

Decision No. 46991

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
HIGHWAY CITY WATER SYSTEM,)
a partnership,) Application No. 32807
for an order authorizing increases)
and changes in rates for water service.)

Jack Sollis, Warren Sollis and James Vaughn,
applicants, by L. J. Martin; E. Ronald Foster
for the Commission staff.

O P I N I O N

In this application filed October 6, 1951, Jack Sollis, Warren Sollis, and James Vaughn, doing business as Highway City Water System, seek an order authorizing increases in rates and charges for water service rendered in an unincorporated suburb of Fresno, known as Highway City. The application further requests authorization to restate applicants' books with respect to capital accounts and the depreciation reserve.

A public hearing in this matter was held before Examiner Emerson at Fresno on February 27, 1952 and was submitted on receipt of two exhibits on March 10, 1952.

Applicants' present tariffs contain two rate schedules, a flat rate and a meter rate. No meters are in use on the system, however, thus the flat rate schedule is of particular concern in this proceeding. Applicants presently charge \$1.50 per month for service to a residence or a store on one lot, with an additional charge of \$1 for each additional unit on the same property. It is proposed that these charges be doubled.

Applicants obtained the water system by purchase from Fresno Suburban Water Service Company on June 1, 1947. At that time the system served 108 consumers in the five blocks comprising Highway City Subdivision. In the regular course of business the system has been expanded into adjoining subdivisions and as of November 7, 1951, served a total of 286 active service connections. Two 12-inch cased wells in Block E of Highway City Subdivision and one 10-inch cased well in Ellendale Terrace are pumped through pressure tanks, into a distribution system consisting of about 16,000 feet of pipes which vary in size from 4 inches to 1½ inches in diameter. The pumps are operated automatically and the pressure controls are set to maintain tank pressures ranging between 40 and 65 psi.

Applicants and the staff of the Commission presented analyses of past operations together with estimates covering expected future operations during the year 1952. A summary of revenues and expenses as recorded for the years 1948 to 1950, inclusive, is as follows:

<u>Item</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>
Revenues	\$3,971	\$4,179	\$5,374
Expenses			
Before Taxes	1,977	2,420	2,311
Taxes	79	107	83
Depreciation	189	236	527
Total	<u>2,245</u>	<u>2,763</u>	<u>2,921</u>
Net Revenue	1,726	1,416	2,453

During the three-year period shown above, no salaries were paid to the owners although they personally performed practically all of the work required to operate and maintain the system. The greatest single item of expense in each year was the electric power bill which averaged about \$1,500 annually.

Commencing with the year 1951 applicants began the assignment of salaries to themselves in a total annual amount of \$4,800 of which \$100 was charged to capital accounts and \$4,700 distributed

to expense accounts. Of the \$4,800 thus shown on the books, however, applicants actually received only \$2,458.86. Applicants' estimate of 1952 operations includes salaries totalling \$6,000 for the year.

With respect to salaries the staff segregated pay roll items between accounts and, as the result of a study of systems of similar physical characteristics with a like number of customers and an analysis of the services which applicants must perform on the Highway City System, concluded that a total annual pay roll of \$4,370 was reasonable for the system. As an example of the pay roll adjustments made, the staff witness testified that whereas the company had assigned the sum of \$1,080 for pumping labor for the year 1951, such amount being on the basis of \$3 per hour for one hour on 360 days per year, the sum of \$720 should be adequate since each pump and its associated equipment is fully automatic and needs individual attention only infrequently and then only for very minor adjustments. Other accounts were similarly analyzed.

Results of 1951 operations and estimates of 1952 operations, before provisions for depreciation expense, are summarized as follows:

Item	Year 1952			
	Year 1951: Recorded	Applicant: Proposed Rates	Staff: Present Rates	Staff: Proposed Rates
OPERATING REVENUES	\$5,506.41	\$11,534.61	\$5,850	\$11,700
OPERATING EXPENSES				
<u>Pumping</u>				
Pumping Labor	1,080.00	1,440.00	720	720
Power Purchased	1,365.51	1,059.00	1,450	1,450
Lubricants	25.43	42.00	30	30
Repairs to Equipment	234.01	300.00	340	340
Purification	8.00			
<u>Transmission & Distribution</u>				
Repairs to System	234.70	363.00	440	440
Superintendence	840.00	1,500.00	720	720
<u>Billing and Collecting</u>				
Pay Roll	1,543.19	1,800.00	1,200	1,200
Miscellaneous		120.00	110	110
<u>General</u>				
Rent	420.00	600.00	420	420
Insurance	27.59	25.00	100	100
Legal and Accounting	352.50	600.00	100	100
Miscellaneous	176.06	238.00	310	310
Salaries	1,087.50	1,200.00	1,370	1,370
Taxes	75.83	518.00	330	1,104
Subtotal Operating Exp.	7,470.32	9,805.00	7,640	8,414

Applicants' estimate for the year 1952 as above-mentioned includes a pay roll of \$6,000. Such sum would be equal to \$1.75 per month per customer. Other similar systems have per customer costs ranging from 75 cents to \$1.50 per month. In view of the record in this proceeding, we are of the opinion that the sum of \$4,800 annually is a reasonable allowance for operation and management functions.

Determination of depreciation expense and a depreciation reserve for this system has become complicated by two factors. The first results from applicants' bookkeeping methods whereby depreciation accounting was established on the basis of the purchase price of the system rather than on the historical cost of the system.

The second involves the method of treating certain sums described in this proceeding as either "donations" or "advances" of customers.

Commencing on June 2, 1947 and continuing to the present time, applicants have extracted from all new customers a payment of \$50 as a condition precedent to establishment of service. Some, who were unable to pay the full amount, paid lesser amounts to the limit of their ability to pay. To December 31, 1951 collections of such amounts totalled \$3,005 according to the company's books. Applicants considered these payments as "bonuses" paid for the offering of service to persons who, had they not taken the utility service, would have been faced with the costs of installing individual wells, pumps and pressure systems. Such a scheme was applied to all lots lying beyond the distribution mains as they existed on June 1, 1947. This practice is contrary to long established regulatory policies in this state and is in direct violation of the extension rules regularly on file for this system. The filed rules are equally binding on the company and the customer and no deviations therefrom have been authorized for this system. We are of the opinion that all of the money irregularly collected must be returned.

The detailed estimate of the historical cost of the entire system was prepared by engineers of the Commission staff and appears as an appendix in Exhibit No. 5 in this proceeding. As of December 31, 1950 the properties had an historical cost of \$15,926.90 according to said exhibit. As of the same date the depreciation reserve requirement, on a straight-line basis, totaled \$5,436.49. Capital additions during 1951 increased said historical cost to \$16,416. The depreciation reserve as of December 31, 1951 should have been \$5,457. Estimated additions during 1952 would raise the historical cost to \$16,613 as of December 31, 1952. A weighted average for the year 1952 of \$16,600 will be used herein as fixed

capital for rate base purposes. On such basis the depreciation expense would be \$814 for 1951 and \$837 for 1952. Applicants will be authorized to reflect the above amounts on its books.

The above determination of fixed capital amounts obviously assumes that the sum of \$3,005, which will be refunded to customers, has already been refunded and that the company has, therefore, already obtained full ownership of the entire plant. As refunds are made, applicants must not thereby increase capital accounts, for to do so would mean their inclusion twice.

Summarizing, the results of operations for this system as adjusted for 1951 and 1952 are as follows:

Item	1951 Adjusted	1952 Estimated Present Rates	Proposed Rates
OPERATING REVENUES	\$ 5,506	\$ 5,850	\$11,700
<u>OPERATING EXPENSES</u>			
Before Taxes and Depreciation	7,394	7,750	7,750
Taxes	76	330	1,104
Depreciation	814	837	837
Total Operating Expenses	8,284	8,917	9,691
NET REVENUES	(2,778)	(3,067)	2,009
<u>RATE BASE</u>			
Fixed Capital (Average)	16,426	16,600	16,600
Materials and Supplies	150	150	150
Depreciation Reserve	(5,436)	(6,272)	(6,272)
Rate Base (Depreciated)	11,130	10,478	10,478
RATE OF RETURN	Loss	Loss	19.2%

(Red Figure)

From the above it is apparent that applicant is in need of relief in the form of increased revenues. The rates proposed, however, would produce a return which in this instance would be excessive. The rates to be authorized herein should provide a rate of return of approximately 6% on a rate base of \$10,478, which return and base we hereby find to be reasonable.

Applicants were directed, at the hearing, to submit as Exhibit No. 7 in this proceeding a complete listing of customers who

had been charged for service connections. Said list has been received and analyzed. As above stated, we are of the opinion that all of the payments must be returned. Four methods of refunding may be considered: (1) immediate cash refunds, (2) refunding in cash within a specified period of time, (3) refunds of specified percentages at stated intervals with interest on the unrefunded balances, and (4) immediately crediting consumers' water accounts with the total amount of refund due. Because of applicants' present unsatisfactory earning position and lack of ready cash and because of their obligations to meet regularly recurring operating expenses and concurrently to provide adequate and dependable service to all of their customers, we believe the most equitable method to be No. 2 above; that is, refunding in cash within a specified period of time. With two exceptions, namely, the money collected for service to the Graham Tract and the Sweat Tract, no sums should originally have been collected. These two tract deposits, therefore, will be placed upon the regular extension rule basis. The order herein will provide for distribution of the collected amounts in accordance with these principles.

Of the 41 customers in attendance at this hearing, six came forward and testified on their own behalf. All were in agreement that during the summer months the system had completely inadequate pressures. Allegedly such condition has grown progressively worse concurrently with expansion of the original system. No witness was unwilling to accept an increase in rates provided such increase was reasonable and further provided that adequate pressures were established throughout the system. The statements of these witnesses have considerable merit and the applicants herein should take every reasonable step necessary to re-establish adequate pressures throughout the tract. The distribution system is so

arranged that it can with little capital expenditure be made into a system of very few dead ends by closing three gaps in the present system. Applicant should first close the gap between Ellendale Terrace and Highway City Subdivision by installing approximately 350 feet of main on Polk Avenue at Shaw Avenue. Applicants should next close the gap in Block D of the Highway City Subdivision by installation of approximately 250 feet of main between the main lying southeasterly of State Street and the main north of and parallel to Shaw Avenue. The third gap which should be closed would require approximately 175 feet of main between the southerly end of the distribution line on Market Street and the end of the main in Tex Tract. It is our opinion that these improvements in the distribution system should be made before applicants attempt to serve any additional customers lying outside of or beyond the area served by the present distribution mains.

Applicants anticipate that they will be required to extend a distribution main to a low-cost housing project development adjacent to their present system. Such project will consist of approximately 24 housing units. From the record in this proceeding, we believe it clear that applicants must develop additional water supply in order to serve these housing units without detriment to its present customers.

O R D E R

Jack Sollis, Warren Sollis and James Vaughn (Highway City Water System) having applied to this Commission for an order authorizing increases in rates and charges and a restatement of books, a public hearing thereon having been held, the matter having been submitted and being now ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized are justified and that the present rates, in so far as they differ therefrom, are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED as follows:

1. Applicants are authorized to file in quadruplicate with this Commission the schedules of rates shown in Exhibit A attached to this order, on or after the effective date hereof and in conformity with General Order No. 96 and, on not less than five (5) days' notice, to make said rates for service effective for all service rendered on or after June 1, 1952.
2. Applicants shall refund in cash, and without interest thereon, to the persons named in Exhibit B attached to this order the amounts specified in said exhibit not later than the dates set forth therein or any date prior thereto when any such persons shall permanently discontinue receiving service from applicants. Each refund may be made in whole or in part prior to the dates specified.
3. Applicants shall restate their books of account with respect to fixed capital in service and the depreciation reserve so as to place them in conformity with Exhibit No. 5 referred to in the foregoing opinion and shall submit to this Commission two (2) copies of the proposed accounting entries necessary to effect such restatement not later than one hundred twenty (120) days after the effective date of this order.

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

Dated at San Francisco, California, this 14th day of

April, 1952.

President.
Justin J. Coe

Harold P. Hule

Samuel P. Potter

John L. McNeil
Commissioners.

EXHIBIT A
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Schedule No. 1

FLAT RATE SERVICE

APPLICABILITY

Applicable to all unmeasured water service rendered.

TERRITORY

Within the community of Highway City, Fresno County, and in the vicinity thereof.

RATES

	<u>Per Service Per Month</u>
For one residence on one lot, including irrigation of land therein not in excess of 6,000 square feet	\$2.60
For each additional separate residence on one lot	1.75
For each store or business other than hotels or auto courts on one lot	2.60
For each hotel, auto court, motel, or group of cabins on one lot, including irrigation of land not in excess of 6,000 square feet,	
First room or unit	2.60
Next 14 rooms or units, each75
Over 15 rooms or units, each60
For irrigation of land in excess of 6,000 square feet per lot, applicable during months of May, June, July, August, September, and October of each year, per 100 square feet irrigated03

SPECIAL CONDITIONS

1. Charges for flat rate service 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 Service.

EXHIBIT A
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Schedule No. 2

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

Within the community of Highway City, Fresno County, and in the vicinity thereof.

RATES

Quantity Rates:	<u>Per Meter Per Month</u>
First 1,000 cu.ft. or less	\$2.25
Next 1,000 cu.ft., per 100 cu.ft.12
Next 3,000 cu.ft., per 100 cu.ft.10
Next 5,000 cu.ft., per 100 cu.ft.08
Over 10,000 cu.ft., per 100 cu.ft.07
 Minimum Charges:	
For 5/8 x 3/4-inch meter	\$2.25
For 3/4-inch meter	3.00
For 1-inch meter	4.00
For 1 1/2-inch meter	7.00
For 2-inch meter	11.00
For 3-inch meter	16.75
For 4-inch meter	25.00

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

EXHIBIT B

Refunding of Collections for Establish^{ing} Service

<u>Name</u>	<u>Total Amount to be Refunded</u>	<u>Refund to be Made Prior to Date</u>
1. K. McKenzie	\$ 50.00	September 30, 1952
2. R. H. Peacock	100.00	September 30, 1952
3. Frank Cantwell	50.00	September 30, 1952
4. M. Milliron	50.00	December 31, 1952
5. R. E. Bradshaw	50.00	April 30, 1953
6. Horace Milliron	50.00	April 30, 1953
7. Dorothy E. Cooper	50.00	April 30, 1953
8. Mrs. Jess Hill	50.00	January 31, 1953
9. C. E. Gentry	50.00	November 30, 1952
10. Ned Codinnez	50.00	August 31, 1953
11. E. Ramirez	50.00	August 31, 1953
12. Daniel B. Morley	100.00	May 31, 1953
13. Henry McGhee	50.00	January 31, 1953
14. R. W. Adcox	50.00	January 31, 1953
15. Harold Cooper	100.00	July 31, 1953
16. W. S. Kelly	150.00	October 31, 1952
17. Mike Paolercio	100.00	May 31, 1953
18. Sallie Gentry	50.00	August 31, 1953
19. E. Montana	50.00	October 31, 1952
20. Mike Garcia	50.00	October 31, 1952
21. L. R. Barcus	50.00	October 31, 1952
22. Bert Kelly	75.00	November 30, 1952
23. E. L. Dixon	50.00	July 31, 1953
24. Calvin Richter	370.00	March 31, 1953
25. Joe Linhares	50.00	December 31, 1952
26. L. Phenal	35.00	December 31, 1952
27. Joe Soldate	25.00	December 31, 1952
28. J. Hernandez	50.00	November 30, 1952
29. Francis Campos	50.00	November 30, 1952
30. J. R. Brown	50.00	September 30, 1952
31. Roy Cooper	50.00	December 31, 1952
32. C. M. Whithead	50.00	September 30, 1952
33. W. E. Holt	50.00	June 30, 1953
34. Ola Coulson	50.00	June 30, 1953
35. Roy McGaha	50.00	June 30, 1953
36. Frank Graham	240.00	February 28, 1953
	360.00	payable at 35% of annual billings on 12 lots in Graham Tract from effective date of this order until fully paid or until October 1, 1957 whichever comes first; any unrefunded amount to be accounted for as a donation.
37. Frank Barbar	50.00	payable at 35% of annual billings from effective date of this order until fully paid or until July 1, 1957 whichever comes first; any unrefunded amount to be accounted for as a donation.

Total

3,005.00