

Decision No. 57476

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of Mayme K. Gault, dba LOS MOLINOS WATER WORKS, for an increase in rates for water service in Los Molinos, Tehama County.)))))	Application No. 39934
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Edwin L. Gault, for applicant.
C. F. Clark and L. L. Thormod, for the Commission staff.

O P I N I O N

Mayme K. Gault, doing business as Los Molinos Water Works, by the above-entitled application filed March 26, 1958, requests authority to increase rates for water service rendered in the unincorporated community of Los Molinos in Tehama County.

Public Hearing

After due notice a public hearing on this application was held before Examiner E. Ronald Foster on July 24, 1958, at Los Molinos. A few of applicant's customers were in attendance, one of whom testified in protest against the proposed increase in charges unless the water service is improved. Subject to the later filing of an exhibit which was received by the Commission on August 14, 1958, the matter was submitted and is now ready for decision.

History of Applicant's Operations

This water system was originally installed in 1908 by Los Molinos Land Company to serve its Los Molinos Inn (destroyed by fire, in 1955) and the nearby residences of its personnel. The water facilities were extended later to other residences and business establishments in the community. The utility was acquired in 1918 by P. W. Snyder who operated the system until his death in 1935, after which it was transferred to his niece, Mayme K. Gault, the present

owner. During the last 22 years the management and operation of the utility has been performed by her son, Edwin K. Gault, and his family. In the instant proceeding he appeared and testified on behalf of applicant.

The presently effective flat rates, established by the original owner in 1908, were filed with the Commission voluntarily in 1930. The schedule of rates for metered service now on file was established by the Commission's Decision No. 27607 dated December 22, 1934, in Application No. 19551.

Applicant now proposes and requests authority to make effective new rate schedules for both metered and flat rate service intended to produce approximately 70 per cent more revenue than the present rates in order to provide for increased maintenance and operation expenses and to render a reasonable return on her invested capital.

Description of System

The utility's source of water supply consists of a 12-inch drilled and cased well, 320 feet deep, equipped with a 7½-horsepower electric motor-driven deep well turbine pump. Storage is provided by a 25,000-gallon steel tank mounted on a 50-foot steel tower and located a distance of 150 feet from the well. The distribution system consists of about 22,000 feet of steel pipe mains, ranging in size from 5-inch to 3/4-inch diameter. At the end of 1957, there were 210 services, 97 of which were metered. There are about twelve 2-inch wharf-type hydrants attached to the system.

The local schools have independent water supplies, but applicant has interconnections with them for mutual advantages in case of possible emergencies, under a reciprocal agreement. There is also a mutual system which supplies water for irrigation purposes in the vicinity of Los Molinos.

Applicant has inaugurated a program of installing meters on all services which has resulted in reduced consumption of water by discouraging waste and careless use of it, and which program is intended to be completed within the near future. To improve system operating pressures, applicant also plans to install booster pumps and a 5,000-gallon hydropneumatic tank with necessary pressure switches, valves and piping in connection with the existing well and elevated storage tank.

Present and Proposed Rates

Applicant's present rates have been in effect since January 1, 1935, as authorized by Decision No. 27607. There follows a comparative tabulation of the present rates and applicant's proposed rates, for both flat rate and metered service:

FLAT RATE SERVICE

<u>Classification</u>	<u>Per Service Connection Per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
For All Uses, Domestic and Business	\$1.50	\$ 2.50
For Domestic Service to Los Molinos Inn ^a	2.50	-

^a Los Molinos Inn destroyed by fire in 1955; there is no indication that it will be rebuilt.

METERED SERVICE

<u>Quantity Rates</u>	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
First 500 cubic feet or less	\$1.25	\$ 2.25
Next 500 cubic feet, per 100 cu.ft.	.20	.30
Next 9,000 cubic feet, per 100 cu.ft.	.10	.20
Over 10,000 cubic feet, per 100 cu.ft.	.08	.15
<u>Minimum Charge</u>		
For 5/8 x 3/4-inch meter	1.25	2.25
For 3/4-inch meter	2.00	3.00
For 1-inch meter	2.25	3.50
For 1 1/2-inch meter	3.50	6.00
For 2-inch meter	5.00	10.00

The proposed flat rate would result in an increase of 67 per cent over the present rate. The proposed meter rates would result in increased charges over those at present rates ranging from 67 per cent to 93 per cent, depending upon the monthly quantity of water used. For the metered customers the record shows that the average monthly consumption for the year 1957 was about 1,300 cubic feet. The present monthly charge for such usage is \$2.55 and under the proposed rates it would be \$4.35, an increase of \$1.80 or 70.6 per cent. It is probable that the presently metered services include the larger users and that the average recorded water use will decrease with the metering of the smaller water consumers.

General

It is apparent from a review of the books of account heretofore maintained by applicant that neither the operating expenses (except for \$600 recorded in 1956) nor additions to utility plant include any salary or other allowance for the time and work performed by the manager, Edwin L. Gault, and his wife. To this extent the recorded operating expenses and investment in utility plant are understated.

Utility Plant and Depreciation Reserve

An appraisal of applicant's utility plant in service as of December 31, 1934, was made by the Commission's staff in connection with Application No. 19551, at which time the total original cost of utility plant was estimated to be \$7,681. Since then the original well, pumping equipment and storage tank have been replaced and approximately 150 new services and 6,955 feet of mains have been added to the water system.

In connection with the present proceeding, applicant has increased the recorded year end 1957 utility plant account balances by \$4,223 so as to include an allowance for installation costs not

previously recorded. To substantiate this adjustment, the Commission staff developed unit costs of the plant facilities in place from available information and as a result recommends an increase of \$4,116 to utility plant in service, arriving at the adjusted plant balance of \$22,250 as of December 31, 1957. The adoption of the adjusted utility plant balance developed by the Commission staff will provide the utility with unit costs that may be used in the future for retirement purposes.

In conjunction with the review of the utility plant in service, a depreciation reserve adjustment was made which had the result of increasing the reserve balance as of December 31, 1957, from \$3,954 to \$5,860, an increase of \$1,906. The increase resulted primarily from the following:

- a. The utility had not adjusted the depreciation reserve to correspond with the adjusted increase to the utility plant accounts.
- b. Some of the utility plant had been in service for a number of years before accruals to the depreciation reserve were made.

At the hearing, applicant accepted the staff's recommendation that the adjusted utility plant and depreciation reserve balances as of December 31, 1957, shown in the right-hand column of Table 2-A of Exhibit No. 1, be used as the basis for adjusting the various balance sheet accounts in applicant's books.

The respective adjustments described above are incorporated in the following tabulations of earnings, as presented by applicant and by the Commission's staff.

Summary of Earnings

For evidence in this proceeding pertaining to the need for increased revenue, applicant relied primarily upon the information contained in the application and the exhibits attached thereto.

Following is a recapitulation of applicant's operating income and expenses, based on recorded amounts and as adjusted at present and proposed rates for the year 1957, and as estimated at both present and proposed rates for the year 1958, related to the depreciated plant as recorded in the utility's books, extracted from the application:

APPLICANT'S SHOWING

Items	Year	1957 Adjusted		1958 Estimated	
	1957 Recorded	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$ 4,067	\$ 4,067	\$ 6,913	\$ 4,200	\$ 7,140
<u>Deductions</u>					
Pumping Expenses	361	361	361	380	380
Distribution Expenses	258	258	258	250	250
Accounting & Collecting	380	380	380	400	400
General Expenses	564 ^a	3,544	3,544	3,600	3,600
Total Oper. Exp.	<u>1,563</u>	<u>4,543</u>	<u>4,543</u>	<u>4,630</u>	<u>4,630</u>
Taxes	124	124	124	130	130
Depreciation	362	362	362	512	512
Allow. for Income Taxes	-	-	391	-	388
Total Deductions	<u>2,049</u>	<u>5,029</u>	<u>5,420</u>	<u>5,272</u>	<u>5,660</u>
Net Revenue	2,018	(962)	1,493	(1,072)	1,480
Utility Property	^b 18,130	22,353	22,353	26,646	26,646
Depreciation Reserve	^b 3,953	3,953	3,953	4,465	4,465
Book Cost less Depre.	^b <u>14,177</u>	<u>18,400</u>	<u>18,400</u>	<u>22,181</u>	<u>22,181</u>
Rate of Return	<u>c</u>	(loss)	8.1%	(loss)	6.7%
Number of Customers ^b	203	203	203	210	210

^a Includes no allowance for management.

^b End of year.

^c Not shown.

(Red Figure)

The Commission staff presented a report, Exhibit No. 1, showing the results of their independent investigation and study of applicant's operations for the year 1957 as recorded and adjusted, and as estimated for the year 1958, both at present rates and at the

rates proposed by the applicant. The following tabulation summarizes the earnings information as developed by the staff:

	Year 1957 Recorded	1957 Adjusted		1958 Estimated	
		Present Rates	Proposed Rates	Present Rates	Proposed Rates
<u>Operating Revenues</u>					
Metered Sales	\$2,193	\$ 2,200	\$ 3,920	\$ 3,240	\$ 5,770
Unmetered Sales	1,875	1,875	3,125	1,290	2,150
Total	4,068	4,075	7,045	4,530	7,920
<u>Deductions</u>					
Source of Supply Exp.	-	300	300	300	300
Power & Pumping Exp.	362	1,200	1,200	1,290	1,290
Trans. & Distr. Exp.	258	1,200	1,200	1,200	1,200
Cust. Acct. & Collect. Exp.	430 ^a	960	960	1,160	1,160
General Expense	564	1,010	1,010	1,130	1,130
Total Oper. Exp.	1,614 ^b	4,670	4,670	5,080	5,080
Taxes Other than Inc.	124	240	240	240	240
Depreciation Accrual	363	625	625	665	665
Taxes on Income	-	-	315	-	400
Total Deductions	2,101	5,535	5,850	5,985	6,385
Net Revenue	\$1,967	(1,460)	1,195	(1,455)	1,535
Weighted Utility Plant		24,250	24,250	26,800	26,800
Materials and Supplies		300	300	300	300
Working Cash		450	450	550	550
Subtotal		25,000	25,000	27,650	27,650
Average Depreciation Reserve		5,530	5,530	6,190	6,190
Average Deprec. Rate Base		\$19,470	\$19,470	\$21,460	\$21,460
Rate of Return		(loss)	6.1%	(loss)	7.2%
<u>Average Number of Customers</u>					
Metered		97	97	130	130
Flat Rate		111	111	81	81
Total		208	208	211	211

^a Includes \$50 error in reporting.

^b Includes no allowance for management.

(Red Figure)

In the foregoing tabulation, the staff's estimates of revenues, expenses and rate base reflect applicant's metering program to the extent of 60 customers to be changed from flat rate to metered service during 1958, of which about 25 had been converted at the time of the hearing, making a total of 122 metered services. Applicant stated that there are on hand enough meters for all except about 27 of the remaining flat rate customers and indicated the intention of

completing the metering program by the end of 1959.

The staff also included in its estimates the effect, on a pro forma basis, of a booster pump and 5,000-gallon pressure tank installation recommended to be made in 1958, estimated to cost \$2,000. In applicant's late-filed Exhibit No. 2, the installed cost of a more adequate and complete installation, consisting of a new 5,000-gallon pressure tank, two booster pumps (to provide more flexible operation with more economical electric power consumption), pump enclosure, pipe, valves and fittings, is estimated to cost a total of \$3,600, or \$1,600 more than the staff's estimate. At the hearing, applicant expressed a willingness and financial ability to complete the booster pump and pressure tank installation by April 1, 1959, which would be in time to provide the resulting improved service before the higher summer peak loads.

The staff engineer testified that the upward trend in the rate of return at the applicant's proposed rates, indicated as increasing from 6.1 per cent in 1957 to 7.2 per cent in 1958, will probably continue, in somewhat lesser degree, until the completion of the program of conversion from flat rate service to metered service for all customers. It should be noted that the average revenue per metered customer is higher than the average revenue per flat rate customer, at both present and proposed rates.

Based on the available evidence it appears feasible to project a reasonable estimate of the rate of return prospectively for a future 12 months' operation under the following conditions:

1. Assuming 215 customers, all metered.
2. Adding to utility plant the estimated cost of 51 additional change-overs to meters, the estimated cost of 4 more metered services, and the total estimated cost of the booster pump and pressure tank installation as shown in Exhibit No. 2.

We find that the following tabulation reasonably indicates the results of applicant's operations under the conditions stated above for a year in the immediate future, based entirely on revenues from metered service at the present rates, at applicant's proposed rates, and at the rates hereinafter authorized:

SUMMARY OF EARNINGS

<u>Item</u>	<u>Estimated Future Year</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
Operating Revenues	\$ 5,125	\$ 9,125	\$ 8,660
<u>Deductions</u>			
Operating Expenses	5,400	5,400	5,400
Taxes other than Income	250	250	250
Depreciation Accrual	805	805	805
Taxes on Income	-	570	460
Total Deductions	<u>6,455</u>	<u>7,025</u>	<u>6,915</u>
Net Revenue	(1,330)	2,100	1,745
Weighted Utility Plant	30,790	30,790	30,790
Materials and Supplies	300	300	300
Working Cash	800	800	800
Subtotal	<u>31,890</u>	<u>31,890</u>	<u>31,890</u>
Average Depreciation Reserve	6,950	6,950	6,950
Average Deprec. Rate Base	<u>24,940</u>	<u>24,940</u>	<u>24,940</u>
Rate of Return	(loss)	8.4%	7.0%

(Red Figure)

The evidence is clear, as the foregoing tabulations indicate, that revenues obtained from existing water rates are inadequate to meet applicant's reasonable needs. Applicant has conclusively demonstrated that she is entitled to rate relief. The rates which applicant has proposed, however, would yield revenues somewhat greater than a reasonable return would require.

Miscellaneous

One customer testified that service to his premises, which include a residence and a restaurant equipped with a water evaporative-type air cooler, is still not satisfactory in spite of complaint made to the Commission two years ago. This customer's 3/4-inch

service is one of twelve or thirteen supplied through a 1-1/2-inch main about two blocks long. Applicant claims that an investigation of the complaint revealed that the flow was restricted by the service cock being partly closed and by a number of elbows in the service pipeline, and that the air cooler pump was wrongly installed. Applicant thinks that when the booster pump and pressure tank are installed, as now planned, the increased pressure will greatly relieve this situation. If not, then it appears that applicant should replace at least a portion of the existing main with pipe of larger diameter.

The staff engineer found, during his field investigation, that other consumers complained of insufficient pressure and that the utility had found it necessary to inaugurate a program limiting watering and irrigation to certain hours in order to improve service during critical peak periods.

Although there are a number of 2-inch wharf-type hydrants attached to the distribution system, little use is made of them since there is no organized fire protection agency in the community. Therefore, there is no source of potential revenue from such fire hydrant service.

Recommendations

The staff recommended that the present metering program be continued with 60 change-overs being made in 1958 and the remaining services metered before December 31, 1959.

The staff further recommended that some dead-end mains be eliminated and some small size mains be replaced with larger pipe as soon as feasible after the metering program is completed.

In order to improve the general system pressure, the staff recommended that the pressure switches on the new booster pump installation should operate between 35 and 60 pounds per square inch.

The staff made other recommendations pertaining to depreciation accounting practices and the filing of up-to-date rules, maps and sample forms normally used in connection with customer service.

Findings and Conclusions

In view of all the evidence, we find that applicant is entitled to a substantial amount of the relief sought and that an order should be issued revising and increasing the rates to the extent set forth in Appendix A following the order. This authorization should result in gross revenues of approximately \$8,660, representing an increase over those obtainable at present rates of about 68 per cent, as compared with an increase at applicant's proposed rates of about 78 per cent. Such revenues are expected to produce a net income of \$1,745, after due allowance for all reasonable operating expenses including provisions for taxes and depreciation, representing a rate of return of 7.0 per cent on a depreciated rate base of \$24,940, which rate base we adopt as reasonable for the purposes of this decision. We find that such results of operation are fair and reasonable for this utility.

We find, therefore, that the increases in rates and charges authorized herein are justified and that the present rates and charges, in so far as they differ from those herein prescribed, are for the future unjust and unreasonable.

Complete metering of the system will eliminate the necessity for a permanent flat rate schedule. A temporary flat rate of \$2.50 per month, as requested by applicant, will be authorized by the order herein, to be used only until meters can be installed, and in no event after December 31, 1959.

To the extent that the estimated costs of certain improvements and additions to plant have been included in the rate base hereinabove adopted, the order herein will require applicant to make such installations within a reasonable time.

Applicant's existing rules governing her relations with customers do not reflect present-day water utility practices. Applicant will be required to file revised rules, together with an up-to-date tariff service area map, a comprehensive service and facilities map, and sample forms normally used in connection with customer service.

O R D E R

Mayme K. Gault, doing business as Los Molinos Water Works, having applied to this Commission for an order authorizing increases in rates and charges for water service rendered in the unincorporated community of Los Molinos in Tehama County, public hearing thereon having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED as follows:

1. That applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order and in conformance 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 the Commission and to the public, to make such rates effective for all service rendered on and after December 1, 1958.

2. That applicant, within forty-five 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, rules governing customer relations revised to reflect present-day operating practices, a tariff service area map acceptable to this Commission and sample copies of printed forms that are normally used in conjunction with customer service. Such rules, tariff service area map and forms shall become effective upon five days' notice to

the Commission and to the public after filing as hereinabove provided.

3. That 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 300 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 system properties of applicant.

4. That, beginning with the year 1958, applicant shall determine depreciation expense by multiplying the depreciable utility plant by a rate of 2.8 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 whenever substantial changes in depreciable utility plant 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. That, on or before April 1, 1959, applicant shall have installed and placed in proper operation a 5,000-gallon or larger hydropneumatic tank including automatic pressure controls, together with a suitable booster pump or pumps and including the necessary pipe, valves and fittings, substantially as proposed in applicant's Exhibit No. 2 filed in this proceeding. Applicant shall inform the Commission in writing within ten days after said facilities have been installed and placed in proper operation.

6. That, on or before December 31, 1959, applicant shall have installed meters on the services of all residential and business

customers now being served at flat rates. Applicant shall inform the Commission in writing within ten days after the meter has been installed on the last such flat rate service.

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

Dated at San Francisco, California, this 15th day of October, 1958.

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

APPENDIX A

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Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORYThe unincorporated community of Los Molinos and vicinity,
Tehama County.RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 500 cu.ft. or less.....	\$ 2.25
Next 500 cu.ft., per 100 cu.ft.30
Next 9,000 cu.ft., per 100 cu.ft.18
Next 10,000 cu.ft., per 100 cu.ft.12
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 2.25
For 3/4-inch meter	3.00
For 1-inch meter	3.50
For 1 1/2-inch meter	6.00
For 2-inch meter	10.00

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

Schedule No. 2LX

LIMITED TEMPORARY FLAT RATE SERVICE

APPLICABILITY

Applicable to water service furnished on a flat rate basis.

TERRITORY

The unincorporated community of Los Molinos and vicinity,
Tehama County.

RATE

	<u>Per Service Connection</u> <u>Per Month</u>
For each residence or business establishment	\$ 2.50

SPECIAL CONDITIONS

1. Service under this schedule will be furnished to premises served hereunder as of the effective date of this tariff sheet only until such time as meters are installed.
2. Meters 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.
3. This schedule will be effective only to and including December 31, 1959, and thereafter will be withdrawn.