

ORIGINAL

Decision No. 57502

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
ARCHER C. AMBLER and BESSIE G. AMBLER,
individuals, doing business as the
AMBLER PARK WATER UTILITY, for an
order authorizing an increase in rates.)

Application No. 39658

Ulysses A. Gribble, for applicant.

Garth V. Lacey, for Eugene J. Miller, protestant.

John D. Reader, for the Commission staff.

O P I N I O N

Archer C. Ambler and Bessie G. Ambler, individuals, doing business as the Ambler Park Water Utility, by the above entitled application filed December 21, 1957, request an order of this Commission authorizing increased rates and charges for water service rendered to subdivisions known as Ambler Park Nos. 1, 2 and 3 and San Benancio Village located in unincorporated territory about 9 miles southwest of the City of Salinas in Monterey County. Basically, applicants seek authorization of proposed rates estimated to produce gross operating revenues of \$10,250 at the level of 1956 business, an increase of \$3,283, or 47%, more than the operating revenues of \$6,967 recorded for that year at present rates, as shown in Exhibit "E" attached to the application. Such increase in rates is requested so that the resulting revenues will be sufficient not only to defray maintenance and operation costs but also to cover depreciation and provide a reasonable return on the applicants' investment, thereby enabling them to operate on a sound financial

basis. Applicants represent that their investment has increased considerably in the past few years with the costly replacement of plant.

Public Hearing

After due notice a public hearing on this application was held before Examiner E. Ronald Foster on August 5, 1958, at Salinas. About 25 of applicants' customers were in attendance, some of whom protested the proposed increase in water rates because of the quality of water supplied and others showed their interest by questioning the various witnesses.

After the introduction of both oral and documentary evidence by two witnesses on behalf of applicants and by two members of the Commission staff, followed by further testimony by some of the consumers, the matter was submitted and is now ready for decision.

History and Description of the System

The first part of this water system was installed in 1946 to supply Ambler Park Tracts Nos. 1, 2 and 3. A certificate of public convenience and necessity to serve those subdivisions and certain contiguous territory, comprising altogether 163 acres, was granted by Decision No. 39771, dated December 23, 1946, in Application No. 27890. The distribution system was extended in 1947 and 1949 to furnish water to San Benancio Village Tracts No. 1 and No. 2, respectively.

The original transmission and distribution mains were constructed of "invasion pipe", this being the only pipe available at the time according to applicants. However, by 1952 this piping required such extensive maintenance and repairs that it became necessary for applicants to embark upon a program of replacement with

asbestos-cement pipe. Authorization to borrow \$15,000 for this purpose was granted by Decision No. 49173, dated October 6, 1953, in Application No. 34761. The mains in Ambler Park Nos. 1, 2 and 3 and San Benancio Village No. 2 were replaced during the years 1952 through 1954 and in San Benancio Village No. 1 in 1957.

The main source of water supply for the system is a 10-inch cased well 230 feet deep, equipped with an automatically controlled 15-horsepower electric motor and pump, capable of delivering 400 gallons per minute. A second well, equipped with a manually operated 7½-horsepower electric motor-driven pump and capable of delivering from 60 to 80 gallons a minute, is used as a standby source. In an effort to correct the high iron content and turbidity of the supply, the water from the main well is passed through a sandtrap and is chemically treated. Three steel tanks having a combined capacity of 35,000 gallons are located at an elevation sufficient to provide adequate pressure throughout the service area. The distribution system consists of about 11,500 feet of pipe 4 inches in diameter and 800 feet of 2-inch pipe. As of January 1, 1958, the utility served 128 metered customers. Unmetered service is rendered to the premises of one of the utility's employees, to applicants' residence and to two rental units owned by them. There are about 7 fire hydrants connected to the distribution system.

The lots in the several subdivisions are of relatively large size with better than average homes built on them and generally surrounded by well-kept lawns and gardens. Only two or three vacant lots remain in the certificated area.

Mr. Ambler is retired and manages the water system on a part-time basis in conjunction with his real estate operations.

Operation and maintenance, reading of meters, and installation of small items of utility plant are accomplished by a regular employee hired on a part-time basis. Installation of major distribution facilities, wells and pumping plants has been performed by independent contractors. An accountant is employed to keep the books and records and to prepare the applicants' annual reports.

Present and Proposed Rates

The present rates for this system became effective January 1, 1947, by authority of Decision No. 39771, dated December 23, 1946. The following comparative tabulation shows applicants' present and proposed rates for metered service:

		<u>Per Meter</u>	<u>Per Month</u>
		<u>Present</u>	<u>Proposed</u>
Quantity Rates:			
First	600 cubic feet or less	\$2.00	\$ 3.00
Next	1,000 cubic feet, per 100 cu. ft.	-	.45
Next	1,400 cubic feet, per 100 cu. ft.	.30	.35
Next	2,500 cubic feet, per 100 cu. ft.	.25	-
Next	2,000 cubic feet, per 100 cu. ft.	-	.25
Next	4,500 cubic feet, per 100 cu. ft.	.20	-
Over	5,000 cubic feet, per 100 cu. ft.	-	.20

Minimum Charge:

For	5/8 x 3/4-inch meter	2.00	3.00
For	3/4-inch meter	2.50	4.25
For	1-inch meter	3.00	7.00
For	1½-inch meter	5.00	12.50
For	2-inch meter	8.00	17.50

The monthly charges for several monthly consumptions at present and proposed meter rates are set forth in the following tabulation:

	<u>Consumption</u> <u>(Cubic Feet)</u>	<u>Monthly Charge</u>		<u>Percent</u> <u>Increase</u>
		<u>Present</u>	<u>Proposed</u>	
Through	600	\$ 2.00	\$ 3.00	50
	1,000	3.20	4.80	50
	1,300	4.10	6.15	50
	1,540 (avg.)	4.82	7.23	50
	2,000	6.20	8.90	44
	3,000	8.70	12.40	43
	4,500	12.45	16.15	30
	6,000	15.45	19.40	26
	10,000	23.45	27.40	17

Utility Plant and Depreciation Reserve

The examination of the applicants' records made by a Commission staff accountant reveals that the utility has failed to properly classify plant additions to the primary plant accounts set forth in the Uniform System of Accounts for Class D Water Utilities. In addition, some capital expenditures were charged to expense and conversely some items of an expense nature were capitalized.

An appraisal of utility plant was made by the Commission staff, as of December 9, 1946, in connection with Application No. 27890. Utility plant was appraised at \$28,452 as compared to a then recorded plant balance of \$17,769. This difference of \$10,683 can be chiefly attributed to the inclusion of an additional \$8,234 for landed capital in the appraisal. In addition, the appraisal made allowances for overheads, included certain items of plant not paid for at the time, and disallowed certain expenditures. The books have never been adjusted to reflect this appraisal.

Landed capital, as shown in the appraisal, was comprised of the following parcels of land:

Tank Site	1/2 acre	\$1,500
Well Site	1/12 acre	360
Right of Way	2.158 acre	<u>6,474</u>
Total		\$8,334

Adjusted utility plant, shown in detail on Table 2-A of the staff report (Exhibit No. 7), reflects the build-up of plant from this appraisal, together with adjustments which account for the exclusion of expenditures for items already included in the appraisal, exclusion of expenditures for nonoperative wells, exclusion of expense items capitalized, inclusion of capital items expensed, and the recording of unrecorded retirements. The staff's adjusted total

utility plant of \$56,633 represents a downward adjustment of \$10,097 to the recorded utility plant of \$66,730 as of December 31, 1957.

The recorded depreciation reserve of \$17,173 as of December 31, 1957 represents total depreciation accruals calculated by a straight-line method since installation, less recorded retirements which the examination showed to be inadequate. To account for water mains replaced during the period from 1952 through 1954, an arbitrary amount of \$10,000 was retired from plant, with charges of \$2,350 to the depreciation reserve for realized depreciation and \$7,650 to proprietorship for unrealized depreciation. No retirements were recorded on the books for the mains replaced in 1957.

The staff's adjusted depreciation reserve of \$9,775, as of December 31, 1957, represents a downward adjustment of \$7,398. This adjustment takes into consideration the 1957 main retirements, revisions of 1952 and 1953 arbitrary retirements, and correction of other erroneous entries.

The over-all effect of the staff's adjustments results in a decrease in net utility plant of \$2,699 as of December 31, 1957. At the hearing, applicants 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. 7, be used as the basis for adjusting the various balance sheet accounts in applicants' books.

Summary of Earnings

Neither the summary of earnings for the year 1956, shown in Exhibit "E" attached to the application, nor the balance sheet accounts as of December 31, 1957, shown in Exhibits No. 1 and No. 5 presented by applicants at the hearing, reflect the above described

staff adjustments to the recorded utility plant and depreciation reserve accounts. Therefore, the results of operations based on such exhibits are not directly comparable to those shown in the staff report.

Exhibit No. 7 shows the results of the independent investigation and study of applicants' operations prepared by the accounting and engineering representatives of the Commission's staff. The following tabulation summarizes the earnings information as developed by the staff 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 applicants.

SUMMARY OF EARNINGS

<u>Item</u>	Year 1957 Recorded	1957 Adjusted		1958 Estimated	
		Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$ 7,033	\$ 7,240	\$10,310	\$ 7,490	\$10,630
<u>Deductions</u>					
Pumping Expenses	1,076	1,280	1,280	1,310	1,310
Water Treatment	-	260	260	270	270
Trans. & Distr. Exp.	1,320	670	670	680	680
Accounting & Collecting	-	640	640	640	640
General Expenses	939	1,390	1,390	1,400	1,400
Total Oper. Exp.	\$ 3,335	\$ 4,240	\$ 4,240	\$ 4,300	\$ 4,300
Taxes Other than Inc.	698	440	440	500	500
Depreciation Expense	2,623	1,170	1,170	1,152	1,152
Taxes on Income	-	90	859	121	910
Total Deductions	\$ 6,656	\$ 5,940	\$ 6,709	\$ 6,073	\$ 6,862
Net Revenue	377	1,300	3,601	1,417	3,768
Weighted Avg. Util. Plant	66,333	57,433	57,433	56,688	56,688
Avg. Materials & Suppl.	-	300	300	300	300
Working Cash Allowance	-	630	630	640	640
Subtotal	\$66,333	\$58,363	\$58,363	\$57,628	\$57,628
Avg. Depr. Reserve	15,862	11,265	11,265	10,351	10,351
Avg. Depr. Rate Base	\$50,471	\$47,098	\$47,098	\$47,277	\$47,277
USE	\$50,500	\$47,100	\$47,100	\$47,300	\$47,300
Rate of Return	0.75%	2.76%	7.65%	3.00%	7.97%

1. Revenues

In the foregoing tabulation, the staff adjusted revenues at present and proposed rates for 1957, which were computed on the basis of the water use table for that year, to include appropriate charges for flat rate service, such as that rendered to premises owned by applicants, not recorded as earned revenue.

Revenues estimated for 1958 are based on the adjusted 1957 revenues and reflect anticipated growth of four customers.

A comparison of the revenues estimated at applicants' proposed rates with those estimated as obtainable at present rates indicates an increase of about 42 percent.

2. Operating Expenses

The staff's adjusted maintenance and operation expenses for 1957 are the result of corrections for expense items capitalized and for capital expenditures charged to operating expenses, the elimination of nonutility expenses, and the inclusion of allowances to reflect applicants' managerial time. Such normalized expenses for 1957 are carried forward for the estimated year 1958, reflecting also customer growth.

3. Taxes and Depreciation

Taxes other than those based on income have been adjusted for the year 1957 and estimated for the year 1958 to exclude ad valorem taxes on nonutility properties and to include applicable payroll taxes.

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. In addition to the appropriate estimated federal self-employment tax, the staff has

followed past practice in estimating state and federal income taxes on the utility's earnings at individual income tax rates without taking into the calculation the standard deduction or personal exemption or other income of the applicants.

The annual depreciation accruals for the two test years 1957 and 1958 have been determined by the straight-line remaining life method, consistent with staff standard practice, and are considerably less in amount than depreciation expense accruals reported by applicants during recent years.

4. Rate Base

In developing the rate bases, the staff has incorporated the adjustments to the utility plant and depreciation reserve previously described and there have also been included allowances for materials and supplies and for working cash.

5. Trend in Rate of Return

The staff results show a rate of return for 1958 about 0.3% higher than for 1957. Due to the practically complete saturation of applicants' service area and the probability that no further additions to plant will be necessary within the near future, it may be shown that the trend in the rate of return will continue slightly upward, due to a gradual decrease in the rate base as accruals to the depreciation reserve continue.

Miscellaneous

In protest against the proposed increase in rates, several customers complained about the hardness, taste, odor and discoloration of the water and one witness told of times when the system had been entirely out of water. Because of the quality of the water, some consumers buy bottled water for drinking purposes

and many have installed automatic water softeners, which measures increase the total cost of water.

Applicants admit that the water is hard and contains iron but contend that no better quality of water is available in the locality. They claim that there has been some improvement since the steel mains were replaced with asbestos-cement pipe. In an effort to further improve the quality of the water, applicants have installed a sandtrap and a device to treat the water from the main well with a chemical known as Calgon, in response to the recommendations of the Monterey County Department of Public Health contained in a letter dated September 20, 1956, introduced in evidence as Exhibit No. 3-A. Applicants feel that they have done everything reasonably possible to remedy the problem of the objectionable high iron content and they also point to the tests (see Exhibit No. 3-B) which have proven the supply to be free from bacterial contamination.

One witness, a certified public accountant, in addition to other testimony, presented his last water bill (Exhibit No. 8) for a monthly consumption of 12,475 cubic feet, wherein all over 2,000 cubic feet had been charged at a rate of 25 cents per 100 cubic feet whereas all over 4,500 cubic feet should have been charged at the lower rate of 20 cents per 100 cubic feet indicated in the filed tariff schedule, thus resulting in an overcharge of nearly \$4.00. He exhibited several previous bills, all computed in the same erroneous manner. This manner of billing is presumed to apply to other customers. Mr. Ambler claimed to be unfamiliar with the details of the billing procedure and professed to be unaware of the misapplication of the filed rates. He declared his willingness to make full restitution to any and all customers for amounts of such

overcharges. For the year 1957, the overcharges for monthly consumptions above 4,500 cubic feet would total about \$37, based on the analysis of metered water use shown in Table 11-A of the staff's Exhibit No. 7.

Although there are several fire hydrants connected to applicants' distribution system, there appears to be no way of obtaining revenue from water service rendered to them inasmuch as there is no organized fire protection agency in this locality.

Recommendations

The staff recommended that meters be installed on the few remaining unmetered service connections so that the total operating revenues will reflect charges earned from all deliveries of water. Applicants expressed their willingness to carry out this recommendation.

It was also recommended by the staff that applicants make a study to determine the plant installation and operating costs of the facilities necessary to soften the water and remove objectionable tastes and odors. At least until such time that further treatment of the water supply becomes economically feasible, applicants should exercise more diligent supervision over the operation of the Calgon feeder and such flushing of the sandtrap and the distribution lines as may be necessary to effect the maximum corrective results.

The staff made additional recommendations pertaining to depreciation and other accounting practices and the filing of up-to-date rules and maps.

Findings and Conclusions

The Commission finds and concludes that the estimates of operating revenues, expenses, including taxes and depreciation,

and the rate bases as submitted by the staff for the years 1957 and 1958 reasonably represent the results of applicants' operations and they will be and hereby are adopted for the purposes of this proceeding.

It is evident from the record herein that revenues obtainable from the existing water rates are inadequate to meet applicants' reasonable needs and that applicants are entitled to rate relief. It is further evident that the rates which applicants have proposed would yield revenues which would render an excessive rate of return.

In view of all the evidence, we find that applicants are entitled to a portion 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. It is estimated that this authorization will result in producing gross annual revenues of about \$10,000, or an increase of \$2,510 over those estimated to be obtainable at applicants' present rates for the year 1958. Such revenues are expected to produce a net income of about \$3,300, after due allowance for all reasonable operating expenses including provisions for taxes and depreciation, representing a rate of return of 7.0 percent on the 1958 depreciated rate base of \$47,300 hereinabove adopted, which rate of return we hereby find to be reasonable.

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

Applicants will be ordered to refund to all of their customers ~~the~~ ^{deletion} full amount of overcharges resulting from the application of a rate of 25 cents per 100 cubic feet instead of the filed rate

of 20 cents per 100 cubic feet for all monthly consumptions in excess of 4,500 cubic feet.

O R D E R

Archer C. Ambler and Bessie G. Ambler, individuals, doing business as the Ambler Park Water Utility, having applied to the Commission for an order authorizing increases in rates and charges for water service rendered by them in subdivisions known as Ambler Park Nos. 1, 2 and 3 and San Benancio Village located in unincorporated territory about nine miles south of Salinas in Monterey County, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED that:

1. Applicants Archer C. Ambler and Bessie G. Ambler are 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 schedule 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 December 1, 1958.

2. Within forty-five days after the effective date of this order, applicants 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 revised tariff service area map and samples of current forms normally used in connection 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. Within sixty days after the effective date of this order, applicants shall file with this Commission 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 utility properties of applicants.

4. Beginning with the year 1958, applicants shall determine depreciation expense by multiplying depreciable utility plant by a rate of 2.4 percent. This rate shall be used until review indicates it should be revised. Applicants 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.

5. Within ninety days after the effective date of this order, applicants shall refund to all of their customers the full amount of overcharges resulting from the application of a rate of 25 cents per 100 cubic feet instead of the filed rate of 20 cents per 100 cubic feet for all monthly consumptions in excess of 4,500 cubic feet. Within ten days after compliance herewith, applicants shall report to the Commission in writing that all such refunds have been made, together with a list of the customers and the respective amounts so refunded.

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.

C. L. Fox
President
John E. Mitchell
Karl S. Winterstein
Walter J. ...
Theodore J. ...
Commissioners

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area including the subdivisions known as Ambler Park and San Benancio Village, and vicinity, located 9 miles southwest of the City of Salinas, Monterey County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 600 cu.ft. or less	\$ 2.75
Next 1,800 cu.ft., per 100 cu.ft.40
Next 2,600 cu.ft., per 100 cu.ft.30
Over 5,000 cu.ft., per 100 cu.ft.20
Minimum Charge:	
For 5/8 x 3/4-inch meter	2.75
For 3/4-inch meter	4.00
For 1-inch meter	6.75
For 1 1/2-inch meter	12.00
For 2-inch meter	17.50

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