

Decision No. 51057**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of North Cucamonga	)	
Water Company, a corporation,	)	Application No. 35323
to increase its rates for water	)	
service, San Bernardino County	)	

Everett L. Clark, consulting engineer, for applicant.  
Henry M. Busch, attorney, for protestant.  
James F. Wilson, Charles W. Drake, and Robert H. Shirley, for the Commission staff.

O P I N I O N

North Cucamonga Water Company, a corporation, by the above-entitled application filed April 7, 1954 seeks authority to increase rates for water service in the unincorporated territories of West Cucamonga and North Cucamonga, San Bernardino County, by approximately \$4,300 based on estimated 1954 operations.

At the hearings applicant also requested authority to adjust its books of account to reflect the results of an appraisal of its properties.

Public hearings in this matter were held before Examiner Stewart C. Warner on October 14, and December 15 and 16, 1954 at Upland.

About 17 consumers were represented by counsel in protest to the granting of the application, and three or four complaints regarding low water pressures and inadequate fire protection service were filed at the hearings.

General Information

Applicant was incorporated October 3, 1952 as a successor to California Vineyard and Improvement Company, which succeeded Nelson M. Van Fleet, doing business as California Vineyard and Improvement Company, who, in turn, succeeded Rogers and Son,

individuals, who had succeeded prior owners who had been operating a public utility water system pursuant to the provisions of Decision No. 6382 in Case No. 1171 and Application No. 4337 (16 C.R.C. 831-833) since June 3, 1919. Prior to said date California Vineyards and Improvement Company, a corporation, had been operating a water system since about 1907. Applicant was granted a certificate of public convenience and necessity by Decision No. 48169, dated January 19, 1953, in Application No. 33950.

The area served is in two sections, (1) North Cucamonga lying east of Turner Avenue and on either side of The Atchison-Topeka and Santa Fe railroad tracks and (2) West Cucamonga lying west of Turner Avenue and north of said railroad tracks. A map attached to the application as Exhibit A shows the service area boundaries. A few consumers located along 17th Street at the east of Center Avenue are furnished water service outside the service area. Growth and development of the community are nearly static and applicant plans no large-scale additions to its water system. During 1953 water service was furnished to an average number of 284 consumers and it was estimated that by the end of 1954 three additional consumers would be added. The record shows that there were about 60 inactive service connections to the water system. All services were metered. Nine fire hydrants were connected to the system. *Consumer*

Applicant obtains its water from the Cucamonga Water Company, a mutual corporation, through the ownership by applicant of 38.95 shares of stock of said mutual. The water so obtained from the mutual is received directly into applicant's distribution system through three master meters.

Basis of Application

Applicant based its application on its allegations that it was in urgent need of additional revenue to meet operating expenses and interest expense and to provide it with a return upon the capital it has invested in utility plant in service. It alleged that on January 1, 1954 the mutual water company increased its rates for water to nearly twice its former charge. The result of such rate increase by the mutual was that for the identical quantity of water delivered in 1953, for which applicant paid \$1,016, applicant would have had to pay in 1954 some \$1,966. The application shows a net loss from water operations for the year 1953 adjusted of \$1,463 after taxes and interest.

Rates

Applicant's present rates were established by Decision No. 15306, dated May 6, 1925, in Application No. 11072. The following tabulation is a summary and comparison of the present rates, those proposed in the application, and those authorized by the order hereinafter:

Comparison of Present, Proposed and  
Authorized General Metered Service Rates

Quantity Charge:	<u>Per Meter per Month</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
First 1,000 cu.ft., per 100 cu.ft.....	\$0.25		
Next 2,000 cu.ft., per 100 cu.ft.....	.20		
Over 2,000 cu.ft., per 100 cu.ft.....	.15		
First 400 cu.ft. or less .....		\$2.00	
Next 1,600 cu.ft., per 100 cu.ft.....		.35	
Next 5,000 cu.ft., per 100 cu.ft.....		.20	
Over 7,000 cu.ft., per 100 cu.ft.....		.15	
First 600 cu.ft. or less.....			\$1.65
Next 400 cu.ft., per 100 cu.ft.....			.27
Next 1,000 cu.ft., per 100 cu.ft.....			.22
Over 2,000 cu.ft., per 100 cu.ft.....			.16

The water use table contained in Exhibit No. 13, a Commission staff engineering report, shows that 52 per cent of the total consumer months for the year ending January 31, 1954 fell in the water use block of 600 cubic feet per month or less. For an

average monthly water use consumption of 600 cubic feet the present charge is \$1.50. Under the proposed rates it would be \$2.70, and under the rates authorized herein \$1.65.

### Earnings

Applicant's consulting engineering witness submitted a report reviewing applicant's operations and setting forth an evaluation of applicant's fixed capital as Exhibit No. 8. A report on the results of applicant's operations for the year ending January 31, 1954 recorded, for the year 1953 adjusted, and for the year 1954 estimated was submitted by the Commission staff engineering witness as Exhibit No. 13, together with earnings' calculations at 25 per cent federal income tax rate as Exhibit No. 14.

The earnings' information contained in Exhibits Nos. 8 and 13 is summarized as follows:

### Summary of Earnings

Item	:Year 1953:		:Year 1954 Estimated		
	:Recorded :		:Present Rates :		
	: Present :		: Proposed Rates :		
	: Rates :		: Present Rates :		
	: Per Co. :	: Per Co. :	: Per PUC :	: Per Co. :	: Per PUC :
	: Exh. 8 :	: Exh. 8 :	: Exh. 13 :	: Exh. 8 :	: Exh. 13 :
Operating Revenue	\$8,111	\$ 8,441	\$ 8,290	\$12,768	\$12,890
Operating Expense	9,424	10,827	7,288	11,456	8,917
Net Oper. Revenue	(1,313)	(2,386)	1,002	1,312	3,973
Rate Base	-	-	20,621	33,382	20,371
Rate of Return	-	-	4.86%	3.93%	19.50%

(Loss)

There are no significant differences between the estimates of operating revenues for the year 1954, at the present and proposed rates, as submitted by applicant and the staff.

The major differences in estimates between applicant's estimated earnings and those of the staff are in salary payroll expense; in the fixed capital represented by water stock included

in the estimated rate bases; in the treatment of overheads; and in the amounts deducted from fixed capital for depreciation reserve in determining the rate base.

The record shows that applicant included about \$6,720 in its estimated operating expenses for labor on the system including management personnel. This figure was reduced by the staff to \$1.00 per consumer per month or about \$3,420 per year. Since it is evident from the testimony of applicant's general manager that only a portion of his time is necessarily devoted to the operation of the water system, it appears that the staff payroll estimate is the more realistic and reasonable. Such payroll expenses, together with related income taxes, will produce total staff estimated expenses of \$7,600 which are adopted as reasonable.

Applicant's engineering witness testified at length regarding the value of the Cucamonga Water Company stock owned by applicant. He proposed a weighted average value per share of \$265. The Commission's staff engineering witness testified that the estimated original cost of 8.95 shares of Cucamonga Water Company's stock was \$150 per share and of the other 30 shares of stock, \$100 per share. The effect of including the staff estimated original costs in the estimated rate base for 1954 would result in a total reduction of said rate base of \$2,395. It appears that applicant's weighted average value of \$265 per share represents estimated present value. Based on the record before us the staff's estimated original costs of water stock appear to be reasonable and they will be, and hereby are, adopted for the purposes of this proceeding.

Applicant's estimated total tangible capital as of December 31, 1953 as shown on Page 57, Exhibit No. 8, of \$30,562.03 includes an allowance of 10 per cent for overheads. The staff engineer eliminated such overheads on the premise that, since prior to December 31, 1948 no overhead expenses had been capitalized,

due, in part, to inaccurate and deficient bookkeeping practices, they had been charged to operating expenses. The staff premise appears to be reasonable and the elimination from fixed capital of overheads in the amount of \$1,876 to determine the estimated rate base for 1954 will be and hereby is adopted. Also, the staff's reduction in estimated cost of meters prior to 1928 in the amount of \$610 will be and hereby is adopted as reasonable.

With respect to the amount of depreciation reserve deductible from fixed capital to determine the rate base, a Commission staff engineer testified that he had utilized the book depreciation reserve for such deduction. This treatment appears to be reasonable and the staff depreciation reserve deduction will be, and hereby is, adopted for the purposes of this proceeding.

Conclusion

From a review of the record it is evident that applicant is in need of financial relief. It is further evident, however, that the amount of relief sought in the application would produce an excessive rate of return. The order which follows will provide that applicant is authorized to file new schedules of rates, including fire hydrant service rates presently being charged, which will produce gross annual revenues based on operations for the year 1954 of \$9,060, or an increase of \$770 over the revenues estimated for the year 1954 at present rates. When the operating expenses of \$7,600 hereinbefore adopted as reasonable are related to such gross revenues, net revenue of \$1,460 will result. Such net revenue, when related to the estimated rate base of \$20,600, which is hereby found to be just and reasonable, will produce a rate of return of approximately 7.0 per cent. This rate of return is found to be just and reasonable.

We will give consideration to applicant's request to restate its books upon the filing by it of a statement setting forth its proposed journal entries to effect the adjustments.

Service

Applicant should investigate each individual service complaint filed at the hearing and report to the Commission in writing within 30 days the results of each investigation and its proposed action therein.

O R D E R

Application as above-entitled having been filed, public hearings 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 prescribed are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED as follows:

1. That applicant be, and it is, authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with the Commission's General Order No. 96, the schedules of rates shown in Appendix A attached hereto, and upon not less than five days' notice to the Commission and to the public to make such rates effective for service rendered on and after March 1, 1955.
2. That within thirty days after the effective date of this order, applicant shall submit in writing to the Commission a report of the results of its investigation into each of the service complaints filed at the hearings together with a report of its action relating to such complaints.
3. Applicant shall determine the accruals for depreciation by dividing the original cost of plant less estimated future net salvage less depreciation

reserve 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 1st day of February, 1955.

Edward E. Mitchell  
President

James J. G. ...

Ray ...

...

Commissioners



APPENDIX A  
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## Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated communities of West Cucamonga and North Cucamonga and vicinity, San Bernardino County.

RATES

	<u>Per Meter per Month</u>
Quantity Rates:	
First 600 cu.ft or less .....	\$1.65
Next 400 cu.ft., per 100 cu.ft.....	.27
Next 1,000 cu.ft., per 100 cu.ft.....	.22
Over 2,000 cu.ft., per 100 cu.ft.....	.16
Minimum Charge:	
For 5/8 x 3/4-inch meter .....	\$1.65
For 3/4-inch meter .....	2.10
For 1-inch meter .....	3.20
For 1-1/2-inch meter .....	5.00
For 2-inch meter .....	7.50

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

Schedule No. 2

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all public fire hydrant service.

TERRITORY

The unincorporated communities of West Cucamonga and North Cucamonga and vicinity, San Bernardino County.

RATE

Per Month

For each hydrant ..... \$2.50

SPECIAL CONDITION

Water use is limited to that required for fire fighting purposes and for use during scheduled fire drills.