

Decision No. 43163

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
ARVIN WATER COMPANY, a corporation;)
for an order authorizing it to)
increase rates charged for water)
service in the unincorporated town)
of Arvin, Kern County.)

Application No. 33650

William Stava, for applicant;
Clyde F. Norris, for the Commission's staff.

O P I N I O N

Nature of Proceeding

Arvin Water Company produces and distributes water for domestic, commercial and industrial purposes in the unincorporated town of Arvin and vicinity, in Kern County. It seeks to increase its rates for water service in order to meet maintenance and operating expenses and to provide a reasonable return on the fixed capital installed. Present rates, it is alleged, do not produce sufficient revenues for these charges, thus making it difficult to finance additions to capital necessary for rendition of adequate service and for satisfying the demands of an expanding service area.

Public Hearing

A public hearing was held at Arvin on November 19, 1952; before Examiner Gregory, at which no opposition to the company's proposal was manifested.

Description of Company's System

The company's water supply is obtained from three drilled wells equipped with deep-well turbine pumps directly connected to electric motors. Two of the wells pump into a 75,000-gallon steel tank from which water is distributed through approximately 78,000 feet of mains varying in size from 2 to 10 inches in diameter.

Water from the third well is pumped directly into the distribution system, which is also connected by a 6-inch main to a well owned by the Kern County Union High School District, for use during emergencies on a mutual aid basis. A 100,000-gallon storage tank, also owned by the High School District, is likewise available to the company as a standby facility in emergencies. As of June 30, 1952, the system served 1,055 customers, of whom all but one, Southern Pacific Company, were metered.

Present and Proposed Rates

The present basic metered and flat rates, last revised in 1947 (Dec. No. 40638, Aug. 26, 1947, Appl. No. 28190), are \$1.35 per month. The company requests that these rates be increased to \$2 per month, with corresponding increases in minimum charges for the larger size meters and quantity rates for metered service, and in rates for additional outlets and garden irrigation for flat rate service.

Average Revenue Per Consumer

Average revenue per consumer was \$49.35 in 1949. Conversion to metered service, completed generally by the end of 1949, was reflected in 1951 by a decrease in average revenue per consumer to \$44.75 for that year, although 86 customers had been added to the system during the period following conversion.

Nature of Evidence

Studies reflecting results of operation of the system, under present and proposed rates, were placed in the record by the company and by an engineer of the Commission's staff. The Commission engineer's computations of rates of return were based on recorded and adjusted figures for 1951, recorded, adjusted and estimated results for 1952 and estimates for 1953. The company's summaries of earnings included computations for 1951, as recorded

and adjusted, and estimates for 1952, using an undepreciated rate base, and also estimates for 1952, only, using a depreciated rate base.

Earthquake Damage to System

Both the Commission engineer and the company included in their exhibits figures indicating the effect on the system of the severe earthquake in the Arvin area on July 21, 1952, which caused damage to the company's facilities estimated at approximately \$16,000.

Estimated Earnings

A tabulation showing the essential features of the various studies and exhibits relative to operating results follows:

Item	1952 - Staff		1952 - Company		1953 - Staff	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Revenues	\$ 48,541	\$ 64,219	\$ 47,756	\$ 63,153	\$ 49,182	\$ 66,182
Expenses	42,554	47,697	44,633	49,878	44,298	49,874
Net Revenues	5,987	16,522	3,123	13,275	4,884	16,308
Avg. Rate						
Bases, Depr.	180,700	180,700	186,075	186,075	184,300	184,300
Rates of Ret.	3.31%	9.14%	1.62% ^a	7.13% ^a	2.65%	8.85%

- a. Includes company's corrected figure for accrued depreciation - See Exhibits 7 and 9. If company's allowance for prorated earthquake damage is included (Exh. 9) the indicated rates of return for 1952, under present and proposed rates, are 1.049% and 5.98%, respectively, based on company's figures.

Depreciation

The recorded 5% sinking fund depreciation reserve, as of December 31, 1951, was \$31,192.13. This book reserve was prorated to the proper accounts by the Commission's staff on the basis of a depreciation reserve requirement study. The staff adopted the remaining life straight-line basis for computing 1952 depreciation expense. The 1952 annual depreciation expense was estimated to be \$8,377. The depreciation reserve at

December 31, 1952, is estimated at \$39,568.83. The remaining life basis of depreciation will be adopted for purposes of this proceeding.

Conclusions on Rate of Return

The company anticipates substantial increases in ad valorem taxes due to rehabilitation following earthquake damage; in corporation franchise taxes due to increased revenues at the proposed rates; and in federal income taxes due to the change in depreciation accounting to a remaining life basis. Despite these added costs, however, the net revenues projected by the staff from the proposed rates for the year 1952 appear to yield an excessive rate of return even though a portion of the expenses incurred by the earthquake ~~were~~ ^{was} allowed. On the other hand, ^{Q. 2. 27. ✓} if the company's annual allowance for prorated earthquake damage is to be included, such allowance being higher than for the staff method of proration, the calculated rate of return of 5.98% for the same period would appear to be less than a reasonable one under the circumstances of this case.

The order to follow, therefore, will authorize applicant to file a new schedule of rates which, it is estimated, will produce gross revenues of \$59,360 for 1953 based on all consumers being metered. After deducting taxes, depreciation and other operating expenses, estimated at \$47,476, from the estimated gross revenues, a net revenue of \$11,884 results. Such net revenue, related to the estimated depreciated rate base of \$184,300, should yield a rate of return of 6.45% if the rates are in effect during the whole of 1953 and slightly less if in effect for 10 months. Such estimated rate of return and the rates set forth in the schedules attached to this decision are hereby found to be just and reasonable.

O R D E R

The above-entitled application having been filed, public hearing having been held, the matter having been submitted and the Commission being fully advised in the premises,

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, the schedules of rates as shown 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 service rendered on and after February 20, 1953.

IT IS HEREBY FURTHER ORDERED that applicant shall base the accruals to depreciation upon spreading the original cost of the plant, less estimated net salvage and depreciation reserve, over the estimated remaining life of the property; applicant shall review the accruals when major changes in plant

EXHIBIT A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all domestic, commercial and industrial metered water service.

TERRITORY

Within the unincorporated town of Arvin and vicinity, in Kern County.

RATES

Quantity Rates:

	<u>Per Meter</u> <u>Per Month</u>
First 600 cu. ft. or less	\$1.85
Next 1,400 cu. ft., per 100 cu. ft.20
Next 3,000 cu. ft., per 100 cu. ft.17
Next 5,000 cu. ft., per 100 cu. ft.15
Next 15,000 cu. ft., per 100 cu. ft.12
Over 25,000 cu. ft., per 100 cu. ft.10

Minimum Charge:

For 5/8 x 3/4-inch meter	\$1.85
For 3/4-inch meter	3.25
For 1-inch meter	6.35
For 1 1/2-inch meter	9.75
For 2-inch meter	14.25
For 3-inch meter	23.25
For 4-inch meter	45.25
For 6-inch meter	66.75

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 domestic flat rate water service.

TERRITORY

Within the unincorporated town of Arvin and vicinity, in Kern County.

RATES

	<u>Per Month</u>
For residence (3 rooms or less)	\$2.00
For additional rooms, each26
For toilets, each33
For baths, each33
For irrigation of lawns and gardens in excess of 2,000 square feet, per 100 square feet for each month of the year.....	.02

SPECIAL CONDITIONS

1. Charges for flat rate service are payable in advance.
2. All service not covered by the above classifications will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer for above classifications, in which event service will thereafter be rendered only on the basis of Schedule No. 1, General Metered Service.

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composition occur and for each plant account at intervals of not more than five (5) years. Results of these reviews shall be submitted to this Commission.

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

Dated at San Francisco California, this 19th day of January, 1953.

A. F. [Signature]
President.
Justin J. [Signature]
Harold A. [Signature]
[Signature]
[Signature]
Commissioners.