

ORIGINALDecision No. 48752

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
of JOSEPH HARTWELL CHAM HALL and)	
LYDIA L. HALL for Increase in)	Application No. 33797
Water Rates of the Mayer Tract)	(Amended)
Water Works.)	

Fred A. Shaeffer, for applicant.
Jack Torbron, protestant.
Reginald H. Knaggs, for the
 Commission staff.

O P I N I O N

Joseph Hartwell Cham Hall and Lydia L. Hall, husband and wife, doing business as Mayer Tract Water Works, by the above-entitled application filed October 10, 1952, as amended April 6, 1953, seek authority to increase rates for water service in unincorporated territory north of the city limits of Santa Maria, Santa Barbara County.

A public hearing in this matter was held before Examiner Warner on June 3, 1953, in Santa Maria.

General Information

Applicants were granted a certificate of public convenience and necessity to operate a public utility water system and rates therefor were established by Decision No. 41842, dated July 13, 1948, in Application No. 29119. The certificated area includes 24 square blocks located on the east and west sides of U.S. Highway 101 just north of the city limits of Santa Maria as shown on the map included in Exhibit No. 3, a Commission staff engineering report submitted at the hearing. As of the date of the hearing water service was being furnished to 166 flat rate consumers and 1 metered consumer. The latter is a 12-unit motel.

Present and Proposed Rates

Applicants' present and proposed flat and metered rates are summarized and compared in the following tabulation:

Flat Rates

	<u>Per Connection per Month</u>	
	<u>Present</u>	<u>Proposed</u>
<u>Domestic</u>		
For service not larger than 3/4-inch diameter, per single family unit on single lot, including lawn and garden irrigation of 2,000 square feet or less.....	\$2.00	\$3.00
For each additional family unit on a lot	1.00	1.50
An area not larger than 2,000 square feet may be irrigated or sprinkled without extra charge. For irrigated or sprinkled areas larger than 2,000 square feet, an extra charge will be assessed, per 100 square feet .....	.02	.03
<u>Commercial</u>		
Auto Courts and Motels:		
Operator's dwelling	2.00	3.00
Each rental unit .....	.75	1.13
Service Stations	3.00	4.50
Stores and Shops	2.50	3.75
Restaurants and Cafes	4.00	6.00
Barber Shops, not over 2 chairs	2.00	3.00
For each additional chair .....	.50	.75

Metered Rates

	<u>Per Meter per Month</u>	
	<u>Present</u>	<u>Proposed</u>
<u>Quantity Rates</u>		
First 600 cu.ft. or less	\$2.00	\$3.00
Next 2,400 cu.ft., per 100 cu.ft. ....	.25	.38
Over 3,000 cu.ft., per 100 cu.ft. ....	.20	.30
<u>Minimum Charges</u>		
For 5/8 x 3/4-inch meter	\$2.00	\$3.00
For 1-inch meter	3.50	5.25
For 1-1/2-inch meter	5.00	7.50
For 2-inch meter	8.00	12.00

Description of System

The Mayer Tract Water Works system comprises three wells, two of which are inoperative, a 1,000-gallon pressure tank and a 10,000-gallon redwood storage tank, all of which are located on property owned by applicants. This property is also the site of applicants' residence. Well No. 3, the present operative well, was drilled in 1950. The pumping plant installation in this well, consisting of a 15-hp electric motor and pump, has a production capacity of 250 gallons per minute. Distribution pipelines comprise 4-inch, 2-inch and 1-inch mains. Some complaints of low operating pressures were entered at the hearing.

Earnings

Applicants' accounting witness testified that gross income for the year 1952 amounted to \$5,766, that total operating expenses, including interest on a mortgage, amounted to \$7,689.11, resulting in a loss of \$1,923.11 for the year 1952 at present rates. These results of operation included a salary of \$4,800 per year, or \$400 per month, for the proprietors, Mr. and Mrs. Hall. They also included charges for the use of an auto at \$1 per diem. Applicants' witness estimated that at the proposed rates gross income would be \$9,072, which, when related to 1952 recorded expenses, he testified, would result in a profit of \$2,380.^{1/} No estimated rate base and rate of return at the proposed rates was submitted by applicants for the Commission's consideration.

A summary of earnings for the year 1952 recorded and adjusted at present rates, and for the year 1953 estimated at

^{1/} This amount appears to be in error but no correction was made of record.

present and proposed rates as shown in Exhibit No. 3, the Commission staff report, is shown in the following tabulation:

Summary of Earnings
Per P.U.C. Exhibit No. 3

Item	Year 1952		Estimated Year 1953	
	Recorded	Adjusted	Present Rates	Proposed Rates
Operating Revenues	\$ 5,766	\$ 5,800	\$ 6,000	\$ 9,000
Operating Expenses	7,689	4,943	5,262	6,193
Net Oper. Revenues	(1,923)	857	738	2,807
Rate Base (Depreciated)	10,986	10,986	11,280	11,280
Rate of Return	-	7.8%	6.5%	24.9%

(Red Figure)

The Commission staff engineering witness testified that in Exhibit No. 3 adjustments had been made to recorded revenues for the year 1952 to reflect billings for water service had they been applied according to applicants' filed schedules during that year. He testified further that adjustments had been made to operating expenses to reduce applicants' combined salaries from \$4,800 per year to \$2,400 per year, or \$200 per month. The estimated cost of the rate proceeding in this application of \$360 was amortized over a three-year period in the amount of \$120 per year. Uncollectible water bills expense was included in the amount of \$60 per year, and additional labor expense in the amount of \$300 was included in the estimate for the year 1953. Income taxes were computed on the basis of estimated increases in net revenue after taking into account interest on a mortgage of the utility property.

Applicants adjusted their books as of December 31, 1952 in accordance with amounts determined by applicants' accounting witness. The adjusted capital accounts were reviewed by the staff and certain errors were corrected before using the adjusted figures in developing the staff's average fixed capital for rate base

purposes. The reserve developed by the staff in its study was based on the summation of the annual charges for depreciation less appropriate deductions for property retired, and amounted to \$5,357 as of December 31, 1952. Depreciation expense for the year 1953 was estimated by the staff engineers, using the straight-line remaining life method, at \$780. This expense is based on a composite depreciation rate of 4.55 per cent.

It appears that the components of the rate of return determination as submitted by the staff engineer and as shown in the preceding summary of earnings tabulation are reasonable. They are hereby adopted for the purpose of this proceeding.

Accounting Methods

Since the record shows that applicants have not kept their books according to prescribed methods in the past, they are hereby put on notice that the maintenance of accurate and complete books of accounts, together with all supporting vouchers and records, is mandatory.

Mortgage of Properties

When applicants acquired the utility properties and their residence in 1947 the properties were subject to a mortgage of \$6,000. Such mortgage was reduced subsequently to \$3,000 but was later refinanced and increased in order to finance the drilling of the new well and the installing of the pumping plant equipment, including a new motor and pressure tank. As of December 31, 1952, the balance due on the mortgage amounted to \$4,748.22. An encumbrance of public utility properties without authorization from the Commission is declared void by the terms of the Public Utilities Code. Accordingly, applicants should file with the Commission an application for authority to execute a new mortgage in lieu of that heretofore executed without authorization.

Service

Exhibit No. 4 is a set of two pressure recording charts. They indicate that operating pressures at Mission Motel on March 30 and 31, 1953, and March 31 and April 1, 1953, varied from 15 pounds to 35 pounds per square inch, apparently without regard to consumer usage. The staff engineer recommended that, in order to maintain minimum pressures at reasonably stable levels under conditions of maximum consumer demand, the operating pressure at applicants' hydropneumatic tank should be increased to supply water at working pressures of not less than 25 pounds per square inch at all consumer service connections to the utility's mains. This recommendation was shown in the record to be feasible and the order which follows will provide that it be effected.

Conclusion

From a review of the record it is evident that the proposed increases in rates and charges would produce revenues which would result in an excessive rate of return.

The Commission is of the opinion that the rate of return of 6.5 per cent for the estimated year 1953, at present rates, as indicated in the tabulation included hereinbefore, is just and reasonable. Since applicants' system covers a relatively small and compact area, it can be superintended on foot for the most part. Its operations are almost fully automatic. Bills for water service are paid in advance by consumers at flat rates. It appears that managerial compensation requirements are not in excess of \$200 per month for a public utility water system of this size and with these operating characteristics. The application for an increase in rates, therefore, will be denied by the order which follows.

O R D E R

Application as above entitled having been filed, a 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 proposed increases in rates and charges for water service as applied for are unjust and unreasonable and that the present charges for water service are just and reasonable; therefore,

IT IS HEREBY ORDERED as follows:

1. That the application for an increase in rates be, and it is, denied.
2. That applicants shall file a current set of rules and regulations in accordance with the Commission's General Order No. 96, and that charges for water service shall be made only in accordance with applicants' authorized tariff schedules and in accordance with such rules and regulations.
3. That the operating pressure at applicants' hydro-pneumatic tank will be increased to supply water at working pressures of not less than 25 pounds per square inch at all consumer service connections to the utility's mains.
4. That within thirty days after the effective date of this order, applicants shall file with the Commission, in writing, a report that operating pressures have been increased as ordered by paragraph 3 hereinabove.
5. Applicants 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 five years. Results of these reviews shall be submitted to this Commission.

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

Dated at San Francisco, California, this 24th day of June, 1953.

R. J. Johnson
President

Justus F. Colwell

Samuel L. Lott

John E. Hill

Commissioners

Commissioner Harold P. Huls being necessarily absent, did not participate in the disposition of this proceeding.