

Decision No. 50000**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of )  
 PACIFIC GAS AND ELECTRIC COMPANY for )  
 authorization to increase the rates )  
 and charges of its Salinas Water )  
 System. )

Application No. 40479  
 (Amended)

(Water)

F. T. Searls, John C. Morrissey, and Philip A. Crane, Jr.,  
 for applicant.

Russell Scott, City Attorney and Thomas G. Dunne, City  
Manager, for City of Salinas, protestant.

W. Roche, T. Deal and G. Weck, for the Commission staff.

O P I N I O N

Applicant requests an increase in its Salinas water system rates designed to increase total operating revenues by \$205,280, or 47%; cancellation of a special rate contract for water sales to Farmers Mercantile Company in Salinas, and authority to revise private and public fire protection schedules applicable to the Salinas system. Hearings, after due notice, were held at Salinas on December 4, 1958 and January 20, 1959, before Examiner John M. Gregory.

The City entered no objection to justifiable increases in general service rates. It did object, however, to revision of the private fire protection schedule as an unnecessary and unsubstantiated change in long-standing rate practices for that class of service. Counsel for the staff also objected to the revised schedule on the ground that it would be imprecise and difficult to administer because of the inclusion therein of a monthly "facility charge" of  $1\frac{1}{2}\%$  or  $3/4\%$  of the estimated cost of installation of required facilities as a factor in the total rate, or charge, for the service, the lesser percentage to apply where the customer advances the costs of installation. We will return to this subject later, following a brief

discussion of one of the recent factors influencing the company's operations and of comparative operating result estimates under present and proposed rates.

Present rates for applicant's Salinas water system were authorized in 1953 (Decision No. 49187, Application No. 34038). Since then, rising costs and, in tax year 1958-59, an increase of 140% in assessed value over 1956-57 of the company's water system properties in Salinas, plus higher local tax rates, have contributed to a substantial and continuing decline in the company's return on its investment in those properties, despite added customers and revenues during the intervening years. The following table illustrates the trend in recent years of assessments and local tax rates. Although a portion of the increase in assessed value in 1958-59 is due to added plant, it primarily results from a higher level of assessment.

<u>Tax Year</u>	<u>Assessed Value</u>	<u>Tax Rate Per \$100 Assessed Value</u>
1956-57	\$ 466,450	\$6.38
1957-58	514,670	6.74
1958-59	1,119,460	6.95 (est.)
1959-60	--	7.15 (est.)

A condensed version of company and staff estimates of operating results for 1959 at present and proposed rates is shown below. The estimates are in substantial agreement and require no special comment. The staff's figures are based on field studies and on review and adjustment, where appropriate, of the company's results. Depreciation for federal income tax purposes was calculated by both the company and the staff by the straight-line method. The staff study (Exhibit 6) also contains figures illustrating the effect on rate of return of using accelerated depreciation, a subject now under investigation by the Commission in Case No. 6148.

Item	1959 Estimated			
	Present Rates		Proposed Rates	
	Staff	Company	Staff	Company
Total Operating Revenues (a) \$	431,190	\$ 434,620	\$ 636,790	\$ 639,900
Total Operating Expenses	<u>345,495</u>	<u>347,536</u>	<u>456,539</u>	<u>458,609</u>
Net Revenues	85,695	87,084	180,251	181,291
Rate Base, Depreciated	2,878,931	2,939,115	2,878,931	2,939,115
Rate of Return	2.98%	2.96%	6.26%	6.17%

(a) Average number of customers used: Staff - 8,620; Company - 8,619

Returning to applicant's proposal to revise its schedules for fire protection services, both private and public, and treating first of the private protection service, the evidence establishes that applicant and other utilities have similar schedules in effect for electric service which have been approved by the Commission, but that the proposed revision represents an innovation in water service rate schedules. The present schedule, (Sched. No. F-2, Cal. P.U.C. Sheet 344-W, effective Nov. 15, 1953), provides rates, based on a three-year contract, for service to private fire protection systems located along mains having excess capacity for deliveries to firm customers, within the incorporated limits of Salinas and certain contiguous unincorporated areas. The revised schedule, also applicable only on a three-year contract basis, would apply to all water service furnished for privately owned fire protection systems in the entire area supplied from the company's town pressure system.

Flat monthly charges in present Schedule F-2 are specific for 4-to-10-inch services and range from \$5.50 to \$25.00 in addition to the commodity rates in Schedule No. 1 for amounts of water used. Under the proposed revision the flat monthly charges, which now include components for capital and expense items, would be replaced by a lower service charge, ranging from \$2.50 to \$10, plus a "facility charge" equal to 1½% per month of the estimated cost of

the company-owned facilities installed, in addition to Schedule No. 1 commodity rates. Installed costs are now higher than those originally used to design the present schedule and have ranged from \$820 to \$2,122 for 14 installations of 6-inch services of which the company has records. A "facility charge" of 3/4% would apply if the customer elected to advance the total estimated installed cost of the required facilities.

The purpose of the revised schedule is to relate charges to cost of supplying the service, for which there is comparatively infrequent demand and for which the costs of installation vary in accordance with the requirements of individual customers. Revenues for private fire protection service for the test year 1959 are estimated at about \$3,700 at present rates and between \$10,800 (company) and \$12,340 (staff) at proposed rates.

Applicant also proposes to revise Schedule No. F-1, Fire Hydrant Service (Cal. P.U.C. Sheet No. 343-W, effective Nov. 15, 1953). The present schedule provides three scales of monthly rates for wharf and standard hydrants for municipalities and other public agencies within the incorporated limits of Salinas and certain contiguous unincorporated area. The rate scale applicable depends on whether the company or the customer owns and maintains all or a portion of the facilities installed.

The revised schedule, applicable within the entire territory supplied from the company's town pressure system, contains two scales of rates, denominated "Rate A", under which the company owns and maintains all facilities, and "Rate B", under which the customer owns and maintains hydrant, service pipe and fittings and the company provides and installs the service tee and shut-off valve.

The company presently supplies no service under the second scale of rates in existing Schedule No. F-1, the scale under which

the customer owns and maintains only the hydrant. Rates for company-owned hydrant installations would be increased under "Rate A" and the rate closed to new installations as of its effective date. "Rate B", which is less in all categories than the "Rate A" scale, would also be increased.

The record shows that most of the hydrants on the Salinas water system are of the double outlet standard type, carrying present rates of \$2.25 if customer-owned and \$3.50 if company-owned. The difference, \$1.25, if capitalized at 1.5% per month, or 18% per year, for operation, maintenance, depreciation, ad valorem taxes, general expense and return and taxes on income, would support an investment of only about \$83, which is less than the cost of the hydrant f.o.b. factory. Under the proposed rates, the differential is \$3.00 per month, which, if capitalized at 18% per year, would support an investment of only \$200 per hydrant. Recorded costs of typical double outlet hydrants installed during 1955-1957 averaged \$446 per hydrant, of which about three-quarters was for materials and supplies and the balance for labor and overhead.

Most of the fire hydrants now supplied under Schedule No. F-1 are customer-owned. Under the revised schedule the company will continue that type of service with only nominal increases in charges for the different types of hydrants supplied. Under "Rate B" the customer will be free to install any type or model hydrant desired.

Operating revenue estimates for the test year 1959 under existing Schedule F-1 range from \$16,520 (staff) to \$16,900 (company) and under the proposed revision from \$23,060 (staff) to \$23,700 (company).

It is clear, from this record, that present rates for applicant's Salinas water system are inadequate and insufficient under existing conditions, and that applicant is in need of additional revenue to meet costs and a reasonable return on its investment for

that system. The difference of less than one-tenth of one percent in the indicated rates of return for the test year, under both present and proposed rates, would seem to indicate that, despite careful scrutiny of applicant's proposals by the Commission's staff and the adjustments, here found proper and reasonable, to applicant's estimates, both the company and the staff are in substantial agreement as to the need for revision of rates for this system of the order indicated in the respective summaries of estimated operating results for the year 1959.

We see no reason for withholding permission to revise schedules for public and private fire protection rates and service. The record, in our view, supports a finding that the proposed revision of Schedule No. F-1, Public Fire Hydrant Service, is reasonable, with minor modification.

With respect to Schedule No. F-2, Private Fire Protection Service, we are of the opinion that applicant's theory of relating the charge for such service to the estimated cost of providing it in individual cases, as is contemplated by the proposed schedule, may have some merit, but that the proposal as advanced by the company has several serious deficiencies. We do not believe that the costs of providing service can be properly related to the cost of the physical installation as advocated by applicant, particularly for customer-owned facilities. In the case of the latter, for example, applicant proposes to include in the facility charge an item of depreciation on the theory that the company will in time have to replace these facilities at its own expense. This is contrary to the basic objective of depreciation, which is the recovery of original cost of fixed capital, less estimated net salvage, over the useful life of the property; it does not relate to replacement of capital items. Since the company would not have furnished the capital for installation, it would

obviously be inequitable for it then to claim, as an expense, depreciation on plant supplied by others. Moreover, applicant's proposed schedule would base the facility charge on a percentage of the total estimated installation cost, which could well lead to controversy as to what would be included in the total cost and what would be the basis for the estimates of such cost.

The proposed schedule would result in an over-all increase of 200 percent in revenue from private fire protection service, according to applicant's own estimates. The charges for many customers would undoubtedly result in increases considerably greater than this. Moreover, application of such a schedule could well result in rates very different for different customers with similar facilities, depending upon the age of such installation and its cost of the time of installation. When an old installation requires replacement, the same facilities installed at probably much higher cost would result in appreciably higher rates to the customer without any corresponding increase in availability of water. Finally, this form of rate would impose a difficult administration problem on the Commission, particularly if Special Condition No. 1 in the proposed schedule were permitted, wherein only a copy of the contract form would be filed with the Commission.

In our opinion, the deficiencies in applicant's proposal for private fire protection service outweigh the possible inequities that may exist under the present form of schedule. We see no reason for a change at this time in the historical concept of charging for such service on the basis of the size of connection, even though it is recognized that the present method may have imperfections. The simplest solution is to restrict future installations to those wherein the customer pays for such installation, in accordance with the usual practice for water utilities in this state, and the schedule authorized

herein will so provide.

The present schedule of rates for private fire protection service does not differentiate between facilities installed at the utility's expense and those installed at the customers' expense. The authorized rates will provide for such differences and will also contain special conditions differing somewhat from those in applicant's present and proposed schedules in order to conform more closely to schedules for such service authorized previously for other water utilities in this state.

Concerning applicant's request to cancel the existing contract rate for water sales to Farmers Mercantile Company, authorized by the Commission in 1950 (Decision No. 43888, Application No. 30995), the evidence shows that this customer has been receiving water service through a 6-inch connection pursuant to rates designed in 1948 for 4-inch, 6-inch and 8-inch service which included a facility charge of  $1\frac{1}{2}\%$  per month, or 15% per year. The \$25 rate in present Schedule No. F-2 for a 10-inch service was designed in 1951 and was based on a facility charge that equalled 16.3% of the then-estimated installation cost. The 1948 schedule, then called "FP", was authorized by Decision No. 42208, dated November 9, 1948, in Application No. 29763. The rate for the 10-inch service connection was authorized by Decision No. 46990, dated April 14, 1952, in Application No. 32722. Prior to 1948 there were also other installations on the Salinas system where charges for private fire protection services were established using the  $1\frac{1}{2}\%$  per month charge. At the present time, however, there are no customers, except Farmers Mercantile Company, who are served under such special or deviation rates.

We find that, under the circumstances disclosed by this record, applicant's request to discontinue service to Farmers Mercantile Company, under the existing arrangement and to transfer



that customer to proposed regular rate schedules when the same become effective, is reasonable and it will be authorized.

This application was filed on October 2, 1958. The company's exhibits, as well as that of the staff, reflect conditions obtaining on the Salinas water system as of the approximate time of filing the request for relief. The company, on the basis of its showing, has asked for revision of rates and schedules estimated by it to result for the year 1959 in a rate of return of 6.17% on a depreciated rate base of \$2,939,115. The staff, using applicant's rate proposals and estimates, adjusted where considered appropriate, has developed an indicated rate of return of 6.26% on a depreciated rate base of \$2,878,931. Both rates of return and both rate base estimates are within the zone of reasonableness, in our opinion, and are supported by the evidence of record. For the purpose of this proceeding, however, we will adopt the staff's estimates as shown in Tables 11-A and 11-B of Exhibit 6.

After adjusting the operating revenues to reflect the revisions of applicant's proposed Schedule No. F-2, Private Fire Protection Service, as hereinbefore discussed, we conclude that the following tabulation reasonably represents the operating results for the year 1959 estimated at the rates authorized in this decision:

	<u>Estimated Year 1959 Authorized Rates</u>
Total Operating Revenues	\$ 630,120
Total Operating Expenses	<u>452,950</u>
Net Revenues	177,170
Rate Base, Depreciated	2,878,900
Rate of Return	6.15%

The Commission has considered this record and is of the opinion that applicant should be accorded the opportunity to earn a rate of return of 6.15% on a depreciated rate base of \$2,878,900,

based upon the level of business estimated to prevail in the assumed test year 1959. We find said rate of return of 6.15% to be fair and reasonable on this record for applicant's Salinas water system operations.

We find as a fact that the increases in rates and charges authorized herein are justified and that present rates, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable. We conclude, accordingly, that applicant should be authorized to file such increased rates.

O R D E R

Public hearing having been held herein, evidence and argument having been received and considered, the matter having been submitted for decision, the Commission now being fully advised and basing its order on the findings and conclusions contained in the foregoing opinion,

IT IS HEREBY ORDERED that:

1. Applicant is 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 schedules of rates attached to this order as Appendix A and, on not less than five days' notice to this Commission and to the public, to make such rates effective for all such services rendered on and after July 16, 1959.

2. Concurrently with the effective date of the rates herein authorized, applicant shall discontinue sales of water to Farmers Mercantile Company at Salinas, California, under that certain contract annexed as Exhibit "A" to Application No. 30995 and authorized by Decision No. 43888 in said proceeding, and shall transfer said customer to the appropriate regular rate schedule or schedules as authorized herein. Applicant shall notify the Commission in writing, within thirty days after the effective date of this decision, that such transfer has been accomplished.

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

Dated at San Francisco, California, this 23rd day of June, 1959.

[Signature]  
President  
[Signature]  
[Signature]  
[Signature]  
Commissioners

APPENDIX A  
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Schedule No. SA-1

Salinas Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Salinas and vicinity, Monterey County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 500 cu.ft. or less .....	\$ 2.50
Next 2,500 cu.ft., per 100 cu.ft. ....	.28
Over 3,000 cu.ft., per 100 cu.ft. ....	.13
Minimum Charge:	
For 5/8 x 3/4-inch meter .....	\$ 2.50
For 3/4-inch meter .....	3.50
For 1-inch meter .....	4.50
For 1 1/2-inch meter .....	9.00
For 2-inch meter .....	15.00
For 3-inch meter .....	30.00
For 4-inch meter .....	60.00
For 6-inch meter .....	130.00

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. SA-4

Salinas Tariff AreaPRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

Applicable to all water service furnished for privately owned fire protection systems.

TERRITORY

The City of Salinas and vicinity, Monterey County.

RATES

	Per Month	
	<u>Facilities Installed at Cost of</u>	
	<u>Utility</u>	<u>Customer</u>
For each 4-inch connection .....	\$ 8.00	\$ 5.50
For each 6-inch connection .....	12.00	7.00
For each 8-inch connection .....	16.00	10.50
For each 10-inch connection .....	30.00	25.00

SPECIAL CONDITIONS

1. When fire protection service connection is installed at the cost of the customer such cost shall not be subject to refund.
2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of the customer. Such cost shall not be subject to refund.
3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to the specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water.

(Continued)

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Schedule No. SA-4

Salinas Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS--Contd.

4. For water delivered for other than fire protection purposes, charges will be made therefor under Schedule No. SA-1, General Metered Service.

5. 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 the system.

6. All service connections to provide private fire protection service installed on or after the effective date of this schedule will be installed at the cost of the customer and such cost will not be subject to refund.

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Schedule No. SA-5

Salinas Tariff Area

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 City of Salinas and vicinity, Monterey County.

RATES

	<u>Per Hydrant Per Month</u>	
	<u>Facilities Installed at Cost of</u> <u>Utility</u>	<u>Public Authority</u>
Wharf Hydrant:		
On Main Smaller than 4 inches in diameter .....	\$2.50	\$1.25
On Main 4 inches or larger in diameter .....	3.50	1.75
Standard Hydrant:		
Single Outlet .....	4.25	2.00
Double Outlet .....	5.75	2.75
Triple Outlet .....	8.00	3.50

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. SA-1, General Metered Service.
2. Relocation of any hydrant shall be at the expense of the party requesting relocation.

(Continued)

Schedule No. SA-5

Salinas Tariff Area

PUBLIC FIRE HYDRANT SERVICE

SPECIAL CONDITIONS—Contd.

3. 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.

4. Where the facilities are installed at the cost of the public authority, such costs include all labor and materials except that the utility will provide the materials for the service tee and the shut-off valve. The service tee and valve will be installed only by authorized utility personnel.

5. On and after the effective date of this tariff schedule, all facilities to provide service under this schedule will be installed at the cost of the public authority.