

Decision No. 48669**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of BEN ALI WATER COMPANY, a cor-)
poration, for an order authorizing)
an increase in rates for water)
service, and to amend its tariff)
schedule.)

Application No. 33844

Bacigalupi, Elkus & Salinger, by Claude N. Rosenberg, for applicant.
Country Community Club, Inc., by Robert P. Sedgwick, interested party; Arden Arcade Council and Beyerford Heights Community Club, by E. C. Marliave, interested parties.
E. Ronald Foster and John F. Donovan, for the Commission staff.

O P I N I O N

Ben Ali Water Company, a California corporation, by the above-entitled application, filed October 29, 1952 and as amended on March 17, 1953, seeks an order of this Commission authorizing a general increase in rates and charges for water service rendered in an unincorporated area comprising about 20 square miles lying northeasterly of the City of Sacramento.

Public hearings in the matter were held before Commissioner Peter E. Mitchell and Examiner F. Everett Emerson at North Sacramento on March 4, and April 22, 1953.

Applicant's Position

Applicant alleges that its present rates and charges produce revenues which are noncompensatory, that said rates and charges have been and will be in the immediate future insufficient to yield a reasonable return on either the fair value or original cost of properties devoted to public utility water service, that

the schedules of rates which applicant proposes will yield revenues which are critically needed and that said proposed rates will produce no more than a reasonable rate of return.

Applicant's proposed rates are intended to provide a more equitable distribution of charges among customers. A comparison of proposed rates with those presently in effect is as follows:

<u>Flat Rates</u>			
<u>Domestic Use on Lot Having an Area of:</u>	<u>Present Rate Per Month</u>	<u>Proposed Rate Per Month</u>	<u>Per Cent Increase</u>
5,000 square feet or less	\$1.50	\$2.00	33.3%
5,001 to 8,000 square feet	2.00	2.40	20.0
8,001 to 11,000 square feet	2.00	2.75	37.5
11,001 to 13,000 square feet	2.25	3.00	33.3
13,001 to 15,000 square feet	2.50	3.25	30.0
15,001 to 18,000 square feet	2.75	3.75	36.4
18,001 to 20,000 square feet	3.00	3.75	25.0
20,001 to 25,000 square feet	3.00	4.00	33.3
25,001 to 30,000 square feet	3.00	4.50	50.0
30,001 to 35,000 square feet	3.25	5.00	53.8
35,001 to 40,000 square feet	3.50	5.50	57.1
40,001 to 45,000 square feet	4.00	6.00	50.0
45,001 to 47,000 square feet	4.00		
Over 47,000 square feet, per 7,500 square feet	.50		
Over 45,000 square feet, per 10,000 square feet		.75	

Metered Rates, 5/8 x 3/4-inch Meter

<u>Quantity</u>	<u>Present Rate Per Month</u>	<u>Proposed Rate Per Month</u>	<u>Per Cent Increase</u>
First 800 cubic feet or less	\$1.50	\$2.00	33.3%
Next 4,200 cu.ft., per 100 cu.ft.	.10	.15	50.0
Over 5,000 cu.ft., per 100 cu.ft.	.05	.075	50.0

Applicant has estimated that its proposed rates would increase its gross revenues by approximately 30.34 per cent, based on 1952 operations.

Applicant's Operations

Applicant corporation was formed in 1938 and obtained a certificate of public convenience and necessity from this Commission early in 1939. At that time only 49 consumers were served and the

plant investment approximated \$13,000. In 1945 applicant's initial properties and certificate were transferred to B. F. Strock, an individual, who operated the system until 1950 when the system was sold to Jere Strizek, applicant's president. The system was transferred to its present ownership early in 1952.

The system growth has been little short of phenomenal in recent years. By 1950 the number of customers had grown to 2,520 and the capital investment had increased to about \$359,000. By the end of 1952 the number of customers had reached 5,369 and capital investment had grown to exceed \$864,000. In less than two years the system had more than doubled its services and capital invested.

Applicant's present operations consist of serving its customers from six distinct water systems which, as yet, have not been interconnected. Applicant holds title to 27 well sites and water is presently produced from 24 wells, pumped by means of electrically driven deep-well turbine pumps. The system of distribution mains, varying in size from 1 inch to 10 inches in diameter, aggregate a total length of more than 444,000 feet. Pressure is maintained through the use of 21 hydropneumatic tanks with a total capacity of 100,500 gallons. During the year 1953 applicant is faced with expanding its facilities to serve over 1,500 additional customers. Applicant has estimated that said expansion, together with necessary present system reinforcement, will require an expenditure of more than \$343,500 for capital additions during the year 1953. It is also estimated that by mid-1954 an additional 700 customers will require service.

Summary of Results of Operations

Applicant and the Commission staff presented analyses and estimates of results of operations which are summarized in the

following tabulation. Elements thereof are discussed in succeeding paragraphs.

Year 1952

Item	Applicant		CPUC Staff	
	Pres. Rates	Req. Rates	Pres. Rates	Req. Rates
Operating Revenues	\$ 135,153	\$ 176,345	\$ 136,942	\$ 179,295
Operating Expenses				
Before Taxes & Depr.	70,888	70,888	73,951	73,951
Taxes	17,197	38,240	15,914	36,043
Depreciation	33,282	33,282	25,658	25,658
Total Oper. Exps.	121,367	142,410	115,523	135,652
Net Revenue	13,786	33,935	21,419	43,643
Rate Base (Depr.)	376,792	376,792	532,900	532,900
Rate of Return	3.65%	9.00%	4.02%	8.19%

Year 1953

Item	Applicant		CPUC Staff	
	Pres. Rates	Req. Rates	Pres. Rates	Req. Rates
Operating Revenues	\$ 172,946	\$ 225,668	\$ 177,202	\$ 232,059
Operating Expenses				
Before Taxes & Depr.	97,750	97,750	95,735	95,735
Taxes	13,294	36,411	20,451	48,120
Depreciation	37,940	37,940	32,454	32,454
Total Oper. Exps.	148,984	172,101	148,640	176,309
Net Revenue	23,962	53,567	28,562	55,750
Rate Base (Depr.)	600,015	600,015	669,600	669,600
Rate of Return	3.99%	8.92%	4.27%	8.33%

Rate Base

A substantial portion of applicant's investment in water plant has occurred in real estate subdivisions where large groups of customers have been connected almost simultaneously. In most cases, recent development of its plant has been financed by means of refundable construction advances made under its extension rule. The extension rule provides, among other things, that refunds amounting to 35 per cent of the gross revenues are returnable to the subdivider over a 10-year period. Meeting its refund agreements placed such a drain on applicant's funds that it undertook

refinancing of the refund obligations by the issuance of 20-year 5 per cent debentures.^{1/}

Of about \$449,000 in refundable construction advances outstanding as of December 31, 1952, applicant had refinanced approximately \$293,000 by April 22, 1953. Applicant hopes to be able to refinance, by the debenture method, another \$60,000 of such advances by mid-1953. The remainder will most probably continue to be refundable by the 35 per cent revenue refund method. During 1953 applicant is faced with further plant expansion in a number of new subdivisions and it is estimated that the construction program will require approximately \$343,500 in new fixed capital. The major portion of such plant growth will be subject to the same refundable advance rule.

Differences in the rate bases set forth in the above summary tabulation arise from two factors. The first is the result of the dates on which the respective bases were developed, the staff having made its study at a later date than had applicant. The second factor arises from the staff having made an inventory of the properties so as to account properly for various property transfers in recent years. There is little controversy regarding the rate base developed by the staff. For the purpose of this proceeding applicant fully accepts the staff's inventory.

Following this Commission's usual practice of deducting construction advances and donations from fixed capital results, in this instance, in a situation where a specific rate base determination is uncertain and of a relatively temporary nature owing to the fluctuations in fixed capital occasioned by the

^{1/} Authorized by Decision No. 48139 in Application No. 33940, issued January 13, 1953.

refunding rule and the refinancing necessity with which applicant continues to be faced. However, for the purpose of an arithmetical determination of a rate base to be used for the purpose of this proceeding, we find as reasonable an average 1953 rate base of \$670,080 developed as follows:

<u>1953 Average Rate Base</u>	
Average Fixed Capital	\$1,013,640
Average Materials and Supplies	2,000
Average Working Cash	500
Subtotal	<u>1,016,140</u>
Less:	
Construction Advances	\$148,347
Donations	78,538
Average Depreciation Reserve	<u>119,175</u>
Average Depreciated Rate Base	<u>346,080</u> <u>670,080</u>

Revenues and Expenses

As in the case of determination of rate base the rapid expansion of this system makes estimates of operating revenues difficult of precision. Basic differences in the summary tabulation, above, arise from the staff's having accounted for all revenues at the filed rates whereas applicant included actual charges, in some instances made at less than the filed rates, and from differences in estimates of the average number of customers to be served. For the year 1953 we adopt the sum of \$177,000 as representing a reasonable estimate of revenues obtainable from present rates and \$232,000 at the rates requested by applicant.

There is an insignificant difference in the respective estimates of total operating expenses under present rates for the year 1953. We adopt as reasonable the sum of \$148,750 for such expenses. Except for taxes based on income, expenses under the requested rates would be identical. We shall adopt \$176,000 as representing reasonable total expenses under the requested rates, thereby including income taxes on the above-adopted revenues.

Rate of Return

The above-adopted revenues and expenses, when related to the depreciated rate base hereinabove found to be reasonable, indicate rates of return of 4.2 per cent under present rates and 8.36 per cent under the requested rates for the full year 1953. During 1952 applicant experienced a rate of return of less than 4 per cent.

Participation by Interested Parties

Interested parties made no specific presentations during the course of this proceeding. They cross-examined witnesses, however, and stated their general position in the matter. These parties are concerned with obtaining a more equitable spread of flat rates over various sized residential lots and are opposed to the installation of meters. In the first instance, applicant's rate proposal is based upon a respreading of charges so as more equitably to meet the problem of obtaining the necessary revenues. With respect to the second, applicant clearly expressed its intent to install meters for domestic consumers only as a means of controlling water wastage. It proposes regularly to meter only commercial enterprises and other large users such as domestic customers who maintain swimming pools.

Conclusions

Applicant has established service to approximately 24 consumers in an area, known as Laurelhurst, for which it has no certificate of public convenience and necessity. Applicant has served at least one consumer at other than filed rates and at least one other consumer under a special contract which has never been submitted to this Commission. In addition, applicant serves but has no filed rate schedule for public or private fire hydrants.

Although its filed tariffs provide for monthly billing, applicant has undertaken unauthorized bimonthly billing of its flat rate customers.

Applicant disclaims any intent to engage in these or any other irregularities and attributes their occurrence to the inexperience of its personnel in regulatory matters.

Applicant is admonished that irregular practices must cease. With respect to serving Laurelhurst, applicant should either dispose of the property or apply for the required certificate. Applicant will be required to serve all customers at the rates and under the rules hereinafter authorized without discrimination and without deviation therefrom. Applicant shall not serve any customer under contract or otherwise at rates other than those hereinafter authorized until, after separate showing before this Commission that other rates are justified, a specific order of this Commission is entered authorizing the same.

We conclude that applicant is neither now earning a reasonable return nor will it if present rates are continued. Applicant is entitled to improvement in its earning position. Applicant's extension rule, because of the rapid plant expansion and applicant's inability to finance such expansion by means other than refunding 35 per cent of the gross revenues, in effect forces applicant to conduct its operations on but 65 per cent of a large portion of its gross revenues. Applicant to date has been unable to pay any dividends on the \$200,000 par value of its outstanding common stock. It must meet 5 per cent interest charges on its long-term debt. Apparently additional equity capital is not available and funds from external sources, if any, can be obtained only by increasing debt. Service to the public is of paramount importance and without substantial rate relief applicant's financial position may become precarious and its ability to continue to render adequate

service and to meet increasing demands for services may become seriously impaired. In view of the specific elements hereinabove discussed and the entire record in this proceeding, we conclude that applicant's rate request should be granted. We find that the increases in rates are justified and that, in this particular and somewhat singular instance, the rate of return of 8.36 per cent, which the increased rates would produce on the hereinabove adopted rate base, is reasonable. Such percentage of return, however, shall not be taken as an indication of a reasonable percentage return found to be applicable to any but this specific utility under its operations at present and for the immediate future.

Applicant will be authorized to bill its flat rate customers on a bimonthly basis as set forth in the proposed rules set forth in Exhibit No. 4 in this proceeding.

Applicant will be directed to adopt the straight-line remaining life method of depreciation accounting.

The spread of rates proposed by applicant appears to be reasonable and the proposed rates set forth in Exhibit No. 1 in this proceeding will be authorized.

O R D E R

Ben Ali Water Company having applied to this Commission for an order authorizing increases in rates and charges for water service rendered in Sacramento County, public hearings thereon having been held and the matter having been submitted and now being ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that the existing rates, in so far as they differ from those hereinafter authorized, for the future are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission, in conformity with General Order No. 96, the schedules of rates set forth in Exhibit A attached to this order and the tariff sheets, including Forms Nos. 1 and 3 revised to conform with applicant's rules, set forth in Exhibit No. 4 in this proceeding and, after not less than five days' notice to the Commission and to the public, to make said rates and tariff sheets effective for all service rendered on and after July 1, 1953.

IT IS HEREBY FURTHER ORDERED as follows:

1. Effective not later than January 1, 1954, applicant shall base future accruals to the reserve for depreciation upon a spreading of the original cost of the plant, less estimated net salvage and depreciation reserve, over the estimated remaining life of the property; further, applicant shall review such accruals when major changes in plant composition occur and for each plant account at intervals of not more than two years. Results of these reviews shall be submitted to this Commission.
2. Applicant, within one hundred eighty days after the effective date of this order, shall file with this Commission four copies of a comprehensive map, drawn to an indicated scale not smaller than 600 feet to the inch, delineating by appropriate markings the various tracts of land and the location of the various properties of applicant.

The effective date of this order shall be twenty days after the date here.

Dated at SAN FRANCISCO, California, this 1st day of JUNE, 1953.

A. J. [Signature]
President.

JUSTICE F. COLLIER

Harold A. Hills

[Signature]

Commissioners.

EXHIBIT A
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Schedule No. 1

RESIDENTIAL FLAT RATE SERVICEAPPLICABILITY

Applicable to all residential flat rate water service.

TERRITORY

In unincorporated territory lying generally north and east of the City of North Sacramento in Sacramento County.

RATES

	<u>Per Service Per Month</u>
For each residential unit, including a lot having an area of:	
5,000 square feet or less	\$2.00
5,001 to 8,000 square feet.....	2.40
8,001 to 11,000 square feet	2.75
11,001 to 13,000 square feet	3.00
13,001 to 15,000 square feet	3.25
15,001 to 20,000 square feet	3.75
20,001 to 25,000 square feet	4.00
25,001 to 30,000 square feet	4.50
30,001 to 35,000 square feet	5.00
35,001 to 40,000 square feet	5.50
40,001 to 45,000 square feet	6.00
Over 45,000 square feet, each additional 10,000 square feet or fraction thereof75
For each additional residence on the same lot.....	1.50

SPECIAL CONDITIONS

- Charges for flat rate service are payable in advance.
- All service not covered by the above classifications will be furnished only on a metered basis.
- Meters may be installed at option of utility or customer for above classifications in which event service will thereafter be rendered on the basis of Schedule No. 2, General Metered Service, and must be continued for not less than 12 months before it may again be changed to flat rate service.

EXHIBIT A
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Schedule No. 2

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

In unincorporated territory lying generally north and east of the City of North Sacramento in Sacramento County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 800 cubic feet or less	\$2.00
Next 4,200 cubic feet, per 100 cubic feet15
Over 5,000 cubic feet, per 100 cubic feet075
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$2.00
For 3/4-inch meter	3.00
For 1-inch meter	4.50
For 1-1/2-inch meter	7.00
For 2-inch meter	14.00
For 3-inch meter	25.00
For 4-inch meter	40.00
For 6-inch meter	70.00

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

Schedule No. 3

PUBLIC FIRE HYDRANT SERVICE

AFFLICABILITY

Applicable to service to all fire hydrants, either publicly or utility owned, which are attached to the utility's distribution mains for fire protection service.

TERRITORY

In unincorporated territory lying generally north and east of the City of North Sacramento in Sacramento County.

RATE

	<u>Per Month</u>
For each fire hydrant	\$0.75

SPECIAL CONDITIONS

1. The above rate includes use of water for fire fighting and for no other purpose. Quantities of water delivered through fire hydrants for any other purpose will be estimated or measured and charges therefor will be made at general metered service rates.
2. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

Schedule No. 4

PRIVATE FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to service to all fire hydrants privately owned and installed on private property for fire protection service which are attached to a pipeline connecting with the utility's distribution mains.

TERRITORY

In unincorporated territory lying generally north and east of the City of North Sacramento in Sacramento County.

RATE

Per Month

For each fire hydrant	\$1.00
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SPECIAL CONDITIONS

1. The above rate includes use of water for fire fighting and for no other purpose. Quantities of water delivered through fire hydrants for any other purpose will be estimated or measured and charges therefor will be made at general metered service rates.

2. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

EXHIBIT A
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Schedule No. 5

PRIVATE FIRE SPRINKLER SERVICEAPPLICABILITY

Applicable to service to all private fire sprinkler systems.

TERRITORY

In unincorporated territory lying generally north and east of the City of North Sacramento in Sacramento County.

RATES

Minimum Charge:	<u>Per Service Per Month</u>
For 2-inch connection	\$2.00
For 4-inch connection	4.00
For 6-inch connection	6.00
For 8-inch connection	8.00

Quantity Rates:

(See Special Condition No. 3, below)

SPECIAL CONDITIONS

1. The above rates are applicable only to private fire sprinkler systems to which no connections for other than fire protection purposes are allowed, are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of said utility. The utility may install the standard detector-type meter, approved by the Board of Underwriters, for protection against theft, leakage or waste of water.
2. If a distribution main of adequate size to serve a private fire sprinkler system in addition to all other normal service does not exist in street or alley adjacent to the premises to be served hereunder, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of applicant.
3. In addition to the above Minimum Charge, all water delivered will be charged at Quantity Rates under the general metered service schedule, based on monthly meter readings.