

ORIGINALDecision No. 51550

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 ADA H. MARCH, sole owner, doing)
 business as IVANHOE WATER COMPANY,)
 for authority to increase its rates)
 and charges under Section 454 of)
 the Public Utilities Act.)

Application No. 35791
 (As Amended)

Russell R. McKinney, for applicant.
John D. Reader, for the Commission
 staff.

O P I N I O NNature of Proceeding

This is an application, filed September 16, 1954, by Ivanhoe Water Company, to increase rates for water service rendered to approximately 450 customers in and near the unincorporated town of Ivanhoe, Tulare County. The system is owned by Mrs. Ada H. March.

Applicant proposes to increase flat rates, under which all customers but one are now served, by an average of 57 per cent. Presently filed meter rates would be increased approximately 100 per cent. In addition, applicant requests the inclusion of minimum meter rates for four larger meter sizes and that monthly quantity rates of 30 cents and 20 cents per 100 gallons be included for water sold between 20,000 and 70,000 gallons and for over 70,000 gallons, respectively.

Applicant alleges that more revenue is needed in order to continue present service and to provide for replacement, enlargement and improvement of facilities. The present rate structure was established in 1927 (30 CRC 43) for service to about 30 consumers.

Public Hearing

The application was submitted for decision at a public hearing held January 19, 1955, at Ivanhoe, before Examiner John M. Gregory.

Description of System

Water is pumped from two 12-inch wells 300 feet deep, equipped with 20 hp centrifugal pumps, and feeds into the system through two pressure tanks having a total capacity of 9,300 gallons. Static pressure appears to be not less than 40 psi in any portion of the service area, except during peak usage when it is slightly less at the outskirts of the town, particularly where mains are of 2-inch, or smaller, diameter. Distribution is effected through about 28,000 feet of pipe ranging from 1½ to 8 inches in diameter. About 60 per cent of the mains are of 2-inch pipe, most of which is at least 20 years old. The remainder consists chiefly of asbestos cement pipe of 4-, 6- and 8-inch diameter, installed within the last four years. The terrain is flat.

Results of Operations

The tabulation below includes essential features of recent data concerning operating results of Ivanhoe Water Company, as introduced by the company and by the Commission staff. It will be noted that a significant variation exists in the rates of return computed in the two studies, for 1954, at proposed rates. The company's figure is 3.03 per cent while the staff arrived at a rate of return of 19.83 per cent. The staff made no 1955 estimates in its study; however, both the company's estimates for 1955, at present rates, and a projection of the staff's adjusted and estimated calculations for the years 1953 and 1954 into 1955, made in view of the whole record but also using present rates, indicate no return whatsoever to the company for 1955. Hence, the problem becomes one of fixing rates

that will be reasonable and which may be expected to yield a reasonable return for the future on the invested capital. A summary of the estimates follows:

Item	Year 1954				Year 1955	
	Present Rates		Co. Proposed Rates		Company Estimated	
	Staff	Company	Staff	Company	Present	Proposed
	Estimated	Reported	Estimated	Estimated	Rates	Rates
Oper. Revenues	\$13,420	\$13,161	\$21,020	\$18,739	\$14,130	\$20,133
<u>Oper. Expenses</u>						
Pumping	1,300	1,829	1,300	1,829	2,429	2,429
Trans. & Distrib.	3,000	3,062	3,000	3,962	3,962	3,962
Trans. & Distrib.						
Repairs	500	1,006	500	1,606	1,606	1,606
Commercial	4,200	4,200	4,200	4,500	5,000	5,000
General	1,400	1,765	1,400	2,266	2,466	2,466
Subtotal	10,400	11,852	10,400	14,163	15,463	15,463
Depreciation	1,082	1,977	1,082	1,977	2,477	2,477
Uncollectibles	50	167	80	167	200	200
Taxes	1,320	1,528	3,420	1,552	1,652	1,652
Total Exp.	12,852	15,534	14,982	17,859	19,792	19,792
Net Revenue	568	(2,373)	6,038	880	(5,662)	341
Avg. Depr. Rate Base	30,456	29,051	30,456	29,051	36,573	36,573
Rate of Return	1.86%	Loss	19.83%	3.03%	Loss	0.9%

(Red Figure)

Adjustments

Both the company and the staff placed in the record exhibits using the present rates and the rates proposed by the company in estimating revenues for 1954. The company also made similar estimates for the year 1955. The company also included a depreciation reserve of \$25,283 and \$27,760 for 1954 and 1955, respectively, using a straight-line, total life method based on average service lives generally about one half of those now commonly used by other water utilities. The staff, instead, used the depreciation reserve of \$23,306 shown on the company's books as of December 31, 1953, and reduced that amount to \$16,530 as of January 1, 1954, by means of deductions for unreported retirement of plant items, fully amortized

legal and real estate expense mischarged to plant account, fully depreciated meters no longer in use, over-accruals for plant depreciated under incorrect accounts, and over-accruals for fully depreciated plant depreciated on an over-all plant basis since 1947. The staff used the straight-line remaining life method of depreciation to determine depreciation expense for the future, as set forth in its study.

With regard to expense items, the staff made downward adjustments for certain nonrecurring expenses and also made various internal accounting adjustments for certain items charged to the wrong accounting classification.

The company's estimated 1955 rate base included the cost of a new well and pump, which the staff did not consider necessary, and it also included the cost of certain land and a building, which, though suitable for storage, was not considered necessary by the staff in view of additional storage space available in the main building. We are of the opinion that since the land and building have been used for storage, these facilities may be useful in the future for the operation of this company and may properly be considered a part of the rate base. The record does not show a need for the additional well at this time. Therefore, the estimated cost of the well and pump has not been included in the rate base.

Rates

The company has on file with the Commission a schedule of meter rates, although it had but one metered service customer at the time of the hearing. Applicant proposes to increase meter rates generally about 100 per cent higher than existing rates and to include minimum charges for larger meters and additional quantity rate blocks to those now on file. An increase in flat rates of about 57 per cent is proposed, except for landscape irrigation charges which the company

requests be doubled. A comparison of present, proposed and authorized rates for residential customers is shown in the footnote below.^{1/}

Rate of Return

If the rates authorized herein had been in effect during 1954 it is calculated that they would have produced revenue of approximately \$16,000 and a return of about 6.6 per cent on an average depreciated rate base of \$31,522. For 1955, it is calculated that the authorized rates may be expected to produce about \$16,450 in revenue and a return of approximately 7 per cent on an average depreciated rate base of \$32,452. Since approximately five months of 1955 have passed, the rate of return estimate for this year should be considered as applying to a future 12-month period commencing with the first billing under the rates herein authorized.

We are of the opinion that a rate of return of approximately 7 per cent on a depreciated rate base of \$32,452 is not unduly high for a system of this size, where slight fluctuations in revenue or expense tend to exert a profound influence on the effective rate of return. We find such rate base and rate of return reasonable in the circumstances.

	Comparison of Typical		
	Present Rates	Proposed Rates	Authorized Rates
<u>Flat Rates (per month)</u>			
Residence, 5 rooms or less	\$1.50	\$2.25	\$1.70
<u>Irrigation (6 months)</u>			
From 0-3,000 sq.ft., per 100 sq.ft.	.05	.10	.07
Over 3,000 sq.ft., per 100 sq.ft.	.03	.06	.04
<u>Meter Rates (Monthly Minimum Charge)</u>			
5/8-inch meter	\$1.75	\$3.50	\$2.00
3/4-inch meter	2.00	4.00	2.50

The average customer usage of water per month in 1954 was 2,580 cu.ft.

Staff Recommendations

The staff study includes a number of recommendations, all of which we find to be reasonable and which the company should arrange to carry out as soon as possible. They include: (1) classification of the proposed wording of the flat rate schedule relating to irrigation and air-cooler service to show whether the "per month" charges apply to 12 months or only to the 6 months listed in the schedule; (2) placing of large quantity water users on a metered basis; (3) establishment of some basis for collection of revenue for "standby" water for fire protection; (4) the use of a composite rate of 2.39 per cent for depreciation accrual, as shown in Table 7-A of Exhibit 2; (5) the filing of up-to-date rules and regulations with this Commission; (6) adjustment of the company's books to reflect the estimated original cost of facilities not presently recorded which are considered necessary for the system's operation, and adjustments to depreciation reserve to reflect correct charges and credits to the reserve, as set forth in Chapters 6 and 7 of Exhibit 2.

Conclusions

At various locations throughout the service area applicant has installed fire hydrants for which no rates are on file nor for which is any revenue being received. If such hydrants are to remain in service applicant should negotiate appropriate rates with the applicable fire protection organization and submit such rates to the Commission as provided for in its General Order No. 96.

We are of the opinion that this utility is in need of additional revenue with which to carry on its operations, but that the increased rates proposed in this application are unreasonably high. The adjustments in expense and rate base items, adverted to above, and the rates hereinafter authorized, we find to be reasonable in the circumstances. At the present rates, the monthly charge for a

five-room house with one toilet, a bathtub, a recirculating air cooler and 3,000 square feet of irrigated area is \$3.80 during the summer months. At the proposed rates such charge would be \$4.65 and at the authorized rates, \$3.65. For a winter month these charges for the same facilities would be \$2.00 at the present rates; \$4.65 at the proposed rates, and \$3.35 at the authorized rates. On an annual basis, for the same facilities, the rates proposed by applicant would result in about a 63 per cent increase over present rates. The rates authorized herein would result in an increase of approximately 21 per cent over present rates, for the indicated facilities.

O R D E R

Ada H. March, doing business as Ivanhoe Water Company, having applied to this Commission for an order authorizing increases in rates, 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 prescribed, for the future are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED as follows:

1. 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 schedules of rates as 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 July 1, 1955.
2. That applicant shall, within thirty days after the effective date of this order, file with this Commission four sets of up-to-date rules governing customer relations, together with four copies of a tariff service area map acceptable to the Commission and in accordance with the requirements of General Order No. 96. Such rules and tariff service area map shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

- 3. That applicant shall within ninety days after the effective date of this order, file four copies of a comprehensive service and facilities 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; the principal water production storage and distribution facilities; and the location of the various properties of applicant.
- 4. That 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; further, 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 7th day of June, 1955.

[Signature]
 President

[Signature]

[Signature]

[Signature]

Commissioners

Commissioner Rex Hardy, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Ivanhoe, and vicinity, located approximately 7 miles northeast of Visalia, Tulare County.

RATES

	<u>Per Meter Per Month</u>
Quantity Rates:	
First 1,000 cu.ft. or less	\$ 2.00
Next 1,500 cu.ft., per 100 cu.ft. ....	.18
Next 7,500 cu.ft., per 100 cu.ft. ....	.15
Over 10,000 cu.ft., per 100 cu.ft. ....	.10
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 2.00
For 3/4-inch meter	2.50
For 1-inch meter	3.50
For 1 1/2-inch meter	6.25
For 2-inch meter	11.00
For 3-inch meter	25.00
For 4-inch meter	40.00
For 6-inch meter	75.00

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

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Schedule No. 2

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential flat rate water service.

TERRITORY

The unincorporated community of Ivanhoe, and vicinity, located approximately 7 miles northeast of Visalia, Tulare County.

RATES

	<u>Per Service Connection Per Month</u>
For each single family residence of five rooms or less, exclusive of bath or toilet facilities and irrigated areas	\$1.70
a. For each additional residential unit of three rooms or less, on the same premises served from the same service connection, exclusive of bath or toilet facilities and irrigated areas .....	.75
b. For each additional room in residence or residential unit .....	.20
c. In addition, for each flush toilet .....	.30
d. In addition, for each bathtub or shower ....	.30
e. In addition, for all lawn or garden areas irrigated, payable throughout the year at the following rates:	
First 3,000 sq-ft., per 100 sq-ft. ....	.035
Over 3,000 sq-ft., per 100 sq-ft. ....	.02
f. In addition, for each window-box type air cooling unit, during the months of June, July, August and September:	
For water-wasting type .....	.60
For recirculating type .....	.30

SPECIAL CONDITIONS

1. All service not covered by the above classifications will be furnished only on a metered basis.
2. 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.