00
For 6-inch meters.....	20.00

Each of the foregoing Monthly Minimum Charges will entitle the consumer to the quantity of water which that monthly minimum charge will purchase at the Quantity Charges.

of this order and in conformity with General Order No. 96, the schedule of rates set forth in Exhibit A attached hereto, and on not less than five (5) days' notice to the Commission and to the public, to make said rates effective for all water service rendered on and after October 15, 1951.

2. Applicant shall restate his books so as to reflect in his fixed capital accounts the estimated original costs of \$69,624.77 as of December 31, 1950, and in his reserve for depreciation account, as of that date, the \$16,048.38 balance to which reference is made in the foregoing opinion. Within thirty (30) days after the date of the journal entry, or entries, effecting these adjustments, applicant shall file a copy of each entry with this Commission.
3. Applicant shall file within ninety (90) days from the date of this order four copies of a suitable map upon sheets 8½ x 11 inches in size and drawn to an indicated scale, delineating thereon in distinctive markings the present service area and the location thereof with reference to the immediate surrounding territory; provided, however, that such maps shall not be considered by this Commission or any other public body as a final or conclusive determination or establishment of the dedicated area of service or any portion thereof.

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

Dated at Los Angeles, California, this 18th day of September, 1951.

A. T. [Signature]
President.

Justice F. [Signature]

Harold P. [Signature]

[Signature]

Commissioners.