

ORIGINALDecision No. 59201

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SMITHSON SPRINGS WATER COMPANY, a)
 California corporation, for auth-)
 orization to increase its rates)
 charged for water service.)

Application No. 40366

Charles Drake, for applicant.
M. A. Kipf, for Desert Springs Chamber of
 Commerce, protestant.
Sam E. Taylor, Ken Swart, Ide Keeler, interested
 parties.
Donald B. Steger and Richard R. Entwistle, for
 the Commission staff.

O P I N I O N

Applicant, a California corporation, has authority from this Commission to furnish domestic water in a small area in San Bernardino County, near Phelan, California (Decision No. 39227, dated July 30, 1946, in Application No. 27539). The certificate has been modified as to area served (Decision No. 54551, dated February 19, 1957, Decision No. 55843, dated November 19, 1957, and Decision No. 56884, dated June 24, 1958, all in Cases Nos. 5720 and 5803). The rates were increased in 1948 (Decision No. 42001, dated August 31, 1948, in Application No. 28795), and again in 1951 (Decision No. 46375, dated November 6, 1951, in Application No. 32173). No rate increases have been authorized since 1951.

By the application herein, filed on August 19, 1958, applicant seeks authority to increase its rates for metered water service.

A public hearing on the application was held in Phelan, California, before Examiner Kent C. Rogers on December 9, 1958, and

the matter was submitted. On January 27, 1959, the submission was set aside and the matter was reopened for further hearing. A further hearing was held in Desert Springs on July 8, 1959, before Commissioner Theodore H. Jenner and Examiner Kent C. Rogers, further evidence was presented and the matter was submitted. Prior to each day of hearing notice thereof was published and delivered to consumers as required by this Commission.

General Information.

Applicant's service area is depicted on Exhibit No. 2 herein. It comprises approximately 535 acres of land in San Bernardino County, California, bounded on the north by State Highway No. 138 and it is about five miles west of Phelan. Water is obtained from springs and a horizontal well in "Boneyard Canyon" which is situated southwest of the service area about one-half mile. There are two 200,000-gallon storage tanks in the vicinity of the canyon, and one 25,000-gallon tank in the south, or high, end of the service area. The system comprises 28,450 feet of mains ranging in size from one to four inches and is supplied by gravity flow from the reservoirs. On October 31, 1958, there were 84 metered connections. In addition to the individual meters there is one metered haulage connection from which certain specified customers only may secure water for hauling in tanks to points outside the service area. There is only one schedule of rates, and all customers, including the haulage customers, pay on an annual basis.

Applicant has been authorized to issue 250 shares of stock having a par value of \$100 per share. At the time of the first hearing herein, Mr. W. S. Schwartz, applicant's secretary, owned 138 of said shares and the balance were owned by four other individuals.

Present and Proposed Rates.

The present and proposed rates are as follows:

<u>RATES</u>	<u>Per Meter Per Year</u>	
	<u>Present</u>	<u>Proposed</u>
Annual Minimum Charge:		
For 5/8 x 3/4-inch meters	\$24.00	\$48.00
For 1-inch meters	40.00	80.00
Quantity Rates:		
First 3,600 cu.ft. or less.....	24.00	48.00
All over 3,600 cu.ft., per 100 cu.ft....	.50	1.00

Meters will be read on or about the first day of January, April, July, and October, and billed on a three-month basis.

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

Estimated Results, Present and Proposed Rates.

The results of operation as estimated by the applicant and the staff show that applicant is not earning a fair rate of return at present rates. The applicant stated that for the estimated year 1958 at present rates it would have a loss from operations (page 20 of Exhibit No. 3). The staff estimated that at present rates for the year 1958 the applicant would have a return of 0.7 of one percent (page 3 of Exhibit No. 6). It is thus apparent that applicant is entitled to an increase in its rates.

The Rate Increase.

Applicant requests a straight 100 percent increase in rates, alleging both that such rates are required to give a reasonable return and will discourage water wastage. In calculating its results at the proposed rates, however, the applicant made no allowance for lesser water usage due to the increased cost thereof. The staff made

such an allowance. At the proposed rates the estimated results of operation for the year 1958 are as follows:

<u>Item</u>	<u>Staff</u>	<u>Applicant*</u>
Revenues		
General Metered Sales	\$ 6,256	\$ 6,450
Haulage Sales	576	520
Total	<u>\$ 6,832</u>	<u>\$ 6,970</u>
Operating Expenses		
Maintenance & Operating Expenses	\$ 2,110	\$ 3,050
Depreciation Expense	660	760
Taxes	1,670	1,370
Total	<u>\$ 4,440</u>	<u>\$ 5,180</u>
Net Revenue	2,392	1,790
Average Depreciated Rate Base	20,160	24,610
Rate of Return	11.9%	7.3%

*Reflects applicant's modified revenues.

The rates of return at proposed rates appear excessive especially when, as here, a 100 percent increase in rates is requested. From the evidence herein it appears that certain modifications are in order in the estimates.

It does not appear reasonable that water haulers should pay the same rate as persons whose water is delivered through pipes. There are eleven water haulers. It appears that none of these customers used enough water to require payment of more than the minimum charge of \$24 per year. No increase will be authorized for these customers. The annual income from these customers will, therefore, be \$264 which, together with the annual revenues from regular customers as estimated by the staff as \$6,256 at proposed rates, would give applicant a total annual gross income of \$6,520. This figure will be used herein.

The staff adjusted total operating expenses for 1958 will amount to \$2,110, including \$780 source of supply expense, \$340 transmission and distribution expense, and \$630 general expense. The applicant estimated these items, respectively, at \$1,250, \$580 and \$910. In each account the applicant included increased labor costs whereas the staff estimated labor at the wage levels in effect at the end of 1957. In the source of supply expense item the applicant also allowed an item of \$1,950 for a vertical well drilled in 1957, which was dry and for which there was no salvage on the casing. Applicant desires to amortize this expense over a period of five years at \$390 per year. This is a legitimate expense and will be included for rate-making purposes. Applicant also paid or became indebted to its engineer in the sum of \$1,500 for this proceeding and proposes to amortize this figure over a period of five years at \$300 per year. This item also appears reasonable and will be allowed. For the purposes of the proceeding, therefore, applicant's estimated operating and maintenance expenses in the sum of \$3,050 will be used.

Applicant developed a rate base from recorded amounts which could not be properly substantiated. The staff prepared an appraisal and excluded certain unused land and contributions in aid of construction. The staff estimate of rate base is reasonable and will be used. Using the staff's estimated revenues, as adjusted herein, the applicant's estimated expenses and the staff's estimated rate base, the results of operation are as follows:

<u>Item</u>	
Revenues	
General Metered Sales	\$ 6,256
Haulage Sales	264
Total	<u>\$ 6,520</u>
Expenses	
Source of Supply	\$ 1,250
Transmission & Distribution	580
Customer Accounting	310
General & Administrative	910
Total	<u>\$ 3,050</u>
Depreciation Expense	660
Taxes other than Income	<u>460</u>
	<u>\$ 4,170</u>
Taxable Income	\$ 2,350
California Franchise Tax *	118
Federal Income Tax	<u>610</u>
Net Revenue	\$ 1,622
Rate base \$20,160	
Rate of Return 8%	

* Computed at 5.5%

Applicant will be permitted to establish the rates proposed except that haulage rates will remain as at present. These authorized rates we find to be just and reasonable, and the present rates, in so far as they differ from those herein prescribed, we find to be unjust and unreasonable.

Opposition to the Application.

Among others, the Desert Springs Chamber of Commerce appeared in opposition to the increase. It objected to the applicant's itemization of income and expenses and the utility plant. Those items were checked by the staff, and figures herein used are those found accurate after thorough investigation.

Applicant should file forms of main extension agreements for both subdividers and individuals, and should enter into written agreements for all future main extensions.

Complaints were also voiced that the customers are not notified prior to the time water is shut off for non-emergency work. Notice of such shutdowns should, of course, be given to water users. Applicant will be required to maintain in the service area some person who has the knowledge and ability to repair and correct minor service defects.

O R D E R

An application for authority to increase rates having been filed, public hearings having been held thereon, the Commission having found that increased rates are justified as set out in the order herein, and based on said finding,

IT IS HEREBY ORDERED as follows:

(1) That applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order, in conformity with the Commission's General Order No. 96, schedules of rates shown on Appendix A attached hereto, and on not less than five days' notice to the Commission and the public to make the said rates effective for service rendered after December 1, 1959. ✓

(2) That applicant shall employ and have available in the service area an authorized representative who shall be authorized to receive, act on, and correct service complaints and who shall take reasonable steps to correct them. All consumers shall be notified in writing and be kept informed of the name and location of this person and how said person may be contacted. A copy of such written notice shall be provided to each consumer and to the Commission within thirty days after the effective date of this order.

(3) That applicant shall make all future installations of utility plant in strict conformance with General Order No. 103 of this Commission.

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

Dated at San Francisco, California, this 27th day of October, 1959.

Ernest R. Reag
President
W. H. ...
W. H. ...
C. ...
Theodore ...
Commissioners

Schedule No. 1

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all general metered water service furnished on an annual basis.

TERRITORY

The unincorporated community of Desert Springs, and vicinity, San Bernardino County.

RATES

Per Meter
Per Year

Annual Quantity Rates:

First 3,600 cu.ft. or less	\$48.00
Over 3,600 cu.ft., per 100 cu.ft.	1.00

Annual Minimum Charge:

For 5/8 x 3/4-inch meter	\$48.00
For 1-inch meter	80.00

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

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1 and is due in advance. Opening bills for service commencing after January 1, and closing bills for service discontinued before December 31, will be prorated on the basis of the ratio of the number of days in the period of service to 365.

2. Charges for water used in excess of the annual minimum charge will be billed quarterly.

3. No water will be furnished for swimming pools during the months of July and August of each year, nor during any other periods of water shortage.

APPENDIX A
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Schedule No. 9LM

ANNUAL HAULED WATER SERVICE

APPLICABILITY

Applicable to measured water service to tank trucks, tank wagons, or other containers.

TERRITORY

The unincorporated community of Desert Springs, and vicinity, San Bernardino County.

RATES

Per Year

Annual Quantity Rates:

First 3,600 cu.ft. or less	\$24.00
Over 3,600 cu.ft., per 100 cu.ft.50

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1 and is due in advance. Opening bills for service commencing after January 1, and closing bills for service discontinued before December 31, will be prorated on the basis of the ratio of the number of days in the period of service to 365.

2. Charges for water used in excess of the annual minimum charge will be billed quarterly.

3. Water haulage deliveries will be made only on the days and at the times specified in Rule No. 2, Description of Service.

4. Water haulage service is available only to those customers actually receiving such service on the effective date of this schedule.