

Decision No. 59786**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of VIOLA K. MARX,)
 Executrix of the Estate of)
 Achille Marx, deceased, d.b.a.)
 BROADMOOR ACRES WATER COMPANY)
 for an increase in rate for)
 water service in portions of)
 Sonoma County.)

Application No. 41533
 (Amended)

Warren K. Marx, for applicant.
Sam E. Hall, for himself and six other con-
 sumers, protestants.
Alfred V. Day and Harold H. Webster, for the
 Commission staff.

O P I N I O N

By the above-entitled application, filed September 30, 1959, and amendment thereto filed November 4, 1959, Viola K. Marx, Executrix of the Estate of Achille Marx, deceased, doing business as Broadmoor Acres Water Company, seeks authority of this Commission to increase rates and charges for water service rendered to the inhabitants of Broadmoor Acres located approximately 2½ miles southwest of the City of Santa Rosa in Sonoma County.

Public Hearing

After due notice, a public hearing was held before Examiner E. Ronald Foster at Santa Rosa on January 29, 1960, which was attended by about fifteen of applicant's customers, one of whom entered an appearance on behalf of himself and several of his neighbors as protestants.

Applicant's son testified in support of the application and two Commission staff witnesses presented evidence, both oral and documentary, concerning the results of their studies of applicant's operations.

The matter was submitted subject to the late filing by the staff of an exhibit which was received February 4, 1960, and the matter is now ready for decision.

History and Description of the System

By Decision No. 46038 dated August 7, 1951, in Application No. 32274, a certificate of public convenience and necessity was granted to Achille and Viola K. Marx to construct and operate a public utility water system to serve a subdivision of approximately 50 acres of land comprising 102 residential lots, with an initial development of 19 homes.

Upon the death of Achille Marx in 1953, ownership of the utility passed to his estate, of which Viola K. Marx, his widow, is the executrix. The utility is managed by a son, Warren K. Marx, from his headquarters in San Francisco. Casual help is hired, whenever necessary, to operate and maintain the system. Installations and major repairs of the facilities are accomplished through independent contractors.

Water for the system is obtained from a deep well equipped with an electrically driven turbine pump, which delivers the water through a 3,500-gallon hydropneumatic tank into the distribution system. Automatic controls are set to maintain the system pressure between 35 and 65 pounds per square inch. The distribution system consists of approximately 2,110 feet of 6-inch and 1,160 feet of 4-inch pipe. As of September 30, 1959, water service was being rendered, all at flat rates, to 23 residential customers on lots ranging in area between about 16,100 and 19,500 square feet, all located on two streets of the subdivision. There are also four fire hydrants served by the system.

Present and Proposed Rates

Applicant's present rates have been in effect since September 1, 1951, as authorized by Decision No.46038. Following is a comparative tabulation of the present rates and those proposed by applicant for both flat rate and metered service:

DOMESTIC FLAT RATE SERVICE

<u>Item</u>	<u>Per Service Connection per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
For each single-family dwelling, including 5,000 sq. ft. of garden or lawn	\$2.50	\$ -
For additional garden or lawn, per 100 sq.ft..	.05	-
Residential units, each	-	7.50

GENERAL METERED SERVICE

<u>Quantity Rates</u>	<u>Per Meter per Month</u>			
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Increase</u>	
			<u>Amount</u>	<u>Per Cent</u>
First 500 cu.ft. or less	\$2.00	\$7.00	\$5.00	250.0%
Next 1,000 cu.ft., per 100 cu.ft...	.25	.65	.40	160.0
Next 3,500 cu.ft., per 100 cu.ft...	.20	.60	.40	200.0
Next 5,000 cu.ft., per 100 cu.ft...	.15	.55	.40	266.7
Over 10,000 cu.ft., per 100 cu.ft...	.10	.50	.40	400.0

Minimum Charge

For 5/8 x 3/4-inch meter	\$2.00	\$7.00	\$5.00	250.0%
For 3/4-inch meter	3.00	8.00	5.00	166.7
For 1-inch meter	4.50	9.50	5.00	111.1

Applicant has no rates on file for public fire hydrant service, although there are four utility-owned hydrants in the service area. Applicant's witness testified that the Roseland Fire District, within whose boundaries Broadmoor Acres subdivision lies, does not pay for fire hydrant service at present and he requested no rates for such service.

A special condition of the filed schedule for flat rate service provides that meters may be installed at the option of the utility or the consumers. Applicant's original intention was to install meters only as might prove necessary to control or prevent

wastage of water. In the instant proceeding, applicant's witness requested that the special condition be revised to provide that meters may be installed only at the option of the utility. He further stated that should this option be exercised it is applicant's intention to meter all services, as soon as their installation can be financed, in order to reduce the pumpage of water to the amount actually needed and beneficially used by the consumers.

Applicant's witness also testified that the additive rate for garden or lawn areas larger than 5,000 square feet has never been applied and he asked that no such rate be included in the schedule to be authorized herein.

Accounting Records

The examination of applicant's records by members of the Commission staff revealed that no general books of account have been maintained by the applicant. Reported utility plant amounts could not be verified from applicant's records. Therefore, the staff made an historical cost appraisal of the properties used and useful in service to the public as of December 31, 1958, based on various sources of information including all available original material such as suppliers' invoices and canceled checks. The details of the appraisal are contained in the staff's late-filed Exhibit No. 1-A and a summary thereof and the associated depreciation reserve requirement are shown on Table 5-A of the staff's Exhibit No. 1, both of which exhibits were introduced in evidence in this proceeding.

As compared with amounts shown in applicant's annual report to the Commission for the year 1958, adoption of the staff's appraisal will result in an increase in utility plant from \$12,841 to \$16,074 and a decrease in the reserve for depreciation from \$5,199 to \$3,165, or a total increase of \$5,267 to make the adjusted amount of \$12,909 representing net utility plant as of December 31, 1958.

The record reveals that the amounts shown in the staff's appraisal have been checked and verified by field investigation, discussion with utility management, review of the records pertaining to the utility's certificate proceeding (Application No. 32274), and discussion with individuals familiar with the original utility plant installation. The appraisal amounts of utility plant and the associated depreciation reserve requirement are reflected in the adjusted balance sheet accounts as shown in the right-hand column of Table 2-A of Exhibit No. 1. Such amounts appear reasonable and are recommended to be used by applicant as a basis for adjusting its balance sheet accounts, and they will be adopted for the purposes of this proceeding.

Summary of Earnings

For evidence in this proceeding as to the need for increased revenues, applicant relied primarily upon the information contained in the application and the exhibits attached thereto. The data presented therein pertaining to operating revenue at present rates and to expenses for the year 1958 are inaccurate and incomplete and differ considerably from those shown in Schedule A of applicant's annual report to the Commission for the same year. Furthermore, applicant's showing does not reflect the above-described staff adjustments to the reported utility plant and depreciation reserve accounts. Applicant's estimate for the year 1960 shows that the requested rates are designed to produce a net operating profit of about \$300 and a rate of return of four percent on a depreciated rate base.

Exhibit No. 1 shows the results of the investigation and study of applicant's operations prepared by the accounting and engineering representatives of the Commission's staff. The following

tabulation summarizes the earnings information as developed by the staff for the year 1958 as reported and for the years 1959 and 1960 as estimated both at present rates and at the rates proposed by the applicant.

Summary of Earnings

<u>Item</u>	<u>Year</u> <u>1958</u> <u>Reported</u>	<u>Year 1959 Est.</u>		<u>Year 1960 Est.</u>	
		<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>
Operating Revenues	\$ 600	\$ 690	\$2,070	\$ 690	\$2,070
<u>Operating Expenses</u>					
Maintenance and Oper.	313	605	605	625	625
Ad Valorem Taxes	-	150	150	150	150
Taxes on Income	-	-	185	-	180
Depreciation Exp.	866	440	440	440	440
Total Oper. Exp.	<u>1,179</u>	<u>1,195</u>	<u>1,380</u>	<u>1,215</u>	<u>1,395</u>
Net Revenue	(579)	(505)	690	(525)	675
Avg. Depr. Rate Base	-	12,709	12,709	12,274	12,274
Rate of Return	-	Loss	5.4%	Loss	5.5%

(Red Figure)

The revenues shown in the tabulation are those obtainable from the 23 customers at flat rates, with no growth contemplated. The maintenance and operation expenses have been estimated to reflect average operating and normal climatic conditions, including a reasonable allowance for the salary and expenses of the manager of the utility. Ad valorem taxes are estimated amounts based on actual assessed valuation of utility property, including the land on which the pump station is located.

Taxes on income reflect the tax rates which became effective on January 1, 1960. For the purpose herein, the depreciation expense used in calculating income taxes is the same as that determined by the staff for rate-making purposes.

A review of the utility's reports reveals that it has used an excessive rate of depreciation for each of the six years beginning

with 1953, no depreciation having been charged prior thereto. In connection with its appraisal and consistent therewith, the staff has determined the annual depreciation accrual by using the straight-line remaining life method.

The staff engineer also testified as to estimated results of operation assuming all services to be metered. Based on quantities of water pumped as determined from electric power bills, he estimated the average monthly consumption at 1,900 cubic feet per customer. For such consumption, the total annual revenue would exceed \$1,420 at the present meter rates and \$4,380 at the proposed meter rates, in each case more than twice the corresponding revenue at flat rates. This indicates the incompatibility of the meter rate schedules in relation to the respective flat rates. The witness conceded that total consumption would decrease if meters were installed on all services, which would result in somewhat lower revenues than the foregoing amounts and also a reduction in pumping expense. However, there would be added expenses for meter reading and billing.

Customer Participation and Service

The representative for the consumers showed his interest in the proceeding by cross-examining the witnesses but he neither produced any witness of his own nor gave any testimony. He stated his opposition to the installation of meters because of the considerable additional investment which would be involved and the added cost of reading the meters and billing, all of which might result in even higher rates.

In his field investigation made in October, 1959, the staff engineer found no problem with regard to pressure or hardness of the water furnished but did observe some sand in it. Customers complained to him of occasional poor taste and bad odor, which may result from the fact that each of the two mains is noncirculating.

In the eventual possible development of the entire tract, now at a standstill, it appears to be quite feasible to interconnect the two existing mains at their far ends. In the meantime, the mains should be flushed periodically, either by means of the fire hydrants or through valves provided for the purpose.

Some customers complained about applicant's irregular billing procedures. Although the flat rate tariff sheet and the filed rules provide for billing monthly in advance, applicant has been billing quarterly after service has been rendered. It may be pointed out that more exact observance by applicant of the tariff provisions should serve to reduce the amount of uncollectibles experienced in the past.

Complaint was made that the applicant does not maintain any office in the same county as the service area, which is required by the Public Utilities Code. Applicant will be required to establish such an office or at least designate a local representative whose address and telephone number, if any, shall be shown on the water bills, where a copy of the tariffs will be made available to any customer or applicant for service, where water bills may be paid if desired, and where such things as interruptions in service may be reported.

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 customers' services.

In accordance with a request made by the public health authorities, the staff also recommended that applicant chlorinate and

seal the well casing and install adequate protection from vandalism for the electric and hydraulic controls at the pumping station.

The staff further recommended that applicant bill for water service in accordance with the filed tariffs. Applicant is also admonished to install and maintain a set of general account books and related records, and to henceforth keep all utility accounts in accordance with the Uniform System of Accounts for Water Utilities as prescribed by this Commission.

Findings and Conclusions

The Commission finds and concludes that the estimates of operating revenues, expenses, including taxes and depreciation, and the rate bases as developed by the staff for the test years 1959 and 1960 are reasonable and they will be and hereby are adopted for the purposes of this proceeding.

The evidence is clear that revenues obtainable from existing flat rates for water service are no longer adequate to meet applicant's reasonable needs and that applicant is in need of and entitled to increased revenues. In view of all of the evidence before us in this proceeding, the Commission finds and concludes that the revenues which applicant's proposed flat rate will produce and the resulting rate of return on applicant's investment will not be excessive or unreasonable. Applicant's proposed flat rate will be authorized.

However, applicant's proposed schedule of meter rates is incompatible with the proposed flat rate and, if meters were placed on all services, would produce revenues and a resulting rate of return which would be excessive and unreasonable. Therefore, the order herein will authorize a schedule of rates for general metered service differing from the one proposed and which is designed to be consistent with the accompanying schedule for residential flat rate service. Because of the approximate uniformity in the size of the lots, all of

which are comparatively large and occupied by single-family residences, the quantity of water to which the customer is entitled for the minimum charge for the smallest meter will be increased considerably over the present and proposed amount, and the rates for additional blocks of usage will be revised accordingly. Under such circumstances, the Commission finds and so concludes that it would be unjust and inequitable to limit the option of metered service to the utility and therefore applicant's request for such option will be denied.

We find, therefore, that the increases in 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 herein prescribed, are for the future unjust and unreasonable.

Some question has been raised about the title to that portion of a lot in the tract occupied by the well and pumping station. For the purpose of this proceeding and for rate-fixing purposes herein, it is assumed that the pumping station land is owned by applicant and, therefore, such land is included in the rate base. Applicant should take appropriate steps to insure that the utility has clear title to the land occupied by the pumping station and any rights of way for the pipelines not laid in streets dedicated to the public, thus preserving ownership of the water production facilities and pipelines located on such lands.

O R D E R

Viola K. Marx., Executrix of the Estate of Achille Marx, deceased, doing business as Broadmoor Acres Water Company, having applied to this Commission for authority to increase rates and charges for water service rendered in the subdivision known as Broadmoor Acres in Sonoma County, a public hearing having been held, the matter having been submitted and now being ready for decision,

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 April 16, 1960.
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 rates, 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 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.

4. Beginning with the year 1960, applicant shall determine depreciation expense by multiplying depreciable utility plant by a rate of 2.8 percent. This rate shall be used until review indicates it should be revised. Applicant shall review the depreciation rate using the straight-line remaining life method when major changes in utility plant composition occur and at intervals of not more than five years, and shall revise the above rate in conformance with such reviews. Results of these reviews shall be submitted to this Commission.

5. Within thirty days after the effective date of this order, applicant shall:

- a. Chlorinate and seal the well casing.
- b. Install adequate protection from vandalism for the electric and hydraulic controls at the pumping station.

Applicant shall notify the Commission in writing within ten days after the accomplishment of each of the above two items.

6. Applicant shall forthwith establish and continue to maintain an office, or else designate a responsible representative,

located at an address in the vicinity of the service area, which address (and corresponding telephone number, if any) shall be shown on applicant's bills for water service, and at which location a copy of applicant's tariffs will be made available to any customer or applicant for service, water bills may be paid if desired, and service complaints may be reported. Within forty days after the effective date of this order, applicant shall report to the Commission in writing the manner in which the requirements of this paragraph shall have been complied with.

7. Except to the extent authorized herein, 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 15th day of March, 1960.

[Signature]
 President

[Signature]
[Signature]

[Signature]
 Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The subdivision known as Broadmoor Acres and vicinity, located approximately 2½ miles south of Santa Rosa, Sonoma County.

RATES

	<u>Per Meter per Month</u>
Quantity Rates:	
First 1,000 cu.ft., or less	\$7.00
Next 1,000 cu.ft., per 100 cu.ft.40
Next 3,000 cu.ft., per 100 cu.ft.30
Over 5,000 cu.ft., per 100 cu.ft.25
Minimum Charge:	
For 5/8 x 3/4-inch meter	7.00
For 3/4-inch meter	9.25
For 1-inch meter	14.50

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

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

The subdivision known as Broadmoor Acres and vicinity, located approximately 2½ miles south of Santa Rosa, Sonoma County.

RATES

	<u>Per Service Connection per Month</u>
For a single family residence, including premises not exceeding 20,000 sq. ft. in area	\$7.50

SPECIAL CONDITIONS

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