

ORIGINALDecision No. 57492

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN BERNARDINO WATER
UTILITIES CORPORATION to increase
rates for water service and to
amend its rules and service area.

Application No. 38728

Alden Reid for applicant.D. B. Steger and Richard Entwistle for the Com-
mission staff.O P I N I O N

Public hearings were held in this matter in San Bernardino on June 9 and 10, 1958, before Examiner Grant E. Syphers, on which dates evidence was adduced and on the last-named date the matter was submitted subject to the filing of briefs. These now have been received and the matter is ready for decision.

The applicant is a public utility water corporation, all of the stock of which is owned by Henry Wheeler, Jr. It proposes in this application to increase rates by approximately 40 percent, and additionally it proposes to extend service. It should be noted that in 1933 the applicant was certificated for an area consisting of 868 acres near Verdemon, approximately four miles northwest of the City of San Bernardino. In 1939 this utility extended its service into Muscoy, and it now requests that the original area be increased to approximately 8,200 acres, including Muscoy. The proposed and existing services are in the vicinity of Cajon Pass.

Water is furnished by two wells located in the southwest portion of the territory proposed to be served. There is a 550,000-gallon reservoir near the wells, and, in addition, there is a 325,000-gallon tank to the northeast about a quarter of a mile from the boundary of the area herein proposed. There is no other public utility water service in this area. A strip about one-half block wide and about one mile long in the southern portion is in the territory of the Muscoy Mutual Water Company, but presently is being served by the applicant under a contract between the utility and the mutual company. There are 38 customers in this strip.

The applicant's transmission and distribution facilities extend over a large portion of the area for which certification is requested. In essence, the applicant proposes a service area designed to encompass all such extensions with boundaries based on existing geographical lines. However, a substantial portion of the proposed area north of Kendall Drive is not presently served and there was no evidence presented relative to public convenience and necessity therein. Such area is therefore eliminated in the certificate granted, as is the area now proposed to be served by Muscoy Mutual Water Company. The authorized service area will consist of approximately 6,800 acres instead of the 8,200 acres requested. We hereby find that public convenience and necessity require that a certificate be granted for the area herein authorized.

It should be noted that the proposed service area encompasses all but a very small portion of the area originally certificated. This small portion has been taken over by the San Bernardino County Flood Control District and extensive dikes and groins have been constructed. Under these circumstances the order which follows will provide that the original certification be superseded.

The certificate hereinafter granted shall be 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.

The applicant has had no general rate increase since the issuance of its original certificate, and the testimony shows that since that time, more than twenty-five years ago, the operating costs of applicant have substantially increased, including labor costs, costs of materials and supplies, power costs, and maintenance costs. Likewise, taxes have increased during this period.

Both the company and the staff estimated the results of operations under present and proposed rates. Under present rates for the year 1958 the estimates are as follows:

	<u>Company</u>	<u>Staff</u>
Operating Revenues	\$ 36,289	\$ 39,510
Operating Expenses	26,220	24,240
Taxes other than Income	5,191	960
Income Taxes	<u>-</u>	<u>850</u>
Total	\$ 5,191	\$ 1,810
Depreciation	<u>9,230</u>	<u>8,330</u>
Total Operating Expenses	<u>\$ 40,641</u>	<u>\$ 34,380</u>
Net Revenues	(<u>\$ 4,352</u>)	<u>\$ 5,130</u>
Rate Base	\$239,200	\$161,530
Rate of Return	-	3.2%
	<u>(Red Figure)</u>	

Based on these studies we now find that the applicant is in need of some rate relief.

Under the rates proposed by applicant, the estimated operating results of the company and the Commission's staff for the year 1958 are as follows:

	<u>Company</u>	<u>Staff</u>
Operating Revenues	\$ 57,228	\$ 65,540
Operating Expenses	26,220	24,240
Taxes other than Income	5,585	960
Income Taxes	<u>3,286</u>	<u>9,950</u>
Total	8,871	10,910
Depreciation	9,230	8,330
Total Operating Expenses	44,321	43,480
Net Revenues	12,907	22,060
Rate Base	239,200	161,530
Rate of Return	5.4%	13.7%

It will be noted from the foregoing table that there are several substantial differences between the two estimates, and an analysis of these differences is hereinafter set out. As to operating revenue, the staff's estimate exceeds that of the company by \$8,312. This is due to the fact that the staff has included revenue from the 38 customers which the applicant presently serves in the territory of the Muscoy Mutual Water Company, and also the staff has estimated the water usage upon the same basis as the 1957 usage, while the company estimate concludes that there will be a decrease in 1958.

As to the customers in the mutual water company's district, we accept the company's estimates since the evidence discloses that the mutual water company is now taking steps to serve these customers, and the customers are in fact stockholders of this mutual company. Applicant intends to put in a pipe line along First Avenue at a cost of approximately \$12,000 for the purpose of serving the customers on the north side of First Avenue, which customers are

in the territory of the utility. There was testimony to the effect that this pipe line could also serve the 38 customers on the south side of First Avenue who are shareholders of the mutual water company. However, since the mutual has clearly indicated that it intends to take over service to these customers, the revenue therefrom should not be included in the estimates of operating revenue. This revenue amounts to \$2,787.

As to the anticipated water use in 1958, the applicant contended it would decrease under 1957, and in this connection presented testimony as to normal rainfall conditions, the contention that an increase in rates will tend to decrease the water usage, and an estimate that applicant's industrial user will require less water. This testimony does not appear to be convincing, and the staff's estimate of water usage will be used in this connection.

Therefore, we now find that the sum of \$62,753 constitutes a reasonable estimate of operating revenue for the year 1958 under proposed rates. This sum is derived by deducting the estimated revenue of the 38 customers from the staff's estimate of \$65,540.

In the matter of operating expenses, the company exceeds the staff in its estimate by the sum of \$1,980. This difference arises from the staff's opinion that it will be possible to effect a reduction in serviceman labor and also upon the contention that the rental paid by applicant is too high. As to the serviceman labor, there is no convincing evidence that the company is in error, and the record indicates that this company has had considerable experience in recruiting and training competent employees. As to the rental, the evidence shows that the company is actually paying the

sum of \$1,800 per year whereas the staff has allowed but \$1,200. The company's estimates in this regard appear reasonable. Accordingly the operating expenses allowed will be the company estimate of \$26,220.

There is a difference in taxes other than income between the two estimates of \$4,625. However, the company introduced Exhibit No. 10 which is a letter from the County Assessor of San Bernardino County which substantiates the company's estimate in this regard, and accordingly it will be allowed. This letter was not challenged by the staff.

There is a difference of \$6,664 in the estimates of taxes based on income. This arises due to the differences in estimated income and also due to differences in the amount of interest allowed. Exhibit No. 1 in these proceedings is a copy of a note in the amount of \$79,219.33 which was testified to by the owner of the water company. He stated that it was his intention to accept such a note to consolidate the various forms of indebtedness to him by the company. This note will bear interest at 6 percent which will amount to \$4,753.16 per year. Giving effect to this interest expense and to the allowances we have made for revenue, we now find that a reasonable allowance for income taxes is the sum of \$5,780.

There is a minor difference of \$900 in the estimates of depreciation expense which is based principally upon the fact that the company has allowed depreciation on certain extensions, whereas the staff has designated these as plant held for future use on the theory that these facilities will not now be used by the utility. The cost of these facilities amounts to \$17,976. Part of these

facilities, installed at a cost of \$11,018, are the first portion of a projected extension along Cajon Highway and will be part of a much larger extension to be built in the years to come. At the present time they are serving two customers. The company's contention as to this portion appears reasonable and will be adopted.

However, there is a further section of distribution mains at the so-called Camp Ono property which was installed at a cost of \$6,958. These mains are not now being used, and accordingly they will be disallowed for the purposes of this proceeding.

With these considerations in mind we will allow herein the sum of \$8,575 for depreciation expense. Likewise we will allow the sum of \$11,018 in the rate base as hereinafter discussed.

The principal difference in the company and staff estimates is to be found in the estimates of rate base wherein the company's figures exceed those of the staff by \$77,670. Part of this difference in the amount of \$36,032 is due to the fact that the applicant has placed a higher valuation upon certain water rights and easements which the applicant obtained from its predecessor companies than has the staff. The company's valuation was a computed one, inasmuch as applicant contended that precise records were not available to show the historical cost to the original owner. The staff witness took the position that the company's valuation of these water rights and easements was excessive. The major part of them were transferred to the applicant company in 1950 by the Muscoy Water Company, which was the sole owner of applicant. No charge was made to applicant for such transfer. In this instance the staff's position appears reasonable and will be accepted.

Another difference in the two rate bases is the amount of \$2,551 which the company has allowed for meters in excess of that allowed by the staff. The evidence on this record does not support the company's figure.

The company has used a figure which is \$9,790.99 greater than that used by the staff for certain additions to be made in 1958, which include a transmission main, an office billing machine, and certain services and meters. The need of the transmission main was indicated by the testimony which showed that it was necessary to serve customers on the north side of First Avenue. At the present time these customers are being served by a main which is owned by the Muscoy Mutual Water Company. The company proposes to install the new main at a cost of \$12,950, and the staff has deleted one-half of this cost, or \$6,450. Likewise, the staff has deleted the cost of an office billing machine of \$3,000, and certain services and meters at a cost of \$340. Inasmuch as this main is to be installed and the office billing machine and the services and meters are to be purchased, the company's estimates will be allowed. There appears to be no basis for disallowing these items from the rate base.

A further difference is to be found in the fact that the staff included an amount of \$1,850 in its rate base estimate to cover the present cost of the pipe line on First Avenue. This pipe line is owned by the Muscoy Mutual Water Company, but it was the staff's position that the company should have installed this pipe line in 1939, and that had it done so the depreciated value would now be \$1,850. The evidence shows that the company did not install the pipe line in 1939, and further that the pipe line there is owned by the mutual water company. Clearly it should not be included in the company rate base.

There are differences as to the amounts needed for working capital and as to the amounts to be deducted as contributions

in aid of construction. There is no satisfactory showing that the company's claim of an additional \$2,000 for working capital is justified, and the staff's position in deducting the contributions in aid of construction is based upon the usual practice of this Commission.

In a consideration of the items of advances for construction and depreciation reserve, there is a net difference between the two estimates of \$7,440. An analysis of these accounts leads us to adopt the staff's figures in this respect.

A final difference in the estimates of rate base is noted in the fact that the staff has deducted from the company's estimate the sum of \$17,976 on the theory that this sum represents the cost of facilities not now being used. However, as we pointed out in the discussion of depreciation expense hereinabove, the sum of \$11,018 is the cost of a pipe line which is now being used and which is part of a projected extension of water mains to reinforce the system. This latter sum will be allowed in the rate base.

Giving effect to all of these findings, we now conclude that the rate base for this company for the year 1958 should be \$181,000.

A summary of the foregoing findings results in the following reasonable estimate of operating results for the year 1958 under proposed rates:

Operating Revenues	<u>\$ 62,753</u>
Operating Expenses	26,220
Taxes other than Income	5,585
Income Taxes	5,780
Depreciation	<u>8,575</u>
Total Operating Expenses	<u>\$ 46,160</u>
Net Revenues	<u>\$ 16,593</u>
Rate Base	\$181,000
Rate of return	9.2%

We find the above return to be too high, and accordingly in the ensuing order the rates as requested will not be allowed, although we do find applicant is entitled to some rate relief. The evidence discloses that applicant will be required to finance improvements for future growth. Therefore, the rates hereinafter authorized will provide for a rate of return of 7.3 percent on the adopted rate base of \$181,000 which rate base and return we hereby find to be reasonable.

The results of operation for the estimated year 1958 at the authorized rates are as follows:

Operating Revenues	<u>\$ 57,700</u>
Operating Expenses	26,220
Taxes other than Income	5,585
Income Taxes	4,120
Depreciation	<u>8,575</u>
Total Operating Expenses	<u>\$ 44,500</u>
Net Revenues	<u>\$ 13,200</u>
Rate Base	\$181,000
Rate of Return	7.3%

It is hereby found that the increase in rates and charges authorized herein is justified and that the present rates, insofar as they differ from those herein prescribed, are, for the future, unjust and unreasonable.

During the course of the hearing evidence was introduced to show that in the past applicant has engaged in certain unauthorized operations. Three of the main extension agreements negotiated by the company have not been in compliance with its main extension rule. Likewise, refunds under these agreements have not been paid on time. There have been certain service irregularities such as unauthorized extensions to noncontiguous territory. The utility has not observed its tariff in the amount of deposits required to establish credit. Applicant is hereby admonished that it must

conduct its operations in accordance with the applicable law, rules and regulations.

An examination of the three main extension agreements discloses that one of them is with the Western Farm Properties, Inc., and covers an amount of \$1,155 which was the cost of an extension of a water line. This amount is to be refunded, at the rate of 25 percent of gross revenue, over a period of time not to exceed ten years. The other two agreements are with various named individuals who were developers of certain lands. Under these agreements the developers are required to pay for extensive back-up facilities, including a 325,000-gallon storage tank. These facilities were designed to serve certain lands, a good portion of which have not as yet been developed. Applicant requests that these contracts be approved, and in the light of this record the request will be granted.

Applicant will be temporarily permitted to continue the service to Muscoy Mutual Water Company No. 1 provided for in the agreement attached as Exhibit 8 to its amended application. The agreement will not otherwise be approved, it being recognized that termination is imminent.

O R D E R

Application as above entitled having been filed, public hearings having been held, and the Commission having made the foregoing findings,

IT IS ORDERED:

(1) a. That San Bernardino Water Utilities Corporation be, and it hereby is, granted a certificate of public convenience and necessity to construct and operate a public utility water system in the following described area:

An area in the County of San Bernardino, State of California, adjoining and generally West and Northwesterly of the City of San Bernardino and is bounded by a line described as follows:

Beginning at a point in the centerline of Kendall Drive, said point being 390 feet, more or less, Southeasterly from the intersection of Western Avenue and Kendall Drive;

Thence Southerly along a line parallel to and 360 feet, more or less, East of the West line of Section 16 T1N, R4W, SBB&M, to its intersection with a line parallel to and 600 feet, more or less, North of the South line of said Section 16;

Thence Westerly along said line parallel to and 600 feet, more or less, North of the South line of said Section 16 to its intersection with the West line of said Section 16;

Thence Northerly along the West line of said Section 16, 60 feet, more or less, to its intersection with the Easterly prolongation of the Southern boundary of Tract 3177;

Thence Westerly along said Easterly prolongation of the Southern boundary of Tract 3177 and along the Southern boundary of Tract 3177 to its intersection with the West line of Section 17, T1N, R4W, SBB&M;

Thence Southerly along said West line of said Section 17 to the Southwest corner of said Section 17, said Southwest corner being also the Northwest corner of Section 20, T1N, R4W, SBB&M;

Thence Southerly along the West line of said Section 20 to a point on the Westerly boundary of the City of San Bernardino, said point being 950 feet, more or less, South of the Northwest corner of said Section 20;

Thence Southwesterly along the present boundary of the City of San Bernardino, following all its various courses, to a point in the Northeasterly boundary of the right-of-way of The Atchison, Topeka and Santa Fe Railroad, said point being 5800 feet, more or less, North of Highland Avenue and 400 feet, more or less, East of California Street;

Thence Northwesterly along said Northeasterly boundary of the right-of-way of The Atchison, Topeka and Santa Fe Railroad, a distance of 3800 feet, more or less, to a point 1000 feet, more or less, Northwest of the intersection of Devil Canyon Road and said boundary of said right-of-way;

Thence Southwesterly to the Southeast corner of Lot 1, Tract 2946; said corner being 400 feet, more or less, Southeast of the intersection of the centerlines of Cajon Boulevard and First Avenue;

Thence following the Southerly boundaries of Lots 1 and 4 through 11 inclusive, of said Tract 2945 to the Southwest corner of Lot 11 of said Tract 2946, said Southwest corner of said Lot 11 being also the Southeast corner of Lot 497, Tract No. 2324, Muscoy No. 3;

Thence Westerly along the Southern boundaries of Lots 497 to 494 inclusive, of said Tract 2324, said Southern boundaries being approximately half way between First Avenue and Ogden Avenue, to a point on the centerline of Duffy Street, said point being 350 feet, more or less, South of First Avenue;

Thence Northerly along the centerline of Duffy Street to a point on the centerline of First Avenue;

Thence Westerly along the centerline of First Avenue to a point on the centerline of Gray Street;

Thence Southerly along the centerline of Gray Street to a point on the Easterly prolongation of the Southern boundary of Lot 446 in said Tract 2324;

Thence Westerly along the Easterly prolongation of the Southern boundary of said Lot 446, and Westerly along the Southern boundary of said Lot 446, to a point in the Easterly boundary of the right-of-way of the transmission line of the California Electric Power Company;

Thence Northwesterly along said Easterly boundary of said right-of-way, 15,000 feet, more or less, to a point in the intersection of said right-of-way and the centerline of North Road;

Thence Southwesterly along said centerline of North Road to its intersection with the Northeasterly boundary of the San Bernardino County Flood Control District Lower Devore Levee;

Thence Northwesterly along said Northeasterly boundary of said Levee 5000 feet, more or less, to its intersection with the Westerly boundary of Lot N of the Meyer & Barclay Subdivision;

Thence Northerly along the Westerly boundary of said Lot N to its intersection with the Northeasterly boundary of the right-of-way of The Atchison, Topeka and Santa Fe Railroad;

Thence Northwesterly along said Northeasterly boundary of said right-of-way of said Railroad to its intersection with the Westerly boundary of Lot 1 of the Belmont Tract;

Thence northerly along the said westerly boundary of Lot 1 of said Belmont Tract to a point some 1,500 feet, more or less, north-northeast of Kendall Drive;

Thence southeasterly to the intersection of Meyer Road and Cypress Avenue;

Thence northeasterly along Cypress Avenue to the southerly boundary of the San Bernardino National Forest;

Thence southeasterly along the southerly boundary of said National Forest following its various courses to an intersection with Pennsylvania Avenue;

Thence southeasterly along Pennsylvania Avenue and the southeasterly prolongation of Pennsylvania Avenue to the northwesterly boundary of the City of San Bernardino;

Thence southwesterly along said northwesterly boundary of the City of San Bernardino following all of its various courses to its intersection with the north line of Section 18, T. 1 N., R. 4 W.;

Thence west along said north line of said Section 18 to its intersection with the center line of Kendall Drive;

Thence southeasterly along said center line of Kendall Drive to the point of beginning.

b. That the certification of the above described area supersedes the certification granted by Decision No. 25722, dated March 13, 1933, in Application No. 18350.

(2) a. That 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 to the public to make such rates effective for service rendered on and after December 1, 1958.

b. That concurrent with the schedule of rates shown in Appendix A becoming effective, the present tariff schedules enumerated below be and they are hereby cancelled:

- Schedule No. 1, General Metered Service
- Schedule No. 3, Combined Irrigation and Domestic Service
- Schedule No. 5, Fire Hydrant Service
- Schedule No. 9 MI, Industrial Metered Service
- Schedule No. 9 MC, Construction and Other Temporary Metered Service

(3) That applicant shall file, within sixty days after the effective date of this order, four copies of printed forms used in connection with customer services, standard forms of main extension agreements, and a revised tariff service area map acceptable to this Commission and in accordance with the requirements of General Order No. 96. Such printed and standard forms, and tariff service area map shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

(4) That applicant shall, within sixty days after the effective date of this order, file four copies of a comprehensive map drawn to an indicated scale not smaller than 600 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.

(5) That applicant shall determine the accruals for depreciation by dividing the original cost of the utility plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the plant, and shall review the accruals when major changes in plant composition occur and for each plant account at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.

(6) That the applicant is hereby authorized to execute a new long term note in the sum of \$79,219.33, payable to Henry Wheeler, Jr., said note to be in the same form as Exhibit No. 1 in these proceedings and to be full consideration for all obligations due Henry Wheeler, Jr., from applicant. In the opinion of the Commission, the money,

property or labor to be procured or paid for by the issue of said note is reasonably required for the purpose indicated in the preceding opinion which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

(7) a. That the agreement dated May 12, 1949, between the San Bernardino Water Utilities Corporation and the Western Farm Properties, Inc., and the two agreements between the San Bernardino Water Utilities Corporation and H. H. Eastwood, Lena Eastwood, J. W. Snyder, Alma Snyder, Fred Ralph, Nellie M. Ralph, and Mae A. C. Fanning, one dated April 9, 1949, and the second dated June 21, 1949, be and they hereby are approved.

b. That applicant shall file, within thirty days after the effective date of this order, two certified copies of each of the agreements as executed, together with a statement of the date on which each contract is deemed to have become effective.

(8) a. That applicant may continue until June 1, 1959, the service to Muscoy Mutual Water Company No. 1 provided for in the terms of the agreement attached as Exhibit No. 8 to its amended application, or until such earlier date as the proposed physical separation of applicant's and Muscoy Mutual Water Company's systems has been accomplished and service thereunder is terminated.

b. That applicant shall advise the Commission in writing within ten days after such service has been terminated.

c. That in the event that such service has not been terminated by June 1, 1959, applicant shall seek, prior to said date by appropriate showing, further authorization for continuance of said service.

The authority herein granted to issue a note will become effective when applicant has paid the fee prescribed by Section 1904 (b) of the Public Utilities Code, which fee is \$80. In other respects the effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 21st day of October, 1958.

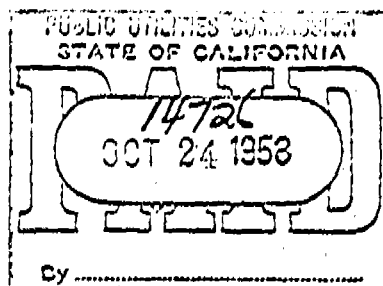
E. L. Fox
President

John E. ...

Ralph ...

...

Theodore ...
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 Verdemon and vicinity, immediately northwest of the City of San Bernardino, San Bernardino County.

RATES

Quantity Rates:

	<u>Per Meter Per Month</u>
First 800 cu.ft. or less	\$ 2.40
Next 1,200 cu.ft., per 100 cu.ft.26
Next 2,000 cu.ft., per 100 cu.ft.22
Next 46,000 cu.ft., per 100 cu.ft.18
Over 50,000 cu.ft., per 100 cu.ft.07

Minimum Charge:

For 5/8 x 3/4-inch meter	2.40
For 3/4-inch meter	3.25
For 1-inch meter	5.25
For 1 1/2-inch meter	11.00
For 2-inch meter	18.00
For 3-inch meter	27.00
For 4-inch meter	35.00
For 6-inch meter	50.00

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

Schedule No. 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 Verdement and vicinity, immediately northwest of the City of San Bernardino, San Bernardino County.

RATES

	<u>Per Month</u>
For each 2½-inch hydrant	\$ 1.50
For each 4-inch hydrant	2.00
For each 6-inch hydrant	2.50
For each 8-inch hydrant	4.00

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 cost of installation and maintenance of hydrants will be borne by the utility.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.
4. 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.