

ORIGINALDecision No. 58727

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
 of NEWMAN WATER WORKS, INC. for)
 authority to increase water rates)
 in its territory, in and adjacent)
 to the City of Newman, Stanislaus)
 County, California.)

Application No. 40574

James P. Mower, for Newman Water Works, Inc., applicant.
George G. Murry, City Attorney, for the City of Newman,
 protestant.
Paul C. Clay, District Superintendent, for Newman School
 District, protestant.
C. F. Clark and Thomas L. Deal, for the Commission staff.

O P I N I O N

By the above-entitled application, filed November 6, 1958, Newman Water Works, Inc., a corporation, seeks an order of this Commission authorizing increases in rates and charges for water service rendered in the incorporated City of Newman, and vicinity, in Stanislaus County. The application states that the revenues obtainable from the rates proposed therein for the twelve months ended June 30, 1958, would have been \$40,678, as compared with the income of \$29,378 actually received during the same period. This would amount to an over-all increase in operating revenues of \$11,300, or 38½ per cent. The application further states that such increased revenues would have resulted in net income of \$5,089, or an indicated rate of return of 6.08 per cent on a rate base of \$83,692.

Public Hearing

After due notice, a public hearing was held before Examiner E. Ronald Foster at Newman on April 15, 1959, which was attended by a small number of customers of the utility. On behalf of the City of

Newman, its City Attorney protested the proposed increases in water rates, in so far as they would result in any higher costs to the municipality, particularly for water used for sewer flushing purposes and for service to public fire hydrants.

At the hearing applicant requested that the proposed monthly minimum charge for a 4-inch meter be amended from \$24 to \$30, since the latter amount is that already authorized for that size of meter in the presently filed rate schedule. This prompted the Superintendent of the Newman School District to testify in opposition to such a charge, which results in an alleged exorbitant cost for water service rendered to the schools through two 4-inch meters which are required for fire protection purposes.

Applicant presented oral testimony by three witnesses, with supporting exhibits, respecting its operations. Two Commission staff witnesses also presented evidence, both oral and documentary, concerning the results of their independent studies and analyses of applicant's operations. The matter was submitted subject to the late filing by the utility of two exhibits which were received by the Commission on April 22, 1959, and the matter is now ready for decision.

History of the Utility

The original Newman Water Works, Inc. was incorporated by Simon Newman and associates in about 1888. Mr. L. Dobrzensky purchased the water utility plant in 1909, later dissolved the corporation and, until his demise, operated the water system as a private owner under the name of Newman Water Works Company. Mrs. Bertha Dobrzensky, the widow, with her son, W. H. Dobrzensky, continued the operations of the utility until her death.

Acting as trustee under the trust created by the will of Bertha Dobrzensky, deceased, and established pursuant to the Decree

of Distribution issued by the Stanislaus County Superior Court on April 20, 1954, the First Western Bank and Trust Company was in charge of the water utility operations until 1957. In that year, in response to a court order, the trustee caused the incorporation of the present Newman Water Works, Inc., the applicant herein.

By Decision No. 55677, dated October 15, 1957, in Application No. 39422, the Commission authorized the transfer of all of the business, properties and assets of the Newman Water Works Company to the newly formed corporation; and in exchange therefor, Newman Water Works, Inc. was authorized to issue ten shares of its common stock having no par value. Said ten shares are all of the authorized capital stock of the corporation and are held by First Western Bank and Trust Company, trustee. The original directors of the utility corporation included Willard Dobrzensky (also known as W. H. Dobrzensky) and Blanche Dobrzensky, his wife; who are now the vice president and the general manager and treasurer, respectively, of the said corporation.

The transfer of the water utility properties and assets to the Newman Water Works, Inc., was completed on November 15, 1957, since which time applicant has operated the water system.

Description of System

The utility's source of water supply consists of two wells, both located approximately at the center of the service area. One well, 14 inches in diameter and 583 feet deep, is equipped with a 40-horsepower pumping unit which has a capacity of 760 gallons per minute. The other well is 10 inches in diameter and 225 feet deep and is equipped with a 20-horsepower pumping unit capable of delivering 270 gallons per minute. Both pumping units are electrically driven and automatically controlled and they deliver the water directly to the distribution system and into a 100,000-gallon steel tank mounted on a 100-foot steel tower. The wells, pumps, tank, and the shop and

office buildings are on property owned by the utility, in Block 87, near the center of the city.

The distribution system consists of about 41,000 feet of pipe; of which only 3,060 feet is 6-inch, 20,340 feet is 4-inch, and the balance ranges in size from 3-inch to 1-inch diameter. At the end of 1958, there were approximately 630 services, all of which were metered except about ten. There were 63 fire hydrants attached to the system, eight of which are of the standard, or barrel, type; the rest of them are wharf type.

Present and Proposed Rates

Applicant's present basic rates have been effective since November 1, 1949, as authorized for applicant's predecessor by Decision No. 43335 dated September 27, 1949, in Application No. 30410, and which rates were adopted by applicant as of November 15, 1957. There follows a comparative tabulation of the present rates and applicant's proposed rates for metered service:

General Metered Service

<u>Item</u>	<u>Per Meter Per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
<u>Quantity Rates:</u>		
First 700 cubic feet or less	\$ -	\$ 2.80
Next 100 cubic feet, per 100 cu.ft.	-	.30
First 800 cubic feet or less	2.00	-
Next 1,200 cubic feet, per 100 cu.ft.	.20	.30
Next 1,000 cubic feet, per 100 cu.ft.	.20	.20
Next 7,000 cubic feet, per 100 cu.ft.	.175	.20
Over 10,000 cubic feet, per 100 cu.ft.	.15	.20

Minimum Charges:

For 5/8 x 3/4-inch meter	2.00	2.80
For 3/4-inch meter	3.00	4.00
For 1-inch meter	5.00	6.00
For 1-1/2-inch meter	7.50	8.00
For 2-inch meter	10.00	12.00
For 3-inch meter	15.00 ^a	18.00
For 4-inch meter	30.00 ^b	30.00 ^c

- a. Filed November 16, 1949 and authorized by Commission Resolution No. W-360, effective December 1, 1949.
- b. Filed February 18, 1953 with Advice Letter No. 2, for service not theretofore rendered, effective March 20, 1953.
- c. As amended at hearing.

A comparison of the monthly charges for several monthly consumptions at present and proposed metered service rates is set forth in the following tabulation.

Charges for Metered Service

Consumption in Cu. Ft.	Monthly Charge			
	Present Rates	Proposed Rates	Increase	
			Amount	Per Cent
0 to 700	\$ 2.00	\$ 2.80	\$.80	40.0%
800	2.00	3.10	1.10	55.0
1,000	2.40	3.70	1.30	54.2
1,650 (average)	3.70	5.65	1.95	52.7
2,000	4.40	6.70	2.30	52.3
2,500	5.40	7.70	2.30	42.6
3,000	6.40	8.70	2.30	35.9
4,000	8.15	10.70	2.55	31.3
5,000	9.90	12.70	2.80	28.3
10,000	18.65	22.70	4.05	21.7
15,000	26.15	32.70	6.55	25.0
20,000	33.65	42.70	9.05	26.9
30,000	48.65	62.70	14.05	28.9
40,000	63.65	82.70	19.05	29.9
50,000	78.65	102.70	24.05	30.6
60,000	93.65	122.70	29.05	31.0

The presently effective flat rate schedule, also authorized by Decision No. 43335, consists of 22 classifications of service. As a result of the metering program followed by the utility, only the following classifications are currently applicable:

FLAT RATE SERVICE

<u>Item No.</u>	<u>Classification</u>	<u>Per Month</u>
(4)	Garages	\$3.50
(6)	Warehouses, mills, plants, paint shops, lumber yards	2.00
(15)	Business house, with living quarters	2.50
(22)	Fire hydrants	2.25

A special condition of the schedule provides that water used for sewer flushing (among other purposes) will be furnished at regular meter rates.

In the instant application, no new flat rate schedule is proposed. At the hearing, applicant asked that an appropriate schedule of flat rates be established for those few remaining services which have not been and cannot be easily equipped with meters because of the arrangement of the piping on the customers' premises.

Applicant has proposed a separate schedule of rates for public fire hydrant service, as follows:

PUBLIC FIRE HYDRANT SERVICE

<u>Classification</u>	<u>Per Month</u>
For each fire hydrant attached to a	
6-inch or larger main	\$4.00
main smaller than 6-inch	2.50

A special condition of this proposed schedule provides that quantities of water delivered through fire hydrants for purposes other than fire fighting will be measured or estimated, and charges therefor will be at the general metered service rates.

Books and Records

The examination of the applicant's records by a Commission staff accountant revealed a number of accounting errors and that accounting procedures, in many cases, did not conform to the uniform system of accounts prescribed by the Commission and did not reflect good accounting principles in some cases. Some examples to support this statement are cited in Chapter 2 of the staff report introduced in this proceeding as Exhibit No. 7. For instance, numerous charges to expense for the years 1957 and 1958, were detected that should have been charged to utility plant or to accounts receivable. Such recommended staff adjustments amounted to \$2,705 for the year 1958

and thereby would convert the utility's net operating income from a reported loss of \$2,155 to an indicated profit of \$550.

A tabulation of unadjusted recorded operating expenses (exclusive of taxes and depreciation) for the years 1957 and 1958 shows an increase for 1958 over 1957 of \$5,182, or nearly 24 per cent. The total payroll charged to operating expense for the year 1958 was \$17,288; an increase of \$3,668, or 27 per cent more than the previous year. Of the total payroll for 1958, Blanche Dobrzensky, W. H. Dobrzensky and W. H. Dobrzensky, Jr. collectively were paid \$14,433, an increase of \$2,884, or 25 per cent more than in 1957. The staff's analysis also revealed that a part of the larger recorded total operating expenses for the year 1958 was due to the inclusion of payroll items and electric pumping bills for thirteen months instead of twelve.

Utility Plant and Depreciation Reserve

The recommended staff adjustments to utility plant, shown in detail in Table 2-A of Exhibit 7, show an upward adjustment of \$1,302 for utility plant to make an adjusted total of \$116,825 as of December 31, 1958; a corresponding downward adjustment of \$1,328 for the depreciation reserve, making the adjusted total of \$54,955; and an over-all increase in net utility plant of \$2,630, thus arriving at an adjusted amount of \$61,870 representing depreciated utility plant as of December 31, 1958.

At the hearing, applicant's engineering witness expressed agreement with the staff's recommendation that the adjusted utility plant and depreciation reserve balances as of December 31, 1958,

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 applicant's books.

Results of Operation

The financial statements for the twelve months ending June 30, 1958, shown in exhibits attached to the application, and those for the year 1958 as shown in Exhibit No. 1 presented by applicant at the hearing do not reflect the above-described adjustments to the recorded utility plant and depreciation reserve accounts recommended by the staff. Neither are those adjustments and other adjustments of operating expense accounts recommended by the staff accountant reflected in the summary of earnings for the year ending June 30, 1958, as shown in Exhibit "H" of the application, nor in the summary of earnings for the year 1959 shown in applicant's Exhibit No. 6 presented at the hearing. To that extent, the results of operations based on such exhibits are not directly comparable to those shown on the staff report, Exhibit No. 7. However, as a basis for analyzing other differences appearing in the two presentations, the results are summarized in the following tabulation:

SUMMARY OF EARNINGSApplicant's Showing

Item	Exhibits D, H, and No. 3 Year Ending 6/30/58		Exhibit No. 1 Recorded Year 1958	Exhibit No. 6 Estimated Year 1959	
	Present Rates	Proposed Rates		Present Rates	Proposed Rates
<u>Revenues</u>					
Metered Sales	\$ 26,926	\$37,408	\$29,058	\$ 28,287	\$39,257
Fire Protection Sales	1,752	2,290	1,756	1,752	2,290
All Other Sales	700	980	646	700	980
Total	<u>29,378</u>	<u>40,678</u>	<u>31,460</u>	<u>30,739</u>	<u>42,527</u>
<u>Expenses</u>					
Operating	25,753	25,753	26,988	27,989 ^b	27,989 ^b
Depreciation	4,315	4,315	4,540	3,397	3,997
Taxes other than Income	2,066	2,900	2,062	2,061	2,900
Income Taxes	25	2,621	25	25	2,506
Total	<u>32,159</u>	<u>35,589</u>	<u>33,615^a</u>	<u>33,472</u>	<u>37,392</u>
Net Revenue	(2,781)	5,089	(2,155)	(2,733)	5,135
Probable Depr. Rate Base	-	83,692	-	64,741	84,741
Indicated Rate of Return	(Loss)	6.08%	(Loss)	(Loss)	6.06%

(Red Figure)

^a Exclusive of interest.^b Includes \$1,000 for proration of tank repair and rate case.

Classification	Average Number of Active Service Connections	
Metered Customers	605	631
Flat Rate Customers	10	10
Public Fire Hydrants	61	61
Total	<u>676</u>	<u>702</u>

CPUC Staff - Exhibit No. 7

Item	Year 1958 Adjusted		Year 1959 Estimated	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
<u>Operating Revenues</u>				
Metered Sales	\$ 27,950	\$38,710	\$28,310	\$39,210
Unmetered Sales	525	525	525	525
Fire Hydrants	1,700	1,910	1,755	1,975
Total	<u>30,175</u>	<u>41,145</u>	<u>30,590</u>	<u>41,710</u>
<u>Deductions</u>				
Operating Expenses	20,200 ^c	20,200 ^c	20,400 ^c	20,400 ^c
Depreciation Accrual	2,875	2,875	3,050	3,050
Taxes other than Income	2,235	2,235	2,365	2,365
Income Taxes	915	4,515	860	4,505
Total	<u>26,225</u>	<u>29,825</u>	<u>26,675</u>	<u>30,320</u>
Net Revenue	3,950	11,320	3,915	11,390
Average Depr. Rate Base	60,400	60,400	66,000	66,000
Rate of Return	6.5%	18.7%	5.9%	17.3%

^c Includes \$1,010 for 5-year proration of tank maintenance and rate case.

Classification	Average Number of Consumers	
Metered Consumers	613	621
Flat Rate Consumers	14	14
Public Fire Hydrants	63	65
Total	<u>690</u>	<u>700</u>

The considerable variances between the presentations by the applicant and by the staff may be further analyzed and largely explained as follows:

1. Revenues. The recorded revenues for 1958 at the existing rates were adjusted slightly downward by the staff to eliminate the effect of certain billing irregularities. In both showings, the revenues as determined for the respective previous periods were carried forward for the year 1959 to reflect the anticipated growth in the number of consumers and fire hydrants.

The staff's estimated total revenues for 1959 are slightly lower than applicant's and they will be adopted as reasonable for the purpose of determining the operating revenues which will result from the several schedules of rates which will be authorized hereinafter. Late-filed Exhibits No. 9 and No. 10 pertaining to fire hydrants and the few remaining flat rate services, respectively, afford a basis for a more definitive estimate of the revenues obtainable from these classifications.

2. Operating Expenses. It may be observed that the costs of maintaining and operating the water system as estimated by applicant for the year 1959 are the same as the recorded total for the year 1958, plus a pro-rated amount of \$800 for tank repairs and plus rate case expense of \$200. The staff's estimate for 1959 reflects the 1958 adjusted amount and the anticipated customer growth, with figures for both years including 5-year prorations of \$810 and \$200, respectively, for the cost of the tank maintenance and of the instant rate proceeding. The large difference of nearly \$7,600 between the two estimates is due largely to the following factors:

- a. Applicant made no adjustment for the many items erroneously charged to expense for the year 1958 as hereinbefore discussed.

- b. The staff made further adjustments to the recorded figures for 1958 to normalize various items of expense, such as electric power bills and insurance.
- c. A very large portion of the difference is due to the diversity of treatment of payroll expense allocable to supervision exercised by the manager and her husband, for which the staff included part-time salaries of \$300 per month, or \$3,600 per year, as compared with a recorded amount of \$6,472 paid to these two people in 1957 and \$8,638 in 1958, or an average annual amount of \$7,555. Applicant's witness testified that his estimates included a basic salary of \$475 per month for a full-time supervisor, plus \$80 per month for night and week-end work, making a total of \$555 per month or \$6,660 per year. The staff pointed out that some portion of the supervisors' time is spent on plant additions and improvements and that corresponding portions of their salaries should be charged to utility plant.

It should be recognized that the management of a medium sized water utility such as this one must be conducted on a part-time basis and the charges for such supervision must be reasonable, even though the supervisors, who are virtually the owners of the utility, are on call at any and all hours of the day and every day of the year. Therefore, some judgment must be used to determine what is reasonable. While applicant has attempted to justify the basis of its charges, its claims appear to be excessive for the size and nature of this water system and for the number of customers involved.

The total payroll expenses considered by the staff as reasonably sufficient include the employment of a maintenance and repair man and of a bookkeeper and general office worker, both on a full-time basis, and of extra labor as required, all at amounts in close agreement with those used by applicant in its estimates.

After carefully weighing all the testimony pertaining to this major element of expense, the Commission is of the opinion that an allowance of \$21,500 for operating expense for the year 1959

is reasonable and it will be adopted for the purposes of this proceeding.

3. Depreciation. Consistent with its standard practice, the staff determined annual depreciation accruals by the straight-line remaining-life method, the amounts for the two test years 1958 and 1959 being considerably less than depreciation expense accruals reported by applicants during recent years. The staff's determination of \$3,050 as the depreciation accrual for 1959 represents a rate of 2.6 per cent of the adjusted average depreciable plant for that year, including additions of \$9,210.

The amount of \$3,397 depreciation expense estimated by applicant for 1959 at present rates is equivalent to about three per cent of the unadjusted depreciable plant at the beginning of that year. For proposed additions of \$20,000, applicant has computed additional depreciation expense on the full amount at the same rate, arriving at the amount of \$3,997 as the depreciation expense for 1959 at the proposed rates.

Taking into account the general character of the utility plant herein being reviewed and which the book figures show to be about fifty per cent depreciated, the composite rate of 2.6 per cent as determined by the staff is considered reasonable and will be adopted for the purposes of this proceeding.

4. Taxes Other Than On Income. For the year 1959 at present rates, applicant's estimate of taxes other than those based on income is the same as the total reported for the year 1958, or about \$2,060. At proposed rates, applicant has estimated an amount of \$2,900 or an increase of \$830 to reflect the 20,000 of improvements proposed to be added to the present plant of around \$115,000.

In its estimate for 1958, the staff used the recorded amount of ad valorem taxes but added about \$170 for adjustments to payroll and miscellaneous taxes, arriving at a total amount for that year of \$2,235. To reflect plant additions of \$9,210, ad valorem taxes were increased by \$130, making a total estimated amount of \$2,365 for the year 1959.

The staff's basis of adjusting and estimating this group of taxes appears to be realistic and reasonable and will be used for purposes herein.

5. Income Taxes. Taxes on income vary, of course, with the amount of taxable income which, in turn, depends upon the gross revenue and the allowable deductions. This accounts for the staff's estimates of income taxes being considerably larger than applicant's at both present and proposed rates.

In its income tax computations, the staff made deductions of \$4,540 and \$4,860 for depreciation for the test years 1958 and 1959, respectively, computed on a straight-line basis at the same rate of about four per cent of depreciable plant that the utility has used in the past, assuming that applicant would continue to use this method of computing depreciation for income tax purposes. At the hearing, applicant's engineer witness testified that applicant would be well advised not to accelerate its depreciation for such purposes. Based on this recommendation, applicant's manager testified that so far as she could commit the company, it will use the same amount for depreciation for income tax purposes as it shows on its books for rate purposes.

Therefore, in the tabulation of the results of operation for the year 1959 hereinafter adopted as reasonable, income

taxes will be computed by deducting the same amount for depreciation as is used for rate-making purposes.

6. Proposed Improvements and Development of Rate Bases.

The application states that future planning embraces additional pumping plants and that one additional site has been purchased. The following list shows the principal elements of deferred maintenance and of capital additions which were being considered:

<u>Item No.</u>	<u>Description</u>	<u>Amount</u>
1.	Clean and paint 100,000-gal. elevated tank	\$ 4,139
2.	Replace roof on cement tank and sand trap	1,580
3.	1,300 feet of 10-inch pipeline from elevated tank to Tulare Street at alley in Block 73, to strengthen distribution systems and increase fire flows to high value district	11,000
4.	New well, pump, tank, and piping in North Manor area	10,864
5.	Booster pump, piping and valves	3,000
6.	Auxiliary engine on well pump	1,800
7.	Fence extension at plant	296
8.	New truck-pickup	2,375
9.	Test bench, drill and tools	<u>550</u>
	Total	<u>\$35,604</u>

The first item of the foregoing list is strictly maintenance, which had been contracted for and allowance for which was included in expenses of operation hereinbefore discussed.

The remaining items, totalling \$31,465, have been recommended to be accomplished as soon as applicant's finances will permit. At the time of the hearing the fence extension (Item No. 7) was completed and the meter test bench (Item No. 9) had been ordered. Applicant's engineer witness testified that if the instant rate increase were granted, the company was planning to proceed with the

other listed improvements. He opined that applicant would spend \$10,000 or \$12,000^{1/} by the end of the current year and a total of approximately \$20,000 in two or three years. He considered the installation of the large pipeline (Item No. 3) from the elevated tank to the central business district to be the most urgent, to provide better fire protection and to reinforce the water supply by interconnection with several smaller lines; the estimated cost of \$11,000 includes some fire hydrants, as well as several valves and all fittings for the cross connections. This witness considered the installation of a new pumping plant (Item No. 4) to be the next most important improvement, to supplement the supply in the northern part of the service area where some developments are expected; Exhibit No. 4 shows the components of this plant at an estimated cost of \$10,864. A new pickup truck (Item No. 8) will be needed in the near future, at an estimated cost of \$2,375, to replace the present nine-year-old truck, for which there will be some trade-in value. The proposed installation of an auxiliary engine (Item No. 6) on one of the well pumps, estimated to cost \$1,800, is recommended for emergency use in case of electric power failure. Without designating the exact improvements, applicant's engineer added \$20,000 to the unadjusted utility plant figure of \$115,523 at the end of 1958 as a component of his rate base for 1959.

The staff engineer, in arriving at his rate base for 1959, added to the adjusted utility plant figure of \$116,825 at the end of 1958 the average of his estimated cost of \$9,210 for improvements

^{1/} On May 6, 1959, applicant filed Application No. 41115 for authorization to issue a secured note in the principal amount of \$12,000, with interest at the rate of six per cent per annum, for the purpose of liquidating an unpaid balance of \$3,450 of an existing note, and other indebtedness; to pay \$4,300 for cleaning and painting the 100,000-gallon elevated tank; to finance the fence extension, a meter test bench and a meter, costing a total of \$1,197; and to provide working capital for applicant's operations. The Commission granted the requested authorization by Decision No. 58515 dated May 22, 1959.

and additions contemplated to be installed during 1959. As compared with applicant's estimate of \$11,000 for Item No. 3, the staff engineer used an amount of \$7,000, which did not include as many valves and fittings nor any fire hydrants and which was found to be further deficient by over \$1,000 because of an error in computation. He included in his total estimate an amount of \$1,560 for a cover to the existing concrete tank and sand-trap (Item No. 2) located at ground level, which is presently unused. The record shows that to make this tank useful will require the installation of a booster pump, with piping and valves, estimated to cost \$3,000 (Item No. 5), which he did not include. This witness did include \$650 for the installation of eight new metered services and two additional fire hydrants.

As a component of the rate base for the year 1959 hereinafter adopted as reasonable for the purposes of this proceeding, there will be included on an average basis an amount of \$10,000 for needed plant improvements to be installed before the end of 1959, plus \$650 for new services and additional fire hydrants. In addition to smaller items already, or to be, installed or purchased, the \$10,000 will include at least a portion of the large pipeline previously referred to as Item No. 3. To be completely effective, it will be necessary to increase the capacity of the outlet pipe from the elevated tank to the ground, to at least equal that of the pipeline to be installed from there to the high-value district for fire protection and other purposes. To the extent that the estimated cost of such improvements have been included in the rate base for the year 1959 herein adopted, the order herein will require applicant to make such installations within a reasonable time.

The following tabulation shows the rate bases for the year 1959 as developed by the applicant and by the staff, and as adopted hereinafter:

DEVELOPMENT OF RATE BASES

Item	Estimated Year 1959			Revised as Adopted
	Applicant		CPUC Staff	
	Present Rates	Proposed Rates		
<u>Utility Plant</u>				
Beginning of Year	\$115,523	\$115,523	\$116,825	\$116,825
Estimated Net Additions	-	20,000	9,210	10,650
End of Year	<u>115,523</u>	<u>135,523</u>	<u>126,035</u>	<u>127,475</u>
Average	-	-	121,430	122,150
<u>Depreciation Reserve</u>				
Beginning of Year	56,282	56,282	54,955	54,955
Accrual for Year	-	-	3,050	3,070
End of Year	<u>-</u>	<u>-</u>	<u>58,005</u>	<u>58,025</u>
Average	<u>-</u>	<u>-</u>	<u>56,480</u>	<u>56,490</u>
Utility Plant less Reserve	59,241	79,241	64,950	65,660
Materials and Supplies	3,000	3,000	2,000	2,000
Working Cash	2,500	2,500	3,000	3,000
Subtotal	<u>64,741</u>	<u>84,741</u>	<u>69,950</u>	<u>70,660</u>
Advances for Construction	<u>-</u>	<u>-</u>	<u>4,000</u>	<u>4,500^a</u>
Average Depr. Rate Base	64,741	84,741	65,950	66,160
USE	\$ -	\$ -	\$ 66,000	\$ 66,200

^a To correct for staff error in averaging.

7. Rate of Return. Using the revised amounts found reasonable in the foregoing discussion, the following tabulation indicates the results of applicant's operations as estimated for the year 1959 at present rates, at the rates proposed by applicant and at the rates hereinafter authorized, had such rates been put into effect at the beginning of the year.

RESULTS OF OPERATION AS ADOPTED

	<u>Estimated Year 1959</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
<u>Operating Revenues</u>			
Metered Sales	\$28,685	\$39,730	\$32,035
Unmetered Sales	150	210	170
Public Fire Hydrants	1,755	2,130	1,895
Total	<u>30,590</u>	<u>42,070</u>	<u>34,100</u>
<u>Operating Expenses</u>			
Operation and Maintenance	21,500	21,500	21,500
Depreciation Accrual	3,070	3,070	3,070
Taxes Other Than on Income	2,385	2,385	2,385
Income Taxes	1,075	4,845	2,230
Total	<u>28,030</u>	<u>31,800</u>	<u>29,185</u>
Net Revenue	<u>2,560</u>	<u>10,270</u>	<u>4,915</u>
Average Depreciated Rate Base	66,200	66,200	66,200
Rate of Return	3.9%	15.5%	7.4%

The evidence is clear, as the foregoing tabulations indicate, that revenues obtained from existing water rates are inadequate to meet applicant's reasonable needs. It has been conclusively demonstrated that applicant is entitled to rate relief. However, the rates which applicant has proposed would yield revenues considerably greater than a reasonable return would require.

Any increase in water rates to be authorized in this proceeding will be effective only in future periods. It is not possible for new rates to be in effect during the whole of 1959, the year on which applicant's operations have been analyzed. In a foregoing tabulation, the staff's showing for the two test years 1958 and 1959 indicates an annual decline in the rate of return of 0.6 per cent at present rates and a somewhat greater decline at proposed rates. This decline is largely due to the effect of installing deferred plant facilities needed to maintain and improve service but which are essentially non-revenue-producing items. In viewing the evidence it seems clear that applicant will continue

to experience a declining rate of return when plant improvements are made as contemplated. Because of such situation, a decline of 0.65 per cent may be expected to occur within the next twelve months, from which it follows that the water rates authorized herein will produce revenues which will render an average rate of return not in excess of 6.75 per cent for the immediate future.

Customer Participation

While he presented no witnesses of his own, the City Attorney for the City of Newman showed an interest in the proceeding by cross-examination of the applicant's witness and the staff's witnesses. He manifested particular concern for the quality of service offered by applicant for fire protection purposes and the charges proposed to be made for such service.

The City Attorney also introduced in evidence as Exhibit No. 8 the March 1959 issue of "Western City," with particular reference to a table on pages 32 and 34 thereof setting forth fire grading and rating data for 153 northern California cities which are graded from time to time by the Board of Fire Underwriters of the Pacific. An analysis of this table shows Newman (graded in November 1949) as ranking seventh from the bottom, based on the total number of 3,346 adverse points from the standpoint of fire protection, of which the water supply was charged with 1,256, or 37½ per cent, of such points. Only two of the 153 cities were charged with a greater percentage of points against the water supply. It may be pointed out that the same list shows that the City of Newman's fire department and fire alarm system together accounted for 1,221, or 36½ per cent, of the total adverse points. While a more recent grading might show different results, it appears that there is need for improvement in the water supply of applicant's system from the

standpoint of available fire protection. This points to the desirability for the immediate installation of the proposed large water main into the City's high-value district.

The District Superintendent for the Newman Elementary School District voiced a protest against the present and proposed minimum charges for service to two schools now supplied through four-inch meters. He testified that he found it difficult to explain to the School Board why the monthly charges for certain quantities of water supplied through a four-inch meter to one school were more than the monthly bills had been for larger quantities of water formerly supplied to one of the schools through a two-inch meter. It appears that the four-inch meters on the services are required for fire protection reasons. A rough approximation of all of the costs involved in furnishing the relative quantities of water which can be supplied through meters of the various sizes indicates that the present and proposed minimum monthly charge of \$30 for a four-inch meter is no more than reasonable and such charge will be continued in effect for the future.

Recommendations

The staff made recommendations pertaining to depreciation practices and the filing of up-to-date maps, rules governing customer relations revised to reflect present-day operating practices, and sample copies of printed forms that are normally used in conjunction with customer service.

The staff also recommended that the present flat rate schedule should be revised and simplified, or withdrawn and cancelled.

Rate Schedules

At the rates hereinafter authorized for general metered service, the total revenues estimated as obtainable therefrom are

11.7 per cent more than those estimated at present rates for the year 1959. For an average monthly consumption of 1,650 cubic feet, the charge will be \$4.19 at the authorized rates, as compared with \$3.70 at present rates, which is an increase of \$0.49 or 13½ per cent.

Applicant has proposed no new schedule for flat rate service, other than for fire hydrants, and has suggested no higher rates for service being rendered to the few remaining customers whose services have not had meters installed on them. It is only equitable that any increase in rates should be applied to all classes of customers. Late-filed Exhibit No. 10 shows that as of April 21, 1959, there were only five customers still being served at flat rates. The order herein will provide for the filing of a schedule of rates limited to such customers and to remain in effect only until such time as the arrangement of the piping on these customers' premises will permit the installation of meters. The schedule will establish rates which increase the present flat rates for these premises by approximately the same percentage as the average increase being authorized for general metered service.

Applicant presently has on file a single rate applicable to all public fire hydrants. It has proposed higher rates with a differential between hydrants attached to a six-inch or larger main and those attached to mains smaller than six inches. Late-filed Exhibit No. 9 shows that as of April 21, 1959 there were installed on the system some wharf-type and some standard hydrants with risers of 2½-inch, 3-inch and 6-inch diameter, having one or two outlets of two sizes, and attached to mains varying from 2½ to 6 inches in diameter. The schedule of rates for public fire hydrant service which will be authorized by the order herein will be designed to reflect the relative value of the service rendered in terms of

probable flows from the hydrants, based upon considerations as to their type and size and the size of the water mains to which they are attached. Quantities of water supplied from the hydrants for sewer flushing and purposes other than fire protection are to be measured by means of a portable meter, or otherwise estimated, and charged for at the same rates as for general metered service.

The record indicates that, in the past, applicant has deviated in some respects from the filed tariffs in billing its customers. Applicant is admonished to discontinue such practice and, in the future, to charge for all service rendered at the rates properly filed with this Commission. In this respect, applicant is put on notice that it should install meters on all service connections, including those to all premises owned or occupied by applicant's officers and employees; excepting, of course, public fire hydrants and those few premises listed in the flat rate service schedule authorized hereinafter.

Findings and Conclusions

The Commission finds and concludes that the estimates of operating revenues, expenses, including depreciation and taxes, and the rate base as revised herein, reasonably represent the results of applicant's operations for the year 1959 and they will be and hereby are adopted for the purposes of this proceeding.

In view of all the evidence, we find that applicant is entitled to a portion of the relief sought and that an order should be issued revising and increasing the rates for water service to the extent set forth in Appendix A following the order herein. As indicated by a foregoing tabulation, the rates hereinafter authorized are estimated to produce for the year 1959 total operating revenues of about \$34,100, had such rates been made effective at the beginning

of the year, which revenues are \$3,510, or approximately 11½ per cent, more than those estimated to be obtainable from rates presently in effect. After due allowance for all reasonable operating expenses, depreciation and taxes amounting to \$29,185, the resulting net revenue of \$4,915 represents a rate of return of 7.4 per cent on the depreciated rate base of \$66,200. In view of an indicated decline of 0.65 per cent on the rate of return during the next twelve months, the Commission concludes that the water rates to be authorized herein will produce earnings sufficient to afford applicant an opportunity to earn a rate of return of 6.75 per cent for the immediate future, which rate of return we find to be fair and reasonable.

Accordingly, the Commission further finds as a fact 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.

Applicant's existing rules governing its relations with customers do not reflect present-day water utility practices. Applicant will be required to file revised rules, together with an up-to-date tariff service area map, a comprehensive service and facilities map, and sample copies of forms normally used in connection with customer service.

O R D E R

The above-entitled application having been filed with this Commission, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED that:

1. Applicant Newman Water Works, Inc., a corporation, 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 service rendered on and after August 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, rules governing customer relations revised to reflect present-day operating practices, a revised tariff service area map acceptable to the Commission, and sample copies of printed forms normally used in connection with customers' services. 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 comprehensive map, drawn to an indicated scale not smaller than 400 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 2.6 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 render a written report to the Commission, signed by a responsible officer of the company, outlining its plans for purchasing and placing in operation the following improvements and additions to plant; and including detailed descriptions, estimated costs and the approximate dates when the acquisition of each item is expected to be, or already has been, accomplished:

- a. New fence extension at existing plant.
- b. Meter test bench and testing apparatus.
- c. New pickup truck to replace present one.
- d. New well, pump, tank and piping in North Manor area (or other location).
- e. Replace roof on existing cement tank and sand trap.
- f. Booster pump, piping and valves in connection with tank and sand trap.
- g. Auxiliary engine for one of the existing or new well pumps.
- h. Any other major item contemplated to be installed within the near future.

6. On or before April 1, 1960, applicant shall have installed and placed in operation approximately 1,300 feet of pipeline, not less than ten inches in diameter, from the existing 100,000-gallon elevated tank to Tulare Street at alley in Block 73, including necessary valves and fittings for making interconnections with existing distribution mains which said pipeline will cross, and also not less than two standard fire hydrants at locations to be determined by the proper authority of the City of Newman. Applicant shall inform the Commission, in writing, within ten days after said pipeline and accessory items have been installed and placed in proper operation, together with the total installed cost thereof.

7. In all other respects the application be and it is denied.

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

Dated at San Francisco, California, this 7th
day of July, 1959.

Clement A. R. [Signature]
President
[Signature]
[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 City of Newman, and vicinity, Stanislaus County.

RATES

Per Meter
Per Month

Quantity Rates:

First	700 cu.ft. or less	\$ 2.10
Next	1,800 cu.ft., per 100 cu.ft.22
Next	7,500 cu.ft., per 100 cu.ft.20
Over	10,000 cu.ft., per 100 cu.ft.17

Minimum Charge:

For	5/8 x 3/4-inch meter	2.10
For	3/4-inch meter	3.00
For	1-inch meter	5.00
For	1 1/2-inch meter	8.00
For	2-inch meter	12.00
For	3-inch meter	18.00
For	4-inch meter	30.00

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

APPENDIX A

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Schedule No. 2LX

LIMITED TEMPORARY FLAT RATE SERVICE

APPLICABILITY

Applicable to water service furnished on a limited temporary flat rate basis.

TERRITORY

The City of Newman, and vicinity, Stanislaus County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
1. Garage in Block 72, at 1248 "O" Street ...	\$3.90
2. Paint Shop in Block 57, at 743 Fresno Street	2.25
3. Office in Block C-1, on "N" Street	2.25
4. Building in Block 75, at corner of Merced and "N" Streets	2.80
5. Building in Block 73, at 929-931 Fresno Street	2.80

SPECIAL CONDITIONS

1. Service under this schedule will be limited to the above-listed premises being served hereunder as of the effective date of this tariff sheet, and will be furnished to each of the premises only until such time as a meter is installed.

2. A meter may be installed at option of utility or customer at any of the above-listed premises, in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service.

3. This schedule will remain in effect only until such time as the arrangement of piping at each of the above-listed premises will permit the installation of a meter, and thereafter will be withdrawn.

APPENDIX A

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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

The City of Newman, and vicinity, Stanislaus County.

RATES

<u>Type and Size of Hydrant</u>	<u>Per Month</u>		
	<u>Size of Service Main</u>		
	<u>3-inch</u>	<u>4-inch</u>	<u>6-inch</u>
	<u>and</u>	<u>and</u>	<u>and</u>
	<u>Smaller</u>	<u>Larger</u>	<u>Larger</u>
For each wharf type hydrant:			
With 2½" riser and 2½" outlet	\$2.00	\$2.25	\$2.50
With 3" riser and 2½" outlet	2.25	2.50	2.75
For each standard type hydrant:			
With one 2½" outlet	2.50	2.75	3.00
With two 2½" outlets			3.50
With one 2½" outlet and one 4½" outlet			4.00

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 installation and maintenance of hydrants will be borne by the utility.
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.