

ORIGINALDecision No. 52085

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SOBRANTE WATER COMPANY, a corporation,
for Authority to Increase Rates on
the Sale of Domestic Water.

Application No. 36574
Amended

EARL W. FLORY, et al.,
vs. Complainants,

Case No. 5580

SOBRANTE WATER COMPANY, C. E.
STEIDTMANN, et al.,
Defendants.

MRS. EDGAR GEHRHARDT,
vs. Complainant,

Case No. 5581

MR. C. E. STEIDTMANN,
Defendant.

CARL WALLS, et al.,
vs. Complainants,

Case No. 5582

SOBRANTE WATER COMPANY,
C. E. Steidtmann, et al.,
Defendants.

C. E. Steidtmann, President, for Sobrante Water
Company.

Earl W. Flory, in propria persona, and for com-
plainants in Case No. 5580.

Mrs. Edgar Gehrhardt, in propria persona, in
Case No. 5581.

Mrs. Carl Walls, in propria persona, and for com-
plainants in Case No. 5582.

John E. Johnson, for the Commission staff.

O P I N I O NNature of Proceeding

This is a consolidated proceeding involving, among other matters, an application by Sobrante Water Company, filed December 21, 1954, to increase its rates for water service in the community of

El Sobrante, located about two miles south of the town of Pinole, in Contra Costa County. Joined with the application for hearing and decision are three customer complaints, filed October 18, 20 and 21, 1954, generally charging insufficient or discriminatory service. The company has denied all material allegations of the complaints and has requested that they be dismissed.

The rates proposed in the original application represent a 75 per cent increase over present rates.^{1/} An amendment to applicant's rate proposals will be discussed later.

Public Hearing

The proceeding was submitted for decision at a public hearing held March 22, 1955, at El Sobrante before Examiner John M. Gregory.

Description of System

The company acquired the initial portion of the system from predecessors in 1941 and was then and subsequently authorized to issue stock to finance enlargements and improvements. In 1952 C. E. Steidtmann, president of the corporation, acquired 128 of the then outstanding 153 shares of the company's stock. The remainder of the shares is distributed among eight other stockholders.

Prior to 1941 the source of supply for the system consisted of shallow wells equipped with reciprocating pumps. These having been found unsatisfactory, the company, in 1941, entered into an agreement with East Bay Municipal Utility District to purchase water, which is delivered through a meter at a junction of the company's 2-inch main and the district's main. The company distributes water to about 100 customers through approximately 12,000 feet of pipe, more than 80 per cent of which consists of 1½-, 1½-, and 2-inch pipe installed since 1941.

^{1/} Present rates were authorized in 1944 by Decision No. 37402 in Application No. 26040.

About 40 per cent of the customers are served by gravity from storage facilities with a total capacity of 35,000 gallons, located at the extreme upper elevation limit of the system. Pressure for service to the remaining 60 per cent of the customers in the lower portion of the system is supplied by the District's 3,000,000-gallon concrete tank located nearby. Static pressure appears to be satisfactory and is even excessive at some points; however, due to certain "bottlenecks" in the distribution system, existing at the time the complaints were filed, simultaneous water use by a number of customers along certain sections of pipeline has caused pressure to fall below acceptable levels, giving rise to complaints by these users.

The pumping plant, located approximately 240 feet below the upper level storage tanks, consists of two 3-hp centrifugal pumps in parallel, housed in a small building and controlled by a float switch at the storage tanks. Each pump has an approximate capacity of 15 gpm at a 250-foot total head.

Service is also being rendered in the Monte Verde area, contiguous to the company's southerly service area boundary as shown on a map filed with the company's rate schedule in 1941. That service is rendered to about seven consumers through a 2-inch pipeline, approximately 1,800 feet in length, connected to the 30,000-gallon storage tank located in the upper level of the properties. Customers along this line, except complainant Gehrhardt, who at the time of the hearing was not being served, contributed \$150 each to Steidtmann, on a no-refund basis, for installation of the 2-inch pipeline. The company's president, at the hearing, claimed personal ownership of this pipeline, the 30,000-gallon reservoir and the reservoir site. All water for this service is obtained from the company's distribution system, and water bills paid by these customers are reported as company-earned revenue.

Complainants' Position

The Flory and Walls complaints allege, among other matters, that service to the Monte Verde consumers has diminished the supply of water available to them and their co-complainants within the company's service area. Complainant Gehrhardt alleges that on September 24, 1954, the company refused her application for service upon the ground that it is not bound to honor applications for water service in the Monte Verde area in the order in which they are presented, but may provide or deny service to such applicants. The company has categorically denied those allegations.

Present and Proposed Rates

Applicant's present rates and those proposed in the original application are shown in the tabulation below.

<u>Item</u>	<u>Per Service per Month</u>		<u>Per Cent Increase</u>
	<u>Pres. Rates</u>	<u>Prop. Rates</u>	
<u>Flat Rate Service</u>			
Per Residence or Single Dwelling Unit	\$2.00	\$3.50	75%
<u>Metered Service</u>			
Minimum Charge	2.00	3.50	75
<u>Quantity Charges</u>			
First 300 cu.ft., per 100 cu.ft.	Included in Min. Charge		75
Next 1,000 cu.ft., per 100 cu.ft.	.45	.45	-
Over 1,300 cu.ft., per 100 cu.ft.	.45	.35	(22)

(Decrease)

Applicant, by an amendment proposed at the hearing and incorporated in a formal pleading filed April 4, 1955, has requested authority to file metered service rates in a form which makes use of a service charge, in order to distribute the fixed costs of operating the system among the consumers in equal amounts,--in effect a standby, or readiness-to-serve charge, which would entitle the consumer to no water. All quantities of water used would be charged for at a single rate per 100 cubic feet. A flat rate of \$4.00 per month has also been included in the amended proposal, but applicant

states that such rate will be temporary, since all services are expected to be metered and no consumers will be billed thereafter on a flat rate basis. The amended proposal with respect to meter rates is shown below:

<u>Meter Rate</u>	<u>Per Meter per Month</u>
Monthly service charge - entitles consumer to no water	\$3.07
All quantities, per 100 cu.ft.	.275

Results of Operations at Present and Proposed Rates

The tabulation below indicates the results of the company's operations as adjusted for 1954 and as estimated for 1955 by the staff. The staff's figures have been used, since the company's recorded figures, shown in exhibits attached to its application, are for the year 1953 only. Results for 1953 and 1954, as shown by data contained in the company's annual reports filed with the Commission, indicate substantial losses for those years on the basis of present rates.

Item	Staff			
	1954		1955	
	Adjusted	Estimated Prop.Rates	Pres.rates	Estimated Prop.Rates
Operating Revenue	\$4,990	\$6,600	\$5,100	\$6,800
Operating Expenses	4,060	4,060	4,120	4,120
Depreciation	446	446	462	462
Uncollectibles	10	10	10	10
Total Taxes (Fed.Inc. Normal Tax @ 30%)	302	820	318	868
Total Expenses	4,818	5,336	4,910	5,460
Net Revenue	172	1,264	190	1,340
Avg. Depr. Rate Base	8,547	8,547	7,968	7,968
Rate of Return	2.0%	14.8%	2.4%	16.8%

The average rate bases shown were developed by the staff from the adjusted 1954 and estimated 1955 fixed capital and depreciation reserve figures set forth in Chapters 6 and 7 of the staff report of its investigation of the utility, Exhibit 1. The estimated cost of the Monte Verde pipeline, amounting to \$1,000, has been regarded as a donation effective about the middle of the year 1954.

Also, customer advances totaling \$270 were in effect beginning late in 1954 which are expected to be refunded within a three-year period.

The Commission's 1944 appraisal of the utility's plant included a depreciation reserve requirement estimate which was not adopted by the company. Since its inception, the company apparently has accrued depreciation on a 5 per cent gross-plant-rate total-life basis, but increased the rate to 10 per cent in 1950. The staff, in its study, has adopted the remaining life basis for depreciation expense, and has determined an accrual rate of 3.6 per cent to be applicable to the adjusted gross plant, which includes the Monte Verde pipeline and the 30,000-gallon tank.

The adjusted 1954 revenue shown in the tabulation above assumes all flat rate service to have been billed on a metered basis, since only occasionally in the past were a few customers billed on a flat-rate basis, chiefly for the sake of expediency. All service henceforth, it is expected, will be billed on a metered basis. Various recorded expense items have been adjusted to put the years 1954 and 1955 on a comparable basis and to give consideration to recent company experience with expenses as well as wage increases.

Service Problems and Recommendations
for Improvement

Aside from the matters complained of in the formal complaints, previously mentioned, a serious problem has existed with regard to the ability of the company to make emergency repairs or attend to customers' problems during normal working hours, since the company's local employee appears to have another job at some distance from the company premises. Also, the president of the company resides away from the system and has other business interests, thus making it difficult for consumers to get in touch with him in order to work out their mutual water service problems.

The staff report, in Chapter 12, contains a number of recommendations for improvement of facilities and service, some of which may already have been accepted by the company and placed in operation. Among the recommendations are those which deal with replacement of smaller pipe with larger pipe along Skyline Drive, at an estimated cost of \$1,000; provision for daytime communication between customers and company representatives; use of a composite depreciation accrual rate of 3.6 per cent; the filing of rules by the company providing for present-day relations with customers; adjustment of the company's books and records to reflect the estimated original cost of facilities not presently recorded, including the tank, tank site and 2-inch pipeline used in supplying water in the Monte Verde area, and service to that area as a public utility, in accordance with applicant's filed rules.

Summary and Conclusions

It is apparent from the record in this proceeding that applicant is not now earning a reasonable rate of return at present rates nor will it earn a reasonable rate of return if those rates are continued. The company's need for increased revenue has been clearly indicated by this record.

The amended rates proposed by applicant are not in a form acceptable to the Commission and they, as well as the rates proposed in the original application, produce a rate of return which we consider to be excessive. A basic monthly minimum rate of \$3.00, however, provided it will include a reasonably adequate minimum amount of water, appears to be reasonable. The rates hereinafter authorized will make provision for the use of varying quantities of water, and applicant will be directed to file them in a form acceptable to the Commission, together with rules dealing with present-day relationships between applicant and its customers.

The rates authorized by the order herein are designed to produce a gross revenue of approximately \$5,700, which will provide a rate of return of about 7.5 per cent on the basis of staff-estimated expenses and estimated rate base of approximately \$7,970 for the future year. We find such rates, rate base and rate of return to be reasonable for the purposes of this proceeding.

Applicant, to the extent it has not already substantially done so, will be directed to carry out the improvements in facilities and practices recommended by the staff in Chapter 12 of its report, Exhibit 1, and to advise the Commission what has already been accomplished in that respect, as well as what steps it proposes to take in the future to comply with said recommendations. The staff's recommendations, when carried out, should serve to correct, in large measure, the deficiencies in service mentioned in the several complaints.

The Monte Verde area, from which the company receives revenue for water service and to which its facilities extend, should be included within the company's service area. The company, however, should not be required, at its own expense, to provide special facilities to correct low pressures to complainant Gehrhardt's premises. Gehrhardt's premises are so situated in elevation with respect to the company's distribution facilities that it would cause a burden upon the other customers in the form of higher rates, should the company be required to install special facilities to provide adequate pressure for this isolated service. Applicant's tariff schedules and particularly its tariff service area map, should clearly indicate the extent of such hilltop areas to which its present water system facilities cannot reasonably be expected to supply normal pressures in order to place applicants for service in the future on notice that normal system pressures will not be provided to such areas.

O R D E R

Public hearing having been held on the above-entitled and numbered consolidated proceeding, the matters 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 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, upon not less than five days' notice to the Commission and the public, to make said rates effective for service rendered on and after December 1, 1955.
2. Applicant shall file, within thirty days after the effective date of this order, four copies of revised rules satisfactory to the Commission and in conformity with General Order No. 96.
3. 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, the portions thereof which cannot be served normal system pressures with existing facilities and the locations 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.
4. Applicant shall file, within thirty days after the effective date of this order, four copies of a comprehensive map drawn to an indicated scale not smaller than 500 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 various properties of applicant.

5. Beginning with the year 1955, applicant shall determine depreciation expense by multiplying the depreciable fixed capital by a rate of 3.6 per cent. 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.
6. Applicant shall, within ninety days after the effective date of this order, to the extent it has not already substantially done so, comply with the recommendations contained in paragraphs 1, 2 and 5 of Chapter 12 of Exhibit 1 herein, and shall provide water service, as a public utility, in accordance with its applicable rates and rules in the so-called "Monte Verde" area, as contemplated in paragraph 6 of Chapter 12 of said Exhibit 1. Applicant shall, within thirty days after the effective date of this order, and every thirty days thereafter until compliance has been effected, advise the Commission, in writing, of the extent to which it has already complied with such recommendations.

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

Dated at San Francisco, California, this 18th day of October, 1955.

John E. Mitchell
President
James J. Caswell
Raulo Anttonen
William D. Dooly
P. H. Hardy
Commissioners

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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community known as El Sobrante, located approximately 5 miles northeasterly of Richmond, Contra Costa County.

RATES

	<u>Per Meter per Month</u>
Quantity Rates:	
First 400 cu.ft. or less	\$3.00
Next 1,600 cu.ft., per 100 cu.ft.....	.45
Over 2,000 cu.ft., per 100 cu.ft.....	.35
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$3.00

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 water service furnished on a flat rate basis.

TERRITORY

The unincorporated community known as El Sobrante, located approximately 5 miles northeasterly of Richmond, Contra Costa County.

RATE

Per 3/4-Inch
Service Connection
per Month

For each single family residence; including premises \$4.00

SPECIAL CONDITIONS

1. All service not covered by the above classification will be furnished only on a metered basis.
2. Meters may be installed at option of utility or customer for above classification in which event service thereafter will be rendered only on the basis of Schedule No. 1, General Metered Service.