

Decision No. 56373

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GARDEN WATER COR-)	
PORATION to increase rates and)	
establish new schedules for the	)	Application No. 39341
service of water in the vicinity)	
of Bakersfield, California.)	

Ned S. Porter; and John Hay and Ned S. Porter,
 by John Hay; for applicant.
Dustin N. Jameson, for various water consumers;
Mrs. Loretta Saroiberry; Vesta Butts; Raymond
M. Jennings; Mrs. Alfred Ramey; Mrs. Harold
Davidson; and W. R. Girard; protestants.
Thomas L. Deal, Alfred V. Day, and C. F. Clark,
 for the Commission staff.

O P I N I O N

The above-entitled application was filed August 19, 1957 and a public hearing thereon was held October 23, 1957. By Decision No. 56036, issued January 7, 1958, this Commission authorized applicant to increase rates on an interim basis and ordered that the matter be set for additional hearing. Such further hearing was held before Examiner E. Ronald Foster in Bakersfield on February 5, 1958, upon conclusion of which the matter was submitted and is now ready for decision.

The interim opinion in Decision No. 56036 contains considerable information concerning the water system, the service area, operations of the predecessors in interest, the operations of applicant since it commenced operation of the utility as of January 1, 1957, and other information which need not be repeated here.

Pertinent data pertaining to utility plant and other rate base components and to the various elements of the utility's earnings position as presented by applicant at the original hearing will be brought forward for comparison with the results of operation of the utility as shown by the Commission staff in its report presented at the adjourned hearing.

Rates

The following tabulation shows a comparison of the prior rates which had been in effect since March 1, 1943, those proposed by applicant, and the interim rates granted, for the principal classifications of flat rate service and for metered service.

General Service at Flat Rates

<u>Classification</u>	<u>Per Service Connection per Month</u>		
	<u>Prior Rates</u>	<u>Proposed Rates</u>	<u>Interim Rates</u>
For one dwelling, house or other single unit, including irrigated area of not over 5,000 square feet	\$1.75	--	--
For one dwelling, house or other single unit, including total lot area not exceeding 10,000 square feet	--	\$3.50	\$2.75
For each additional dwelling taking service through the same connection	1.00	2.00	1.50
For irrigation of grounds in excess of 5,000 square feet, during months of May to October, inclusive, per 100 square feet .....	.02	--	--
For additional lot area in excess of 10,000 square feet, per 100 square feet	--	.025	.02
For each window-box type air cooling unit, during months of May to September, inclusive,			
Circulating type .....	.25	--	--
Noncirculating type .....	.50	--	--

General Metered Service

Quantity Rates:	Per Meter per Month		
	Prior Rates	Proposed Rates	Interim Rates
First 900 cu.ft. or less	\$1.75	\$ --	\$ 1.75
First 1,000 cu.ft. or less	--	2.50	--
Next 4,100 cu.ft., per 100 cu.ft. ....	.15	--	.15
Next 1,000 cu.ft., per 100 cu.ft.	--	.20	--
Next 1,000 cu.ft., per 100 cu.ft.	--	.15	--
Next 2,000 cu.ft., per 100 cu.ft.	--	.125	--
Over 5,000 cu.ft., per 100 cu.ft. ....	.10	.10	.10

Minimum Charge:

For 5/8 x 3/4-inch meter	\$1.75	\$ 2.50	\$ 1.75
For 3/4-inch meter	2.00	3.50	2.50
For 1-inch meter	2.50	5.00	4.50
For 1-1/2-inch meter	3.50	10.00	9.00
For 2-inch meter	5.00	15.00	15.00

It may be noted that the prior schedule of meter rates was continued in effect on the interim basis, modified only by higher minimum charges for meters larger than 5/8 by 3/4 inch, to make such charges more nearly comparable to the relative capacities of the meters of various sizes.

The principal change in the basis of charges at the authorized interim flat rates, in addition to increasing the basic residential rate from \$1.75 to \$2.75, was to incorporate a rate of two cents per 100 square feet of additional lot area in excess of 10,000 square feet instead of the prior rate of two cents per 100 square feet of irrigated area in excess of 5,000 square feet.

The interim rates were put into effect for all service rendered on and after February 1, 1958, as authorized.

Customer Participation

Bills for flat rate service at the new rates for the month of February had been issued just a few days prior to the hearing on

February 5 and the interest aroused by the increased billings, some of which were very considerable, resulted in attendance at the second hearing by about 80 customers. Through their representative, a petition was introduced as Exhibit No. 9 containing over 140 signatures, but apparently representing only 127 different premises, objecting to the granting of the application for the increase in rates and (1) contending that the increases would generally result in charges grossly disproportionate to the services rendered and in an undue financial hardship to consumers, (2) contending that the consumers are already being charged sufficient to cover the necessary costs of services being furnished and that the evidence does not warrant granting the requested rates, and (3) requesting the Commission to thoroughly examine the evidence and fairly ascertain the rate basis which will be fair, just and equitable to the utility and to the consumers.

Evidence was introduced and several consumers testified, and more were ready to testify, to the effect that the application of the two-cent lot area rate had resulted in greatly increased and exorbitant charges at a time of year when little irrigation is being practiced and that even in the irrigation season considerable portions of the lot area charged for had not been and would not be irrigated with water supplied by the applicant utility. Some testified further that they are also billed for irrigation water furnished by the Kern Island Canal Co., a public utility serving water from surface canals in at least part of the same territory served by applicant. In some cases, an area around the house is

fenced off from the area which can be irrigated with canal water although sometimes a pipeline extends into such area for watering stock or other purposes. These consumers, living on large premises and representing an indefinite number of such customers, complained that the billings based on total lot area are unjust and do not represent the actual usage of water. They asked that the billings be adjusted on the basis of "useful" area around the house or of the irrigated area.

In response to this testimony, the applicant stated that the best solution of the question as to the actual amount of water used on any premises is to install a meter on the service. It was explained that the use of meters to determine equitable charges is made all the more necessary by the availability of canal water. Applicant's president testified that he recognized the unreasonableness of the amounts of some of the flat rate billings in relation to the probable use of water but that there had not yet been time to determine the size of meter wanted by such consumers nor to install the meters. He had met considerable resistance by many consumers to the practice of metered service in general. He stated his intention of proceeding as fast as possible with his previously determined plan of metering at least 100 services within the current year. Unless a customer requests a larger meter, he plans to install a 5/8 by 3/4-inch meter. He further testified that in all cases where a meter cannot be installed promptly, for any customer who would make application during the current month of February for metered service, specifying the desired size of meter, he would adjust the flat rate billing to the meter rate basis as of

February 1. Otherwise, he would exercise the utility's option of installing meters on any consumer's service and thereafter render bills on the basis of the meter registration.

Summary of Showings of Earnings

At the original hearing evidence was presented respecting applicant's earning position through Exhibits Nos. 1 to 5, inclusive, and supporting oral testimony by applicant's president. At the same time, a member of the Commission's staff presented a financial report, Exhibit No. 6, pertaining to applicant. At the adjourned hearing, a Commission staff engineer presented a report on the results of operation of the utility for the year 1956 recorded, 1957 estimated and adjusted, and 1958 estimated. The respective showings of applicant and the Commission staff are summarized in the following comparative tabulation, extracted from the above-mentioned exhibits:

Item	Applicant Estimated		CPUC Staff			
	1957	1958	1957 Estimated		1958 Estimated	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	Present Rates	Proposed Rates
<u>Operating Revenues</u>						
Metered Sales	\$ -	\$ 6,600	\$ 1,700	\$ 1,800	\$ 6,300	\$ 7,600
Unmetered Sales	12,918	16,279	12,100	20,600	9,700	18,000
Total	12,918	22,879	13,800	22,400	16,000	25,600
<u>Deductions</u>						
Operating Expenses	12,313	14,810	12,800	12,800	13,000	13,000
Taxes, Other than Income	652	700	660	660	700	700
Taxes on Income	25	1,546	20	2,330	100	3,240
Depreciation Expense	1,531	1,750	1,850	1,850	2,010	2,010
Amortiz. Acquis. Adjust.	1,000	1,000	-	-	-	-
Total Deductions	15,521	19,806	15,330	17,640	15,810	18,950
Net Revenue	(2,603)	3,073	(1,530)	4,760	190	6,650
Avg. Depr. Rate Base		56,163 ^a	39,200	39,200	44,400	44,400
Rate of Return	Loss	5.47%	Loss	12.1%	0.4%	15.0%

(Red Figure)

a. Developed from balance sheet accounts as of August 31, 1957.

The staff engineer testified that the indicated upward trend in the rate of return at the applicant's proposed rates will probably continue in somewhat greater degree for the next few years, based upon a continuation of the utility's program for conversion from flat rate to metered service.

The staff witness also presented a tentative estimate of the results of operation based on the interim rates. For the year 1958, he estimated that the recently authorized rates, assuming they were in effect for the full year, would produce gross revenues of about \$19,960 which, after appropriate revision of income taxes, would result in net revenues of approximately \$2,860, equivalent to a rate of return of 6.4 percent on the same rate base of \$44,400. He further testified that, assuming that applicant will continue its program of converting from flat rate to metered service, the trend in the rate of return at the interim rates will also continue upward. This would appear to indicate that the schedule of meter rates, as now designed, is inconsistent with the flat rate schedule and that both schedules should be modified to make them more compatible with each other.

The important variations revealed in the foregoing tabulation between the estimates submitted by the applicant and the staff for the year 1958 estimated at proposed rates are largely explained under the following headings:

1. Revenues: Although both estimates of meter revenues are based on 100 customers, the staff estimate reflects higher revenues due to metering some 15 nonresidential customers whose estimated

water usage is considerably greater than the average of about 2700 cubic feet per month upon which applicant based its estimate. For the 85 metered residential customers, the staff based its estimate of revenues on an average monthly usage of 2800 cubic feet. The staff estimate of flat rate revenues reflects an adjustment for the proper enforcement of the prior rate schedules and also includes an allowance for growth, which applicant's estimate did not include. The over-all effect shows the staff estimate of revenues to be about \$2,700 higher than applicant's.

2. Operating Expenses: While the staff's estimate of operating expenses for the year 1957 is shown as about \$500 greater than that of applicant, for the year 1958 the staff's estimate is about \$1,800 less than applicant's. As compared with 1957, the staff increased these expenses for the year 1958 by an amount of only \$200, with no increase in administrative and general salaries; on the other hand, applicant increased its estimate of operating expenses for 1958 over those for 1957 by an amount of approximately \$2,500, of which \$1,200 represents an increase in salaries for administration and supervision. All things considered, it appears that an amount of \$13,800 would be a reasonable amount to represent these operating expenses and such amount will be adopted for the purposes herein.

3. Taxes: The applicant and the staff are in agreement in their estimates of taxes other than those based on income. The

difference between their estimates of income taxes may be ascribed to the differing estimates of taxable net income.

4. Depreciation and Amortization: The staff's estimate of depreciation expense is \$260 higher than applicant's largely because of the inclusion of additional depreciable plant derived from the acquisition adjustment. Applicant has proposed to amortize such plant over a short period of time at the rate of \$1,000 per year. The staff treatment is considered proper and reasonable and will be adopted for the purposes of this proceeding.

5. Utility Plant and Rate Base: In Exhibit No. 4 applicant developed its rate base for the year 1958 from balance sheet accounts as of August 31, 1957, and other items, as follows:

<u>Applicant's Rate Base</u>		
Utility Plant		\$54,323
Less Reserve for Depreciation		<u>10,749</u>
Net Utility Plant		43,574
Utility Plant Acquisition Adjust.	\$7,411	
Less Reserve for Amortization	<u>667</u>	
Net Plant Acquisition Adjust.		6,744
Proposed Additions to Plant		<u>11,110</u>
Total Net Plant		61,428
<u>Deductions</u>		
Advances for Construction	\$9,665	
Less Proposed Refunds	<u>5,000</u>	
Net Advances	4,665	
Contributions in Aid of Const.	<u>600</u>	
Total Deductions		<u>5,265</u>
Rate Base, 1958		\$56,163

Based on balance sheet accounts as of June 30, 1957, after adjustments developed in Schedules B, C, and D of the staff's

Exhibit No. 6, average rate bases for the years 1957 and 1958 were determined by the staff as set forth in the following tabulation:

CPUC Staff's Rate Bases

<u>Item</u>	<u>Estimated</u>	
	<u>1957</u>	<u>1958</u>
Weighted Average Utility Plant	\$59,370	\$65,200
Average Materials and Supplies	300	300
Working Cash	700	900
Subtotal	<u>60,370</u>	<u>66,400</u>
 <u>Deductions</u>		
Average Advances for Construction	9,730	8,660
Contributions in Aid of Construction	600	600
Average Depreciation Reserve	<u>10,880</u>	<u>12,710</u>
Total Deductions	<u>21,210</u>	<u>21,970</u>
 Average Depreciated Rate Base	 39,160	 44,430
 USE	 39,200	 44,400

As to the utility plant acquisition adjustment included in applicant's rate base as \$7,411 less some amortization, the staff studies indicate that the previous utility owner had not charged labor and that the estimated amount of \$4,000 included therein is reasonable in relation to the total utility plant and that an additional amount of \$2,020 representing specific identifiable plant items should be incorporated as part of the utility plant. Therefore, the total of \$6,020 has been included in the staff's development of utility plant on a pro forma basis. Most of the balance consisted of an amount for engineering services related to an appraisal of the system and was not considered as proper to be included in plant accounts and is therefore not reflected in the staff rate bases.

Of the proposed additions to plant shown in applicant's rate base as a total of \$11,110, the staff has not included the

amount of \$5,200 estimated by applicant as the cost of certain additional large mains. The staff's engineering witness testified that he had not included this item for the reasons that the anticipated reduction in the total supply of water required as the deliveries become more fully metered may eliminate the need for the larger pipeline and also the location of such pipelines may depend upon the improvement in water production from one of the existing wells. In any event, the plans for the proposed installation of these mains are deemed not sufficiently firm as to warrant their inclusion in the rate bases now being considered. All of the other proposed additions, amounting to \$5,910, have been included in utility plant on a weighted average basis and thus reflected in the staff's rate bases.

Whereas applicant has reduced the amount of advances for construction by an amount of \$5,000 for proposed refunds, the staff's position is that until the advances are refunded the applicant is not entitled to a return thereon. Therefore the staff has used the total weighted average amount of such advances as a deduction from utility plant.

The staff has included in its rate bases appropriate amounts for materials and supplies and for working cash which applicant did not do.

The staff's treatment of the various elements and components of rate base appears to be fair and reasonable and the amount of \$44,400 developed by the staff for the year 1958 is hereby adopted as a reasonable rate base upon which to test the reasonableness of rates proposed by applicants and of rates to be authorized in this proceeding.

Recommendations

The staff made certain recommendations covering depreciation practices and the filing of maps and sample copies of printed forms normally used in connection with customers' services. To the extent that such recommendations were not covered in the interim order, they will be included in the order which follows.

Findings and Conclusions

The evidence is clear, as indicated by the foregoing analysis, and we now find that revenues obtainable from the water rates which were in effect prior to February 1, 1958, are inadequate to meet applicant's reasonable needs. Applicant has conclusively demonstrated that it is entitled to rate relief. The rates which applicant has proposed, however, would yield revenues substantially greater than a reasonable return would require.

Considerable relief has been afforded applicant through the filing of the rates authorized on an interim basis by Decision No. 56036 issued in this proceeding on January 7, 1958, and made effective February 1, 1958. Further consideration of the evidence and all testimony presented in this matter leads us to the conclusion that applicant is entitled to some additional relief and that an order should be issued revising the interim rates to the extent set forth in Appendix A following the order herein.

We further conclude that the rate schedules should be revised for the purpose of eliminating the effect of unreasonably increasing the revenues from metered service as compared with those from flat rate service as the applicant proceeds with its

anticipated program of placing meters on many existing services now supplying water at flat rates. To make charges at meter rates more consistent with those at flat rates for estimated average water consumptions, the minimum charge for each of the various meter sizes will be increased and the quantity of water to which the customer will be entitled for the minimum charge will also be increased, while the quantity rates for blocks of additional usage will be revised downward. To the same end, the basic residential flat rates will be increased to levels which will still be lower than those proposed by applicant.

Based on the staff's estimates for the year 1958, the authorization herein is expected to produce total revenues of about \$20,975 from both flat rate and metered service which will result in net income of approximately \$3,000 after due allowance for all reasonable operating expenses of \$13,800 and provisions for taxes and depreciation. Such net income of \$3,000 represents a rate of return of about 6-3/4 percent on a depreciated rate base of \$44,400, which rate base we adopt as reasonable for the purposes of this decision. We conclude that such results of operation are fair and reasonable for this utility.

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

Garden Water Corporation having applied to this Commission for an order authorizing increases in rates and charges for water service rendered to its customers, public hearings having been held, the Commission having been fully informed thereon, the matter having been submitted and being now ready for decision,

IT IS HEREBY ORDERED as follows:

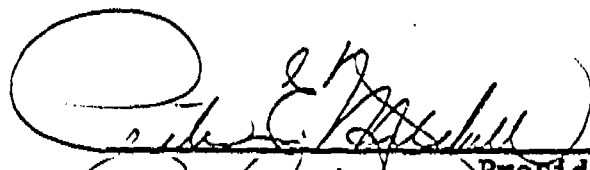
1. That applicant is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96, the schedules of rates attached to this order as Appendix A and, on not less than five days' notice to this Commission and to the public, to make such rates effective for all such service rendered on and after June 1, 1958.
2. That applicant, within sixty days after the effective date of this order, shall file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96, samples of current forms normally used in connection with customer service.
3. That, beginning with the year 1958, applicant shall determine depreciation expense by multiplying the depreciable utility plant by a rate of 3.2 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 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

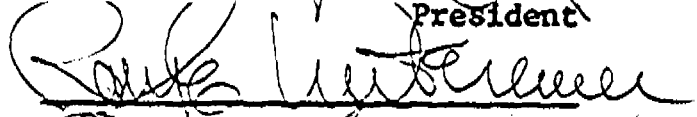
with such reviews. Results of these reviews shall be submitted to this Commission.


4. That, except as modified herein, Decision No. 56036 shall remain in full force and effect.

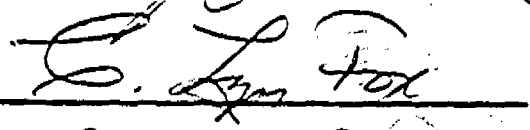
The effective date of this order shall be twenty days after the date hereof.

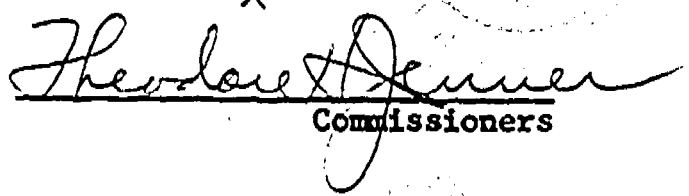
Dated at San Francisco, California, this 22 day of APRIL, 1958.



President








Commissioners

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated subdivisions known as Rexland Acres and Garden Acres, and vicinity, adjacent to the east side of Highway U.S. 99, approximately 5 miles south of the City of Bakersfield, Kern County.

RATES

Quantity Rates:	<u>Per Meter per Month</u>
First 1,000 cu.ft. or less	\$2.00
Next 3,000 cu.ft., per 100 cu.ft. ....	.12
Over 4,000 cu.ft., per 100 cu.ft. ....	.10

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 2.00
For 3/4-inch meter	3.00
For 1-inch meter	5.00
For 1 1/2-inch meter	10.00
For 2-inch meter	15.00
For 3-inch meter	25.00
For 4-inch meter	40.00

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

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICEAPPLICABILITY

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

TERRITORY

The unincorporated subdivisions known as Rexland Acres and Garden Acres, and vicinity, adjacent to the east side of Highway U.S. 99, approximately 5 miles south of the City of Bakersfield, Kern County.

RATES

	<u>Per Service Connection per Month</u>
For a single family residence, including premises not exceeding 10,000 sq. ft. in area ..	\$3.00
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. ....	.02

SPECIAL CONDITIONS

1. The above residential flat rate charges apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. A meter may be installed at option of utility or customer for above classification 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.