

**ORIGINAL**

Decision No. 49961

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of Los Lomas Water Company, a )  
Corporation, for Authority to )  
Increase Water Rates in the )  
Unincorporated Territory Served )  
in Monterey County, California. )

Application No. 34884

Stanley Pedder and Clayton B. Neill,  
for applicant.  
Martin Abramson, for the Commission staff.

O P I N I O N

On November 19, 1953, applicant filed its application for authorization to increase rates being charged for service rendered its customers in the Los Lomas Subdivision, Monterey County, about three and one-half miles southeast of Watsonville. A public hearing on this application was held before Examiner W. E. Cline, Thursday, February 4, 1954, at Watsonville. The matter was taken under submission March 9, 1954, pursuant to Decision No. 49757 issued herein, and is now ready for decision.

Description of System

The system was originally installed in 1940 as the result of a real estate development.

The water supply is obtained from two wells. Well No. 1 is 12 inches in diameter, 100 feet deep, steel cased and is equipped with a Fairbanks Morse 5-stage deep-well turbine pump and a 15 h.p. electric motor. Water is discharged directly into the distribution system with the surplus being carried through a 6-inch line into a 50,000-gallon redwood storage tank. To provide a higher pressure zone, a Woodin and Little centrifugal pump driven by a 5 h.p. electric motor

boosts the water into a 25,000-gallon redwood storage tank located at the highest elevation in the subdivision. Both storage tanks are now automatically controlled by Clayton valves operated by a float switch and an electric circuit from the pumps to the tanks.

Well No. 2 was drilled during the latter part of 1952. It is 12 inches in diameter, 206 feet deep and steel cased. An 18-stage deep-well turbine pump, driven by a 10 h.p. electric motor, can provide water to the distribution system at approximately 150 g.p.m.

Applicant serves its consumers through 27,290 feet of distribution mains varying in size from two to six inches in diameter. There are 156 service connections of which 144 were active during December, 1953. All service is provided under a meter rate schedule.

The table below sets forth applicant's present and proposed rates.

#### Meter Rates

|                                     | <u>Per Meter</u> | <u>Per Month</u> |
|-------------------------------------|------------------|------------------|
|                                     | <u>Present</u>   | <u>Proposed</u>  |
| <b>Quantity Rates:</b>              |                  |                  |
| First 1,000 cu. ft. or less         | \$2.25           | \$ ----          |
| Next 5,000 cu. ft., per 100 cu. ft. | .19              | ----             |
| Over 6,000 cu. ft., per 100 cu. ft. | .13              | ----             |
| First 500 cu. ft. or less           | ----             | 2.75             |
| Next 500 cu. ft., per 100 cu. ft.   | ----             | .30              |
| Next 2,000 cu. ft., per 100 cu. ft. | ----             | .25              |
| Next 3,000 cu. ft., per 100 cu. ft. | ----             | .20              |
| Over 6,000 cu. ft., per 100 cu. ft. | ----             | .15              |
| <b>Minimum Charges:</b>             |                  |                  |
| For 5/8 x 3/4-inch meter            | \$2.25           | \$ 2.75          |
| For 3/4-inch meter                  | 3.10             | ----             |
| For 1-inch meter                    | 4.35             | 4.25             |
| For 1 1/2-inch meter                | 6.25             | 6.75             |
| For 2-inch meter                    | 8.75             | 9.25             |
| For 3-inch meter                    | ----             | 12.75            |
| For 4-inch meter                    | ----             | 17.75            |

#### Results of Operation

Applicant's Exhibit No. 2 shows an operating loss for every year from 1946 through 1953 ranging from \$711.41 in 1949 to \$2,185.61

in 1953. Applicant's Exhibit No. 3 shows estimates for the year 1954 of \$7,870 for revenues at proposed rates and \$7,280 for expenses leaving a net income of \$590. The recorded fixed capital in service in the amount of \$37,900 was increased \$1,500 to \$39,400 in order to provide for estimated net additions during 1954 resulting from (1) the purchase of a new pump and motor to provide a standby unit for a pump which has now been in service 13 years, (2) the replacement of 200 feet of 2-inch pipe with 6-inch cement-asbestos pipe, and (3) the purchase of 10 extra meters for replacement when meters need repair and to meter new services. To the fixed capital in service are added \$200 for materials and supplies, \$500 for working cash and \$400 for accounts receivable making a total of \$40,500. The 1953 recorded depreciation reserve of \$15,073 has been adjusted to \$11,870 to reflect actual depreciation and to eliminate excessive accruals in the reserve. On the estimated 1954 rate base of \$28,630 appearing on applicant's Exhibit No. 3, the estimated rate of return at proposed rates is computed at 2.10 per cent.

The Commission staff engineer estimated that \$8,000 of revenues will be realized in the year 1954 at proposed rates. His estimate reflects an anticipated growth of two new consumers for the year 1954 and an allowance for additional revenue to be received as a result of reconditioning the meters.

The following tabulation is a comparison of the actual recorded and the staff engineer's adjusted expenses for the year 1953 and the staff engineer's and the applicant's estimated expenses

for the year 1954.

| Expense Account               | 1953         |                           | 1954                       |                       |
|-------------------------------|--------------|---------------------------|----------------------------|-----------------------|
|                               | Recorded     | Staff Engineer's Adjusted | Staff Engineer's Estimated | Applicant's Estimated |
| Pumping                       | \$2,363      | \$1,820                   | \$1,865                    | \$1,950               |
| Purification                  | 20           | 40                        | 40                         | 40                    |
| Transmission and Distribution | 1,421        | 705                       | 720                        | 900                   |
| Collection                    | 603          | 780                       | 800                        | 1,050                 |
| General and Miscellaneous     | <u>1,649</u> | <u>880</u>                | <u>905</u>                 | <u>1,700</u>          |
| Sub-Total                     | \$6,056      | \$4,225                   | \$4,330                    | \$5,640               |
| Taxes other than Income       | 320          | 315                       | 350                        | 350                   |
| Income Taxes                  | ---          | 25 <sup>a</sup>           | 53 <sup>b</sup>            | 260 <sup>b</sup>      |
| Depreciation                  | <u>1,009</u> | <u>965</u>                | <u>1,000</u>               | <u>1,030</u>          |
|                               | \$7,385      | \$5,530                   | \$6,214                    | \$7,280               |

a. Under applicant's presently filed tariffs.

b. Under applicant's proposed tariffs.

The Commission staff engineer adjusted certain recorded expenses in the pumping and transmission and distribution accounts so as to place nonrecurring and abnormal items of expense on an average year basis. The applicant's power costs were adjusted to reflect the installation of a new pump and motor at Well No. 2, as well as an increase in the cost of power effective January 1, 1954. Collection expense was increased by allowing \$20 per month for meter reading and the estimate for the year 1954 also took into consideration an additional allowance for the collection of larger billings. Applicant's account for salaries of general officers was adjusted to provide for labor costs comparable to other water systems of similar size and character. The sum of \$330 was distributed into certain capital items as more properly representing overhead in connection

with capital improvements during the latter part of 1952 and the full year 1953.

The Commission staff engineer testified that the books of account have not been adequately kept until very recently. Vouchers of the applicant prior to the time Mr. Neill and his family became owner of the water company are not available for inspection, and the books of account were kept in such a manner that specific items of plant cannot be traced and verified. Because of the inadequacy of the books of account the Commission staff engineer made an appraisal of the original cost of plant in service as of December 31, 1951 in the amount of \$28,146. To this appraisal figure was added \$4,112 net additions in 1952, \$1,516 net additions for 1953 and \$510 net additions in 1954 resulting in an estimated total of \$34,284 as of December 31, 1954.

The estimated net additions of the Commission staff engineer are more realistic than the estimate of applicant inasmuch as they allow for the retirement of pumping equipment and distribution mains which are to be replaced. Also applicant proposes to replace 200 feet of existing 2-inch main with 6-inch cement-asbestos pipe whereas the record shows that 2-inch main is adequate to serve the area.

In estimating the undepreciated rate base for the year 1954 the Commission staff engineer added to average fixed capital of \$34,000 the amount of \$200 for average materials and supplies and \$500 for working cash making a total of \$34,700. No allowance was made for average accounts receivable and no such allowance should be made.

In computing the average depreciation reserve for 1954 the Commission staff engineer based his estimate upon recorded depreciation and an estimate of depreciation to accrue through December 31, 1954. The original estimate failed to take into consideration adjustments which should have been made to the recorded reserve by

reason of known physical retirements. Late-filed Exhibit No. 13 shows that depreciation expense should be increased \$20 per year and the estimated average depreciation reserve for 1954 should be decreased from \$15,530 to \$14,660. This adjustment results in an average depreciated rate base for the year 1954 of \$20,100.

The rates set forth in Appendix A should produce gross revenues of \$7,500 and net revenues of \$1,413 based on the estimates of expenses submitted by the Commission staff engineer adjusted by increasing depreciation expense from \$1,000 to \$1,020 and by decreasing income taxes from \$534 to \$387. Based upon the evidence in this proceeding, we hereby find that said rates which will be authorized herein will produce a rate of return of 7 per cent on a rate base of \$20,100. Said return and said rate base we hereby find to be reasonable.

This authorization will result in an increase in gross revenues of about 40 per cent as compared with applicant's request for a 49.6 per cent increase, and the increase in rates will be spread more evenly and equitably among the various consumers. The minimum charges for 3/4-inch and larger meters as set forth in Appendix A are established at levels which are not discriminatory with respect to the minimum charge authorized for 5/8 x 3/4-inch meters.

#### Service

No consumer witnesses appeared at the hearing to testify.

The Commission staff engineer's report introduced into evidence as Exhibit No. 12 states that no informal complaints have been filed against applicant. His investigation revealed that there has been considerable improvement in the service since Clayton B. Neill and his family have become the owners of applicant. The Commission staff engineer concludes that the water service rendered by applicant appears to be satisfactory as to State health requirements, pressure and reliability of supply.

O R D E R

The above-entitled application having been considered, a public hearing having been held, 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 present rates, in so far as they differ from those herein authorized, for the future are unjust and unreasonable, therefore,

IT IS HEREBY ORDERED that:

1. 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 shown in Appendix A attached hereto, and, on not less than five days' notice to the public and to this Commission, make said rates effective for all water service rendered on and after June 1, 1954.

2. Within ninety days after the effective date of this order, applicant shall file in quadruplicate with this Commission in conformity with the provisions of General Order No. 96, copies of a tariff service area map and of rules reflecting present-day practices and relationships with its consumers.

3. Applicant shall determine the accruals for depreciation by dividing the original or estimated original cost of plant less estimated future net salvage less book depreciation reserve adjusted for known retirements by the estimated remaining life of the plant; applicant shall review the 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 27<sup>th</sup> day of April, 1954.

R. F. [Signature]  
President

[Signature]

[Signature]

[Signature]

[Signature]  
Commissioners



## APPENDIX A

## Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service

TERRITORY

The unincorporated area known as Los Lomas Subdivision located approximately  $3\frac{1}{2}$  miles southeast of the City of Watsonville, Monterey County.

RATES

| Quantity Rates:                        | <u>Per Meter</u><br><u>Per Month</u> |
|--|--------------------------------------|
| First 700 cu.ft. or less .....         | \$ 2.65                              |
| Next 2,300 cu.ft., per 100 cu.ft. .... | .30                                  |
| Next 3,000 cu.ft., per 100 cu.ft. .... | .25                                  |
| Over 6,000 cu.ft., per 100 cu.ft. .... | .20                                  |
| <br>Minimum Charge:                    |                                      |
| Over $5/8$ x $3/4$ -inch meter .....   | \$ 2.65                              |
| For $3/4$ -inch meter .....            | 3.75                                 |
| For 1-inch meter .....                 | 6.00                                 |
| For $1\frac{1}{2}$ -inch meter .....   | 10.00                                |
| For 2-inch meter .....                 | 15.00                                |
| For 3-inch meter .....                 | 30.00                                |
| For 4-inch meter .....                 | 45.00                                |

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