

ORIGINAL

Decision No. 57821

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
 of DEL ESTE WATER COMPANY, a
 corporation, for an order author-
 izing it to increase rates charged
 for water service.)

Application No. 40144

McCutchen, Doyle, Brown & Enersen, by Robert Minge
Brown; and C. T. Mess, for applicant.
 City of Modesto, by Allen Grimes, City Attorney,
Ross Miller, City Manager, and Paul V. Birmingham,
Consulting Engineer, interested parties.
David F. LaHue and L. L. Thormod, for the Commission
 staff.

O P I N I O NNature of Proceeding

By the above-entitled application, filed June 4, 1958, Del Este Water Company, a California corporation, seeks an order of this Commission authorizing it to increase rates for water service rendered by it in and adjacent to the cities of Modesto and Turlock and the towns of Empire, Salida and Waterford in Stanislaus County.

Public Hearing

After due notice to the general public and to public officials, public hearing in the matter was held before Examiner F. Everett Emerson, on November 5 and 6, 1958, in Modesto. The matter was submitted subject to the receipt of one late-filed exhibit which has now been received. Appearances for the City of Modesto were in attendance a portion of the second day of hearing. Only one customer of applicant attended the first day of hearing. No customers were present on the second day of hearing.

Applicant's Position and Request

The rates for water service now in effect in most of applicant's system were established in 1951. Applicant alleges that since that date, it has experienced many increases in its costs of operation. Wage rates and material prices have risen several times. Applicant has added about 2700 customers during the period since 1951 at costs far above those which prevailed in prior periods. Additionally, applicant has followed a program of system reinforcement and service improvement which has required investments at higher than former costs of money. Applicant is now obligated to make cash payments on its funded indebtedness of \$16,000 annually and also has to pay out approximately \$14,000 of its annual revenues in the form of refunds of advances to subdividers.

Applicant alleges that it cannot continue to maintain its service standards and meet its financial obligations unless its revenues are substantially increased. Basically, applicant seeks revenues which will enable it to earn a rate of return of 6.5 per cent on its depreciated rate base over a three-year period. It proposes water rates approximately 20 per cent higher than existing water rates in order to earn such a return.

Nature of Evidence

Applicant, through three witnesses and by five supporting exhibits, presented its analyses of its operations during the year 1957 and as estimated for the year 1958. The Commission staff, through three witnesses and by one exhibit, presented the results of its independent study of applicant's operations for the same periods as well as financial data and an accounting review of applicant's records since 1938. The City of Modesto appeared only briefly on the second day of hearing, presented no evidence and took no part in

examining witnesses but confined itself to a statement of general opposition to a water rate increase and to urging that lower rates be established for service rendered within city limits rather than the uniform system water rates proposed by applicant. Counsel for Modesto also moved that hearing in the matter be continued until such time as the City might obtain information respecting costs of "inside versus outside" city operations. This motion was denied by the Examiner.

The following tabulations will serve to summarize the evidence respecting the results of operations of applicant.

SUMMARY OF OPERATIONS
ESTIMATED YEAR 1958

At Existing Water Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 355,760	\$ 359,200
Operating Expenses	313,315	304,410
Net Revenue	42,445	54,790
Rate Base (depreciated)	1,038,600	1,074,600
Rate of Return	4.09%	5.10%

At Applicant's Proposed Water Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 428,300	\$ 431,940
Operating Expenses	351,625	343,630
Net Revenues	76,675	88,310
Rate Base (depreciated)	1,038,600	1,074,600
Rate of Return	7.38%	8.22%

Findings and Conclusions

The difference between the revenue estimates of applicant and the Commission staff, as shown in the foregoing tabulation, arises from differences in each revenue account; however, those of major import arise from the estimates of customer growth and from miscellaneous services. The evidence is convincing that the staff's revenue estimates are reasonable and they will be adopted herein.

With respect to operating expenses, differences of significance lie in the calculation of income taxes, the respective calculations reflecting the respective revenue estimates; in ad valorem taxes; in the determination of depreciation accruals; and in the number of employees and their salaries. The calculation of income taxes to be adopted herein will reflect adopted revenues and expenses. The evidence is convincing that ad valorem taxes should be no less than \$20,600 for the estimated year and such expense amount will be included herein. With respect to depreciation accruals, the evidence is convincing that applicant's calculations should be used for the purposes of this proceeding. The accrual adopted herein amounts to \$47,630 for the estimated year 1958. With respect to applicant's employees and their salaries, the staff estimate covers only the present number of employees and existing wage rates. Applicant, on the other hand, included an increased amount for salaries in order partially to offset the existing unfavorable ratio of wages for its employees as compared with those of other workers and also to enable it to employ one additional employee to help alleviate aggravating sand problems throughout its system. While applicant's witnesses indicated that wages should be increased, applicant is neither in wage negotiations with its employees nor has it in this record, in any way, made a firm commitment to increase wages. Under such circumstances, an inclusion of any amount in operating expenses for such a nebulous possibility would be improper. The record clearly indicates, however, that a full-time employee is needed to carry out a proper sand-flushing program so as to maintain adequate service to the public. An amount of \$4,200 will be included in operating expenses for such specific purposes. Accordingly, we adopt as reasonable the sum of \$235,410 as representing the total of operation and maintenance expenses for the estimated year 1958.

In the determination of a fair and reasonable rate base upon which applicant may earn a reasonable return, applicant and the Commission staff essentially differ only in the amount of customers' advances for construction and in the amount of the depreciation reserve which should be deducted from utility plant. The evidence is convincing that the staff's calculations of construction advances are the more accurate and, further, that the staff-derived depreciated rate base, when adjusted to reflect the hereinabove adopted depreciation accrual, is fair and reasonable. Accordingly, we hereby adopt as a fair and reasonable depreciated rate base for the estimated year 1958, the amount of \$1,071,100.

Summarizing, the adopted amounts reasonably produce the following indication of applicant's financial position under existing and proposed water rates for the estimated year 1958.

ADOPTED RESULTS OF OPERATIONS - YEAR 1958

<u>Item</u>	<u>Existing Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 359,200	\$ 431,940
Operating Expenses		
Operation and Maintenance	235,410	235,410
Taxes	30,930	69,460
Depreciation	47,630	47,630
Total Expenses	<u>313,970</u>	<u>352,500</u>
Net Revenue	45,230	79,440
Rate Base (depreciated)	1,071,100	1,071,100
Rate of Return	4.22%	7.42%

Applicant has clearly demonstrated its need for and entitlement to increased revenues and we find the fact so to be. The water rates which it has proposed, however, would produce a rate of return, under presently foreseeable conditions, in excess of that which is reasonable for this utility. The full increases in water rates which applicant has proposed will not be authorized.

In view of the evidence, it is our opinion that this utility should be accorded an opportunity to earn a rate of return of

approximately 6.5 per cent over a reasonable future period of time. The evidence indicates that in order to accomplish such result, water rates should be set at such level as would yield an initial rate of return of 6.75 per cent on the hereinabove adopted rate base of \$1,071,100. The Commission hereby finds that such rate of return and rate base are reasonable. Rates for water service will be authorized accordingly. Further, the Commission finds that the increases in rates and charges authorized herein are justified and that existing rates and charges, in so far as they differ from those herein authorized, are for the future unjust and unreasonable.

Applicant has proposed that rates for water service shall be uniformly applied to all of its customers irrespective of location or from which portion of the system they may be served. As hereinabove noted, the City of Modesto objects to such situation. While all of the areas served by applicant are not physically interconnected, applicant operates and maintains them as though they were. All are serviced from the central headquarters of the utility. Crews are dispatched and directed by radio from such point. Telemetering of pressures and pump operations are terminated there and all customers' accounting, billing and other company records are handled there. In our opinion, this type of integrated operations, under the existing circumstances, makes for greater efficiencies and lesser costs than would splintering of the system into separate units. ✓

This Commission many years ago stated, and has ever since maintained the policy that political boundary lines, such as city limits, are not the proper criteria on which rates for utility services are to be based. Such artificial boundaries change without any relationship whatsoever to the utility facilities used and useful in serving the public. In the instant situation there appears

to be no compelling reason for departure from this well established principle of fairness to the utility-using public. The rates to be authorized herein will be uniformly applied inside as well as outside of the City.

The record in this proceeding indicates that applicant has been supplying water service to its employees at other than filed rates. An appropriate tariff for employee service will be authorized herein so that such practice will be terminated.

The record discloses that applicant's rules and filed maps do not reflect present-day practices or circumstances. Applicant will be required to bring such matters up to date.

Applicant should determine depreciation accruals on the straight-line remaining life basis of depreciation accounting. The evidence is not convincing that the plant lives heretofore used by applicant should remain long unchanged. Applicant should immediately undertake a study of its depreciation accruals and should, in the future, continue reviewing the accruals when major changes in plant composition occur and for each account at intervals of approximately five years. Results of such reviews should be submitted to the Commission.

Applicant will be required to file an appropriate rate schedule for the public fire hydrant service which it renders.

O R D E R

Del Este Water Company having applied to this Commission for an order authorizing increases in rates and charges for water service, public hearing having been held, the matter having been submitted and now being ready for decision based on the evidence and the findings and conclusions contained in the foregoing opinion,

IT IS HEREBY ORDERED that Del Este Water Company is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96, the rate schedules contained in Appendix A attached hereto and, on not less than five days' notice to the public and to this Commission, to make said schedules effective for water service rendered on and after February 1, 1959.

IT IS HEREBY FURTHER ORDERED as follows:

1. Within ninety days after the effective date of this order, applicant shall file with this Commission four copies of a comprehensive map, drawn to an indicated scale not smaller than 500 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.
2. Within sixty 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, revised rules and sample forms, acceptable to the Commission reflecting present-day practices and relations with its customers.
3. Commencing with the year 1959, applicant shall determine accruals to the reserve for depreciation by dividing the original cost of depreciable plant, less estimated future net salvage and less the depreciation reserve, by the estimated remaining life of the plant. In connection therewith, applicant shall forthwith undertake a study and review of its depreciation accruals and plant lives, looking towards a revision of the same so as to more appropriately reflect present-day composition and physical conditions of plant, and shall, on or before July 1, 1959, submit the results thereof to this Commission. Further, applicant shall review the accruals when major changes in plant composition occur and for each plant account

at intervals of not more than five years and shall submit the results of such reviews to the Commission.

4. Applicant shall immediately undertake a program of main flushing and other appropriate maintenance and operation work designed to alleviate the problems arising from the sand in its system and shall file with this Commission written reports, detailing the effectiveness and the cumulative costs thereof, on April 1, August 3, October 1 and December 31, 1959.

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

Dated at San Francisco, California, this 6th day
or January, 1959.

E. L. Fox
President
W. E. Marshall
W. H. Brown
Theodore J. Ginner
Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of the cities of Modesto and Turlock, and vicinity; and the unincorporated territory including the communities of Empire, Salida and Waterford, and the subdivision known as Hillcrest Estates, and vicinity; Stanislaus County.

RATES

Quantity Rates:

Per Meter
Per Month

First	1,000 cu.ft. or less	\$ 2.45
Next	2,000 cu.ft., per 100 cu.ft.215
Next	7,000 cu.ft., per 100 cu.ft.175
Next	40,000 cu.ft., per 100 cu.ft.12
Over	50,000 cu.ft., per 100 cu.ft.09

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 2.45
For	3/4-inch meter	2.75
For	1-inch meter	3.50
For	1 1/2-inch meter	6.00
For	2-inch meter	9.00
For	3-inch meter	18.00
For	4-inch meter	27.00
For	6-inch meter	40.00
For	8-inch meter	60.00

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

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Schedule No. 2

GENERAL FLAT RATE SERVICEAPPLICABILITY

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

TERRITORY

Portions of the cities of Modesto and Turlock, and vicinity; and the unincorporated territory including the communities of Empire, Salida and Waterford, and the subdivision known as Hillcrest Estates, and vicinity; Stanislaus County.

RATES

Per Service Connection
Per Month

For a single family residence or a business establishment, when served from:

3/4-inch service connection	\$ 3.10
1-inch service connection	4.00

Additional residential or business units served through the same service connection:

For the first additional unit	1.15
For the second additional unit90
For each unit in excess of two additional units70

SPECIAL CONDITION

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. A customer's request for change from flat rate to metered service must be made in writing.

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Schedule No. 4

PRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

Applicable to all water service furnished for private fire protection purposes.

TERRITORY

Portions of the cities of Modesto and Turlock, and vicinity; and the unincorporated territory including the communities of Empire, Salida and Waterford, and the subdivision known as Hillcrest Estates, and vicinity; Stanislaus County.

RATE

	<u>Per Connection</u> <u>Per Month</u>
For each inch of diameter of fire protection service connection	\$1.15

SPECIAL CONDITIONS

1. The above rate is applicable only to private fire protection facilities to which no connections for other than fire protection purposes are allowed. The utility may install the standard detector type of meter or by-pass check valve with pressure alarm system approved by the Board of Fire Underwriters, for protection against theft, leakage or waste of water.

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

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Schedule No. 5

PUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

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

TERRITORY

Portions of the cities of Modesto and Turlock, and vicinity; and the unincorporated territory including the communities of Empire, Salida and Waterford, and the subdivision known as Hillcrest Estates, and vicinity; Stanislaus County.

RATES

	<u>Per Hydrant</u> <u>Per Month</u>
Hydrants owned by the fire protection agency:	
Wharf type	\$1.00
Standard type	2.00
Hydrants owned by the utility:	
Wharf type	1.50
Standard type	2.50

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 maintenance of hydrants will be borne by the fire protection agency.
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.

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Schedule No. 10

SERVICE TO COMPANY EMPLOYEES

APPLICABILITY

Applicable to water service furnished for domestic use at the place of residence of an employee who resides within the service area.

TERRITORY

Portions of the cities of Modesto and Turlock, and vicinity; and the unincorporated territory including the communities of Empire, Salida and Waterford, and the subdivision known as Hillcrest Estates, and vicinity; Stanislaus County.

RATE

The regular filed rates applicable to the type of service, less 25 per cent.