

ORIGINAL

Decision No. 59300

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
OAK GROVE WATER COMPANY, a corpora-
tion, for authority to increase rates
for water service.

Application No. 40985

James A. Ganley and L. H. Peterson, for applicant.
E. John Kleines, for Oak Grove Manor Improvement
Association and for himself, protestants.
Francis O. Boufford, Robert G. Powell and
David F. Munns, for Oak Grove Manor Improvement
Association, protestant.
Alfred V. Day and Larry L. Thormod, for the
Commission staff.

O P I N I O N

By the above-entitled application filed April 1, 1959, Oak Grove Water Company, a corporation, seeks authority of this Commission to increase its rates and charges for metered water service and to file a schedule of rates for public fire hydrant service rendered by it in and around the subdivision known as Oak Grove Manor, Tract No. 2036, located approximately three miles northeast of the City of Walnut Creek in Contra Costa County.

Public Hearing

A public hearing on the application was held before Examiner E. Ronald Foster in Concord on September 2, 1959. Prior to the hearing, notice thereof was published in a newspaper of general circulation in the area and similar notices were mailed to all water users, as required by this Commission. Four men appeared on behalf of the Oak Grove Manor Improvement Association, an unincorporated group, as protestant, and claiming to represent a large majority of the property owners within applicant's service area.

A number of customers attended the hearing and some of them testified. The matter was submitted subject to the later filing of a brief on behalf of the protestants, which has now been received, and the matter is ready for decision.

Rates, Present and Proposed

Applicant's present rates were established when it was certificated in Application No. 35837 and became effective May 16, 1955, as authorized by Decision No. 50949 dated January 4, 1955. The following tabulation compares the present rates and charges for general metered service with those proposed by applicant and indicates a uniform increase of 60 percent.

GENERAL METERED SERVICE

<u>Quantity Rates:</u>	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
First 500 cu.ft. or less	\$ 2.25	\$ 3.60
Next 1,500 cu.ft., per 100 cu.ft.30	.48
Next 3,000 cu.ft., per 100 cu.ft.25	.40
Over 5,000 cu.ft., per 100 cu.ft.20	.32

Minimum Charge:

For 5/8 x 3/4-inch meter	2.25	3.60
For 3/4-inch meter	3.00	4.80
For 1-inch meter	4.25	6.80
For 1½-inch meter	8.00	12.80
For 2-inch meter	12.00	19.20

Applicant has no rates on file for service to public fire hydrants and now requests that the following schedule of rates be authorized for such service being rendered to the Central Contra Costa Fire District. During the course of the hearing, applicant testified that the rates are acceptable to the district, and that the district has been making payments based on the rates shown in the schedule. No increase in such rates has been proposed.

PUBLIC FIRE HYDRANT SERVICE

<u>Type of Hydrant</u>	<u>Size of Connection</u>	<u>No. of Outlets</u>	<u>Monthly Charge</u>
Barrel	6"	2	\$3.00
Wharf	4"	1	2.50

Conditions

Fire hydrants will be installed by the Utility, at its own expense at specific locations within the area as designated by the Central Contra Costa Fire District. Such hydrants will remain the property of the Utility and will be maintained by it. Relocation will be made when requested, at the expense of the Fire District.

Other than for fire protection, all services are metered. As of March 31, 1959, there were 63 customers being served through 3/4-inch meters, 74 through 1-inch meters and one school through a 2-inch meter, and there were 18 wharf type hydrants installed on the system.

The residential premises are relatively large, about one-third acre in area, and generally completely planted with lawns and shrubbery except where occupied by buildings or paved surfaces. Many of the homes are equipped with such water-using appliances as garbage disposals and automatic washing machines and dish washers. These conditions largely account for the comparatively high average consumption of nearly 3,000 cubic feet per month as recorded for the year 1958. At the present rates, the charge for a monthly water usage of 3,000 cubic feet is \$9.25 and at the proposed rates such charge would be \$14.80.

General Information

Oak Grove Water Company was incorporated in October 1954, and was formed to supply water to Oak Grove Manor, a subdivision owned and developed by the James A. Ganley Homes Company, a partnership consisting of James A. Ganley and Ralph Sommarstrom. Sommarstrom sold his water company stock to Ganley on July 1, 1958,

and now has no further interests in either the utility or the development company. As the sole stockholder, Ganley maintains and operates the utility on a part-time basis, with casual hired help as required.

The utility now distributes water to the Oak Grove Manor and Walnut Acres subdivisions, comprising some 150 homesites and a school. The water is obtained from three wells, varying in depth from 300 to 316 feet, two of which are equipped with 25-horsepower electrically driven pumps and the third with a 15-horsepower unit, capable of producing 260, 305 and 185 gallons of water per minute, respectively, or a total of 750 gallons per minute. One pump delivers water directly into the distribution system through a 10,000-gallon hydropneumatic tank which serves to control the system pressure between 50 and 70 pounds per square inch. Water from the other two wells is normally pumped into two storage tanks located at the ground level and having capacities of 150,000 and 100,000 gallons. Booster pumps are arranged to take water from the storage tanks for delivery into the distribution system. All pumps are automatically controlled and the arrangement is such that they are capable of delivering 1,360 gallons of water per minute at the maximum system pressure. One booster pump is also equipped with a gasoline engine for emergency use in case of electric power failure. The distribution system consists of approximately 14,600 feet of 6-, 4- and 2-inch pipe. As of March 31, 1959, there were 138 active metered services and 18 fire hydrants supplied by the system.

Accounting Records and Utility Plant

Irregularities noted in applicant's annual report filed with the Commission for the year 1957 resulted in an informal investigation of the company's accounting records by financial examiners of the Commission's staff in 1958. They found that applicant's

accounts were not being kept in accordance with the Uniform System of Accounts for Water Utilities as prescribed by the Commission with the result that, among other errors, the utility plant account as reported to the Commission was grossly understated.

In brief, the James A. Ganley Homes Company, as subdividers, had made substantial advances to the water company for the installation and operation of the water system. While all such expenditures were accounted for, it appears that because of the lack of experience and familiarity with public utility accounting, the water company accounts did not properly reflect the utility plant.

It therefore became necessary for the staff financial examiners to make a complete audit of the records of the water company which had been maintained by the subdividers. As a result of the examinations and staff proposals, for the year 1957 applicant restored an amount of \$61,750 to plant and classified the total plant according to primary accounts. Additions for 1958 were also verified and minor adjustments made in order to correct accounting errors. The principal item was the recording of an investment of \$8,781 for the land on which the utility's three wells are located, which amount had not previously been transferred from the subdividers to the water company.

The staff accountant testified that the recommended adjustments were based on his detailed examination of original records of disbursements, paid invoices and checks. He further testified that a field check had been made, together with the staff engineer, to verify the existence of the physical properties as represented by the plant accounts.

From a review of all of the testimony on this subject, it appears that the adjusted utility plant as of December 31, 1957 and 1958, as set forth in Table 2-B of the staff Exhibit No. 1, reasonably represents the original cost of such plant to the applicant. Such

plant account, together with other applicable accounts representing elements of rate base, as shown in Table 2-A of Exhibit No. 1, will be adopted as proper and reasonable for the purposes of this proceeding. The nearest dollar amounts in the said Table 2-A are shown below:

COMPARATIVE BALANCE SHEET

<u>ITEM</u>	<u>:December 31, 1957</u>		<u>:December 31, 1958:</u>	
	<u>As</u>	<u>As</u>	<u>As</u>	<u>As</u>
<u>Assets</u>	<u>Recorded</u>	<u>Adjusted</u>	<u>Recorded</u>	<u>Adjusted</u>
Utility Plant	\$40,479	\$102,229 ^a	\$111,335	\$112,011 ^b
Less Depreciation Reserve	7,118	7,118	7,266	7,589 ^c
Net Utility Plant	<u>33,361</u>	<u>95,111</u>	<u>104,069</u>	<u>104,422</u>
Other physical property			22,719	22,719
Cash	1,089	1,089	743	743
Accounts Receivable				564 ^d
Prepayments			549	549
Total Assets	<u>34,450</u>	<u>96,200</u>	<u>128,080</u>	<u>128,997</u>
<u>Liabilities</u>				
Capital Stock	\$25,000	\$ 25,000	\$ 25,000	\$ 25,000
Current Liabilities	377	377	41	41
Notes Payable	10,350	10,350	17,631	17,631
Advances for Construction		951 ^a	951	1,911 ^e
Capital Surplus		60,799 ^a	86,072	83,082 ^f
Earned Surplus	<u>(1,277)</u>	<u>(1,277)</u>	<u>(1,615)</u>	<u>1,332^f</u>
Total Liabilities	<u>34,450</u>	<u>96,200</u>	<u>128,080</u>	<u>128,997</u>

Adjustments for 1957

- | | |
|---|---------------|
| a. To restore utility plant to original recorded cost | \$61,750 |
| Less advances for construction | 951 |
| To record balance as capital surplus | <u>60,799</u> |

Adjustments for 1958

- | | |
|--|----------------|
| b. To correct error for cash received as advances for construction | \$ 960 |
| To correct error charging meters to expense | 280 |
| To record unpaid balance due on meters sold | <u>(564)</u> |
| | <u>676</u> |
| c. Unrecorded depreciation for prior years | 323 |
| d. To record balance due for sale of meters | 564 |
| e. To correct error for cash received as advances for construction | 960 |
| f. To transfer expense entries to earned surplus | <u>(2,990)</u> |
| g. To transfer expense items from capital surplus | 2,990 |
| To correct error charging meters to expense | 280 |
| Unrecorded depreciation for prior years | <u>(323)</u> |
| | <u>2,947</u> |

(Red Figure)

Customer Participation

Some customers testified in protest to any increase in charges for water service, pointing out that bills are already very high for the quantities of water necessary for watering the premises in addition to household uses and claiming that such quantities will increase when the lots are more fully landscaped. Exhibit No. 3 is a summary of billings for water service rendered to one customer for the period from June 17, 1957 to August 16, 1959 and shows monthly charges ranging from the minimum of \$4.25 for a 1-inch meter to \$26.25 for a consumption of 11,200 cubic feet of water.

Much of the customers' testimony was concerned with the hardness of the water and the added cost of softening it for household purposes. Exhibit No. 5 consists of 62 postcard replies to a questionnaire prepared by the Board of Directors of the Oak Grove Manor Improvement Association. A witness for the association summarized the information as follows: about 30 water heaters were replaced with an average life of less than 18 months; 13 water softening tanks had been replaced with an average life between 18 and 20 months; 47 people complained of hard calcium spots on windows, cars, silverware, and chromium; some complained of damage to wood finish, mechanical equipment and pipes; and 20 people complained of damage to plants. When questioned, this witness did not advocate a central water softening plant to be installed and operated by the utility, but it was his feeling that the quality of the water should be considered in arriving at the charges to be made for it.

It is admitted that the water supply from applicant's wells is hard but there is no evidence that the hardness exceeds the limits permitted by the public health authorities. The record

shows that there is no other water supply of better quality available. No serious complaint was raised as to the pressure and quantity of water supplied by applicant and no complaints have been filed with the Commission concerning this utility since its inception in 1954.

One of the basic issues raised by the Improvement Association, as protestant, was that of the adjustment in utility plant amounting to \$61,750 hereinabove discussed. Counsel for the association severely questioned applicant's accountant concerning the propriety of such adjustments. Counsel expressed the feeling among some of the property owners that the prices paid to the Ganley interests for their property had been based on the inclusion of the cost of part or all of the water distribution system. He inferred that the transferral of such costs from one of Ganley's interests to the other was the underlying reason for the \$61,750 adjustment. Both Ganley and his accountant witness stoutly denied that any part of the water company facilities has been included with other improvements to the land in arriving at the selling price of the lots of the subdivision.

Summary of Earnings

For evidence pertaining to the need for increased revenue, applicant relied primarily upon the information contained in the application and the exhibits attached thereto. Following is a recapitulation of applicant's operating revenues and expenses for the years 1958 and 1959, at both present and proposed rates, related to the average depreciated rate bases, as shown in Exhibits "E" and "F" attached to the application.

APPLICANT'S SHOWING

<u>Items</u>	<u>At Present Rates</u>		<u>At Proposed Rates</u>	
	<u>Recorded</u>	<u>Estimated</u>	<u>Estimated</u>	
	<u>Year</u>	<u>Year</u>	<u>Year</u>	<u>Year</u>
	<u>1958</u>	<u>1959</u>	<u>1958</u>	<u>1959</u>
Operating Revenues	\$ 13,500	\$ 16,178	\$ 23,204	\$ 25,905
<u>Deductions</u>				
Operating Expenses	10,165	11,304	10,165	11,304
Taxes Other Than Income	946	1,306	946	1,306
Taxes on Income	25	25	2,616	3,043
Depreciation	2,702	2,733	2,702	2,733
Total Deductions	<u>13,838</u>	<u>15,368</u>	<u>16,429</u>	<u>18,386</u>
Net Revenue	(338)	810	6,775	7,519
Average Depreciated Rate Base	105,772	103,601	105,772	103,601
Rate of Return	(Loss)	0.79%	6.41%	7.26%

(Red Figure)

Exhibit No. 1 sets forth in considerable detail the results of the Commission staff's independent investigation and study of applicant's operations for the year 1958 as recorded and adjusted, and as estimated for the year 1959, both at present rates and at the rates proposed by applicant. The following tabulation summarizes the earnings information as developed by the staff:

SHOWING BY CPUC STAFF

<u>Items</u>	<u>At Present Rates</u>		<u>At Proposed Rates</u>	
	<u>Adjusted</u>	<u>Estimated</u>	<u>Adjusted</u>	<u>Estimated</u>
	<u>Year</u>	<u>Year</u>	<u>Year</u>	<u>Year</u>
	<u>1958</u>	<u>1959</u>	<u>1958</u>	<u>1959</u>
Operating Revenues				
General Metered	\$ 13,400	\$ 16,090	\$ 21,440	\$ 25,740
Public Fire Protection	550	550	550	550
Total Operating Revenues	<u>13,950</u>	<u>16,640</u>	<u>21,990</u>	<u>26,290</u>
<u>Deductions</u>				
Operating Expenses	7,720	8,040	7,720	8,040
Taxes Other Than Income	1,700	1,700	1,700	1,700
Taxes on Income	620	1,410	3,340	4,670
Depreciation	2,700	2,750	2,700	2,750
Total Deductions	<u>12,740</u>	<u>13,900</u>	<u>15,460</u>	<u>17,160</u>
Net Revenue	1,210	2,740	6,530	9,130
Average Depreciated Rate Base	105,070	103,020	105,070	103,020
Rate of Return	1.15%	2.66%	6.21%	8.86%

The foregoing tabulation reflects the staff's estimated results based on applicant's present methods of operating the water system as it now exists. The staff also developed results based on its viewpoint that applicant has installed water supply facilities capable of delivering a quantity of water far in excess of the peak demands of the present customers. For rate-fixing purposes, in order to compensate for such claimed overdevelopment in advance of future home construction, the staff made certain adjustments related to the elimination of some \$3,230 of pumping equipment. Such adjustments produce the net effect of increasing the estimated rates of return by about 0.3% at present rates and approximately 0.5% at proposed rates. Applicant's owner took exception to the staff's viewpoint of overdevelopment. He stated that the present arrangement of ample above-ground storage and booster pumps makes for better operation, provides a comforting factor of safety at times of peak demands and tends to lower the fire insurance rates to the home owners in the area. While he admitted that he had originally planned to supply water to some 300 homes, he further testified that it would be necessary to install still more pumps and storage tanks before he could supply any considerable number of homes in addition to the present customers. It should be noted that the distribution mains are not considered to be over-extended, there being only about nine lots in the area served by the existing system which are not yet built upon. In view of all of the evidence pertaining to this matter of possible overdevelopment, it appears that this factor, while not relatively large or dominant, should be given some consideration in the determination of the level of water rates to be authorized.

The operating revenues shown by applicant at present rates for the year 1958 are those recorded as collected, instead of being on a billed or earned basis, and applicant's estimate of such revenues for 1959 is likewise faulty. Furthermore, its estimates of revenues for both years at proposed rates are inconsistent and do not accurately reflect the percentage increases which would result from the application of its proposed rate schedules.

On the other hand, the amount of revenues shown by the staff at present rates for the year 1958 is based on a complete analysis of all metered use of water for that year and adjusted to normal climatic conditions. The staff's amount for the year 1958 at proposed rates properly reflects the proposed 60% increase in all meter revenues. Estimated amounts for 1959 at both present and proposed rates are based on an increase in the average number of metered services from 124 in 1958 to 144 in 1959. The staff totals all include the same amount of revenue from fire protection service, there being no change in the number of hydrants nor in the rates applicable thereto.

Other than in revenues as just discussed, the principal difference in the two sets of results of operation may be traced to the respective amounts included as labor in the item of operating expenses. Whereas the staff included a total amount of \$3,360 for all labor of supervision, maintenance, accounting and collecting, applicant urged that somewhere between \$3,950 and \$4,600 would be a reasonable amount. After due consideration of all evidence pertaining to the nature of the system, the number of customers being served and other pertinent factors, it appears that the staff's allowance is reasonably sufficient for the personnel required on a part-time basis to perform all of the work involved in the maintenance and operation of this water utility.

As compared with applicant's showing, the record clearly reveals that the staff's results have been determined by much more thorough, accurate and realistic methods of adjusting and estimating. The staff's presentation will be adopted to test the reasonableness of the revenues estimated as obtainable at the rates proposed by applicant and at the rates to be authorized in this proceeding.

With reference to the indicated increase in the rate of return in 1959 as compared with 1958, the staff engineering witness testified that while the revenues estimated for 1958 reflect large amounts of construction and development of homes during that year, the revenues estimated for 1959 represent a nearly saturated service area and that, therefore, the rate of return developed for the year 1959 is indicative of the rate of return for future years.

Findings and Conclusions

The Commission finds and concludes that the applicant's utility plant accounts, corrected to reflect the adjustments recommended by the staff members of the Commission's Utilities Finance and Accounts Division as set forth in Table 2-B on page 10 of Exhibit No. 1 in this proceeding, reasonably represent the actual original cost of the properties as of December 31, 1958.

The Commission further finds and concludes that the estimates of operating revenues, expenses, including taxes and depreciation, and the rate bases as submitted by the staff for the years 1958 and 1959 reasonably represent the results of applicant's operations and they will be and hereby are adopted for the purposes of this proceeding.

The evidence demonstrates that the revenues obtainable from existing water rates are inadequate to meet applicant's reasonable needs and that applicant is entitled to increased revenues. We

find, however, that the rates proposed in the application would yield revenues considerably greater than a reasonable rate of return would require. We conclude, therefore, that the application should be granted in part and denied in part.

The order which follows will authorize applicant to file a revised schedule of rates for general metered service which will provide for a uniform increase of 40% over the rates and charges now on file for such service. Applicant will also be authorized to file the proposed schedule of rates for service to public fire hydrants. Such rates are estimated to produce for the year 1959 total operating revenues of about \$23,080, had they been made effective at the beginning of the year, which revenues are \$6,440 more than those estimated to be obtainable from the rates presently being applied. After due allowance for all reasonable operating expenses, depreciation and taxes amounting to \$16,070, the resulting net revenue of \$7,010 represents a rate of return of 6.8 percent on the depreciated rate base of \$103,020. By giving consideration to the adjustments suggested by the staff for overdevelopment of plant, as hereinabove discussed, the corresponding rate of return would be about 7.3 percent. On either basis the estimated rate of return lies within a range which we find to be fair and reasonable for this water utility.

We find, therefore, that the rates and charges authorized herein are justified, that the rates and charges authorized herein are reasonable, and that the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

O R D E R

Oak Grove Water Company, a corporation, having applied to this Commission for an order authorizing it to increase rates and charges for metered water service and to file a schedule of rates for public fire hydrant service, public hearing having been held, the matter having been submitted and now being ready for decision based on the evidence and the findings and conclusions contained in the foregoing opinion,

IT IS HEREBY ORDERED that:

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 service rendered on and after January 1, 1960. ✓

2. The application to increase rates and charges for metered water service, otherwise than as authorized by the preceding paragraph 1 of this order, is denied.

3. 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, a revised tariff service area map acceptable to the Commission and sample copies of printed forms normally used in connection with customers' services. Such 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.

4. 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 system properties of applicant.

5. Beginning with the year 1959, applicant shall determine depreciation expense by multiplying depreciable utility plant by a rate of 2.7 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.

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

Dated at San Francisco, California, this 24th day of November, 1959.

Ernest A. Page
President

W. E. [unclear]

W. H. [unclear]

E. J. Fox

Theodore Deener
Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Oak Grove Manor, and vicinity, located on Oak Grove Road approximately 3 miles northeast of the City of Walnut Creek, Contra Costa County.

RATES

Per Meter
Per Month

Quantity Rates:

First 500 cu.ft. or less	\$ 3.15
Next 1,500 cu.ft., per 100 cu.ft.	0.42
Next 3,000 cu.ft., per 100 cu.ft.	0.35
Over 5,000 cu.ft., per 100 cu.ft.	0.28

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 3.15
For 3/4-inch meter	4.20
For 1-inch meter	5.95
For 1 1/2-inch meter	11.20
For 2-inch meter	16.80

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. 5

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 unincorporated area known as Oak Grove Manor, and vicinity, located on Oak Grove Road, approximately 3 miles northeast of the City of Walnut Creek, Contra Costa County.

RATES

	<u>Per Hydrant Per Month</u>
For each 4-inch wharf type hydrant	\$ 2.50
For each 6-inch barrel type hydrant	3.00

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.