

Decision No. 50040**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of DICK R. FRIESEN for authority)
to increase rates and charges)
for service rendered in and in)
the vicinity of the unincorporated)
Town of Angwin, Napa County,)
California.)

Application No. 39533

Scott Elder, for applicant.Edward G. Fraser, Jr. and John D. Reader,
for the Commission staff.O P I N I O NNature of Proceeding

By the above-entitled application, filed November 5, 1957, Dick R. Friesen, doing business as the Angwin Water Works, requests authority to increase rates and charges for water service rendered in the unincorporated community of Angwin and its vicinity in Napa County.

The application states that the proposed increases apply only to general metered service and not to the irrigation service to Pacific Union College for the reason that the college is now engaged in constructing its own water supply facilities and such construction is expected to be completed in the near future, after which applicant will furnish no irrigation service.

The application also states that because applicant did not keep records sufficient to enable him to state the original cost of the property or the related depreciation reserve, he planned to have a valuation and appraisal of the properties made prior to the time of hearing.

Public Hearing

After due notice a public hearing was held before Commissioner Ray E. Untereiner and Examiner E. Ronald Foster on April 16, 1958, at Angwin. A number of local residents, including customers of the utility, attended the hearing but none of them testified.

At the outset applicant asserted his desire to proceed with the hearing on his request for increased rates without prejudice to the later introduction of the appraisal of the properties, which had not yet been completed.

Following the introduction of evidence by two witnesses on behalf of applicant and by three members of the Commission staff the matter was submitted and is now ready for decision.

History of Applicant's Operations

The utility is a proprietorship owned and operated by applicant, who conducts his operations on a part-time basis in conjunction with his White Cottage Ranch on Howell Mountain. Water service was first rendered by predecessor owners of the ranch using some springs as a source of supply. Applicant purchased the ranch in 1930 and continued to provide similar water service. He has increased the production facilities by drilling wells, developing new springs and constructing earth-fill dams for storing surface water. In 1949 some 70 customers being served by Pacific Union College were transferred to applicant's water system and two concrete distribution reservoirs were then installed.

Decision No. 53765 dated September 18, 1956, in Application No. 36736 and Case No. 5683, among other things, (1) granted applicant a certificate of public convenience and necessity; (2) ordered J. H. Champion, a respondent in Case No. 5683, to cease furnishing public utility water service unless he should either

submit to regulation by the Commission or conclude arrangements with applicant for the latter to assume responsibility for operation of the facilities in a certain area of about 16 acres theretofore supplied by said Champion ^{1/}; (3) determined applicant's service area and limited the growth therein to individual applicants; (4) directed applicant to file a schedule of rates for general metered service; (5) ordered applicant to file a rate for limited irrigation service to Pacific Union College or in lieu thereof to seek authorization of a new agreement with said college to cover such service; and (6) ordered applicant to set up on his books the plant accounts and depreciation reserve as of April 30, 1955, substantially as shown in Table 6-A of Exhibit No. 12, the staff report in those proceedings.

By Decision No. 54858, dated April 16, 1957, in Application No. 38853, applicant was authorized to carry out the terms and conditions of a contract with Pacific Union College Association providing for the delivery by applicant of a maximum of 20 acre-feet of water at a rate of \$10 per acre-foot. The tariff schedule previously filed for irrigation service to the college was then withdrawn as authorized by that decision.

On February 10, 1957, Angwin Chamber of Commerce filed Case No. 5910, being a complaint against Dick R. Friesen as defendant, in which it referred to Decision No. 53765 and requested that the Commission order and require that said defendant shall not furnish water to any new or additional consumers. Also, in response to a petition filed by Dick R. Friesen, by its order dated August 27, 1957, the Commission reopened Application No. 36736 and Case No. 5683 for further hearing to determine whether Decision No. 53765

^{1/} Subsequently Champion's water system was purchased by applicant who is now operating it as part of this utility.

should be rescinded, altered or amended. Likewise, in response to a petition filed jointly by Pacific Union College Association and Dick R. Friesen, by its order dated April 8, 1958, the Commission reopened Application No. 38853 for further hearing in connection with reopened Application No. 36736 and Case No. 5683. These four matters were heard on a consolidated record on April 17 and 18, 1958, but no decision therein has been rendered as of the date hereof.

Description of System

The major source of water supply for applicant's system is stored surface water, supplemented by three low-yield springs and three small-capacity wells. The several impounding reservoirs used to store seasonal surface runoff water behind earth-fill dams are located on applicant's ranch, as is the treatment plant where all water from the springs and reservoirs is chlorinated and filtered prior to delivery to the distribution system. Storage for treated water is provided by six concrete reservoirs having a total capacity of approximately 770,000 gallons, including about 440,000 gallons located at the filter plant.

There are some 59,000 feet of transmission and distribution mains in the entire system, of which about 12,000 feet are in the former Champion system, the predominant size of these mains being 2 inches in diameter. There were 319 active service connections as of March 1958 which serve about 447 residences because of multiple connections.

Present and Proposed Rates

Applicant's present basic rates became effective November 1, 1956, as authorized by Decision No. 53765 dated September 18, 1956. The following tabulation presents a comparison of applicant's present and proposed rates for metered service:

General Metered Service

Per Meter per Month
Present Proposed

Quantity Rates:

First	400 cu. ft. or less	.....	\$ -	\$ 3.50
First	500 cu. ft. or less	.....	1.50	-
Next	1,600 cu. ft., per 100 cu. ft..		-	.30
Next	1,500 cu. ft., per 100 cu. ft..		.25	-
Next	2,000 cu. ft., per 100 cu. ft..		.20	.25
Over	4,000 cu. ft., per 100 cu. ft..		.18	.20

Minimum Charge:

For	5/8 x 3/4-inch meter	.....	1.50	\$ 3.50
For	3/4-inch meter	.....	2.00	4.00
For	1-inch meter	.....	3.00	5.00
For	1 1/2-inch meter	.....	5.00	9.00
For	2-inch meter	.....	10.00	12.00

Charges for typical metered usages are shown in the following tabulation and also the percentage increases that would result:

Consumption (Cu. Ft.)	Monthly Charge		Per Cent Increase
	Present	Proposed	
400 or less	\$ 1.50	\$ 3.50	133
500	1.50	3.80	153
800	2.25	4.70	109
1,000	2.75	5.30	93
1,300 (Avg.)	3.50	6.20	77
1,500	4.00	6.80	70
2,000	5.25	8.30	58
3,000	7.25	10.80	49
4,000	9.25	13.30	44
6,000	12.85	17.30	35
10,000	20.05	25.30	26

The foregoing tabulations clearly indicate that the proposed rates would result in comparatively large increases in charges to those customers who use small quantities of water. The record shows that for the year 1957 about a fourth of the monthly billings were for a usage of 400 cubic feet or less and nearly a third of them were for a usage of 500 cubic feet or less. On the other hand, only about six per cent of the monthly billings were for consumptions of 4,000 cubic feet or more but they embraced

approximately twenty-six per cent of the total metered consumption for that year. The average monthly consumption by metered customers for the year 1957 was about 1300 cubic feet and for such average use the charge at the proposed rates would be \$2.70 higher than at present rates or an increase of about 77 per cent.

While applicant has on file no rate for fire protection service, the record shows that the utility has collected revenues from the county amounting to \$504 for each of the past three years on an annual contract at a rate of \$3.50 per hydrant per month for 12 hydrants, although there are 25 hydrants installed on the system. The record does not show that applicant has ever filed with the Commission any contract covering such service, as is required by Section X of the Commission's General Order No. 96. The utility will be authorized in the order which follows to file a rate schedule to cover this service. The authorized rate of \$42 per month represents the amount which has been charged and will reflect service to the 25 hydrants installed as of April 16, 1958. A rate of \$2.00 per hydrant per month is provided for any additional hydrants which may be installed.

Summary of Earnings

In this proceeding evidence was presented by applicant's engineer who had made a study of the system and reviewed applicant's records. He introduced five maps ^{2/} to show the location and general features of the water production, storage and distribution facilities of the Angwin Water Works, including those in the former Champion area. The substance of his testimony was embodied in a "Statistical Report Showing Results of Operation for years 1956 and 1957 and 1958 at Present and Proposed Rates". ^{3/} Experts of the Commission staff also presented a report ^{4/} showing the results of their independent

^{2/} Exhibits Nos. 2, 3, 4, 5 and 6.

^{3/} Exhibit No. 7

^{4/} Exhibit No. 8

investigation and evaluation of applicant's operations for the year 1957 as adjusted and for the year 1958 as estimated. The earnings information contained in these reports for the estimated year 1958 is summarized in the following tabulation:

SUMMARY OF EARNINGS

Item	Year 1958 Estimated			
	Present Rates		Proposed Rates	
	Applicant Exh. 7	Staff Exh. 8	Applicant Exh. 7	Staff Exh. 8
<u>Operating Revenues</u>				
Metered Sales	\$ 12,700	\$ 13,740	\$ 23,310	\$ 24,100
Fire Protection	504	500	504	500
Gasoline Refund	150	-	150	-
Total	<u>13,354</u>	<u>14,240</u>	<u>23,965</u>	<u>24,600</u>
<u>Operating Expenses</u>				
Source of Supply	2,100	2,900	2,100	2,900
Pumping	2,900	1,100	2,900	1,100
Water Treatment	2,310	1,900	2,310	1,900
Transmission & Distr.	3,400	3,250	3,400	3,250
Customer Accounts	1,600	1,900	1,600	1,900
General	3,450	1,760	3,450	1,760
Subtotal	<u>15,760</u>	<u>12,810</u>	<u>15,760</u>	<u>12,810</u>
Taxes Other Than Income	575	410	575	410
Taxes on Income	-	-	868	1,910
Depreciation Expense	3,124	3,550	3,124	3,550
Total	<u>19,459</u>	<u>16,770</u>	<u>20,327</u>	<u>18,680</u>
Net Revenue	(6,105)	(2,530)	3,637	5,920
Avg. Deprec. Rate Base	121,200	125,000	121,200	125,000
Rate of Return	loss	loss	3.0%	4.7%

(Red Figure)

Both estimates reflect a growth of 12 customers for the year 1958 as compared with 1957. Since the utility sold no irrigation water in 1957 under its contract with Pacific Union College, no revenue was received for such service in that year; based on that experience, neither applicant nor staff included any revenue from this source for the year 1958.

The considerable variances between the showings submitted for the year 1958 by the applicant's engineer and by the staff are largely explained as follows:

1. Revenues: Whereas applicant considered gasoline refunds as an element of revenue, the staff treated such refunds as an offset to operating expenses. The staff's estimates of revenue from metered sales in 1958 were built upon revenues for 1957 adjusted to include those from customers of the former Champion system on a full-year basis. Applicant's engineer made no such adjustment.

2. Operating Expenses: Analysis of the two presentations reveals that, aside from the divergent methods of assigning various items of expense to the several groups of operating expenses, the total difference of nearly \$3,000 is largely accounted for by the amounts allowed for salaries and wages chargeable to water utility operations, including allowances for time devoted to such operations by the applicant and his wife. The estimate of applicant's engineer totalled \$9,110 for supervision, labor and clerical work, which amount included between \$4,400 and \$4,500 as salaries for the applicant and his wife. The staff engineer's estimate for all such items was \$6,100 including necessary managerial supervision.

It should be recognized that the operation and management of a small water utility such as this must be conducted on a part-time basis and the charges for such supervision must be reasonable, even though the supervisor, who is the applicant and owner herein, may be subject to call at any and all hours of the day and on many days of the year. Therefore, some judgment must be used to determine what is reasonable. While applicant's consultant has attempted to justify the basis of his allowances, it appears that his estimate,

even though based on wide experience, is excessive for the size and nature of this water system and for the number of customers involved. The staff engineer has used amounts to represent the wages and salaries, including allowances for supervision by the applicant and time devoted to water utility operations by himself and others of his family, which the engineer considered reasonably sufficient, based on his experience and knowledge of the operations of other comparable water utilities.

3. Taxes and Depreciation: The principal difference in the two estimates of taxes other than those on income occurs in the item of the county ad valorem tax. In his analysis of the total taxes paid by applicant on his ranch and other properties, the staff engineer allocated only that portion of such taxes which he considered applicable to the watershed area, there being no taxes charged or paid on the water system as such.

Taxes on income vary, of course, with the amount of taxable income which, in turn, depends upon the estimated gross revenue and the properly deductible expenses of operation. This accounts for the staff's estimate of income taxes being more than \$1,000 greater than the estimate of applicant's engineer.

Due to the widely different methods used in presenting the determination of depreciation expense, the results are not directly comparable. At least part of the staff's higher estimate results from the inclusion of the former Champion system at a considerably higher appraised amount than was used by the applicant's engineer.

Utility Plant and Rate Base

In connection with Application No. 36736 wherein Dick R. Friesen was granted a certificate of public convenience and necessity, the Commission staff made an appraisal of the water system

properties as of April 30, 1955, in which the total original cost of the plant was estimated to be \$128,518 and the related depreciation reserve requirement totalled \$14,308.57. In Decision No. 53765 dated September 18, 1956, in that matter, applicant was ordered to set up on his books the plant accounts and depreciation reserve as of April 30, 1955, substantially as shown in Table 6-A of Exhibit No. 12, which contained details of the above-mentioned totals.

Without conceding the correctness of the staff appraisal in view of the reopened proceedings involving that issue, applicant's engineer accepted the said amounts for the purposes of the instant proceeding. Both he and the staff engineer adopted the same initial figures upon which they determined depreciated rate bases for the years 1957 and 1958. The following tabulation shows the major components of the rate bases for the year 1958 as developed by applicant's engineer and by the Commission staff:

RATE BASE FOR YEAR 1958 ESTIMATED

<u>Item</u>	Applicant Exh. 7	Staff Exh. 8
Total Plant as of April 30, 1955	\$128,518	\$128,518
Net Additions to December 31, 1957	3,246	3,355
Subtotal	131,764	131,873
Champion System acquired March, 1957	18,927	23,714
Total Plant as of December 31, 1957	150,691	155,587
Proposed Additions in Year 1958	10,644	8,155
Total Plant Estimated as of Dec. 31, 1958	161,335	163,742
Average Utility Plant, Year 1958	156,013	159,665
Estimated Materials and Supplies	2,000	2,000
Working Cash Allowance	1,625	2,100
Subtotal	159,638	163,765
Deductions from Rate Base:		
Average Contributions	10,779	10,670
Average Depreciation Reserve	27,667	28,115
Total Deductions	38,446	38,785
Average Depreciated Rate Base	121,192	124,960
Use	121,200	125,000

The above tabulation reveals a difference of about \$4,900 between the two sets of figures representing total plant as of December 31, 1957, of which a little over \$100 occurs in the two determinations of net plant additions from the date of the appraisal to the end of 1957. This results from the fact that applicant has not maintained formal general accounting records to show its investment in utility properties, nor has he made any attempt to distribute invoice items to proper expense and plant accounts.

Champion System. The two engineers made independent historical cost appraisals, differing by nearly \$4,800, of the former Champion system which was purchased by applicant in March of 1957. The present record does not contain sufficient details of the two appraisals to permit a determination of the amounts which should be set up on the applicant's books to reasonably represent the facilities included in this acquisition. The estimated costs of the several classifications of plant as shown in the two appraisals are as follows:

<u>Item</u>	<u>Applicant</u> <u>Exh. 7</u>	:	<u>Staff</u> <u>Exh. 8</u>
100,000-gallon Concrete Tank	\$3,000	:	\$2,200
Distribution Mains	14,293	:	20,146
Services	860	:	648
Meters	774	:	720
Total	18,927	:	23,714

Proposed Additions. Both rate bases include additions to plant proposed to be installed during 1958. The staff's report reflects the same items as those listed by applicant's engineer, as follows:

<u>Item</u>	<u>Applicant</u> <u>Exh. 7</u>	:	<u>Staff</u> <u>Exh. 8</u>
2 Concrete Block Pump Houses	\$1,200	:	(details
3 Two-stage Pumps with motors	1,114	:	not
3,000 feet of 6" Transmission Main	7,500	:	stated)
12 new and 10 replaced services	350	:	
12 Meters and meter boxes	480	:	
Total	\$10,644	:	\$8,155

Other Rate Base Components. Both engineers estimated the same amount for materials and supplies, while the staff engineer was more liberal in his allowance for working cash than was applicant's engineer.

Other, partially offsetting, differences appear in the two determinations of the deductions for contributions and depreciation reserve.

General. The total difference of \$3,800 in rate bases between the two engineers would result in a relatively insignificant difference in the computed rate of return. For the purposes of this record, the applicant's engineer took exception to three items of plant included in the staff's 1955 appraisal, namely, Oroville Lake dam, Deer Lake dam and an air compressor at estimated costs of \$1,500, \$6,000 and \$1,500, respectively, or a total of \$9,000, which he maintained are not properly includable in utility plant. Were the rate bases to be reduced by that total amount, they would be \$112,200 and \$116,000 and the corresponding rates of return would be about 3.3 per cent and 5.1 per cent, respectively.

Recommendations

The staff recommended that applicant establish and maintain adequate general accounting and property records and that he observe the requirements contained in the applicable Uniform System of Accounts prescribed by this Commission. For the purpose of establishing such records, it was suggested that applicant utilize a substantial portion of the information contained in the inventory and appraisal and the related depreciation reserve requirement study of his plant that was included in Table 6-A of Exhibit 12 submitted in evidence by the staff in connection with Application No. 36736.

It was also recommended by the staff that the meter rate schedule to be authorized by the Commission should place a larger portion of the burden of the increase in the quantity rates. It

further recommended that applicant either apply for approval of the contract rate for fire protection service or else file rates for this service as part of the tariff schedules.

The staff made other recommendations pertaining to depreciation accounting practices and the filing of a comprehensive map of applicant's various water system properties.

Findings and Conclusions

The Commission finds and concludes that the estimates of operating revenues, expenses, including taxes and depreciation, and the rate base as submitted by the staff for the year 1958 reasonably represent the results of applicant's operations and they will be and hereby are adopted for the purposes of this proceeding, particularly to test the reasonableness of applicant's rate proposal.

It is evident from the record that applicant has been operating at a loss and is in need of financial relief. The Commission finds and concludes that the increased revenues which would result from the rates proposed in the application will not be excessive or unreasonable in amount and would produce no more than a reasonable return on the rate base adopted herein, after providing for all expenses of operation. However, the evidence shows that the schedule of rates proposed by applicant would result in relatively large increases in charges to those customers who use small quantities of water while the percentage increases in charges to those who use large quantities of water would be progressively less with greater consumption. It is of record that applicant desires to restrict the number of new and additional customers which he must serve because of the apparent inherent difficulty of obtaining an unlimited supply of water for the system. For this reason the rate structure should be designed to discourage rather than favor

the use of water in large quantities. Accordingly, the proposed rates will be revised to the extent set forth in Appendix A following the order, by establishing lower minimum charges than proposed for the smaller meter sizes, increasing the quantity rates above those proposed and revising the minimum charges for larger meters to be consistent with the rest of the schedule. A rate schedule for public fire hydrant service is also authorized. It is estimated that this authorization will result in producing the same gross revenues as those estimated by the staff at applicant's proposed rates, namely \$24,600 or an increase of \$10,360 or about 75½ per cent over those estimated to be obtainable at applicant's present rates for the year 1958. We find and conclude that the resulting rate of return of 4.7 per cent on the depreciated rate base of \$125,000 hereinabove adopted is not excessive for this utility.

The Commission finds as a fact and concludes 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

The above-entitled application having been considered, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED that:

1. Applicant Dick R. Friesen, doing business as the Angwin Water Works, is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, the schedules of rates attached to this order as Appendix A and upon not less than five days' notice to this

Commission and to the public, to make such rates effective for all service rendered on and after August 1, 1958.

2. Within sixty days after the effective date of this order, applicant shall file with this Commission four copies of a comprehensive map, drawn to a scale not smaller than 400 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 the various water utility properties of applicant.

3. Beginning with the year 1958, applicant shall determine depreciation expense by multiplying depreciable utility plant, exclusive of plant provided through contribution in aid of construction, by a rate of 2.6 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 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.

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

Dated at San Francisco, California, this 17th day of June, 1958.

[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 unincorporated community of Angwin and vicinity, Napa County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 400 cu. ft. or less	\$ 2.60
Next 1,600 cu. ft., per 100 cu. ft. ....	.40
Next 2,000 cu. ft., per 100 cu. ft. ....	.55
Over 4,000 cu. ft., per 100 cu. ft. ....	.30
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 2.60
For 3/4-inch meter	3.50
For 1-inch meter	5.50
For 1 1/2-inch meter	10.00
For 2-inch meter	15.00

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. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to duly organized or incorporated fire districts or other political subdivisions of the State.

TERRITORY

The unincorporated community of Angwin and vicinity, Napa County.

RATE

	<u>Per Month</u>
For 25 hydrants or less at locations where installed as of April 16, 1958	\$ 42.00
For each additional hydrant	2.00

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.

2. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.