

Decision No. 57566**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CROWS LANDING)
 WATER COMPANY, for authority)
 to increase rates. }

Application No. 40004
 (Amended)

George G. Murry, for applicant.
James Roddy and Kenji Tomita, for the Commission
 staff.

O P I N I O N

Crows Landing Water Company, a corporation, by the above-entitled application filed April 12, 1958, and amended by filing of May 15, 1958, requests an order of this Commission authorizing increases in rates and charges for water service rendered in the unincorporated community of Crows Landing in Stanislaus County.

Essentially, applicant seeks authorization of proposed rates for both flat rate and metered service estimated to produce gross annual operating revenues of approximately \$5,870, an increase of about \$1,680, or 40%, more than the revenues of \$4,190 estimated as obtainable at the present rates, on the level of 1958 business, as shown in Exhibit "A" attached to the amendment to the application.

Public Hearing

A public hearing on this application was held before Examiner E. Ronald Foster on August 28, 1958, at Crows Landing. Although notices of the hearing had been mailed to all consumers, no protest to the granting of applicant's request was entered at the hearing.

History and Description of the System

Prior to 1946 most of the residents of Crows Landing obtained their water supply from private wells. Pumping water for irrigation purposes so lowered the water table that the shallow domestic wells were no longer sufficient. In order to provide a dependable water supply for the community, a group of residents organized the applicant utility.

Applicant was incorporated in 1946 for the purpose of obtaining and distributing water for domestic and other purposes in Crows Landing and vicinity, with a total authorization of 2,500 shares of capital stock at a par value of \$10 per share. During that year applicant acquired from Mrs. C. Filippini a water system consisting of a well, pump and elevated tank, together with the lots upon which they were located, and about 750 feet of 2-inch mains. Also in 1946 it acquired from the West Stanislaus Rural Fire District about 5,000 feet of mains, 2½ and 3 inches in diameter, which had been installed as a W. P. A. project in about 1936. By the Commission's Decision No. 39762, dated December 23, 1946, in Application No. 27752, applicant was granted a certificate of public convenience and necessity and permission to issue 1,000 shares of stock at \$10 per share.

To augment the water supply, a 14-inch, 210-foot well was drilled in 1947 which under test produced 500 gallons per minute. At the same time, a pump, motor and a 5,250-gallon hydropneumatic tank were installed and approximately 2,200 feet of 3-inch mains were laid. The distribution system now comprises about 14,750 feet of mains ranging in size from 1½ to 6 inches in diameter. On December 31, 1957, there were 136 customers, all of whom were served at flat rates with the exception of the school which is supplied through two 1-inch meters. There are about seventeen 3-inch wharf-type hydrants connected to the distribution system.

Heretofore, applicant has had a standby source of water supply from a private well. The new owner of this well now wishes to utilize it entirely for his own purposes and has withdrawn its availability to applicant. In order to provide an additional source of supply, to prevent a complete outage of water in case of a breakdown of the present single pumping plant, and to improve pressure conditions at the extremities of its system, applicant plans to drill another well and to install a 10-horsepower pumping unit and a 3,000-gallon hydropneumatic tank in connection therewith.

Present and Proposed Rates

Applicant's present rates became effective January 1, 1947, by authority of Decision No. 39762. The following comparative tabulation shows applicant's present and proposed rates, for both flat rate and metered service:

FLAT RATE SERVICE

<u>Classification</u>	<u>Per Service Connection Per Month</u>		<u>Per Cent Increase</u>
	<u>Present Rates</u>	<u>Proposed Rates</u>	
1. For water used in one residence on one lot, including irrigation of lawn and garden thereon not exceeding 1,000 square feet	\$2.50	\$3.50	40%
2. For each additional 100 square feet irrigated between April 1 and November 1 .....	.03	.03	0
3. For each additional residence on the same lot when occupied	1.50	2.50	67
4. Stores and other businesses	2.50-5.00	3.50-5.00*	Variable
5. Service stations, creameries, and hotels, etc., to be charged at meter rates.			

*As amended at hearing.

METERED SERVICE

Quantity Rates:	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
First 5,000 gallons, per 1,000 gallons ...	\$0.30	\$0.40
Next 15,000 gallons, per 1,000 gallons ...	.25	.35
Next 30,000 gallons, per 1,000 gallons ...	.20	.25
Over 50,000 gallons, per 1,000 gallons ...	.15	.20
 Minimum Charge:		
For 5/8 x 3/4-inch meter	2.00	2.80
For 3/4-inch meter	2.50	3.00
For 1-inch meter	3.50	4.00
For 1 1/2-inch meter	5.00	7.00
For 2-inch meter	7.00	9.00

A comparison of the monthly charges for several monthly consumptions of water at present and proposed meter rates is set forth in the following tabulation:

<u>Consumption</u> <u>(Gallons)</u>	<u>Monthly Charge</u>		<u>Per Cent</u> <u>Increase</u>
	<u>Present</u>	<u>Proposed</u>	
Through 7,000	\$ 2.00 (Min.)	\$ 2.80 (Min.)	40%
7,286	2.07	2.80 "	35
10,000	2.75	3.75	36
20,000	5.25	7.25	38
35,000	8.25	11.00	33
50,000	11.25	14.75	31
75,000	15.00	19.75	32
100,000	18.75	24.75	32
150,000	26.25	34.75	32
200,000	33.75	44.75	33

Although there are known to be some sixteen premises where the irrigated area exceeds the 1,000 square feet included in the basic residential rate, applicant has not consistently applied the filed rate for the seasonal irrigation of additional area. At present only one customer, a stockholder, is being billed for such additional area.

The record shows that there are about six businesses being served at flat rates, two at \$3.50 per month and the others (including an 8-room hotel occupied generally only three months of the year) at \$5.00 per month.

At the hearing applicant asked that the proposed rate of \$2.50 for stores and businesses be revised to a rate spread from \$3.50 to \$5.00 and that the flat rate schedule be further amended by omitting the fifth item which provides that service stations, creameries and hotels are to be served only at meter rates, which provision applicant has not put into effect. At present only the school is being served at meter rates, there being one meter on the service to the school itself and another on the service to the school's swimming pool.

Applicant's meters indicate usage in gallons and bills to the school show consumption in gallons. To conform to customary practice, the staff has recommended that the tariff sheet for metered service be stated in terms of cubic feet, rather than gallons. Concurrently, it is suggested that applicant convert the register heads in the existing meters so that they will indicate usage in cubic feet.

Utility Plant and Depreciation Reserve

The examination of applicant's records by a Commission staff accountant reveals that the utility has failed in some instances to properly classify plant additions to the primary plant accounts set forth in the Uniform System of Accounts for Class D Water Utilities, that it has charged certain capital expenditures to expense, that it has failed to record certain retirements of plant and that it did not keep adequate detailed records on plant additions and contributions of utility plant.

In connection with Application No. 27752, an appraisal of utility plant was made by the Commission staff as of November 2, 1946, which included the distribution system purchased from the West Stanislaus Rural Fire District for \$1 and the system acquired

from Mrs. C. Filippini at a purchase price of \$1,560. In the opening entry as of December 31, 1947, the applicant recorded its investment in this utility plant at amounts differing from those in the appraisal, as shown in the following tabulation:

<u>Item</u>	<u>Recorded</u>	<u>Staff Appraisal</u>	<u>Difference</u>
<u>Utility Plant</u>			
West Stanislaus Rural			
Fire District System	\$3,322.14	\$2,981.56	\$ 340.58
Filippini System	2,010.00	2,210.00	(200.00)
Total	5,332.14	5,191.56	140.58
Less: Reserve for Depreciation	3,771.14	1,040.67	2,730.47
Net Plant	1,561.00	4,150.89	(2,589.89)

(Red Figure)

In its report, introduced in the instant proceeding as Exhibit No. 3, the staff has made adjustments to record these properties at the estimated historical cost, together with the associated depreciation reserve requirement, as shown in the appraisal. The difference of \$2,590 between the net utility plant and the actual cost of the properties thus acquired has been credited to capital surplus.

In addition to the above adjustments, Table 2-A of Exhibit No. 3 shows in detail other staff adjustments to correct for items of capital additions charged to expense, the recording of unrecorded retirements, the reclassification of certain additions to proper primary plant accounts, and other minor revisions. The staff's adjusted total utility plant of \$20,600 represents a downward adjustment of \$917 to the recorded utility plant of \$21,517 as of December 31, 1957.

The same Table 2-A shows further adjustments to the reserve for depreciation to account for unrecorded retirements and to correct an entry for salvage received from the retirement of a tank. The staff's adjusted depreciation reserve of \$8,313 involves a downward adjustment of \$5,342 to the recorded reserve of \$13,655 as of December 31, 1957.

The over-all effect of the staff's adjustment results in an increase in net utility plant of \$4,425 as of December 31, 1957. At the hearing, applicant's Secretary-Treasurer 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. 3, be used as the basis for adjusting the various balance sheet accounts in applicant's books.

Summary of Earnings

Neither the summary of earnings as estimated for the year 1958, shown in Exhibit "A" attached to the application, nor the balance sheet as of July 2, 1958, introduced by applicant at the hearing as Exhibit No. 1, reflect the recommended staff adjustments to the balance sheet accounts described above. Therefore, the results of operations based on such exhibits cannot be compared directly with those shown in the staff report.

Exhibit No. 3 shows the results of the independent investigation and study of applicant's operations prepared by the accounting and engineering representative 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 applicant:

Summary of Earnings

	Year 1957 <u>Recorded</u>	Year 1957 Present <u>Rates</u>	Adjusted Proposed <u>Rates</u>	Year 1958 Present <u>Rates</u>	Estimated Proposed <u>Rates</u>
Operating Revenues	\$4,192	\$ 4,190	\$ 5,760	\$ 4,220	\$ 5,800
<u>Deductions</u>					
Operating Expenses	2,972	3,640	3,640	3,660	3,660
Taxes Other than Inc.	362	400	400	400	400
Depreciation Expense	730	950	950	950	950
State Franchise Tax	25	25	30	25	30
Federal Income Tax	110	-	220	-	230
Total Deductions	<u>4,199</u>	<u>5,015</u>	<u>5,240</u>	<u>5,035</u>	<u>5,270</u>
Net Revenue	(7)	(825)	520	(815)	530
Average Depr. Rate Base	-	23,660	23,660	22,710	22,710
Rate of Return	-	Loss	2.2%	Loss	2.3%

(Red Figure)

In the foregoing tabulation, the operating revenues are based on metered service to the school and flat rate service to 135 and 136 customers in 1957 and 1958, respectively, thus indicating that the prospects of growth in the community are somewhat limited. Expenses for both years have been normalized to reflect salary allowances considered reasonable for a water utility of this type and size and to include the estimated cost of the instant rate proceeding amortized over a five-year period.

The staff also included in its estimates the effect, on a pro forma basis, of the installation of the well, pumping unit and hydropneumatic tank planned to be installed in 1958 and estimated to cost in the neighborhood of \$10,000. At the time of the hearing, a test hole had been drilled at a place some distance from the existing well but the probable productive capacity was disappointing, indicating the need for further exploration. Applicant's witness expressed his realization of the need for such a standby plant and seemed confident of the ability of his company to finance the installation by means of a bank loan but he was indefinite as to the time

within which the project might be completed. It is desirable that applicant proceed with the proposed construction as rapidly as circumstances may permit. In consideration of the possible delay of this addition to plant, it may be observed that even on the substantially smaller rate base, which would result from the exclusion of such plant, with the same estimated gross revenue obtainable from the proposed rates and after appropriate revisions of the deductions which would leave a somewhat greater net revenue, it has been estimated that the rate of return would be less than six per cent.

Fire Protection Service

In 1946 applicant acquired from the West Stanislaus Rural Fire District 1100 feet of 2½" mains and 3782 feet of 3" mains, with appurtenant fire hydrants, for the sum of \$1.00 and the right of the fire district to use an unlimited quantity of water without charge. Based on an examination of some of these mains and the frequency of repairs to them experienced by the applicant, it is the staff's opinion that most of these pipes have apparently reached the end of their useful service life. Because the applicant is faced with the necessity of replacing these mains with its own funds, the staff recommends that applicant should now terminate its agreement with the fire district and file a schedule of rates for service to public fire hydrants, the charges to be paid by the fire district.

The West Stanislaus Rural Fire District embraces all of Stanislaus County west of the San Joaquin River, including the incorporated cities of Newman and Patterson. Fire protection service is provided by means of tank trucks equipped to pump water obtained either from fire hydrants or from open canals. Applicant contends that a charge for fire hydrant service is impractical since Crows Landing is unincorporated and property owners in the community could not be equitably taxed by the fire district to recover such charge.

Therefore, applicant prefers to retain the present arrangement which includes maintenance of the fire hydrants by the district.

The utility cannot legally render the service without having filed a rate schedule therefor or otherwise conformed to the requirements of Section X of the Commission's General Order No. 96 in this respect. The utility will be ordered to take the necessary steps to meet this requirement.

Adequacy of Service

The staff engineer testified that while the quality and quantity of water supplied by applicant are satisfactory, during his field investigation some of the customers, particularly those living near the outskirts of the service area, stated that the pressure is low, especially during the peak hours. The upper pressure limit at the hydropneumatic tank is set at 40 pounds per square inch.

To improve service to his premises, one customer has a small private pressure system connected directly to applicant's water main. This practice should not be permitted since pressure to other services connected to the main is correspondingly reduced whenever the said customer's pump is drawing water from that main.

The fire mains described above are part of the distribution system supplying the customers. Because of their condition, and perhaps that of other mains as well, it is impossible to increase the operating pressure without causing more leaks to occur, thus greatly increasing the cost of repairs and maintenance of the system.

Applicant is urged to immediately plan a step-by-step water main replacement program so that the operating pressures can be increased sufficiently to adequately supply water to all customers. Wherever necessary, existing pipes should be replaced with pipes of larger size. All new construction should be planned to meet the requirements of the Commission's General Order No. 103.

Tariff Deviations

The record indicates that of the estimated 14,750 feet of existing mains, over 5,000 feet have been contributed. No value has been recorded on applicant's books for these donated pipes and consequently no amount is shown for such contributions. The staff has not attempted to adjust the record to account for contributed plant. It is apparent that applicant has been negligent in the use of its filed water main extension rule in connection with many of these mains installed by others and donated to applicant. In the future, applicant is admonished to follow the filed rule and to account properly for all water main extensions.

Applicant's current practice of adding penalty charges to delinquent bills is not in accordance with the utility's filed tariffs. This practice should be discontinued.

Form of Rate Schedules

In accordance with the staff's recommendations, the schedule of rates for general metered service will be stated in units of 100 cubic feet instead of in thousands of gallons.

In order to simplify the schedule for residential flat rate service and to eliminate the necessity for repeated measurements of irrigated areas in excess of a certain allowance, the size of the premises served will be incorporated in the rate structure. The record shows that there are now only about 16 such premises larger than 50 feet by 150 feet, or 7500 square feet in area, with some lots about twice that size.

Both the present and proposed flat rates for business establishments are ambiguous and difficult to administer without the possibility of unfair discrimination. The most equitable method of charging for such service is by means of meters and it is suggested that applicant adopt, and put into effect without delay, a policy

of metering all services other than residential. For use until such policy is effected or until it proves feasible to meter all non-residential services, a rate will be authorized for the existing business establishments at the maximum proposed by applicant.

Near applicant's present pumping plant there is a goose-neck stand pipe used for filling tank trucks with water from applicant's supply. There is no filed rate for such service nor has applicant proposed one. Such customers have been charged on the basis of the capacity of the tank on the vehicle. A rate will be established for such service with appropriate special conditions pertaining to the service rendered.

Recommendations

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

Findings and Conclusions

The Commission finds and concludes that the estimates of operating revenues, expenses, including depreciation and taxes, and the rate bases as submitted by the staff for the years 1957 and 1958 are reasonable and they will be and hereby are adopted for the purposes of this proceeding.

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 revenues from rates substantially as proposed in the application, as amended, will not be excessive or unreasonable and will, in fact, produce only a nominal return on a rate base made to include the additional source of supply now planned to be installed. Applicant will be authorized by the order which follows to file schedules of rates which, although different in form, are expected to produce substantially the same gross revenues as

those estimated as obtainable from the rates proposed by applicant.

The Commission further finds as a fact 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

Crows Landing Water Company, a corporation, having applied to this Commission for an order authorizing increases in rates and charges for water service rendered in the unincorporated community of Crows Landing, Stanislaus County, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED that:

1. 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 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 December 1, 1958.

2. Within forty-five days after the effective date of this order, applicant 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 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. Within sixty days after the effective date of this order, applicant shall file with this Commission four copies of a comprehen-

sive map drawn to an indicated scale not smaller than 200 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.

4. Beginning with the year 1958, applicant shall determine depreciation expense by multiplying depreciable utility plant by a rate of 3.2 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.

5. Within ninety days after the effective date of this order, applicant shall, in accordance with the procedure prescribed by General Order No. 96, file the rates and conditions of service rendered to the West Stanislaus Rural Fire District or otherwise comply with the requirements of Section X of said general order.

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

Dated at San Francisco, California, this 3rd day of November, 1958.

E. Lynn Fox
President
[Signature]
[Signature]
Theodore J. [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 Crows Landing and vicinity, Stanislaus County.

RATES

Quantity Rates:	Per Meter Per Month
First 700 cu. ft. or less	\$2.80
Next 2,300 cu. ft., per 100 cu. ft. ....	.25
Next 4,000 cu. ft., per 100 cu. ft. ....	.19
Over 7,000 cu. ft., per 100 cu. ft. ....	.15

Minimum Charge:

For 5/8 x 3/4-inch meter	\$2.80
For 3/4-inch meter	3.00
For 1-inch meter	4.00
For 1 1/2-inch meter	7.00
For 2-inch meter	9.00

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

Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Crows Landing and vicinity, Stanislaus County.

RATES

	<u>Per Service Connection Per Month</u>
1. For a single family residence, including premises not exceeding 7,500 sq. ft. in area	\$3.50
a. For each additional residence on the same premises and served from the same service connection	2.50
b. For each 100 sq. ft. of area in excess of 7,500 sq. ft., for the 6-month period May 1 through October 31..	.02
2. For each business establishment	5.00

SPECIAL CONDITIONS

1. The above flat rate charges apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classifications will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer for above classifications in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service. When a meter is installed at option of customer, metered service must be continued for at least 12 months before service will again be furnished at flat rates.

APPENDIX A

Schedule No. 9

TANK TRUCK SERVICE

APPLICABILITY

Applicable to all water delivered to tank trucks from stand pipes or other outlets provided for the purpose.

TERRITORY

The unincorporated community of Crows Landing and vicinity, Stanislaus County.

RATE

	<u>Per Month</u>
Quantity Rate:	
For water delivered, per 100 cu. ft.	\$0.15
Minimum Charge:	
For service under this schedule	3.00

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

SPECIAL CONDITIONS

1. An applicant for intermittent service under this schedule may be required to pay the monthly minimum charge in advance for each month of service and to notify the utility in writing of the date such service will be required.
2. The quantity of water delivered to tank trucks under this schedule may be metered or estimated at the option of the utility.
3. This schedule does not apply to water used for fire protection purposes by West Stanislaus Rural Fire District.