

**ORIGINAL**

Decision No. 55923

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 WILLIAM HAY and DELIA HAY, husband )  
 and wife, dba POINT ARENA WATER )  
 WORKS, for authority to increase the )  
 rates for the water service rendered )  
 in the incorporated town of Point )  
 Arena, Mendocino County, California, )  
 and to restrict the use of water to )  
 the premises presently served. )

Application No: 38952

Newell Rawles, for applicants.  
Timothy W. O'Brien, for the City of  
 Point Arena, interested party.  
Walter J. Cavagnaro and John J.  
Gibbons, for the Commission  
 staff.

O P I N I O N

By the above-entitled application filed March 29, 1957, William Hay and Delia Hay, husband and wife, doing business as Point Arena Water Works, requested authority to increase rates for water service and also to restrict the service of water to the present customers and to premises that have a residence erected or under construction thereon, until such time as an additional water supply can be made available.

Public Hearing

After due notice a public hearing was held before Commissioner Ray E. Untereiner and Examiner E. Ronald Foster on October 10 and 11, 1957, at Point Arena. In addition to the active participation of counsel for the City of Point Arena, some interest was shown by the attendance at both days of hearing by a number of townspeople, including customers of the utility, although none of them testified on the proceeding.

At the outset applicants asked that the portion of the application having to do with the restriction of water service be withdrawn in order to clarify the issues and to concentrate on the main portion of the application concerning rates. The application is considered so amended.

While no one expressed opposition to the requested increase in rates, it was apparent from the questions asked of the various witnesses by the City's counsel that his interest was in keeping to the minimum such increase as might be authorized. Following the introduction of testimony by three witnesses on behalf of the applicants and by two members of the Commission staff, the matter was submitted on the second day of hearing and is now ready for decision.

#### Applicants' Operations

The water system supplying the incorporated City of Point Arena, Mendocino County, was originally installed prior to 1900 and has since been operated by a succession of interests. By Decision No. 49352 dated November 24, 1953, in related Applications Nos. 34526, 34527 and 34790 and Case No. 5484, the Commission authorized transfer of the water utility properties to William G. Hay and Delia Hay who jointly have been operating them as a public utility water system since that time. The same decision authorized the presently effective schedules of rates for water service, which represented an increase of 80 per cent over those which had been in effect since October 23, 1932.

In addition to their activities in connection with the Point Arena Water Works, applicants own and operate a cattle ranch on properties of which certain portions are devoted to the public water utility purposes.

Description of System

Applicants' water system serves two contiguous zones essentially supplied from two pairs of storage tanks differing in elevation by about 40 or 50 feet and whose total capacity is 246,000 gallons. The upper portion of the system also includes a 500-gallon hydropneumatic tank functioning in connection with an electrically driven pump controlled by automatic pressure switches. The sources of water consist of two groups of springs and two wells on applicants' property, supplemented by two leased sources, the McMillen and Curley Springs. Two covered wooden flumes, each approximately 1,500 feet long, convey the water from applicants' springs to the storage tanks. Each of applicants' two wells and both of the leased springs are equipped with relatively small electric motor-driven pumps. Normally the lower sources supply 65 per cent of the water and the upper sources produce 35 per cent but they are so interconnected that water can be exchanged between them. The system includes two automatic chlorinators and comprises some 24,000 feet of water mains varying from one to six inches in diameter. There are 22 city-owned fire hydrants connected to the system and as of May 7, 1957, the utility served 118 metered and 28 flat rate customers.

Applicants have inaugurated a program of installing meters on all services in order to conserve water by discouraging waste and careless use of it and have declared their intention of completing the program within the near future.

Present and Proposed Rates

The following tabulation presents a comparison of the basic features of applicants' present rates, which have been in effect since January 1, 1954, with their proposed rates:

General Metered Service

Quantity Rates:		<u>Per Meter per Month</u>	
		<u>Present</u>	<u>Proposed</u>
First	400 cu.ft. or less .....	\$ 2.70	\$ 4.60
Next	600 cu.ft., per 100 cu.ft. ..	.45	.76
Over	1,000 cu.ft., per 100 cu.ft. ..	.27	.46

Minimum Charges:

For	5/8 x 3/4-inch meter .....	\$ 2.70	\$ 4.60
For	3/4-inch meter .....	3.50	6.00
For	1-inch meter .....	5.50	9.50
For	1 1/2-inch meter .....	7.00	12.00
For	2-inch meter .....	10.00	17.00

Flat Rate Service

RATES

	<u>Per Service per Month</u>	
	<u>Present</u>	<u>Proposed</u>
For each single-family residence or for the first unit of multiple housing units, including premises not exceeding 10,000 sq.ft. in area, through 3/4-inch service connection .....	\$2.70	\$4.60
For each additional residence living quarters, flat or apartment on the same premises .....	2.00	3.40
For each store or shop having no other plumbing fixtures than lavatories and toilets .....	2.70	-

The proposed rates were designed to produce a 72 per cent increase in revenue in order to yield a six per cent return on the depreciated cost of the system. For the metered customers the record shows that the average monthly consumption for the year 1956 was about 900 cubic feet; the present monthly charge for such average use is \$4.95 and under the proposed rates it would be \$8.40 or an increase of nearly 70 per cent. For the year 1956 nearly half of the monthly billings were for a usage of 500 cubic feet or less. There is a small number of relatively large consumers but none used more than 20,000 cubic feet monthly.

As of May 7, 1957, the flat rate customers numbered 28, each of whom had a 3/4-inch service connection for which the present rate is \$2.70 and the proposed rate is \$4.60.

Applicants have no rates on file for fire protection service, nor are any rates requested for such service. For the past two or three years the utility has been collecting about \$97 annually for fire protection service furnished to the City of Point Arena but applicants and the city have failed to reach a firm agreement as to conditions and charges for this service and no contract for the service is on file with the Commission.

#### Earnings

Applicants' engineering consultant submitted a statistical report (Exhibit No. 2) showing a summary of earnings for the years 1955 and 1956 adjusted and the year 1957 estimated, based on present and proposed rates. Exhibits Nos. 5 and 5-A constitute the Commission staff's report of applicants' results of operations for the year 1956 recorded and adjusted and the year 1957 estimated, at both present rates and those proposed by applicants. The earnings information contained in these exhibits for the estimated year 1957 is summarized in the following tabulation:

## SUMMARY OF EARNINGS

Item	Year 1957 Estimated			
	Present Rates		Proposed Rates	
	Applicant:	Staff	Applicant:	Staff
	Exh.2	Exhs.5 & 5A:	Exh.2	Exhs.5 & 5A:
<u>Operating Revenues</u>				
Meter Rate	\$ 6,550	\$ 7,690	\$11,135	\$13,100
Flat Rate	648	-	1,102	-
Fire Protection	97	100	165	100
Total	7,295	7,790	12,402	13,200
<u>Operating Expenses</u>				
Source of Water Supply	600	200	600	200
Purchased Water	120	120	120	120
Pumping Labor and Materials	600	400	600	400
Purchased Power	950	1,100	950	1,100
Water Treatment	650	240	650	240
Transmission and Distribution	1,900	3,240	1,900	3,240
Customer Accounting and Collection	1,200	710	1,200	710
General	2,450	1,480	2,450	1,480
Total Maintenance and Operating Exps.	8,470	7,490	8,470	7,490
Taxes Other Than Income	598	187	598	187
Income Taxes	-	-	282	819
Depreciation Expense	1,919	2,031	1,919	2,031
Total Oper. Expenses	10,987	9,708	11,269	10,527
Net Revenue	(3,692)	(1,918)	1,133	2,673
Avg. Deprec. Rate Base	35,040	42,200	35,040	42,200
Rate of Return	Loss	Loss	3.23%	6.33%

(Red Figure)

The considerable variances between the estimates submitted by the applicants and the staff are largely explained as follows:

1. Revenues: While applicants' engineer estimated revenues to continue from both metered and flat rate service, the staff based its estimates on the assumption that all customers' services will be metered within the near future. Inspection of the rate schedules reveals that metered service revenues will be greater under either the present or proposed rates to the extent of any usage of water over that included with the minimum charge. In estimating the

revenues from proposed rates, applicants' engineer increased by 70 per cent the amount now received from fire protection service whereas the staff estimated the same revenue to continue from this service. The over-all effect shows the staff estimates of revenues to be about \$500 and \$800 higher than applicants' at present and proposed rates, respectively.

2. Maintenance and Operation Expenses: In his estimate of maintenance and operation expenses, the applicants' engineer included \$4,600 as salaries for the applicants, who supervise, operate and maintain the system with practically no outside help. The staff included \$3,800 for this element of expense to represent the estimated portion of their time spent by the applicants in the performance of work chargeable to utility operating expenses. Of the total amount spent by applicants for various kinds of insurance, their engineer estimated \$600 as compared with the staff's figure of \$400 as the amount which should be allocated to the utility operations. While the two estimates vary somewhat in amounts for the several groups of these expenses, analysis reveals that such variations are largely due to differences in distribution between accounts and the two items discussed above primarily account for the staff's estimate being lower by about \$1,000.

3. Taxes Other Than on Income: Although applicants' engineering witness had revised city and county ad valorem taxes to an adjusted amount of \$116 for each of the years 1955 and 1956, he left the estimated amount for 1957 at \$557. To this he added \$41 for a motor vehicle license, making a total of \$598 for estimated taxes other than on income. The staff's total of \$187 consists of \$136 ad valorem tax, \$11 unemployment tax and \$40 for a truck license. The difference in the estimates of ad valorem taxes for 1957 results from the difficulty of determining from the past tax bills covering

all of applicants' property the amount properly allocable to those portions of such properties which are devoted to public utility use.

4. Income Taxes: The difference between the amounts of income taxes estimated under proposed rates is simply that resulting from the two estimates of taxable net income.

5. Depreciation Expense: The staff's estimate of depreciation expense is over \$100 higher than applicants' because of the inclusion of additional depreciable facilities recommended to be installed within the near future.

6. Rate Base: Except for some minor differences in the recommended adjustments to the recorded balances of utility plant in service at the end of 1956, the staff's estimated rate base is over \$7,000 higher than applicants' due to the inclusion by the staff, on a pro forma basis, of certain recommended additions to the water system facilities which applicants' engineer did not include in his rate base.

7. Rate of Return: With the staff's resulting estimated net revenue at proposed rates being \$1,540 greater than that of applicants, even with the somewhat higher rate base, the staff's estimated rate of return is over 3 per cent higher and nearly twice that estimated by applicants' engineer.

#### Adequacy of Service

While there was no complaint made of insufficient water supply, applicants testified that they are aware that some of the distribution mains are undersized and are therefore inadequate to provide sufficient quantities and pressures to meet the reasonable demands of their customers in the higher portions of the service area, especially those located along School and Lake Streets. This is true, even with the advantage of the existing hydropneumatic pressure installation. Under these conditions further development



of homes in the area is hampered and the school has provided its own well supply.

Applicants have indicated their desire to extend the distribution system and their intention of improving service in the said higher area by the installation of additional and larger distribution piping and by increasing the capacity of the pressure tank and booster pump unit supplying that area. As evidence of such planning, applicants introduced Exhibits Nos. 3 and 4 which respectively are proposals by a general contractor to install 4,623 feet of 4-inch pipeline for a price of \$13,406.70 and to install a pump house including a 5-hp unit to pump 6,000 gallons per hour against a head of 50 pounds per square inch in connection with a 1,000-gallon pressure tank for the sum of \$2,272.50.

Toward the objective of discouraging wasteful practices in the use of water and to eliminate inequities of charges for water service, applicants stated that they will proceed with the metering of all services as soon as time and finances will permit.

#### Financial Position

Exhibit "B" attached to the application is a financial statement showing the net worth of applicants as of December 31, 1956, in the amount of \$34,772.08 consisting of depreciated utility plant of \$33,456.52 and \$1,315.56 of other assets. The same statement shows operating expenses for the year 1956 totaling \$10,029.16 and revenues of \$7,018.50, indicating a net loss of \$3,010.56 for the year.

A staff witness testified as to the manner in which applicants have utilized the funds available to the utility from its operations during the year 1954, 1955 and 1956, which is the 3-year

period during which the present rates have been in effect, summarized as follows from the utility's recorded figures:

Total Operating Revenues .....		\$19,177
Total Operating Expenses .....	\$28,160	
Less Owners' Salaries Allowance	\$12,250	
Less Depreciation Exp. Accruals	<u>2,757</u> <u>15,007</u>	
Net Out-of-Pocket Expenses .....		<u>13,153</u>
Available for Plant Additions .....		6,024
Total Plant Additions .....	\$10,122	
Less Owners' Wages Allowance .....	<u>1,225</u>	
Net Out-of-Pocket Cost of Additions .....		8,897
Amount Obtained for Plant Additions from Other Sources		2,873

In brief, during the past three years, in order to make the necessary additions and improvements to the water system, it has been necessary for the applicants to obtain an average of over \$950 per year from sources other than operating revenues, in addition to devoting to this purpose all monies allocated as salaries and wages for themselves and the accrual of depreciation expenses and with no return on their investment.

By the same logic, under applicants' proposed rates for a year in the near future, and based on the staff's estimates of revenues and expenses, from the utility's own funds there might be made available an annual amount of \$8,654 for making extensions and improvements to the plant facilities. It should be emphasized however that such amount consists of salaries and office rent allowance for the owners of \$3,950, depreciation expense of \$2,031 and a return on the owners' investment of \$2,673.

Applicants testified, in effect, that they are no longer willing to devote to utility operations any funds obtainable from other sources and that only by obtaining increased revenues can they expect to borrow money or obtain credit for the purchase of materials or contracting for the needed extensions and improvements to the water system. They further testified that, as in the past, they are

willing to reinvest in plant a portion of such funds as may become available from utility operations over and above those necessary for other out-of-pocket expenditures and reasonable allowances for living expenses.

#### Recommendations

The staff recommended that applicants meter all customers by March 31, 1958, and that a temporary flat rate service schedule be authorized, limited to present flat rate customers and to be terminated by that date.

Another staff recommendation was that the applicants promptly commence installation of approximately 2,000 feet of 4-inch main from the existing 4-inch main to the 2-inch lateral on School Street, and that periodic reports of progress be submitted until the completion of such installation, which should be not later than May 31, 1958.

The staff made other recommendations covering depreciation practices and the filing of up-to-date maps and samples of current forms normally used in connection with customer service.

It is further recommended that in so far as practical applicants segregate utility expenditures from nonutility and personal expenditures. With respect to such items as taxes, insurance, telephone service and transportation equipment, costs related to facilities used both for utility and nonutility purposes should be equitably apportioned. A separate bank account should be used for all water utility receipts and disbursements.

#### Findings and Conclusions

It is evident from the record that applicants are in need of financial relief. While the Commission realizes that the requested increase in revenue will necessitate a level of rates for water service which is somewhat high when compared with those in

some other areas, it is noted that applicants serve a relatively small number of customers from very limited and scattered sources of supply, in a hilly area, and presenting difficult maintenance and operation problems. From a careful review of the record we hereby adopt the staff estimates of revenues and expenses for the estimated year 1957 as reasonable for a 12-month period in the near future and we also adopt the staff's rate base of \$42,200 as reasonable for the purposes of this proceeding. We find that under the existing circumstances the rates proposed by applicants and the resulting estimated rate of return of 6.33 per cent on the rate base adopted herein is reasonable.

To the extent that certain proposed and recommended improvements and additions to plant have been included in the rate base hereinabove adopted, the order herein will require the replacement of certain water mains and the installation of meters on existing services.

Complete metering of the system will eliminate the necessity for a permanent flat rate schedule. A temporary flat rate schedule to be used only until meters can be installed and in no event after June 30, 1958, will be provided for by the order herein.

The Commission finds as a fact that the increases in rates and charges authorized herein are justified and that the present rates in so far as they differ from those herein prescribed are for the future unjust and unreasonable.

#### O R D E R

William Hay and Delia Hay having applied to the Commission for an order authorizing increases in rates and charges for water service rendered by them in the City of Point Arena in Mendocino County, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED that:

1. Applicants William Hay and Delia Hay, his wife, doing business as Point Arena Water Works, are authorized to file in quadruplicate with this Commission in conformity with the provisions of General Order No. 96 the schedules of rates attached to this order as Appendix A and, after not less than five days' notice to the public and to this Commission, to make such rates effective for all service rendered on and after January 1, 1958.
2. Within thirty days after the effective date of this order, applicants shall file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96, a revised tariff service area map and samples of current forms normally used in connection with customer service.
3. Within sixty days after the effective date of this order, applicants shall file with this Commission four copies of a comprehensive map drawn and directly reproduced to an indicated scale of not more than 300 feet to the inch, delineating by appropriate markings the various tracts of land and territory served, the production, storage and distribution facilities, and the various water utility properties of applicants.
4. Beginning with the year 1957, applicants shall determine depreciation expense by multiplying the depreciable utility plant by a rate of 3.9 per cent. This rate shall be used until review indicates that it should be revised. Applicants shall review the depreciation rate using the straight-line remaining life method when major changes in utility plant composition occur and 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 this Commission.

5. Within five months after the effective date of this order, applicants shall complete the improvements and additions to the water system referred to in the preceding opinion of this order, as follows:

- a. Replace with approximately 2,000 feet of pipe of not less than four inches inside diameter the existing two-inch water main extending from the end of the present four-inch main near the intersection of Riverside Drive and Garcia Road to the point on School Street where there is now a two-inch line branching to Lake Street.
- b. Install meters on the services of all residential and business customers now being served at flat rates.

6. Applicants shall inform the Commission in writing of the completion of the installation and placing in operation of the facilities ordered in the above paragraph 5, within ten days after such completion.

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

Dated at San Francisco, California, this 10<sup>th</sup> day of December, 1957.

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

APPENDIX A  
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Point Arena, and vicinity, Mendocino County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 400 cu.ft. or less .....	\$ 4.60
Next 600 cu.ft., per 100 cu.ft. ....	.76
Over 1,000 cu.ft., per 100 cu.ft. ....	.46
Minimum Charge:	
For 5/8 x 3/4-inch meter .....	\$ 4.60
For 3/4-inch meter .....	6.00
For 1-inch meter .....	9.50
For 1 1/2-inch meter .....	12.00
For 2-inch meter .....	17.00

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

Schedule No. 2 LX

LIMITED TEMPORARY FLAT RATE WATER SERVICE

APPLICABILITY

Applicable to water service furnished on a limited temporary flat rate basis.

TERRITORY

The City of Point Arena, and vicinity, Mendocino County.

RATES

Per-Month

Each 3/4-inch service connection ..... \$4.60

SPECIAL CONDITIONS

1. Service under this schedule will be continued to any customer served hereunder as of the effective date of this tariff sheet, and until such time as a meter is installed.
2. This schedule will be effective only to and including June 30, 1958, and will thereafter be withdrawn.