

ORIGINAL

Decision No. 48592

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the Felton Water Co., a corporation, for authority to increase rates for water service, and to exchange certain real properties near the town of Felton, in the County of Santa Cruz, California.)

Application No. 33747

- John C. Luthin, for applicant.
- T. N. Toft, protestant.
- Floyd R. Eichelberger, interested party.
- Alice Earl Wilder, for San Lorenzo Valley Chamber of Commerce, interested party.
- George F. Tinkler, for the Commission staff.

O P I N I O N

Nature of Proceedings

Felton Water Co., which operates a public utility water system in the vicinity of Felton, Santa Cruz County, herein seeks authority to exchange certain real properties with its sole stockholder and to increase its rates for water service.

Public Hearing

The application was filed on September 22, 1952 and an amendment thereto was filed on March 4, 1953. Public hearings were held before Examiner Gillard, in Felton, on April 3 and 8, 1953, and the matter was submitted for decision upon the latter date.

Exchange of Lands

Felton Water Co. is a corporation, and George A. Fetherston owned all the stock therein for approximately 35 years until his death in September, 1947. His daughter, Florence Fetherston, is now sole stockholder and manager of the company.

The company secures its water from springs and from five creeks, and it owns some of the watershed lands which supply those creeks. Florence Fetherston, through the estate of her father, acquired other lands which include extensive watershed lands now being used by the company for the production of water.

In this proceeding the company seeks to acquire, from Florence Fetherston, these watershed lands and three other small parcels of land which, in the past, have been used by the company in the production and storage of water. Request is also made to transfer to Florence Fetherston certain parcels of nonoperative properties which adjoin the watershed but are not part of it.

The testimony herein, including that of the Commission staff engineer, discloses that the land sought to be sold by the company is actually nonoperative property. The authority of this Commission is not required before a utility can dispose of such property.

Likewise, the authority of this Commission is not required before a utility may purchase property unless an indebtedness extending beyond one year is to be incurred in connection with such purchase. No proposal is before us relative to the issuance of any such evidence of indebtedness.

Value of Properties to be Bought and Sold

All of the land proposed to be sold by Florence Fetherston to the company was acquired by her from her father's estate. The appraised value of those lands at the date of death was \$5,771. Surveys and similar expense amounted to \$444, making a total cost to Florence Fetherston of \$6,215. These parcels of land, even though privately owned, are useful to and have been continuously used by the present owner as part of the public utility water system. Three of the parcels have springs whose waters are used

in the system. These parcels all have tanks or collecting boxes. A fourth parcel has three tanks and a booster pump. It is located in Felton Acres No. 1 and is essential to the distribution of water therein. The other two parcels, totaling approximately 173 acres, are watershed lands which produce water for Bull Creek, Bennett Creek and Shingle Mill Creek.

In addition to the fact that these properties have actually been devoted to the needs and uses of the water company, it is noted that the owner thereof is also the sole owner of all outstanding stock of the utility. Under all the circumstances disclosed herein, we are of the opinion that we are justified in disregarding the corporate entity and finding that the historical cost of these properties to the utility for rate-making purposes is the \$6,215 cost thereof to its sole stockholder.

Since the historical cost of the lands to be sold by the company is \$2,088, the net result of the sales and purchases would be to increase the rate base by \$4,127.

Present and Proposed Rates

Applicant renders service under four schedules of rates for the purpose of establishing charges to both permanent and seasonal residents. The basic charges in these schedules, under present and proposed rates, are as follows:

	Rates	
	<u>Present</u>	<u>Proposed</u>
Annual Metered Service Annual Minimum Charge	\$19.80	\$28.80
Annual Flat Rate Service Per Year	21.00	30.00
Seasonal Metered Service Six Months Minimum Charge	15.00	21.00
Seasonal Flat Rate Service For Six Months	16.00	22.00

Applicant estimates that these proposed increases will produce a 45 per cent increase in revenue. No increase is proposed in the rates or charges to the Fire Protection District.

Results of Operations

For the year 1952, applicant realized a profit of \$218 upon gross revenues of \$17,134 and gross expenses of \$16,916. Applicant and the Commission engineer forecast the results of operation during 1953 under the present and the proposed rates. A summary of these results is as follows:

	<u>Applicant</u>		<u>Commission Engineer</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Revenues	\$17,998	\$25,635	\$17,727	\$25,350
Operating Expenses	15,580	15,580	14,533	14,758
Depreciation	2,952	2,952	2,696	2,696
Taxes	1,285	3,177	1,380	3,501
Total Expenses	19,817	21,709	18,609	20,955
Net Income	(1,819)	3,926	(882)	4,395
Rate Base	58,839	58,405	59,327	59,327
Rate of Return	-	6.8%	-	7.41%

(Red Figure)

If applicant had used the net amount of \$4,127 adopted in the first part of this opinion for the values of the lands to be exchanged, its rate base in the foregoing tabulation would have been \$57,113 and the rate of return 6.87 per cent, at the proposed rates. A similar recalculation on the estimate of the Commission engineer would produce a rate base of \$58,035 and a rate of return of 7.57 per cent.

It is apparent that operations cannot be conducted profitably under current rates. It is also evident that the proposed increases will produce more than a fair return to applicant.

In reviewing the results of operations under the proposed rates, as set forth above, some reconciliation is necessary between the figures of the applicant and the Commission engineer. The

estimates of revenues are very close, the difference being caused principally by different assumptions as to the number of new customers that will be served in the ensuing year. Revenues of \$25,500 for the test year 1953, if the proposed rates had been made effective for the entire year, will be adopted for the purposes of this decision.

The difference in operating expenses is caused principally by two items. Applicant allocated \$665 for purification expense for the year 1953, as compared with recorded expenses of \$56 for 1951 and \$102 for 1952. The Commission engineer allocated \$110 for 1953. The record does not justify applicant's figure and that of the Commission engineer will be accepted. The other item is the cost of these proceedings and the preparation therefor. Applicant fixed the expense at \$1,800 and allocated it over three years. The Commission engineer allocated \$1,500 over five years. Most of this expense is related to the preparation involved in the exchange of lands proposed herein. If these lands are exchanged, applicant will receive a long-term benefit and the five-year period for allocating the expenses would be more realistic. Relative to the amount of such expense, it is not contended that \$1,800 is unreasonable nor that it was not actually expended. Therefore, that amount will be allowed, allocated over a five-year period. With these adjustments, applicant's estimate would be \$14,785, and the Commission engineer's would be \$14,818. We will allow the higher expense figure.

Relative to depreciation expense, both exhibits used a remaining life method, but the Commission engineer, in general, used longer and more realistic remaining lives for the various accounts. His results will be adopted.

The rate bases are very close in end result, but we consider the one submitted by the Commission engineer to be more accurate because of his careful consideration of past events. His report shows items that have been retired from capital that are apparently still carried on the books by applicant. The only adjustment in the Commission engineer's rate base that needs to be considered concerns the allowance for materials and supplies. Applicant has carried this in the past at \$2,500 and uses that figure for 1953. The Commission engineer adjusted this figure to \$3,300 for 1952 and increased it to \$4,200 for 1953. Some increase over applicant's book figure is justified, and for this purpose the \$3,300 adjusted figure appears reasonable for both years. The resulting \$900 reduction in the rate base as computed by the Commission engineer would place the rate base for 1953 at \$57,135, which amount we find to be reasonable and hereby adopt.

The foregoing discloses that the results of operations during 1953, under the proposed rates, would be:

Revenues	\$25,500
Operating Expenses	14,818
Depreciation	2,696
Property taxes	1,355
Subtotal Expenses	<u>18,869</u>
Taxable Income	6,631
Income Taxes	<u>2,175</u>
Net Income	4,456
Rate Base	57,135
Rate of Return	7.79%

Conclusion

After careful consideration, we are of the opinion that the foregoing rate of return is greater than is reasonable for this utility. A downward adjustment in the proposed rate increases is necessary. The rates being authorized in the schedules attached hereto, represent an over-all increase of approximately 35 per cent over current rates and are designed to produce gross revenues of

about \$23,969 and net revenues of \$3,428 for a rate of return of 6 per cent on the adopted rate base of \$57,135, which rate of return and rate base are found to be just and reasonable.

Recommendations

The Commission engineer made certain service and procedural recommendations for applicant to observe. Applicant raised no objection thereto, and they will be incorporated in the order to follow.

Decision in Application No. 32452

By Decision No. 45896 dated June 29, 1951, in Application No. 32452 filed by applicant herein, the Commission authorized the transfer of certain nonoperative land. In the present proceeding, applicant now alleges that its Application No. 32452 was filed prematurely before having made a thorough study of the land requirements. Applicant further alleges that the transfer heretofore authorized has not been completed and inasmuch as the actual land to be conveyed has been revised and the description is in conflict with those of lands intended to be transferred in connection with this proceeding, applicant requests that the order in Decision No. 45896 be set aside. In the light of the circumstances recited herein, this request appears reasonable and will be granted.

O R D E R

Upon the evidence adduced at the public hearings held upon the application filed herein, and based upon the findings and conclusions contained in the foregoing opinion and in the following order,

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 General Order No. 96, the schedules of rates and charges shown in Exhibit A attached hereto, and, on not less than five days' notice to the Commission and to the public, to make said rates and charges effective for service rendered on and after July 1, 1953; provided that such rates and charges shall not become effective unless applicant shall sell to Florence Fetherston, and Florence Fetherston shall sell to applicant, the respective parcels of real property referred to in the application, as amended, and certified copies of the respective deeds have been filed with the Commission prior to July 1, 1953.

IT IS HEREBY FURTHER ORDERED that applicant shall:

1. Within thirty days after the effective date hereof, complete the installation of, and place in operation, the proposed new 4-inch distribution pipeline, approximately 2,400 feet long and estimated to cost \$2,400, to be located on and traversing the southerly portion of Felton Acres and to supplement service to the subdivisions known as Tanglewood. Within ten days after said pipeline is placed in operation, applicant shall so notify the Commission in writing.
2. File in quadruplicate with this Commission, within thirty days after the effective date of this order, in conformity with General Order No. 96, rules and regulations governing customer relations revised to reflect present-day operating practices.
3. Establish and maintain from and after the effective date hereof a system for filing and indexing all consumer complaints received by the company, whether verbal or in writing, together with a statement of the action taken by the company in each such instance in disposing of the complaint.
4. File with this Commission, within ninety days after the effective date of this order, a copy of each and every journal entry used to record on its books of account the transfer of properties, retirements and other adjustments reflected in the rate base herein adopted.

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5. 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 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.

IT IS HEREBY FURTHER ORDERED that the Commission's Decision No. 45896, dated June 29, 1951, in Application No. 32452, authorizing the transfer of certain nonoperative land, is hereby set aside.

The effective date of this order is twenty days after the date hereof.

Dated at San Francisco, California, this 12th day of May, 1953.

R. I. Johnson
President.
Justin F. Galmer
Harold P. Hula
Kenneth Pitter
Edwin L. Hill
Commissioners.

EXHIBIT A
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Schedule No. 1

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all year-round metered water service.

TERRITORY

Within the unincorporated town of Felton and vicinity, Santa Cruz County.

RATES

		<u>Per Meter</u>
		<u>Per Month</u>
Monthly Quantity Rates:		
First	500 cu.ft. or less	\$ 2.25
Next	1,500 cu.ft., per 100 cu.ft.30
Next	8,000 cu.ft., per 100 cu.ft.21
Over	10,000 cu.ft., per 100 cu.ft.19
Annual Minimum Charge:		
		<u>Per Meter</u>
		<u>Per Year</u>
For	5/8 x 3/4-inch meter	\$ 27.00
For	3/4-inch meter	36.00
For	1-inch meter	57.00
For	1 1/2-inch meter	99.00
For	2-inch meter	114.00
For	3-inch meter	258.00
For	4-inch meter	396.00

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one twelfth of that annual minimum charge will purchase at the Monthly Quantity Rates.

EXHIBIT A
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Schedule No. 1--contd.

ANNUAL GENERAL METERED SERVICE

SPECIAL CONDITIONS

1. The above Annual Minimum Charges apply to service during the calendar year and are due in advance on January 1. A customer who has established his permanence by having paid for service during the preceding 12 months may elect to pay the annual minimum charge on a monthly basis equal to \$2.25 per month for a 5/8 x 3/4-inch meter or one twelfth of the Annual Minimum Charge per month for other meter sizes.

2. When the annual minimum charge is paid annually in advance, charges for water used in excess of the monthly allowance under the annual minimum charge may be billed monthly, bimonthly or quarterly at the option of the utility on a noncumulative monthly consumption basis.

EXHIBIT A
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Schedule No. 2

ANNUAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all year-round flat rate water service.

TERRITORY

Within the unincorporated town of Felton and vicinity, Santa Cruz County.

RATES

Per Year

For each residence or commercial enterprise receiving continuous service throughout the calendar year, through 3/4-inch connection	\$26.80
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SPECIAL CONDITIONS

1. The above annual flat rate charge applies to service during the calendar year and is due in advance on January 1. A customer who has established his permanence by having paid for service during the preceding 12 months may elect to pay the annual flat rate charge on a monthly basis equal to \$2.40 per month.
2. A meter may be set and Schedule No. 1 applied at the option of the utility or of the customer.
3. Service through connections larger than 3/4-inch will be rendered only under metered service schedules.

EXHIBIT A
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Schedule No. 3

SEASONAL METERED SERVICE

APPLICABILITY

Applicable to all seasonal metered water service.

TERRITORY

Within the unincorporated town of Felton and vicinity, Santa Cruz County.

RATES

Quantity Rates:

	<u>Per Meter</u> <u>Per Month</u>
First 500 cu.ft. or less, included in Seasonal Minimum Charge.	
Next 1,500 cu.ft., per 100 cu.ft.	\$ 0.30
Next 8,000 cu.ft., per 100 cu.ft.21
Over 10,000 cu.ft., per 100 cu.ft.19

Seasonal Minimum Charge:

For any six consecutive months beginning and ending in the same calendar year, or any portion thereof,

	<u>Per Meter</u> <u>Per Season</u>
For 5/8 x 3/4-inch meter	\$19.80
For 3/4-inch meter	27.00
For 1-inch meter	42.00

SPECIAL CONDITIONS

1. The above Seasonal Minimum Charges apply to service during the calendar year and are payable in advance.
2. For a new customer, the first period of six consecutive months will not be required to be completed in the same calendar year.
3. Charges for water used in excess of the monthly allowance for the seasonal minimum charge may be billed monthly, bimonthly or quarterly at the option of the utility on a noncumulative monthly consumption basis.

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Schedule No. 3

SEASONAL METERED SERVICE

SPECIAL CONDITIONS --contd.

4. Customers who have paid the Seasonal Minimum Charge may obtain service during any of the remaining months in the calendar year at the Monthly Quantity Rates in Schedule No. 1, upon written notice to the utility, stating the months in which such service is desired.

EXHIBIT A
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Schedule No. 4

SEASONAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all seasonal flat rate water service.

TERRITORY

Within the unincorporated town of Felton and vicinity, Santa Cruz County.

RATES

For any six consecutive months beginning and ending in the same calendar year:

Per Season

For each residence or commercial enterprise desiring service for this period or any portion thereof, through 3/4-inch connection \$21.00

SPECIAL CONDITIONS

1. The above seasonal flat rate charge applies to service during the calendar year and is payable in advance.
2. For a new seasonal customer, the first period of six consecutive months will not be required to be completed in the same calendar year.
3. Customers who have paid the seasonal flat rate charge may obtain service during any of the remaining months in the calendar year for \$2.40 per month, upon written notice to the utility stating the months that such service is desired.
4. A meter may be set and Schedule No. 3 applied at the option of the utility or of the customer.
5. Service through connections larger than 3/4-inch will be rendered only under metered service schedules.