

ORIGINAL

Decision No. 56003

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
DYKE WATER COMPANY, a corporation,  
for authorization to increase its  
rates charged for water service.

Application No. 39303  
(First Amendment)

Best, Best & Krieger, attorneys, by James H. Krieger  
and Richard Edsall, for applicant.

Bon L. Wells, for Pacific Water Co; Philip F. Walsh,  
for Southern California Water Company; and Henry W.  
Tate, in propria persona; interested parties.

William C. Bricca, Theodore Stein, and C. T. Coffey,  
for the Commission staff.

INTERIM OPINION

On August 6, 1957, Dyke Water Company, a corporation,  
filed its application seeking authority to increase rates charged  
for water service in southwest Orange County. Its proposed rates  
represent straight across-the-board 50% increases over the present  
rates and would produce gross annual increases in revenue of about  
\$300,000 based on 1957 operations.

On October 8, 1957, applicant filed its first amendment  
to its application asking the Commission to issue its ex parte  
order granting applicant authority to place into effect immediately  
and on an interim basis the rates proposed in its original applica-  
tion.

A public hearing on the interim proceeding was held  
before Commissioner Rex Hardy and Examiner Stewart C. Warner on  
November 1, 1957 at Santa Ana. No one appeared in protest to the  
granting of the application, but the receipt of four letters in  
protest thereto was noted for the record and an additional letter

was noted which complained that no copy of the application was available for inspection at applicant's office on October 28, 1957. After the receipt of evidence, the matter was taken under submission subject to the late filing of Exhibits Nos. 4 and 10, and final submission was effective on November 18, 1957. Because no full record was made or attempted to be made on applicant's rate case in chief, the Commission now is solely concerned with the emergency aspects of the request for interim relief.

Applicant was organized in 1951 for the purpose of supplying water service in portions of Orange County. Its growth has been rapid. In June of 1953 it reported 377 customers, in June of 1956, 12,196, and at present approximately 19,000. Since the inception of its operations, it has not applied for an increase in rates until the filing of the present application, and it now asserts it is in an emergency financial condition, that it has been unable to liquidate its obligations, and that it has been unable to attract the capital necessary to expand its system.

In presenting its request for interim relief, applicant has submitted financial statements showing its resources and liabilities, its results of operation and its cash position. Similarly, a staff accounting witness, following a limited examination<sup>1/</sup> of the company's records, presented a series of exhibits depicting the company's balance sheet, income statement and sources and application of funds.

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<sup>1/</sup> The examination of the company's records by the staff accountant was reportedly incomplete at the time of the hearing and the exhibits he presented have been stated to have been prepared without audit.

The following balance sheet, indicating the company's financial position as of August 31, 1957, was prepared from Exhibit No. 2:

<u>Assets</u>		
Investment -		
Utility plant, less depreciation	\$3,742,899	
Deduct -		
Advances for construction	2,618,532	
Contributions for construction	<u>76,012</u>	
Net utility plant		\$1,048,355
Nonoperative property		72,138
Current assets -		
Cash	135	
Accounts receivable	6,523	
Materials and supplies	16,973	
Prepayments	<u>25,881</u>	
Total current assets		<u>49,512</u>
<b>Total</b>		<u><u>\$1,170,005</u></u>
<u>Liabilities and Capital</u>		
Long-term debt		\$ 62,313
Current liabilities		623,208
Capital -		
Common stock	\$ 8,000	
Capital surplus	348,063	
Retained earnings	<u>128,421</u>	
Total capital		<u>484,484</u>
<b>Total</b>		<u><u>\$1,170,005</u></u>

The following is a summary statement of the company's operating revenues and expenses:

	<u>1956</u>	<u>1 9 5 7</u>	
		<u>Jan.-Aug.</u>	<u>Annualized</u>
Revenues from water sales	\$485,474	\$422,898	\$634,000
Operating expenses	<u>386,329</u>	<u>394,759</u>	<u>592,000</u>
Operating income before income taxes	<u>\$ 99,145</u>	<u>\$ 28,139</u>	<u>\$ 42,000</u>

The testimony shows that during 1957, applicant, for the first time, accrued officers' salaries at the rate of \$5,000 a month and that, among other things, it charged \$4,161 to expense for advertising, including \$2,830 to the Stanton Chronicle which is owned by Dyke Lansdale, <sup>2/</sup> \$8,834 for public relations, \$5,636 for

<sup>2/</sup> Applicant's then president.

promotion, and \$7,157 for travel expenses including numerous trips of one of its employees to Sacramento in connection, in part at least, with matters other than those pertaining to applicant.

However, adjusting for these items and making allowance for reasonable maintenance expenses and general office salaries, depreciation, ad valorem taxes, payroll taxes, pumping taxes and for taxes on income, it appears that applicant, earningswise, has been realizing something less than what normally is considered a reasonable return. As to its cash position, the record is clear that applicant's finances have become progressively worse. It had, as of August 31, 1957, current assets of \$49,512, including cash of only \$135, as compared with current liabilities of \$623,208. It is faced with construction expenditures, according to Exhibit No. 6, of \$1,638,800 to obtain and utilize Metropolitan Water District water, and it has been and will be called upon to make substantial cash outlays to refund advances for construction. A statement showing applicant's cash experience during the first eight months of 1957 is as follows:

Not income from operations after deferred federal income taxes		\$ 19,236.19
Revenue charges not requiring current expenditures:		
Depreciation	\$ 84,620.20	
Deferred federal income taxes	<u>13,201.00</u>	<u>97,821.20</u>
Total from operations		117,057.39 <sup>2/</sup>
<u>Plus:</u>		
From cash increases in advances for construction		181,471.85
From contributions in aid of construction		6,311.71
From fund on deposit on equipment		46.29
From decrease in working capital		<u>128,717.16</u>
Total funds provided		<u>\$433,604.40</u>
Said funds were applied as follows:		
To increases un utility plant assets		\$ 24,285.29
Land, land rights and wells		
Water distribution system:		
Structures and improvements	6,923.13	
Pumping equipment	42,180.36	
Reservoirs and tanks	7,169.66	
Transmission and distribution mains	206,607.90	
Services	12,487.29	
Meters	6,066.22	
Hydrants	<u>25,451.07</u>	306,885.63
Equipment:		
Office furniture and equipment	6,720.67	
Transportation equipment	9,349.98	
Tools, shop and garage equipment	<u>958.69</u>	<u>17,029.34</u>
Total utility plant assets		348,200.26
Deduct work done by land subdividers and not requiring current expenditures		<u>110,301.61</u>
		237,898.65
To decrease long-term debt		5,422.97
To decrease in long-term portion of amounts due in advances for construction		<u>190,282.78</u>
Total funds applied		<u>\$433,604.40</u>

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Applicant's accounting witness testified that the "total funds provided from operations was the sum of \$117,057.39" (Tr. Vol. I, pages 39 and 40).

In passing on this matter, it is noted that applicant's emergency condition is due not so much to the inadequacy or insufficiency of its rates but to its unsound capitalization in the form of excessive amounts of advances collected from sub-dividers. Applicant is undercapitalized and has insufficient working capital. It has provided approximately 78 per cent of its plant costs with borrowed money in the form of sub-dividers' advances and is faced with making annual repayments on its debt in amounts greater than it can generate internally or borrow from outside sources. The preceding statement shows that during the first eight months of 1957, applicant's operations produced cash of \$117,057 but that during the same period, it repaid advances of \$190,282 and made substantial capital additions by depleting its working cash and deferring payment of current liabilities.

Because of the present financial condition of the applicant we find, from the evidence, that the ability of the applicant to continue to furnish reasonable service to customers entitled to receive its service, is in serious jeopardy. In the circumstances, we find that the public interest requires that applicant's customers be furnished reasonable service and, in order to furnish such service, applicant must receive interim rate relief. Based upon the evidence now before us and the exigent circumstances existing, we will authorize applicant to increase its monthly residential flat rate from \$3.00 to \$3.75.

An increase in the basic flat rate for a single family residence will also require a proportionate adjustment of applicant's other flat rates under its general flat rate service schedule in order to maintain this schedule in balance. Concurrently with the authorization of increases in applicant's general flat rate service schedule charges it will be also necessary to correspondingly increase the rates and charges in

applicant's general metered service schedule. The order herein will provide for these increased charges. The Commission finds as a fact that the increases in rates and charges authorized herein are justified.

The Commission reserves its final findings and conclusions on applicant's operating practices, its adjusted operating revenues and expenses, its rate base, rate of return, final rates and allied matters until the conclusion of applicant's main case for a rate increase, and the issuance of a final decision herein.

INTERIM ORDER

First amendment of the application as above entitled having been filed, public hearings having been held, the matter having been submitted and now being ready for decision, therefore

IT IS HEREBY ORDERED that Dyke Water Company 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 three days' notice to the Commission and to the public, to make said rates effective for service rendered on and after January 1, 1958.

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

Dated at San Francisco, California, this 17<sup>th</sup> day of December, 1957.

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

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the incorporated cities of Anaheim, Barber City, Garden Grove, Huntington Beach, Midway City, Santa Ana, Stanton, Westminster, and adjacent territory, Orange County.

RATES

	<u>Per Meter per Month</u>
Quantity Rates:	
First 1,000 cu.ft. or less .....	\$ 3.25
Next 1,000 cu.ft., per 100 cu.ft. ....	.19
Next 1,000 cu.ft., per 100 cu.ft. ....	.18
Over 3,000 cu.ft., per 100 cu.ft. ....	.15
Minimum Charge:	
For 5/8 x 3/4-inch meter .....	\$ 3.25
For 3/4-inch meter .....	3.50
For 1-inch meter .....	3.80
For 1-1/2-inch meter .....	4.40
For 2-inch meter .....	5.35
For 3-inch meter .....	8.75
For 4-inch meter .....	12.25

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

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on a flat rate basis.

TERRITORY

Portions of the incorporated cities of Anaheim, Barber City, Garden Grove, Huntington Beach, Midway City, Santa Ana, Stanton, Westminster, and adjacent territory, Orange County.

RATES

	<u>Per Service Connection per Month</u>
1. Single family residence, including premises not exceeding 10,000 sq.ft. area .....	\$ 3.75
a. For each additional residence on the same premises and served from the same service connection .....	1.75
b. For each 100 sq.ft. of area in excess of 10,000 sq.ft. ....	.04
c. For each swimming pool, in addition to the regular flat rate .....	6.00
2. For each store, market, or shop .....	3.75
3. For each service station .....	5.00
4. For each hospital, per bed .....	1.25
5. For each clinic, including premises not in excess of 20,000 sq.ft. in area .....	45.00
a. For each 100 sq.ft. of area in excess of 20,000 sq.ft. ....	.04

SPECIAL CONDITIONS

1. The above flat rate charges apply to service connections not larger than 3/4-inch in diameter.

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

3. A meter may be installed at option of utility or customer for above classifications in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service. When a meter is installed at option of customer, metered service must be continued for at least 12 months before service will again be furnished at flat rates.