

Decision No. 60241

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
the LOS LOMAS WATER COMPANY, INC.,)
for authority to increase water)
rates in the unincorporated territory)
near Watsonville, Monterey County,)
California.)

Application No. 41872

O P I N I O N

Los Lomas Water Company, Inc., by this application filed on January 21, 1960, seeks authority to increase its rates for water service furnished in the unincorporated territory known as Los Lomas subdivision, located approximately three and one-half miles southeasterly of Watsonville, Monterey County. The rates requested are estimated to increase revenues by approximately 26 percent.

The instant application avers that the proposed increase in rates is necessary to produce sufficient revenues to cover costs of operation and a moderate return on the capital invested in facilities used and useful in furnishing water service to the customers.

History and Description of System

Operations by this utility were begun pursuant to a certificate of public convenience and necessity granted in Decision No. 33842, dated January 28, 1941, in Application No. 23709. In 1952 all of applicant's stock was acquired by Clayton B. Neill, now president of the company.

The principal system facilities presently consist of two wells, two automatically controlled deep well turbine pumps, an automatically controlled booster pump, a 50,000-gallon and a 25,000-gallon redwood surface storage tank, approximately 30,000 feet of

steel distribution main ranging in size from 2 inches to 6 inches in diameter, and services and meters. Approximately 220 customers are presently being served.

One well discharges water into the distribution system at a point near the 50,000-gallon surface storage tank and is the principal source of supply. A booster pump draws water from the 50,000-gallon tank for discharge into a separate distribution system serving a higher elevation zone. From the second well water is pumped directly into the distribution system during peak demand periods. Water potability is checked regularly by the Monterey County Health Department and has been found to be acceptable.

Rates, Present and Proposed

The following tabulation is a comparative summary of the utility's present rates, which were established by the Commission in Decision No. 49981, dated April 27, 1954, in Application No. 34884, and the rates proposed by applicant in this proceeding:

METER RATES

		<u>Per Meter per Month</u>	
		<u>Present</u>	<u>Co. Proposed</u>
		<u>Rates</u>	<u>Rates</u>
<u>Quantity Rates:</u>			
First	500 cu. ft. or less	\$ -	\$3.00
First	700 cu. ft. or less	2.65	-
Next	500 cu. ft., per 100 cu. ft. ...	-	.40
Next	2,300 cu. ft., per 100 cu. ft.30	-
Next	3,000 cu. ft., per 100 cu. ft.25	-
Over	1,000 cu. ft., per 100 cu. ft. ...	-	.30
Over	6,000 cu. ft., per 100 cu. ft.20	-
<u>Minimum Charge:</u>			
For	5/8 x 3/4-inch meter	2.65	3.00
For	3/4-inch meter	3.75	4.60
For	1-inch meter	6.00	6.50
For	1-1/2-inch meter	10.00	9.50
For	2-inch meter	15.00	17.00
For	3-inch meter	30.00	32.00
For	4-inch meter	45.00	62.00

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

No fire hydrants are currently installed. Applicant proposes, however, to establish rates for public fire hydrant service in anticipation of possible hydrant installations in the future. The proposed charges are shown in the following tabulation:

PUBLIC FIRE HYDRANT SERVICE

	<u>Per Hydrant per Month</u>	
	<u>Present</u>	<u>Co. Proposed</u>
	<u>Rates</u>	<u>Rates</u>
For each 2-inch fire hydrant	\$ -	\$ 4.00
For each 4-inch fire hydrant	-	8.00
For each 6-inch fire hydrant	-	12.00

Customer Response

Members of the Commission's staff have completed a field investigation of the applicant utility's properties, operations and records related to the instant application. During the investigation several customers were interviewed with regard to the quality of service furnished by the utility. In addition, the staff analyzed the utility's expenses, revenues and system additions for the past several years. All of these data have been considered in arriving at the staff's summary of earnings estimate for the year 1960, shown later in this opinion.

Following the staff's investigation, a letter was sent to all present customers of Los Lomas Water Company on March 25, 1960. This letter provided the customers with information concerning the requested rates; the staff's preliminary estimate of the net revenues, rate base and rate of return for the year 1960 if the applicant's requested rates were authorized; and solicited any comments the customers might wish to make in connection with the Commission's consideration of this matter. Thirteen replies were received, all of which referred only to the level of rates proposed by the company.

Character of Service Rendered

As a result of the staff's investigation of service conditions in the field, it appears that there are certain administrative deficiencies in the utility's operating procedure. First, the utility does not attempt to notify customers of any plant shutdown resulting in service interruption, even though the interruption may result from scheduled maintenance work. Also, the majority of customers pay water bills and otherwise contact the company at a neighborhood grocery store; however, a copy of the utility's effective tariffs is not available at this location nor elsewhere in the service area. Furthermore, all applicants for initial service or customers arranging for reconnection of service are required to pay a \$10 credit establishment deposit to the utility, although such practice is not authorized by the utility's filed tariff schedules.

In other respects the quality of service as regards pressure, adequacy and potability of the water supplied is generally acceptable to the customers.

Summary of Showings

Exhibit H to the application is the utility's rate of return summary for the estimated year 1960 at both present and proposed water rates. Comparison of this summary with that of the Commission's staff for this same period indicates that the principal differences are in the items of revenues and rate base. The staff estimate of revenue is greater than that of the company because of the staff's belief that increased revenue from customer growth will exceed decreased revenue resulting from climatic usage adjustment between years 1959 and 1960, whereas applicant's showing indicates that the two effects are offsetting. Also, the staff's derivation of rate base is lower, in total, by \$3,770, most of which difference lies in the depreciation reserve deduction from gross plant, which will be discussed in more detail later in this opinion.

The staff's estimate of results of operation for the year 1960 is summarized in the following tabulation, together with comparable data from the company's showing set forth in its application:

Item	Year 1960 Estimated			
	Present Rates		Applicant's Proposed Rates	
	Staff	Applicant	Staff	Applicant
Operating Revenues	\$10,100	\$ 9,640	\$12,700	\$12,170
Operating Expenses	7,100	7,360*	7,100	7,360*
Taxes	626	520	1,506	1,287
Depreciation	1,304	1,200	1,304	1,200
Total Expenses	9,030	9,080	9,910	9,847
Net Revenue	1,070	560	2,790	2,323
Gross Plant, Materials and Supplies, Working Cash	46,051	44,246	46,051	44,246
Less:				
Depreciation Reserve	21,364	17,105	21,364	17,105
Contributed Plant	60	60	60	60
Depreciated Rate Base	24,627	27,081	24,627	27,081
Rate of Return	4.3%	2.1%	11.3%	8.6%

* Adjusted to exclude the interest amount claimed as operating expenses in Exhibit "H" of application.

Findings and Conclusions

The results of operation as shown herein clearly indicate that the revenue produced by the present rates is deficient; however, according to the above estimates the rates proposed by applicant will yield an unreasonably high return on its investment. Therefore, a rate of return of 7.5 percent and a depreciated rate base of \$24,630 for the test year 1960 are adopted as reasonable for the purpose of this decision.

The rates authorized by the order which follows are estimated, for the test year, to yield a return of 7.5 percent and to produce an annual net revenue of \$1,850 after allowance has been made for all reasonable operating expenses, including depreciation, and taxes.

The adopted results of operation for the year 1960 estimated are as follows, and we hereby find them to be reasonable:

<u>Item</u>	<u>Estimated Year 1960 Authorized Rates</u>
Operating Revenues	\$11,280
Operating Expenses, Excluding Taxes and Depreciation	7,100
Taxes Other Than on Income	456
Depreciation	1,304
Taxes on Income	570
Total Expenses	<u>9,430</u>
Net Revenue	1,850
Depreciated Rate Base	24,630
Rate of Return	7.5%

Applicant's request for a downward adjustment to recorded depreciation reserve to offset alleged over-accruals thereto by prior management, appears unwarranted. For several years, in fact since the present management took over the operation of the system in the year 1952, the utility has accrued depreciation on the straight-line remaining life basis. Having so adopted this method, applicant has used a depreciation rate based, in part, upon recorded reserve at that time. This method, through periodic reviews inherent therein, will provide for the reasonable recovery of the original cost of depreciable plant over the remaining life of such plant without need for adjustment to reserve as proposed by applicant.

Evidence indicates that applicant has failed to comply with the intent expressed in certain portions of the Commission's General Order No. 103, specifically those requirements respecting customer access to copies of rates and rules governing service and customer notification of scheduled service interruptions. Applicant is hereby reminded that this general order has the same force and effect as any other order issued by this Commission in a specific proceeding.

Although no fire hydrants are currently installed on applicant's water system, a schedule of rates for such service appears desirable in anticipation of future hydrant installation. Applicant's requested fire hydrant rates, however, appear to be higher than are warranted. The rates for public fire hydrant service authorized in this proceeding will be at a lower level, consistent with other public utility hydrant rates prevailing in nearby areas.

Applicant has collected deposits to establish credit for initial service without regard to the provisions of its filed Rules Nos. 6 and 7. The utility is hereby reminded that it may not collect charges in connection with the furnishing of water service, either as a charge or a condition, which are not set forth in its filed tariffs in effect at the time.

Applicant utility has no telephone directory listing or other readily available source of reference to permit customers, or other interested parties, to communicate with the utility in case of emergency or other need. The order which follows will require that such a listing be made in the interest of improved customer relation.

O R D E R

The Commission having considered the request of applicant and being of the opinion that a public hearing is not necessary; therefore,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that the present rates, in so far as they differ from those herein prescribed, are for the future unjust and unreasonable; therefore,

IT IS ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, the schedules of rates attached to this order as Appendix A and, upon not less than five days' notice to this Commission and to the public, to make said rates effective for all service rendered on and after July 1, 1960.

2. Applicant shall file with this Commission, within sixty days after the effective date of this order, four copies of an up-to-date, comprehensive map acceptable to this Commission, 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 local water system properties of applicant.

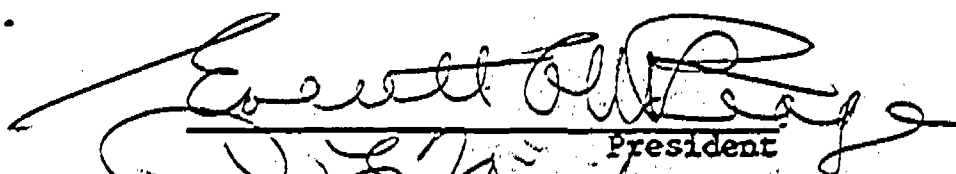
3. Applicant shall file in quadruplicate with this Commission, within forty-five days after the effective date of this order, in conformity with the provisions of General Order No. 96, rules governing customer relations revised to reflect present day operating practices, and sample copies of printed forms normally used in connection with service to customers, all in a form acceptable to the Commission.

4. Applicant shall, within ninety days after the effective date of this order, make available for reference by its customers at an accessible location within its service area a copy of its currently effective tariff schedules, and within ten days thereafter shall report in writing to this Commission the location at which such tariff schedules have been so made available.

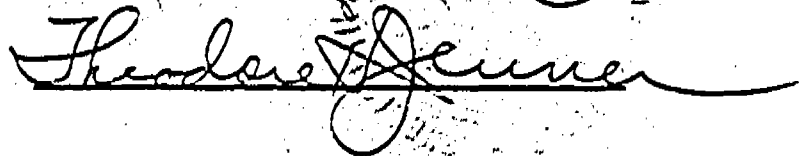
5. Applicant shall, within ninety days after the effective date of this order, establish local exchange telephone service in the name of the Los Lomas Water Company and inform its customers of the resulting telephone number, and within ten days thereafter shall advise the Commission in writing of the date on which such compliance was effected.

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

Dated at San Francisco, California, this 1st day of June, 1960.


President





Commissioners

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all general metered water service.

TERRITORY

The unincorporated area known as Los Lomas Subdivision located approximately 3 1/2 miles southwesterly of the City of Watsonville, Monterey County.

RATES

	<u>Per Meter per Month</u>
Quantity Rates:	
First 700 cubic feet or less	\$ 2.80
Next 2,300 cubic feet, per 100 cubic feet37
Over 3,000 cubic feet, per 100 cubic feet25
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 2.80
For 3/4-inch meter	4.25
For 1-inch meter	6.50
For 1-1/2-inch meter	9.50
For 2-inch meter	17.00
For 3-inch meter	32.00
For 4-inch meter	55.00

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

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 subdivision of the state.

TERRITORY

The unincorporated area known as Los Lomas Subdivision located approximately 3½ miles southeasterly of the City of Watsonville, Monterey County.

RATES

	<u>Per Hydrant per Month</u>	
	<u>Facilities Installed at Cost of:</u>	
	<u>Utility</u>	<u>Public Authority</u>
<u>Wharf Hydrant:</u>		
On main smaller than 4 inches in diameter	\$2.50	\$1.25
On main 4 inches or larger indiameter	3.50	1.75
<u>Standard Hydrant:</u>		
Single outlet	4.00	2.00
Double outlet	5.50	2.75
Triple outlet	7.00	3.50

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.
2. Relocation of any hydrant shall be at the expense of the party requesting relocation.
3. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.
4. Where the facilities are installed at the cost of the public authority, such costs include all labor and materials except that the utility will provide the materials for the service tee and the shut-off valve. The service tee and valve will be installed only by utility authorized personnel.
5. The cost of extending a main for fire hydrant service will be paid by the applicant for the service, and such cost will not be subject to refund.