

ET

Decision No. 58369

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
FRANCIS B. MATHEWS, dba OCCIDENTAL )  
WATER WORKS, for authority to increase )  
and change the rates of OCCIDENTAL )  
WATER WORKS, a water utility, under )  
Section No. 454 of the California )  
Public Utilities Code. )

Application No. 40699

O P I N I O N

In this application filed December 23, 1958 Francis B. Mathews, doing business as Occidental Water Works, requests authority to increase rates for water service in the town of Occidental, Sonoma County. The utility supplies water to 57 customers, of whom 40 are on meter rate service and 17 are on flat rate service. The rates requested are estimated to increase revenues by approximately 78 percent.

The instant application states that the system has been operated at a loss ever since it was first acquired by the present owner in 1955, that there has been no return on the investment during that period, and that for the past year there have been no expenses charged against the utility for general supervision of the property and for meter reading, billing and collecting actually performed.

The application further states that the increase in income from the requested rates is to be used for installation of a new pipeline from the Locatelli Spring to an existing distribution line on Bohemian Highway, probably during the first half of 1959; improvements at the four springs, beginning in 1960; installation of increased storage capacity, beginning in 1962; payment for general supervision, meter reading, billing and collecting; and a return on the investment.

### History of System

The system was originally installed by M. C. Meeker about 1894. Water was obtained from springs on the Meeker property and was conveyed by gravity into the town of Occidental by a pipeline, the consumers installing their own service pipelines to the mains. In 1915, by an agreement with Mr. Meeker, John Gonnella took over the operation of the system and operated it until 1943.

In June of 1943 Orville S. Clark and Agnes Clark purchased from the Meeker Estate the lands on which some of the springs were located that supplied the utility's service area, together with all the mains, valves, tanks and other items of plant belonging to the water system. This transfer was approved by the Commission in Decision No. 37647, dated January 30, 1945, in Application No. 26507.

By Decision No. 51756, dated August 2, 1955, in Application No. 37135, the Commission approved the sale of Occidental Water Works to the present owner, Francis B. Mathews.

### Description of System

The principal sources of supply are four springs located on property owned by the utility. Water from three of these springs is collected in storage tanks at the springs from which it flows by gravity to the distribution system and to a 10,000-gallon storage tank. Water from the fourth spring flows into a 2,240-gallon tank from which it is pumped into the distribution system and to the above-mentioned 10,000-gallon tank.

Additional water is purchased from the owner of another spring, known as the Locatelli Spring, northeast of town, where the utility owns an additional storage tank of approximately 2,000-gallon capacity from which the water flows by gravity into the system. Water for peak usage and emergency purposes is purchased from the owners of two wells which are situated near the center of town.

The total capacity of the six storage tanks owned by the utility is approximately 22,500 gallons. The transmission and distribution mains consist of about 14,000 feet of pipe ranging in size from 3/4 inch to 1-1/2 inches in diameter.

#### Rates, Present and Proposed

The following tabulation is a comparative summary of applicant's present and proposed rates. The present rates became effective June 1, 1946, by authorization in Decision No. 39005, dated May 21, 1946, in Application No. 27169.

	Per Month	
	<u>Present Rates</u>	<u>Applicant's Proposed Rates</u>
<u>METER RATES</u>		
Minimum Charge:		
For 5/8-inch meter .....	\$2.00	\$3.50
For 3/4-inch meter .....	5.00	-
For 1-inch meter .....	7.00	-
Quantity Rates:		
First 1,000 cu.ft., per 100 cu.ft.	.40	.70
Next 1,000 cu.ft., per 100 cu.ft.	.30	.60
Next 3,000 cu.ft., per 100 cu.ft.	.20	.50
Over 5,000 cu.ft., per 100 cu.ft.	.10	.50
<u>FLAT RATES</u>		
For all uses .....	2.00	3.50
For garden irrigation, to be charged only for months during which consumer irrigates, per 100 sq.ft. ....	.06	-

#### Customer Response

Following field investigations of applicant's operations and accounting records by members of the Commission's engineering and accounting staff, a letter was sent to each of applicant's customers on February 27, 1959. This letter provided the customers with information concerning the requested rates, a comparison of earnings at present rates and at the requested rates for the estimated year 1959, and asked for any comments the customers might wish to make.

Only two customers replied to the Commission letter. One of these customers objected to the rate increase, principally because of alleged low pressure problems resulting in lack of water at times. Investigation by the staff indicates that water shortages in this customer's section of the service area have been infrequent and have generally been caused by the inadvertent closing of a valve by employees of the owner of one of the wells used to supply additional water to the system during periods of peak use. The utility's manager stated that on the few occasions when this had happened, he had opened the valve as soon as advised of low pressure, and pressures then had returned to normal.

The other customer stated that it was his opinion and that of some others that the utility was entitled to some increase in rates, but not to the extent requested by the utility, and that any further increases should be dependent upon a continuation of the utility's service improvement program.

Summary of Showings

In Exhibit "B" of the application, applicant shows a summary of earnings for the first nine months of 1958 at the present rates and at the proposed rates. No estimates were made for the full year 1958 or for the year 1959.

The Commission's staff did not develop a rate of return for the first nine months of 1958, but did develop rates of return for the year 1959 estimated, at both present rates and the utility's proposed rates, based on a physical examination of the utility's properties, operations and records, and an evaluation of data furnished by the utility in its annual reports to this Commission. The staff's results reflect adjustments to the utility plant and depreciation reserve, as well as the full year effect of the inclusion in rate base of certain recommended improvements hereinafter discussed.

The staff's adjustments to the utility plant accounts consisted principally of the exclusion of approximately \$4,600 of land not used or useful in the utility's operations. These adjustments have been concurred in by the utility's manager and its accountant.

In its rate base computations, applicant used a depreciation reserve which apparently represented only the sum of the accruals since the present owner acquired the water system in 1955. The staff, on the other hand, used as its basis the depreciation reserve requirement as shown in its appraisal and depreciation reserve requirement study made in 1946 in connection with Application No. 27169 for increased water rates. That reserve was then brought up to the end of 1958 by computing depreciation on the 5 percent sinking fund method as used in the appraisal and as used by the previous owners up to the time of the transfer to the present owner in 1955. Beginning with the year 1959, the staff has computed depreciation on the straight-line remaining life method. The utility has agreed that the staff's estimate of depreciation reserve at December 31, 1958 is reasonable.

The staff's estimates of revenues and expenses do not differ materially from those made by applicant, when consideration is given to the different periods for which those estimates were made.

Applicant has set forth in his application certain system improvements planned to be made during the next several years. The application states that the first and most urgent project is the installation of a larger line from the Locatelli Spring to Bohemian Highway. The existing line at this location consists of 3/4-inch and 1-inch pipe in relatively poor condition. There are eight customers served directly from this line, in addition to which it is one of the sources of water for the remainder of the system.

The utility's construction program contemplates the installation of a new 1-1/4-inch line before the middle of the year 1959.

The staff concurs in general with the utility's program and recommends that the new line discussed above should be installed this year. This installation should improve service to the customers now on the old line and, of more importance, will make available a greater supply of water to the remainder of the system. The staff has included in its rate base computations an amount of \$500 to reflect the full year effect of the installation of this line.

Results of operation of the system as estimated by the staff for the year 1959 are shown in the following tabulation:

Estimate for Year 1959

<u>Item</u>	<u>At Present Rates</u>	<u>At Applicant's Proposed Rates</u>
Operating Revenues	\$1,805	\$3,210
Operating Expenses, Excluding Taxes and Depreciation	1,590	1,590
Taxes, Other Than on Income	160	160
Depreciation	240	240
Income Taxes	-	234
Total Expenses	\$1,990	\$2,224
Net Revenue	\$ (185)	\$ 986
Average Depreciated Rate Base	\$6,190	\$6,190
Rate of Return	Loss	15.9%

(Red Figure)

Findings and Conclusions

The results of operation in the foregoing tabulation clearly show that the present rates are deficient but that the rates proposed by applicant are somewhat excessive. The Commission finds and concludes that the staff's estimates of revenues, expenses and rate base as hereinbefore shown reasonably represent the results of applicant's operations for the estimated year 1959.

The Commission has frequently said in rate proceedings that rate bases, rates of return and other pertinent data are valuable indices of earning requirements. The Commission has also said that it considers all available data without limitation to any single method or formula. The principal issue involved is that the final result be reasonable. Under these conditions a net revenue of \$475 for the test year 1959 is justified in this instance, which represents a rate of return of 7.7 percent on a relatively small rate base of \$6,190. If the utility continues its presently planned program of plant improvements amounting to about \$500 per year for the next five years or more, its rate base will increase somewhat each year, with a corresponding gradual reduction in rate of return.

The rate base herein adopted includes an amount of \$500 to reflect the full year effect of the installation of a new 1-1/4-inch pipeline from the Locatelli Spring to Bohemian Highway, hereinbefore discussed, which we find to be necessary for improvement of service. The order herein will require applicant to make such installation within a reasonable time.

The adopted results of operation for the year 1959 estimated are as follows and we hereby find them to be reasonable:

<u>Item</u>	<u>Estimated Year 1959 Authorized Rates</u>
Operating Revenues	\$2,565
Operating Expenses, Excluding Taxes and Depreciation	1,590
Taxes, Other Than on Income	160
Depreciation	240
Taxes on Income	100
Total Expenses	<u>\$2,090</u>
Net Revenue	\$ 475
Average Depreciated Rate Base	\$6,190
Rate of Return	7.7%

While the order herein will not specifically provide for further improvements in addition to those required by this decision, applicant will be expected to diligently pursue his improvement program as set forth in the application.

Investigation by the Commission's staff discloses that the utility has not been charging the flat rate customers for garden irrigation, as is provided for in the presently effective flat rate tariff schedule, principally on account of the difficulty in determining the proper charges. In order to simplify this flat rate schedule, we will not include such additional irrigation charges in the rates hereinafter authorized.

Applicant has not specifically requested changes in the minimum charges for metered service for meters larger than the 5/8- by 3/4-inch size. It appears that the only reason for this is that the utility has not as yet installed any of the larger sizes of meters. However, in order to provide for possible future installation of such meters, the authorized rates will provide for 3/4- and 1-inch meters. In order to establish a differential between the flat rate, involving unlimited use of water, and the corresponding smallest minimum charge for metered service, the minimum monthly charge for service through a 5/8- by 3/4-inch meter will be fixed somewhat below the monthly flat rate charge, with proportionate charges for service through other sizes of meters.

#### O R D E R

The Commission having considered the request of applicant and being of the opinion that a public hearing is not necessary, therefore,

IT IS HEREBY FOUND 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, for the future are unjust and unreasonable; therefore,

IT IS 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 said rates effective for all service rendered on and after June 1, 1959.
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 and acceptable to this Commission, rules governing customer relations revised to reflect present-day operating practices, a revised tariff service area map and current sample copies of printed forms normally used in connection with customers' services. Such rules, tariff service area map and sample 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 comprehensive 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 1959, applicant shall determine depreciation expense by multiplying depreciable utility plant by a rate of 3.3 percent. 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. On or before July 1, 1959, applicant shall have installed and placed in operation a new pipeline of not less than 1-1/4 inches in diameter from the Locatelli Spring to the existing pipeline on Bohemian Highway. Applicant shall inform the Commission in writing within ten days after said pipeline has been completed and placed in operation.

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

Dated at San Francisco, California, this 5th day of May, 1959.

E. L. Fox  
President  
W. E. [unclear]  
Matthew [unclear]  
Theodore [unclear]  
Commissioners

APPENDIX A  
Page 1 of 2

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The community of Occidental and vicinity, Sonoma County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 500 cu.ft. or less .....	\$2.90
Next 1,500 cu.ft., per 100 cu.ft. ....	.50
Over 2,000 cu.ft., per 100 cu.ft. ....	.30
Minimum Charge:	
For 5/8 x 3/4-inch meter .....	\$2.90
For 3/4-inch meter .....	5.00
For 1-inch meter .....	7.00

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 community of Occidental and vicinity, Sonoma County.

RATE

Per Month

For each service connection ..... \$3.00

SPECIAL CONDITIONS

1. The above flat rate charge applies to service connections not larger than one inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer for above classification in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service.