

**ORIGINAL**

Decision No. 51804

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SONOMA WATER & IRRIGATION COMPANY, a corporation, for authority to increase rates on the sale of domestic water.

Application No. 35828

Investigation on the Commission's own motion into the main extension practices, operations, contracts and charges of SONOMA WATER & IRRIGATION CO., a public utility water corporation operating in Sonoma County, California.

Case No. 5569

Edward D. Keil, for Sonoma Water & Irrigation Company.

Eldon N. Dye, for California Farm Bureau Federation, and John C. Gaffney, Deputy District Attorney, for County of Sonoma, interested parties.

William R. Roche, for the Commission staff.

O P I N I O N

Nature of Proceeding

This is a consolidated proceeding involving (a) an application by Sonoma Water & Irrigation Company to increase rates for water service rendered by it in portions of the Sonoma Valley; (b) an investigation, on the Commission's own motion, into the company's main extension practices and its compliance with its filed tariff rules respecting refunds of certain advances for such extensions.

The application, filed September 30, 1954, indicates that the effect of the proposed rates on net revenue would be to increase the rate of return from 4.78 percent to 7.6 percent on the company's estimated depreciated rate base for 1954.

Public Hearing

The proceedings were submitted for decision at the conclusion of a public hearing held, after due notice, at Sonoma on May 3 and 4, 1955, before Examiner John M. Gregory.

The Area Served and Description of System

The system has been fully described in previous proceedings involving applicant.<sup>1/</sup> It is not considered necessary here, therefore, to do more than to indicate generally the characteristics of the area served and the existing facilities, including those acquired during and subsequent to 1951.

Applicant renders water service to approximately 1,285 customers (as of December 31, 1954) in unincorporated areas known as El Verano, Sonoma Vista, Boyes Springs, Fetters Springs, Agua Caliente and Sobre Vista, all lying northwest of the City of Sonoma.

Sonoma Township, which includes applicant's service areas but not the City of Sonoma, has had a substantial growth in new residential construction and population in the past 15 years; a growth which, it is estimated, may increase at the rate of about 10 percent annually during the next few years.<sup>2/</sup> A limiting factor in this development, as is true in many parts of California, is the supply of water actually or potentially available for domestic or industrial use.

The company, whose average number of customers increased from 1,035 to 1,245 between 1951 and 1954, with a corresponding increase in water sales during that period of from 67,992,000 to

1/ A detailed history and description of the system, including a summary of formal proceedings involving applicant before the Commission, is contained in the staff report in evidence as Exhibit 3 in the company's 1951 rate increase application (Decision No. 46059, August 7, 1951, Application No. 32261). That exhibit has been included, by reference, in the present record:

2/ The record indicates the following estimates for Sonoma Township:

<u>Population</u>	<u>No. of Occupied Dwelling Units</u>
April, 1940 - 8,289	April, 1940 - 3,300
July, 1954 - 17,944	July, 1954 - 7,200

94,903,000 gallons, has had to look for additional sources of supply and for money with which to provide the facilities to keep pace with expanding demands and higher costs. In the period following the last rate adjustment, for example, applicant recorded an increase in total fixed capital of from \$175,990 in 1951 to \$248,934 in 1954. Additions to capital in 1955 are estimated to be in the neighborhood of \$30,000, on the basis of the staff engineer's recommendations for improvement in the company's sources of water supply and distribution facilities, including services and meters, as shown by his report which is in evidence as Exhibit 7.

As presently constituted, the system obtains its main supply of water from five wells equipped with electrically driven deep-well turbine pumps capable of delivering 855 gallons of water per minute. Additional water is obtained from springs, located on watershed land in the Sobre Vista area to the northwest, acquired by the company in 1951. These springs may produce 35 gpm in a dry year, with perhaps an additional 29 gpm potentially available from them.

Water from four of the wells is pumped directly into the distribution system, with the surplus being delivered into a 360,000-gallon cement-lined reservoir and two 25,000-gallon redwood stave tanks. At the Fetters Springs plant a booster pump delivers water to two 7,000-gallon steel tanks from which service is furnished to 42 consumers residing at higher elevations. Water from the fifth well, located on the west side of Sonoma Valley in the Sobre Vista area, may either be pumped directly into the distribution system or delivered into a 72,000-gallon sunken concrete reservoir which furnishes service to the area known as Sobre Vista No. 1. This reservoir is normally filled by gravity from the spring supply, but, during times of peak demand, it is

necessary to resort to pumping. Also in the Sobre Vista area and located below the pumping plant is a 30,000-gallon sunken concrete reservoir which floats on the line, from which service is furnished to residents in the area known as Sobre Vista No. 2.

The company serves its consumers through approximately 164,000 feet of mains ranging from 1 to 10 inches in diameter. As of December 31, 1954, there were 24 fire hydrants on the system.

The company, at the hearing, advanced through a consulting engineer a tentative proposal to supplement its present sources of water by means of a gravity water supply from dams and reservoirs to be constructed on tributaries of Sonoma Creek in the Sobre Vista area, in which the company owns about 417 acres of watershed, or about 63.3 percent of the total watershed area of 661 acres for those streams.

Of the three streams, known as South Creek, Middle Creek and North Creek, only two, viz., South and North Creeks, were deemed suitable for development; and of those, South Creek was considered to be the better.

The company's engineer estimated that the yield and costs of regulation and storage of firm water supply on South Creek, assuming a dry year and 12 months' draft on the reservoir, would be as shown in the following tabulation:

<u>DAM RESERVOIR AND PIPELINE</u>			
<u>Firm Annual Yield</u> <u>(Mill. Gal.)</u>	<u>Estimated</u> <u>Capital Cost</u>	<u>Estimated Net</u> <u>Annual Cost</u>	<u>Cost per</u> <u>1000 Gal. (Firm)</u>
30.0	\$130,950	\$13,100	43.7¢

Total additional capital costs for the North Creek plan, including transmission costs and assuming the same conditions of climate and usage as for South Creek, were estimated to be \$110,000 for an estimated firm annual yield of 19.1 million gallons of water.

Translated into gallons per minute, it was estimated that the combined plans for development of both South and North Creeks would add 94.4 gpm to the present system supply of approximately 890 gpm (including firm spring supply of 35 gpm), for a total capital investment in excess of \$240,000.

Although the average usage, on an annual basis, amounts to about 183 gpm (based on 1954 water sales of 94,903,000 gallons), the system peak demand during hot weather closely approaches the total available supply. The Commission's engineer recommended that a well be drilled in the southwest portion of the present service area in an attempt to secure an additional water supply of approximately 400 gpm. He estimated that the cost of such installation, including land, well, pump, pressure tank, structures and additional pipeline, would total about \$24,000 and he included that amount in his estimate of the company's 1955 rate base.

Another potential source of water lies in the company's interest in the forthcoming construction of Coyote Dam on the Russian River, from which water is expected to be brought to Sonoma Valley in perhaps six or seven years. Meanwhile, however, it will be necessary to develop local sources of supply to meet the needs of the rapidly growing area in which applicant operates. This should be done without delay and certainly at the least cost commensurate with the development of an adequate supply.

We are of the opinion that as between the project to impound the waters of North or South Creek and the staff engineer's recommendation for drilling a well in the southwest portion of the company's service area, the latter is the best solution in light of the circumstances in which the company finds itself. One of those circumstances is the necessity for procuring money with which to meet the rising demand for service, which brings us to a consideration of the rate problem, to be hereafter discussed.

Applicant's Position

Applicant's present rates, authorized by Decision No. 46059 in 1951, and the rates requested in this application are shown below for a 5/8 x 3/4-inch meter.

	Present Rates per Meter		Requested Rates per Meter	
	Per Year	Per Month	Per Year	Per Month
Service Charge:				
For 5/8 x 3/4-inch meter	\$21.00	\$1.75	\$30.00	-
Monthly Quantity Rates:				
First 10,000 gallons, per 1,000 gallons....		.25		\$0.35
Over 10,000 gallons, per 1,000 gallons....		.20		.25

Rates ranging from \$1.60 to \$2.65 per fire hydrant per month were also authorized by Decision No. 46059. Applicant is not requesting any change in these rates for public fire hydrant service.

In 1953, by Decisions Nos. 48827 (Interim Order) and 49146, in Application No. 33786, the company was authorized to extend service and apply its rates to the Sobre Vista No. 1 area; however, pending the outcome of certain litigation between applicant and The Sobre Vista Mutual Water Company and acting upon advice of its counsel, applicant has been selling water to the Sobre Vista No. 1 group for 10 cents per 1,000 gallons instead of its presently filed tariff rate as shown above.

The tabulation below indicates the results of operation of the system for 1954 as estimated by the company and as adjusted by the staff, and for 1955 as estimated by the staff. The company's figures for 1954, shown in its financial report (Exhibit 4), indicate an estimated rate of return of 5.24 percent on a depreciated rate base of \$179,300, at present rates. In an exhibit attached to its application a rate of return of 7.6 percent on a depreciated rate base of \$276,000 is indicated for 1954 at proposed rates, under which the company estimates that an additional \$100,000 would be invested in fixed capital.

While the respective estimates exhibit rather substantial variations in some respects, the record shows that at the hearing the company's representatives expressed themselves as willing to accept the adjustments in its accounts made by the staff as indicated in the staff report, Exhibit 7. For that reason, and because of certain infirmities in the company's method of stating its results, no attempt will be made, nor is one considered necessary, to reconcile the indicated discrepancies.

<u>Item</u>	1954 <u>Company Estimated</u>		1954 <u>Staff Adjusted</u>		1955 <u>Staff Estimated</u>	
	<u>Pres. Rates<sup>a</sup></u>	<u>Prop. Rates<sup>b</sup></u>	<u>Pres. Rates</u>	<u>Prop. Rates</u>	<u>Pres. Rates</u>	<u>Prop. Rates</u>
Oper. Revs.	\$ 50,148.89	-	\$ 49,782	\$ 66,400	\$ 54,614	\$ 75,044
Oper. Exps. (incl. taxes and depr.)	40,759.30	-	44,418	50,525	47,388	54,434
Net Revenue	9,389.59 <sup>c</sup>	21,000 <sup>c</sup>	5,364	17,875	7,226	20,610
Depr. Rate Base	179,300.95	276,000	186,223 <sup>d</sup>	186,223 <sup>d</sup>	214,590 <sup>d</sup>	214,590 <sup>d</sup>
Rate of Ret.	5.24%	7.6%	2.88%	9.60%	3.37%	9.60%

- a. From Exhibit 4
- b. From Exhibit "E" of application
- c. Excludes interest expense
- d. Average depreciated rate base

#### Rate of Return and Rates

The rate of return of 9.60 percent, indicated by the staff's estimates for 1955 at the proposed rates, which gives effect to adjustments made by the staff in the company's accounts to which the company has assented, appears to be excessive. The requested rates, therefore, will be revised downward slightly in order to produce the results estimated below for a year following their effectiveness.

<u>Item</u>	1955 <u>Staff Estimated Adjusted at Authorized Rates</u>
Operating Revenues	\$ 66,683
Oper. Exps. Incl. Taxes & Depr.	51,347
Net Revenue	15,336
Average Depreciated Rate Base	214,590
Rate of Return	7.15%

We find the revised rates, to be hereafter authorized, together with the average depreciated rate base of \$214,590 and the rate of return of 7.15 percent set forth in the tabulation above to be reasonable for the purposes of this proceeding.

The Commission Investigation - Case No. 5569

Investigation of the company's main extension records by a member of the Commission's Division of Utility Finance and Accounts revealed that the company had not been operating under a clearly defined policy with regard to making such extensions. The investigation covered a period of approximately three months. Instances were disclosed of failure to keep records of agreements between the company and potential consumers involved in main extensions. Discrepancies were found in the company's records in connection with dates of completion for certain extensions and with respect to the payment of refunds. These matters were brought to the attention of the company's officials during the course of the investigation. The record shows that the company has taken steps designed to correct the deficiencies, including the matter of refunds. In our opinion, there is no need to pursue the investigation further and it will be ordered discontinued.

Conclusions and Recommendations

The record makes it plain that applicant is in need of additional revenue with which to carry out its program for development of the system, in light of the rapid growth of the area in which it is operating. Its efforts to secure institutional financing have been unsuccessful because of low earnings, as a result of which the company's officials have been compelled to advance private funds at low interest. The additional revenue to accrue from the rate increases herein authorized should serve to place the company in a more favorable position to secure necessary financing for improving the system.



Among the staff's recommendations contained in Chapter 12 of Exhibit 7 is one for developing new sources of water supply, preferably in the southwest portion of the company's service area, and for installation of additional distribution mains should a well of suitable capacity be developed. Those recommendations, which are hereby found to be reasonable, if carried out should place the company in position to render adequate water service to customers now connected and to care for anticipated normal growth during the current year, exclusive of subdivision development. As to the latter type of development, it will be recalled that on the basis of 1,366 customers for 1955 (the number on which future revenues have been estimated by the staff), the presently available water supply is inadequate, especially during peak demands. If the new well produces as much as 400 gpm there would still be available only some 1,290 gpm to serve those customers, which is still less than adequate for unrestricted subdivision development, in our opinion.

We are, therefore, faced with the fact, and we so find, that applicant has reached the limit of its capacity to supply water other than to individual consumers connected in the normal course of business, and that no further subdivisions can be supplied from the system without injuriously withdrawing the supply wholly or in part from those who have heretofore been supplied by the company, unless and until the company develops additional sources of water supply and storage facilities on the basis of not less than 1½ gpm per customer to serve such subdivision or subdivisions. An appropriate direction to that effect, made pursuant to Section 2708 of the Public Utilities Code, will accordingly be incorporated in the order which follows.

Other recommendations by the staff, relating to reading of meters to the last 1,000 gallons only, in order to reduce meter-reading time and to simplify billing, and one concerning depreciation accrual rates, are also hereby found to be reasonable. The latter recommendation will also be incorporated in the order to follow.

O R D E R

Sonoma Water & Irrigation 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 schedule of rates as shown in Appendix A attached hereto and, upon not less than one day's notice to the Commission and to the public, to make such rates effective for service rendered on and after September 1, 1955.
2. That applicant shall file, within thirty days after the effective date of this order, in conformity with General Order No. 96, four copies of a tariff service area map acceptable to this Commission, delineating thereupon in distinctive markings the boundaries of its present service area and the location thereof with reference to the immediate surrounding territory; provided, however, that such filing shall not be construed as a final or conclusive determination or establishment of the dedicated area of service or any portion thereof. Such 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, beginning with the year 1955, applicant shall determine depreciation expense by multiplying the depreciable fixed capital by a rate of 3.43 percent. This rate shall be used until review indicates it should be revised. Applicant shall review the depreciation rate using the straight-line remaining life method whenever substantial changes in depreciable fixed capital occur or at intervals of not more than five years, and shall revise the above rate in conformance with such reviews. Results of these reviews shall be submitted to the Commission.
4. That applicant shall not furnish water to any new or additional subdivisions within or adjacent to its service area without a showing, satisfactory to the Commission, that it has procured sufficient quantities of water for rendition of adequate service to existing consumers as well as to such new or additional subdivisions and until the Commission, upon such showing, shall have vacated or modified this order.
5. That the Commission's investigation on its own motion herein, Case No. 5569, be and it is hereby discontinued.

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

Dated at San Francisco, California, this 9<sup>th</sup> day of August, 1955.

[Signature]  
President  
[Signature]  
[Signature]  
[Signature]  
[Signature]  
Commissioners

## APPENDIX A

## Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated communities of El Verano, Boyes Springs, Fetters Springs, Agua Caliente, and vicinity, Sonoma County.

RATES

	<u>Per Meter per Year</u>
Annual Service Charge:	
For 5/8 x 3/4-inch meter .....	\$24.00
For 3/4-inch meter .....	30.00
For 1-inch meter .....	36.00
For 1-1/2-inch meter .....	60.00
For 2-inch meter .....	84.00
For 3-inch meter .....	180.00
For 4-inch meter .....	420.00
Monthly Quantity Rates:	<u>Per Meter per Month</u>
First 10,000 gallons, per 1,000 gallons .....	\$0.35
Over 10,000 gallons, per 1,000 gallons .....	.25

The Annual Service Charge is a readiness-to-serve charge applicable to all metered service in addition to the monthly charge computed at the Monthly Quantity Rates.

SPECIAL CONDITIONS

1. The annual service charge is payable in advance, except that bona fide permanent residential or business customers who received water service continuously during the preceding 12 months, and who paid their bills regularly when due for the quantities of water used during such 12-month period, may elect to pay the annual service charge on a monthly basis equal to 1/12 of the annual service charge.

2. The charges for quantities of water used may be billed monthly, bimonthly or quarterly at the option of the utility on a noncumulative, monthly consumption basis.