

Decision No. 48855**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
 PACIFIC GAS AND ELECTRIC COMPANY for)
 an order of the Public Utilities)
 Commission of the State of California)
 authorizing applicant to file and)
 make effective the attached proposed)
 tariff schedules (rates, rules and)
 regulations) applicable to water)
 service in its Selma Water Service)
 Area, etc.)

Application No. 33882

(Water)

R. W. DuVal, for applicant.
 City of Selma, by Kenneth Ferguson, Miles
J. Hansen and Eliot Jones, Jr.,
 protestant.
 California Water Service Company, by David
A. Hendrix, interested party.
Harold J. McCarthy and Carol T. Coffey,
 for the Commission staff.

O P I N I O N

Pacific Gas and Electric Company by the above-entitled application, filed November 19, 1952 and as amended on April 1, 1953, seeks an order of this Commission authorizing increases in rates and charges for water service rendered in the City of Selma and adjacent territory in Fresno County.

Public hearings in this matter were held before Commissioner Kenneth Potter and Examiner F. Everett Emerson on May 27, 28 and 29, 1953 in Selma.

Rates, Present and Proposed

The rates presently in effect for water service are included in two schedules. One includes both flat and meter rates, the other provides charges for private fire protection service. Present flat rates indicate charges for 32 classifications of service covering all manner of customer usage.

Applicant requests authorization to withdraw all present rates and to make effective five new schedules of rates. By its proposed flat rates, except for fire hydrants and fire protection service, unmetered service would be available only to domestic customers inside the city limits of Selma. All other customers, including domestic consumers outside the city limits, all commercial or industrial users, the schools, parks and other municipal accounts, would be served only at meter rates.

As of March 1, 1953, the Selma system served 2,020 customers of which 661 were metered and 1,359 were served at flat rates.

A comparison of present and proposed basic rates is as follows, present rates having been in effect since 1914:

Flat Rates (Inside City Only)

Classification	Monthly Charge		
	Present Rates	Proposed Rates	Per Cent Increase
Each single family residence	\$1.65	\$2.75	67%
With minimum irrigation	2.40	3.95	65
With average irrigation	2.95	4.72	60

Meter Rates (5/8 x 3/4-Inch Meter)

Quantity	Monthly Charge		
	Present Rates	Proposed Rates	Per Cent Increase
800 cubic feet	\$1.00	\$1.75	75%
900 cubic feet	1.01	1.93	91
1,500 cubic feet	1.68	3.01	79
2,500 cubic feet	2.80	4.81	72
5,000 cubic feet	4.74	7.81	65
10,000 cubic feet	9.48	13.81	46

Applicant's Position

Applicant acquired title to the Selma water system on December 31, 1938. Since that time it has made large capital expenditures for additions and improvements to the system. Its fixed capital accounts have increased by approximately 85 per cent

since 1948. While an increase in the number of customers served and the revenues collected have also markedly increased, applicant alleges that increases in operating expenses have more than offset revenue increases. Applicant points to extraordinary and continuing increases in wages, the cost of materials and in taxes as a matter of common knowledge adversely affecting utility operations as well as the affairs of individuals. As the result of such factors, net revenues have declined to such point as to make it necessary for applicant to seek substantial rate relief. It seeks a fair return on an appropriate rate base.

Protestant's Position

Protestant made no definitive or detailed showing in this proceeding. Counsel for protestant stated that the city would make no effort to combat "any increase or lack of increase" but would point out to applicant and to this Commission those items which the city felt merited further inquiry or study. However, protestant claimed applicant's showing failed to justify an increase in rates and moved for dismissal. Protestant further claimed that there is a disproportionate distribution of charges between flat rates and meter rates and that applicant's past practices respecting the metering of customers' usage have been discriminatory.

Customer Participation

No person, other than the official representatives of the City of Selma, came forward at the hearing to protest, make a complaint or otherwise comment upon applicant's rate request or its service.

Summary of Presentation

The following tabulations are summaries of the presentations respecting results of operations made by applicant and,

as the result of an independent investigation, comparable presentations made by the Commission staff.

Company Presentation, 1948 to 1951, Present Rates

Item	Amount			
	1948	1949	1950	1951
Operating Revenues	\$ 48,979	\$ 52,682	\$ 55,152	\$ 56,934
Operating Expenses*	39,881	41,921	45,542	47,892
Net Revenue	9,098	10,761	9,610	9,042
Cost of Plant Plus Working Capital	245,320	275,886	300,798	336,648
Rate of Return	3.71%	3.90%	3.19%	2.69%

* Total, including sinking fund method of depreciation accounting.

Years 1952 and 1953, Present Rates

Item	Year 1952 Adjusted		Year 1953 Estimated	
	Applicant	CPUC Staff	Applicant	CPUC Staff
Operating Revenues	\$ 59,098	\$ 59,018	\$ 60,415	\$ 60,700
Operating Expenses				
Before Taxes & Depr.	46,147	41,450	43,398	42,770
Taxes	5,740	4,400	6,472	3,980
Depreciation*	6,914	7,300	8,233	8,820
Total Oper. Exps.	58,801	53,150	58,103	55,570
Net Revenue	297	5,868	2,312	5,130
Rate Base (Depr.)	303,323	348,000	404,481	422,000
Rate of Return	0.09%	1.69%	0.57%	1.22%

* Four per cent modified sinking fund remaining life basis.

Years 1952 and 1953, Requested Rates

Item	Year 1952 Adjusted		Year 1953 Estimated	
	Applicant	CPUC Staff	Applicant	CPUC Staff
Operating Revenues	\$104,000	-	\$106,200	\$107,290
Operating Expenses				
Before Taxes & Depr.	46,947	-	44,198	43,180
Taxes	25,564	-	27,483	28,860
Depreciation*	7,164	-	8,483	9,050
Total Oper. Exps.	79,675	-	80,164	81,090
Net Revenue	24,325	-	26,036	26,200
Rate Base (Depr.)	344,723	-	418,881	432,000
Rate of Return	7.06%	-	6.22%	6.06%

* Four per cent modified sinking fund remaining life basis.

It is apparent from the above tabulations that applicant has been operating this water system at low rates of return for several years and with an accelerated decline in rate of return during the past three years. Such rates of return cannot be said to be reasonable. Applicant is entitled to an improvement of its earning position.

Rate Base

The determination of a reasonable rate base upon which applicant is entitled to earn a reasonable return, in this instance, is considerably affected by the allocation of common utility plant to the Selma system. The major difference between applicant's and the Commission staff's presentation lies in this item. Applicant prorated on the basis of revenues, a proration method used by the company auditor. Such method, although probably conveniently simple for purposes of intracompany bookkeeping, produces allocations which inherently vary with each rate proceeding, with each change in customer usage and with the influence of general economic conditions on commodity consumption. The staff allocations, on the other hand, are based upon the use to which the plant is put. They do not vary with the influences affecting revenues and are consistently applicable throughout any given series of rate proceedings. Although producing an end result higher than that claimed by applicant in this instance, the staff method is preferable and will be adopted herein.

The items of plant which produce the substantial increase in rate base for the year 1953, as compared with 1952, are primarily those associated with providing emergency standby pumping facilities in Selma. Secondly, the difference arises from a proposed increase in the number of meters to be installed. In addition, applicant estimates a lesser retirement of plant items during 1953 than it experienced in 1952.

In view of the evidence, we find the sum of \$432,000 to be a reasonable average depreciated rate base for the year 1953.

Revenues and Expenses

The respective estimates of gross revenues differ primarily in commercial, school and municipal accounts. Applicant, in the main, used an average of all commercial usage as the basis of its estimate, whereas the staff analyzed individual customer accounts. In view of the evidence we adopt as a reasonable estimate of gross revenues, under applicant's requested rate, the sum of \$107,000 for the year 1953.

With respect to operating expenses before taxes, administrative and general expenses, and depreciation, the difference in the respective estimates arises from an accumulation of a number of minor amounts, none of which may be estimated with precision. In estimating administrative and general expenses, applicant used a five-factor proration throughout, whereas the staff used the same five-factor proration between departments but used a three-factor proration between water systems. The calculation of estimates of taxes and depreciation, of course, must correspond to the revenue and plant figures hereinabove found to be reasonable.

In view of the above and the evidence of record, we adopt the sum of \$80,500 as a reasonable estimate of total operating expenses for the year 1953.

Net Revenue and Rate of Return

Relating the above-adopted amounts indicates a 1953 net revenue of \$26,500 and a rate of return of 6.13 per cent on the rate base hereinabove found to be reasonable.

On the assumption that there would be no further increases in prices of materials and labor costs, applicant presented an estimate of the results of operation of the Selma system during 1954.

Such estimate, including revenues of \$109,300 and total expenses of \$79,000, indicates a net revenue of \$30,300. If applicant's proposed 1954 net fixed capital additions in the amount of approximately \$40,000 are added to the hereinabove adopted rate base, a rate of return of about 6.42 per cent is indicated. Testimony of applicant's witnesses, however, clearly indicates that the upward trend of costs has not yet been halted and that, as a result, applicant is faced with the prospects of a lesser rate of return.

Conclusions

Protestant's motion to dismiss this application, on the primary ground that applicant had not shown the need for a rate of return greater than that earned under present rates (0.09 per cent in 1952), is hereby denied.

We are of the opinion that applicant should be authorized to increase rates sufficiently to produce a rate of return for the immediate future of approximately 5.75 per cent after due allowance for increases in costs which are beyond its control and after due allowance for normal customer and other system growth. We find such return to be reasonable.

Applicant has proposed to meter all customers whose premises lie outside the corporate limits of Selma, while continuing its present policy of providing both flat rate and meter rate service within the city. We find no justification in this record for authorizing such a situation. The effect of such proposal would be discriminatory. Except for large users, such as irrigation, commercial and industrial services, it would appear that metering should be undertaken only as a means of controlling extravagant or wasteful water usage on this system at this time.

The rules governing customer relations, as proposed by applicant, are identical with those now in effect on applicant's other town systems. They are reasonable and will be authorized for this system with only one modification. Rule T-12 states that applicant may refuse to transfer a metered customer to unmetered service. Such statement will be deleted since the flat rate schedule will carry a special condition covering the method by which transfer may be effected.

The rates hereinafter authorized should produce gross revenues of approximately \$104,500 on the basis of 1953 operations. Such gross revenues represent an increase of about \$43,800 annually over present rates. After an allowance of \$79,580 for reasonable total operating expenses, including income taxes calculated on revenues to be produced by the authorized rates, a net revenue of \$25,920 is indicated. Such net revenue develops a rate of return of 6.0 per cent on the average 1953 rate base hereinabove adopted. For the succeeding 12-month period such rate of return may be expected to decline to 5.75 per cent, which rate of return we hereby find to be reasonable.

O-R-D-E-R

Pacific Gas and Electric Company having applied to this Commission for authority to increase rates and charges for water service rendered in Selma and vicinity, Fresno County, public hearings have been held thereon, 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 hereinafter authorized are justified and that present rates, in so far as they differ therefrom, for the future 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 provisions of General Order No. 96, the proposed tariffs set forth in Exhibit No. 7 in this proceeding as specifically modified by Exhibit A attached hereto and, after not less than five days' notice to the public and to this Commission, to make said tariffs effective for service rendered on and after September 1, 1953.

IT IS HEREBY FURTHER ORDERED that applicant shall file with this Commission, within forty days after the effective date of this order, four copies of a comprehensive map, drawn to an indicated scale not smaller than 500 feet to the inch, delineating by appropriate markings the various tracts of land and territory served and the location of the various properties of the Selma water system.

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

Dated at San Francisco, California, this 21st day of July, 1953.

R. J. Anderson President
Justice J. Calver
Harold Kula
Wesley Potter

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

EXHIBIT A
Page 1 of 3

The tariff schedules set forth in Exhibit No. 7 in this proceeding are approved as specifically modified below:

SCHEDULE NO. 1 - Substitute the following:

Schedule No. 1

GENERAL METERED SERVICE

CHARACTER OF SERVICE

This schedule is applicable to water for domestic, commercial, industrial and municipal service.

TERRITORY

The City of Selma and vicinity, as shown on the service area map of the Selma water system.

RATES

	<u>Per Meter per Month</u>
<u>Quantity Rates:</u>	
First 900 cu.ft. or less	\$2.00
Next 1,600 cu.ft., per 100 cu.ft.18
Next 7,500 cu.ft., per 100 cu.ft.12
Over 10,000 cu.ft., per 100 cu.ft.07
<u>Minimum Charge:</u>	
For 5/8-inch meter	\$2.00
For 3/4-inch meter	2.50
For 1-inch meter	3.50
For 1 1/2-inch meter	5.00
For 2-inch meter	7.50
For 3-inch meter	15.00
For 4-inch meter	25.00
For 6-inch meter	50.00
For 8-inch meter	75.00

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

SPECIAL CONDITIONS

Customers whose requirements, in the opinion of the company, may overburden its water system, may require unreasonable investment in additional facilities or may interfere with the supply to existing customers, will not be supplied water service under this rate schedule. In such cases a special contract will be required, under such terms as the conditions warrant, subject to approval by the Public Utilities Commission of the State of California.

SCHEDULE NO. 2 - Substitute the following:

Schedule No. 2

RESIDENTIAL FLAT RATE SERVICE

CHARACTER OF SERVICE

This schedule is applicable to water for domestic service to single family residences.

TERRITORY

The City of Selma and vicinity, as shown on the service area map of the Selma water system.

RATES

	<u>Per Service per Month</u>
For each single family residence including irrigation of 1,000 square feet of garden	\$3.25
Irrigation of garden areas in excess of the 1,000 square feet included in the above single family residence rate, per 100 square feet, during the months of May through October, inclusive04
For each noncirculating evaporative room cooler, during the months of May through October, inclusive, in addition to the single family residence flat rate.....	.50

SPECIAL CONDITIONS

1. Charges for flat rate service are payable in advance.
2. All service not covered by the above will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer, in which event service thereafter will be rendered under Schedule No. 1, General Metered Service, for a period of not less than 12 months. After not less than 12 months' metered service, reversion to flat rate service may be undertaken provided the sum of the latest 12 monthly bills rendered for metered service does not exceed \$39.

EXHIBIT A
Page 3 of 3

SCHEDULES NOS. F-1 and F-2

Change Territory to read: "The City of Selma and vicinity, as shown on the service area map of the Selma water system."

RULE NO. T-12

Delete: "The Company may refuse to permit a transfer from metered service to unmetered service."