

ORIGINAL

Decision No. 46723

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of )  
DEL PASO WATER CO., a corporation, )  
For an Order Authorizing an Increase )  
in Rates. )

Application No. 32669  
Amended

Joseph E. Tinney, attorney, for applicant;  
Kenneth W. Donelson, attorney, and  
Henry F. Wild, president, for Del Paso  
Manor Improvement Club, protestant;  
Clyde F. Norris and Thomas Deal, for the  
Commission staff.

O P I N I O N

By the above-entitled application, filed August 15, 1951, and as amended November 21, 1951, Del Paso Water Company, a California corporation, seeks an order of this Commission authorizing increases in rates for water service rendered in Sacramento County so that it may receive a fair return on the value of its utility properties.

A public hearing in this matter was held before Examiner Emerson in North Sacramento on December 13, 1951.

Applicant's present tariffs were established in 1948 upon certification of the utility and consist of both flat and meter rate schedules. Flat rates are used for charges to all domestic users, while meter rates are used for all commercial establishments. Basic flat rate charges range from \$1.50 to \$4 per month, depending on lot size, while meter rates basically consist of \$1.50 per month for the first 800 cubic feet of water used,

10 cents per 100 cubic feet for the next block of 4,200 cubic feet, and 5 cents per 100 cubic feet thereafter. Applicant proposes to increase all rates by 50%. Approximately 67% of applicant's consumers would receive an increase from \$2 per month to \$3 per month if applicant's proposed rates were to be authorized.

This utility, as of October 31, 1951, served 959 flat rate and 6 meter rate customers in a subdivided area known as Del Paso Manor Tract located about 2½ miles east of the Town of Ben Ali. Applicant's certificated area comprises approximately 585 acres. From the testimony presented in this proceeding it appears that some 1,900 customers may eventually be served. Water is presently obtained from four drilled wells by means of deep-well turbine pumps driven by 50 hp electric motors. The aggregate capacity is estimated to exceed 3,000 gallons per minute. At each well site, water is delivered into 5,000-gallon pressure tanks and thence is discharged into an interconnected distribution system of about 72,500 feet of pipes, ranging in size from 8 to 2 inches in diameter. Pressure at the tanks is maintained at between 40 and 60 psi.

The present system appears to be adequate for the serving of about 1,205 customers and only main extensions totaling 7,100 feet of pipe would be necessary to serve an additional 137 lots. Applicant's civil engineer estimated that complete development of the certificated area, with adequate standby capacity, may require five additional wells and about 29,000 feet of additional mains.

Applicant and the Commission staff presented testimony regarding results of this utility's operations. Protestant cross-examined witnesses and presented the results of a poll of its

members. Operating revenues and expenses, as recorded on the books of the company together with end-of-period customers served, are summarized as follows:

Item	Year			
	1948 <sup>a</sup>	1949 <sup>a</sup>	1950 <sup>a</sup>	1951 <sup>b</sup>
Gross Revenues	\$5,753.75	\$12,016.00	\$17,406.78	\$22,599.80
Total Operating Expenses, including taxes and depreciation	4,936.79	10,678.73	16,167.73	20,760.84
Net Revenues	816.96	1,337.27	1,239.05	1,838.96
Number of Customers	416	597	837	965

a. Calendar year.

b. Fiscal year ending October 31, 1951.

Estimates of the revenues and expenses, which may result from future operations, as presented by applicant's accountant and the Commission's staff engineer are identical in practically every item. Applicant's estimates were apparently assembled after receipt of a copy of the staff report in advance of its introduction as evidence in this proceeding. With respect to revenue estimates, applicant omitted fire hydrant rentals, for which no rentals had been received in the past. The staff engineer included revenues for fire hydrants amounting to \$984. With respect to expenses, applicant differed from the staff only as to taxes and depreciation expenses, applicant estimating taxes approximately \$122 lower than the staff for the fiscal year 1951 and depreciation expense approximately \$1,164 higher than the staff for the same fixed capital.

Revenues from fire hydrant rentals are properly includable in estimates of normalized operations. Inclusion of such revenue reconciles the difference in tax estimates, the higher tax amount corresponding to normalized operations. With respect to depreciation expense, both the staff and applicant utilized the straight-line method. The staff, however, applied longer estimated lives than did applicant and determined such lives as the result of experience with other properties similar to those of applicant. For

example, applicant assigned a 14-year life to its two buildings, while the staff assigned a life of 30 years. The composite life for distribution mains was set as 33-1/3 years by applicant, whereas the staff used a 40-year life. From the evidence presented, we are of the opinion that the staff method is the most nearly in accord with experience to be expected and the staff estimate is therefore the more accurate.

In summary of the above, the following tabulation sets forth estimates of operating revenues, operating expenses, fixed capital and rate bases which, in the light of all of the evidence presented in this proceeding, we find to be reasonable for the periods indicated.

Item	1951	Future Year	
	Estimated	Estimated <sup>a</sup>	Estimated <sup>a</sup>
	Present Rates	Present Rates	Proposed Rates
<u>Operating Revenues</u>			
Flat Rates	\$22,595	\$29,065	\$44,026
Meter Rates	801	1,011	1,410
Hydrant Rentals	984	984	984
Total Operating Revenues	24,380	31,060	46,420
<u>Operating Expenses</u>			
Before Taxes and Depreciation	9,812	16,610	16,610
Taxes	4,268	4,421	9,459
Depreciation	6,539	6,200	6,200
Total Operating Expenses	20,619	27,231	32,269
Net Revenues	3,761	3,829	14,151
<u>Rate Bases</u>			
Fixed Capital	251,876	251,876	251,876
Consumer Advances	(776)	(776)	(776)
Depreciation Reserve	(16,227)	(22,427)	(22,427)
Rate Bases (depreciated)	234,873	228,673	228,673
Rates of Return	1.60%	1.67%	6.19%

(Inverse Item)

- a. Complete year's operation when 1,205 consumers are served, probably July, 1952 to June, 1953.

From the above, it will be noted that applicant is presently earning a low rate of return and, if present rates are continued, will continue to earn a low rate even when the initial

subdivision of 1,205 lots is fully developed. Such an earning position is not uncommon during the developmental stages of water utility operations. Applicant has been refused one loan for financing its system because of its unsatisfactory earning position and has alleged that, had it not been able to draw upon Del Paso Manor, a joint venture, it would have been seriously handicapped in meeting its utility obligation to provide adequate service to a rapidly growing area. As of October 31, 1951, applicant had as a liability some \$224,705 drawn from Del Paso Manor, for which no interest is charged, for installation of the water system. From the record in this proceeding it appears probable that another 12 months will elapse before applicant's system will develop to the 1,205 initially contemplated service connections. Until such time, the above-estimated future gross revenues would not be realized. The record clearly shows that an even longer period may elapse before applicant's entire area may be fully developed and the prospective 1,900 customers served. It is apparent, therefore, that applicant is still within the developmental period in which earnings are commonly low. During such period applicant cannot expect to earn a full return on its investment.

What may be termed the basic average flat rate on this utility is \$2 per month. To increase this rate to \$3 per month at the present stage of development would not, in our opinion, be reasonable. However, it is apparent that applicant is entitled to an improved earning position, and we will authorize increases in rates which will make the above-termed basic average flat rate \$2.65 per month. On the basis of full development of the initial 1,205 service connections, and allowing for the proposed pay roll of \$8,100 per year, the rates hereinafter authorized should produce gross revenues of \$41,600 per year. After deduction of \$31,100 as

operating expenses, including taxes and depreciation, a net revenue of \$10,500 will result, thereby yielding a rate of return of 4.6% on a depreciated rate base of \$229,000. For the purposes of this proceeding we find said rate of return and rate base to be fair to the utility and not unreasonable to its consumers.

O R D E R

Del Paso Water Company, a corporation, having applied to this Commission for an order authorizing increases in rates for water service rendered in Sacramento County, a public hearing thereon 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 authorized herein are justified and that the existing rates, in so far as they differ therefrom, 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 and in conformity with General Order No. 96, the schedules of rates attached hereto as Exhibit A 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 March 1, 1952.

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

Dated at San Francisco, California, this 5<sup>th</sup> day of February, 1952.

R. J. [Signature]  
President.

Justice Z. Caswell  
Harold P. Kule

[Signature]  
[Signature]  
Commissioners.

EXHIBIT A  
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## Schedule No. 1

GENERAL FLAT RATESAPPLICABILITY

Applicable to all residential water service rendered on an unmeasured basis.

TERRITORY

In and in the vicinity of Del Paso Manor Tract, 2½ miles east of the town of Ben Ali, Sacramento County, as shown on the map included in the tariff sheets.

RATES

	<u>Per Connection Per Month</u>
For a house and a lot having an area of 5,000 square feet or less . . . . .	\$2.00
For a house and a lot having an area of over 5,000 square feet but not exceeding 11,000 square feet . . . . .	2.65
For a house and a lot having an area of over 11,000 square feet but not exceeding 13,000 square feet . . . . .	3.00
For a house and a lot having an area of over 13,000 square feet but not exceeding 15,000 square feet . . . . .	3.35
For a house and a lot having an area of over 15,000 square feet but not exceeding 18,000 square feet . . . . .	3.75
For a house and a lot having an area of over 18,000 square feet but not exceeding 30,000 square feet . . . . .	4.50
For a house and a lot having an area of over 30,000 square feet but not exceeding 40,000 square feet . . . . .	6.00
For a house and a lot having an area of over 40,000 square feet, for each additional 10,000 square feet . . . . .	.75
For each additional residence served through the same connection . . . . .	1.50



Schedule No. 1

GENERAL FLAT RATES  
(Continued)

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. 2, General Metered Rates. A customer's request for change from flat rate to metered service must be made in writing.

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Schedule No 2

GENERAL METERED RATES

APPLICABILITY

Applicable to all water service rendered on a measured basis.

TERRITORY

In and in the vicinity of Del Paso Manor Tract, 2½ miles east of the town of Ben Ali, Sacramento County, as shown on the map included in the tariff sheets.

RATES

Quantity Charge:	<u>Per Meter</u> <u>Per Month</u>
First 800 cubic feet or less. . . . .	\$ 2.00
Next 4,200 cubic feet, per 100 cubic feet. . . . .	.15
Over 5,000 cubic feet, per 100 cubic feet. . . . .	.075

Minimum Charge:

For 5/8 x 3/4-inch meter . . . . .	\$ 2.00
For 3/4-inch meter . . . . .	2.50
For 1-inch meter . . . . .	3.00
For 1½-inch meter . . . . .	4.50
For 2-inch meter . . . . .	6.00
For 3-inch meter . . . . .	9.00
For 4-inch meter . . . . .	12.00

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. 3

FIRE HYDRANT RENTAL

APPLICABILITY

Applicable to municipalities, duly organized fire districts or other political subdivisions legally empowered to enter into a contract for fire protection service.

TERRITORY

Within the entire service area, as delineated on the map contained in the tariff schedules, when connected to existing mains.

RATES

Per hydrant, per month . . . . . \$ 1.00