

Decision No. 49440**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SMITH RIVER WATER)
SERVICE for authorization to }
increase rates. }

Application No. 34262

William K. Owen, applicant, in propria
persona.
Colin Garrity, for the Commission staff.O P I N I O NNature of Proceeding

William K. Owen, owner of the Smith River Water Service, seeks authority to increase his rates for water service supplied in and adjacent to the unincorporated town of Smith River, Del Norte County.

Public Hearing

A public hearing was held before Examiner Silverhart in Smith River on November 17, 1953, at which time the matter was submitted.

Description of Applicant's System

Water is obtained from Domini Creek and there diverted by means of a small log dam some 4700 feet northeasterly of the town. During the winter months water is also procured from a small creek which flows into Domini Creek below the diversion dam. Water is distributed by gravity to the consumers through approximately 19,000 feet of mains varying in size from 1 inch to 8 inches. On December 31, 1952, applicant served 111 consumers, 5 on a metered basis and the remainder on flat rate schedules.

During two recent years applicant has lost the diversion works on Domini Creek as the result of unusual winter floods. After

the January 1953 flood the diversion works were relocated at a slightly higher elevation and other repairs made at a total cost of approximately \$1,500. As a result of the relocated diversion works, water pressures throughout most of the system have been generally increased.

Present and Proposed Rates

GENERAL FLAT RATE SERVICE

	<u>Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
For each dwelling, store, shop or business unit on a single lot supplied through a single connection	\$2.50	\$3.75
For each additional dwelling, apartment, store, shop or business unit supplied through the same connection	2.00	2.50

GENERAL METERED SERVICE

Quantity Rates:

First 1,000 cu. ft.	\$2.50	\$3.50
Next 3,000 cu. ft., per 100 cu. ft.20	.25
Over 4,000 cu. ft., per 100 cu. ft.10	.20

Minimum Charge:

For 5/8 x 3/4-inch meter	\$2.25	\$3.50
For 1-inch meter		3.50

Industrial-Quantity Rates:

First 1,000 cu. ft., per 100 cu. ft.	\$0.25
Next 3,000 cu. ft., per 100 cu. ft.20
Over 4,000 cu. ft., per 100 cu. ft.10

Earnings, Expenses and Rate Base

Applicant filed herein a balance sheet as of January 1, 1953, and a profit and loss statement containing revenues and expenses for the period January 1, 1952, to December 31, 1952.

A report prepared by a Commission staff engineer setting forth results of the operation of the system under present and proposed rates was received in evidence as Exhibit No. 3. Rates of

return in Exhibit No. 3 were developed by the straight-line remaining life depreciation method and the use of a depreciated rate base.

A summary of fixed capital as developed in Exhibit No. 3 by the Commission's engineer follows:

	<u>December 31, 1952</u>		<u>December 31, 1953</u>
	<u>Recorded</u>	<u>Adjusted</u>	<u>Estimated by Engineer</u>
Right of Way	\$ 500	\$ 500	\$ 500
Impounding Dam			250
Purification Equipment	271	271	271
Transmission Mains	11,058	9,198	10,378
Distribution Mains	7,091	7,091	7,091
Services	445	445	580
Meters	115	115	115
Miscellaneous Distribution Equipment	100	100	100
General Shop Equipment	150	150	150
Total Capital (Undepr.)	\$19,730	\$17,870	\$19,435

The recorded and adjusted results of operations during 1952 and as estimated for the year 1953, as presented by applicant and by the Commission's engineer, are summarized as follows:

Item	<u>Company</u>		<u>Commission Engineer</u>				<u>Company</u>	
	<u>Year 1952</u>	<u>Year 1952</u>	<u>Year 1952</u>	<u>Year 1952</u>	<u>Year 1953</u>	<u>Year 1953</u>	<u>Year 1953</u>	<u>Year 1953</u>
	<u>Adjusted</u>	<u>Adjusted</u>	<u>Adjusted</u>	<u>Adjusted</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
Oper. Revenue	\$3,788	\$4,999	\$3,789	\$5,485	\$4,105	\$5,950	\$4,015	\$5,770
Total Operating Expenses	4,145	4,145	3,423	3,825	3,838	4,274	5,205	5,205
Net Revenue	(357)	854	366	1,660	267	1,676	(1,190)	565
Average Depr. Rate Base	6,627	6,627	5,400	5,400	8,040	8,040	6,627	6,627
Rate of Return	-	12.8%	6.8%	30.7%	3.3%	20.8%	-	8.5%

(Red Figure)

While there is some difference between the estimates of revenue, in the calculation thereof applicant and the Commission's engineer utilized similar data. The engineer's estimate appears to be more accurate and will be adopted.

The difference between the figures presented by applicant and the Commission's engineer as to the items of total operating expenses and the average depreciated rate base is caused principally by the failure of applicant to have made necessary deductions from the depreciation reserve for retirements and the use by applicant of the total life method in computing depreciation. The engineer's figures will be accepted.

Conclusions and Findings

A depreciated rate base of \$8,550 for the year ending 1953 is reasonable for setting rates for the future and is hereby adopted for the purposes of this proceeding. The rate of return at the rates proposed by applicant, however, would be greater than is considered reasonable for this utility. The rates authorized in the order which follows are designed to produce gross revenues of \$5,000 which should result in a net revenue of \$690 and a return of approximately 8 per cent on the adopted rate base.

The rate of return and the rates herein authorized are found to be reasonable for this particular utility as service in this area has involved unusual risks due to severe winter storms, resulting in extensive repairs and replacement of facilities somewhat periodically. Under these circumstances, applicant must be maintained in a favorable financial position in order that he may obtain the funds necessary to meet such conditions as occurred from floods both in 1950 and 1953.

Recommendations

The Commission's engineer recommended that applicant employ the straight-line remaining life method of computing depreciation. Such recommendation will be incorporated in the order which follows.

Provision will also be made therein requiring applicant to base future book depreciation accruals on the composite rate of 4.8 per cent developed by the engineer until such time as further review supports another depreciation rate. The engineer further recommended that a detailed calculation of remaining life depreciation be required at intervals of not more than three years should the progress of the main replacement program be maintained at its present rate. Applicant will be expected to comply with such recommendation.

The engineer further suggested that the proposed industrial meter rate be eliminated and that applicant serve all classes of consumers under one general meter rate. The rates herein authorized give effect to such suggestion.

O R D E R

William K. Owen, owner of the Smith River Water Service, having applied to the Commission for an order authorizing increases in water rates and charges, a public hearing having been held, and the matter having been submitted for decision,

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 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 schedule of rates and charges shown in Appendix A attached hereto and, on not less than five days' notice to the Commission and the public, to make said rates and charges effective for service rendered on and after January 8, 1954.

IT IS FURTHER ORDERED that:

1. Applicant shall file, within thirty days after the effective date of this order, with this Commission, in conformity with General Order No. 96, four copies of a tariff service area map.
2. Applicant shall file, within forty days after the effective date of this order, four copies of a comprehensive map, drawn to an indicated scale not smaller than 200 feet to the inch, delineating by appropriate markings the various tracts of land and territory served and the location of the various properties of applicant.
3. 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; applicant shall use a composite annual depreciation rate of 4.8 per cent of the depreciable plant until further review supports modification of this composite rate; further, applicant shall review such accruals when major changes in plant composition occur and for each plant account at intervals of not more than three years. Results of these reviews shall be submitted to the Commission. ✓

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

Dated at South Pasadena, California, this 15th day of December, 1953.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated town of Smith River, located approximately 15 miles north of Crescent City, Del Norte County.

RATES

Quantity Rates:	<u>Per Meter per Month</u>
First 900 cu.ft. or less	\$2.70
Next 1,100 cu.ft., per 100 cu.ft.25
Next 2,000 cu.ft., per 100 cu.ft.20
Over 4,000 cu.ft., per 100 cu.ft.10
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$2.70
For 1-inch meter	3.60

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

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Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service rendered on a flat rate basis.

TERRITORY

The unincorporated town of Smith River, located approximately 15 miles north of Crescent City, Del Norte County.

RATES

	<u>Per 3/4-inch Service Connection Per Month</u>
For each dwelling, store, shop or business unit on a single lot	\$3.10
For each additional dwelling, apartment, store, shop or business unit supplied through the same service connection	2.30

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 thereafter will be rendered only on the basis of Schedule No. 1, General Metered Service.