

ORIGINALDecision No. 56604

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of WILLIAM OSTERBERG,)
 an individual doing business as)
 OSTERBERG WATER COMPANY, to oper-)
 ate a water system in the vicinity)
 of the City of Modesto, County of)
 Stanislaus, and to establish rates)
 in connection therewith.)

Application No. 38857
 Amended

C. G. Ferguson, for applicant.
C. F. Clark, for the Commission staff.

O P I N I O N

Applicant, who operates a certificated water distribution utility in South Modesto Acres Subdivision, Stanislaus County, seeks a certificate and authority to establish rates in two additional subdivisions south of Modesto (but not contiguous to South Modesto Acres), known as the Fairview and Rutherford Tracts, which are interconnected and in which he has rendered domestic water service since about 1947. He also requests an increase in rates for the present and proposed certificated service areas.

At the hearing William Osterberg requested that the application be amended to include his brother, Maurits Osterberg, as co-owner of the system. William Osterberg, however, did not clarify whether it was also proposed to transfer ownership of his presently certificated water system in the same manner. In the absence of evidence respecting such transfer, the proposed amendment will not be recognized. In the event a transfer of ownership of either or both of the systems is desired, appropriate application may be made to this Commission.

The application was submitted on February 18, 1958, at a public hearing at Modesto, before Examiner John M. Gregory.

Service to about 1,000 customers in the three tracts is principally on a flat rate basis. A few large users are charged meter rates. The distribution system in South Modesto Acres consists of about 21,000 feet of pipe ranging from 6 inches to 3/4 inch in diameter. Most of the services are 1/2 inch. The approximately 26,000 feet of distribution pipe in the other two tracts range in diameter from 6 inches to 1 inch, with services mostly of 3/4 inch. Sources of supply appear to be adequate.

The original installations in South Modesto Acres were principally of used pipe, resulting in lower costs for that system. Applicant, by a later amendment, requested authority to record on its books, as of December 31, 1956, an appraisal of the two systems-- South Modesto Acres and Fairview-Rutherford--in accordance with an historical cost valuation developed by its consultants. The total appraised cost thus shown was \$115,524, which is \$19,490 in excess of applicant's recorded book costs.

Certain appraisal items, totaling \$11,361 for indirect costs of material and labor, overheads and adjustment of the 1947 main piping cost in the Fairview-Rutherford system, were questioned by the staff. The staff, in its study, came up with an adjusted appraisal of \$104,163, as of December 31, 1956, which it used as a starting point for development of average rate bases, adjusted results of operation for 1956 and estimates for 1957, at present and proposed rates. Applicant, at the hearing, introduced the appraisal prepared by his consultants, but did not otherwise question the staff's treatment of the items totaling \$11,361, referred to above, which we find on this record to be a reasonable adjustment.

The following tabulation, taken from the staff's study, presents estimated results of operation under proposed rates, for the period indicated. Applicant's estimates, after providing for replacement of the $\frac{1}{2}$ -inch service pipe by $\frac{3}{4}$ -inch service pipe on the system, are also indicated below:

<u>Item</u>	<u>Year 1957 - Estimate</u>	
	<u>Applicant</u>	<u>Staff</u>
Operating Revenues	\$33,000	\$34,800
Operating Expenses including Taxes and Depr.	27,500	27,297
Net Revenue	5,500	7,503 ^a
Rate Base	95,075	84,900
Rate of Return	5.8%	8.8%

a Average depreciated rate base.

The staff's adjusted figures for 1956 and estimates for 1957, at present rates, indicate rates of return of 0.2 per cent and 0.6 per cent, respectively, which we do not consider to be adequate or reasonable for this system.

Applicant proposes to charge increased rates, as shown in Exhibits B-1 and B-2 of the amendment to the application, and to allow a 25-cent per month discount in its flat rate schedule for customers receiving water through $\frac{1}{2}$ -inch service pipes until the larger service pipes can be installed. That should be done by the filing of a separate, limited-term schedule, applicable only to those customers presently being served through a $\frac{1}{2}$ -inch service pipe. The order to follow will so provide. Present and proposed initial quantity rates, basic minimum charges, and basic flat rates are indicated below. Present rates were established in 1947 for the South Modesto Acres Tract (Decision No. 41008, Application No. 28407):

METERED SERVICE

	<u>Per Meter per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
Quantity Rates:		
First 1,000 cu.ft. or less	\$ -	\$2.50
Next 4,000 cu.ft., per 100 cu.ft.	-	.15
First 5,000 cu.ft., per 100 cu.ft.	0.075	-
Minimum Charge:		
For 5/8 x 3/4-inch meter	1.50	2.50
For 3/4-inch meter	1.75	3.00

FLAT RATE SERVICE

	<u>Per Service Connection Per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
For each dwelling, etc., including an irrigated area of not over 4,000 sq.ft. of lawns, shrubs or trees:		
For 1/2-inch service connection	\$1.75*	\$ -
For 3/4-inch service connection	2.30	3.00

* Limited to presently installed 1/2-inch service pipes.

Applicant also proposes the continuation of an additive flat rate based on the amount of area irrigated. Such a rate is difficult to enforce and will not be authorized. Where excessive quantities of water are used, the utility should exercise its option to install a meter. Further, with respect to the option of metering, it will be provided that both the utility and the customer will have such option.

It is also proposed to establish a rate for private fire protection service, as shown in Exhibit B-3 of the amendment to the application. This service has heretofore not been offered but applicant wishes to have it available for potential customers. Applicant's request in this matter appears to be reasonable and will be authorized.

Applicant has agreed with the staff recommendation that 3/4-inch services would be more adequate for this system than the

present $\frac{1}{2}$ -inch services. This was also recommended in our 1947 decision. This Commission's General Order No. 103 has established the $\frac{3}{4}$ -inch service as the minimum size. Further, to avoid pressure drops, the staff recommended that pump pressures be maintained between 40-60 p.s.i. to compensate for friction losses due to older pipes on some parts of the system. The staff also recommended elimination of a number of dead ends in the distribution system, in order to improve service. The above recommendations appear to be reasonable and applicant should endeavor to carry them out as soon as practicable. Applicant will be required to replace all $\frac{1}{2}$ -inch service pipes by December 31, 1960.

There is no essential difference in the revenue and cost estimates as between applicant and the staff. The chief difference is in the rate bases (approximately \$10,000), due largely to the adjustment made by the staff, acquiesced in by applicant, in the indirect and overhead items and 1947 pipe installation costs referred to above.

It is clear that, under present rates, the estimated revenues will fall short of providing applicant with a reasonable return on the investment and that an increase in rates is justified on this record. The increased rates hereinafter authorized will result in an increase in gross revenues of about 30 per cent, as compared with the applicant's request for an increase of approximately 40 per cent. Such revenues are expected to produce a net revenue after allowance for all reasonable operating expenses, taxes, and depreciation, of \$5,990. This net revenue represents a rate of return of approximately 7.0 per cent on a depreciated rate base of \$84,900, which rate base and rate of return are adopted as reasonable for the purposes of this decision.

We find, accordingly, that the increases in rates authorized herein are reasonable and that public convenience and necessity require the issuance of the requested certificate.

The certificate of public convenience and necessity issued herein is subject to the following provision of law:

That the Commission shall have no power to authorize the capitalization of this certificate of public convenience and necessity or the right to own, operate or enjoy such certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right.

O R D E R

Public hearing having been held herein, the matter having been submitted for decision and the Commission now being fully advised,

IT IS HEREBY FOUND AS A FACT that public convenience and necessity will require the construction and operation of a public utility water system by William Osterberg within the territory delineated upon maps attached to the application herein as Exhibits A and B thereof, in the County of Stanislaus, California, known as the Rutherford and Fairview Tracts.

IT IS HEREBY ALSO 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. A certificate of public convenience and necessity be and it hereby is granted to William Osterberg to construct and operate a public utility system for the distribution and sale of water within the territory hereinbefore described.

- 2.a. 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 June 1, 1958.
 - b. Applicant, within sixty days after the effective date of this order, shall revise its presently filed tariff schedules in a manner acceptable to this Commission and in accordance with the procedure prescribed by General Order No. 96, including the tariff service area map, to provide for application of said tariff schedules for water service to the area certificated herein. Such tariff schedules shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.
3. Applicant, within sixty days after the effective date of this order, shall file four copies of a comprehensive map drawn to an indicated scale not smaller than 400 feet to the inch, delineating by appropriate markings the various tracts of land served; the principal water production, storage and distribution facilities; and the locations of the various water system properties of applicant.
4. Beginning with the year 1958, applicant shall determine depreciation expense by multiplying the depreciable utility plant by a rate of 3.0 per cent. This rate should 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 utility plant 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.
5. Applicant, prior to December 31, 1960, shall replace all existing $\frac{1}{2}$ -inch service pipes with service pipes of not less than $\frac{3}{4}$ -inch nominal size, and shall advise the Commission in writing within ten days after completion of all such replacements.

- 6. Applicant is authorized to revise its utility plant and depreciation reserve accounts substantially in accordance with its appraisal "as adjusted" which is shown in Tables 2-A and 2-B of Exhibit No. 2 in this proceeding.

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

Dated at San Francisco, California, this 29th day of APRIL 1958.

[Signature]
President

[Signature]
[Signature]

[Signature]
Commissioners

Commissioner Ray E. Untereiner, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

A portion of the City of Modesto and certain adjacent unincorporated subdivisions known as South Modesto Acres, Fairview Tract and Rutherford Tract, Stanislaus County.

RATES

Quantity Rates:	<u>Per Meter Per Month</u>
First 1,000 cu.ft. or less	\$ 2.50
Next 4,000 cu.ft., per 100 cu.ft.12
Next 5,000 cu.ft., per 100 cu.ft.10
Over 10,000 cu.ft., per 100 cu.ft.08

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 2.50
For 3/4-inch meter	3.00
For 1-inch meter	3.50
For 1 1/2-inch meter	4.50
For 2-inch meter	6.50
For 3-inch meter	13.00
For 4-inch meter	20.00
For 6-inch meter	30.00

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

APPENDIX A
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Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

A portion of the City of Modesto and certain adjacent unincorporated subdivisions known as South Modesto Acres, Fairview Tract and Rutherford Tract, Stanislaus County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
For a single family residence or a business establishment, including premises consisting of one subdivision lot, when served from:	
3/4-inch service connection	\$2.80
1-inch service connection	4.00
a. For each additional single family residence or business establishment, on the same premises and served from the same service connection	1.00

SPECIAL CONDITIONS

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

Schedule No. 2LX

LIMITED TEMPORARY FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

A portion of the City of Modesto and certain adjacent unincorporated subdivisions known as South Modesto Acres, Fairview Tract and Rutherford Tract, Stanislaus County.

RATES

	<u>Per Service Connection Per Month</u>
For a single family residence or a business establishment, including premises consisting of one subdivision lot, when served from a $\frac{1}{2}$ -inch service connection	\$2.55
a. For each additional single family residence or business establishment on the same premises and served from the same service connection	1.00

SPECIAL CONDITIONS

1. Service under this schedule will be furnished to premises served hereunder as of the effective date of this tariff sheet, and until a larger service pipe is installed.

2. Meters may be installed at option of utility or customer for above classifications in which event a larger service pipe will be installed and service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service.

3. This schedule will be effective only to and including December 31, 1960, and thereafter will be withdrawn.

Schedule No. 4

PRIVATE FIRE PROTECTIONAPPLICABILITY

Applicable to all water service furnished for private fire protection.

TERRITORY

A portion of the City of Modesto and certain adjacent unincorporated subdivisions known as South Modesto Acres, Fairview Tract and Rutherford Tract, Stanislaus County.

RATES

	<u>Per Month</u>
For each 1½-inch connection	\$ 2.25
For each 2-inch connection	3.00
For each 3-inch connection	4.50
For each 4-inch connection	6.00
For each 6-inch connection	9.00
For each 8-inch connection	12.00
For each 10-inch connection	15.00

SPECIAL CONDITIONS

1. The fire protection service connection will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.
2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.
3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waster of water.

Schedule No. 4

PRIVATE FIRE PROTECTION

SPECIAL CONDITIONS—contd.

4. For water delivered for other than fire protection purposes, charges will be made therefor under Schedule No. 1, General Metered Service.
5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.