

ORIGINAL

Decision No. 60298

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
EVERGREEN WATER COMPANY, INC., a)
corporation, for an order authoriz-)
ing it to increase rates charged)
for water service in its certifi-)
cated area.)

Application No. 41383

In the Matter of the Application of)
EVERGREEN WATER COMPANY, INC., a)
corporation, for an order authoriz-)
ing it to proceed under the terms)
of a contract to supply water to)
Tract 2469, City of San Jose,)
California.)

Application No. 41865

Application of EVERGREEN WATER)
COMPANY, INC., a corporation, for)
authority to issue stock in)
exchange for cash and in cancella-)
tion of certain indebtednesses of)
the corporation.)

Application No. 42096
Amended

John P. Marlais, for applicant.
Vaughan, Paul & Lyons by John G. Lyons,
for Proud Construction Corp., inter-
ested party.
Martin J. Porter, P. E. Valena and
Alfred V. Day, for the Commission
staff.

O P I N I O N

Synopsis of the Applications

On August 7, 1959, Evergreen Water Company filed Applica-
tion No. 41383 requesting authority to increase rates for water
service provided in its certificated area in Santa Clara County.
Public hearing on this application was held before Examiner F. Everett
Emerson at San Jose on January 12, 1960, and the matter was submitted.

On January 19, 1960, the utility filed Application
No. 41865 seeking authority to deviate from its filed main extension
rule in connection with a contract with a subdivider for extending

service to a new tract involving several hundred prospective homes. This situation had not been disclosed by applicant at the hearing on January 12. Because of the substantial effect that the development of the tract will have on applicant's earnings position, the Commission, on February 24, 1960, ordered submission of Application No. 41383 set aside and reopened the matter for consolidated hearing with Application No. 41865.

During the consolidated hearing on Applications Nos. 41383 and 41865, before Commissioner Theodore H. Jenner and Examiner F. Everett Emerson, in San Jose on March 23, 1960, the utility requested an adjournment until such time as it could prepare and file an application for authority to issue capital stock in exchange for cash and cancellation of certain debts. Application No. 42096 requesting such authority was filed on March 30, 1960.

On April 22, 1960, the utility filed an amendment to Application No. 42096 and a request for dismissal of Application No. 41865. The amendment to Application No. 42096 seeks authority to issue a greater amount of capital stock than the original application. In requesting dismissal of Application No. 41865 applicant states that it has entered into a new contract with the subdivider and that the new contract does not involve deviation from its filed main extension rules.

Consolidated hearing on all three applications was held in San Francisco before Commissioner Jenner and Examiner James F. Maley on April 27, 1960. The matters were submitted subject to receipt of a late-filed exhibit which the Commission has subsequently received.

Present Operations

Applicant now provides service to 77 customers in the unincorporated community of Evergreen in Santa Clara County. Present

customers are confined to an area amounting to roughly 5 per cent of a total certificated area of some 6,000 acres lying partly within and partly without the corporate limits of the City of San Jose. Source of supply consists of two deep wells. The area is supplied gravity water from a 40,000-gallon redwood storage tank located on a hill. The system is adequate for providing service to existing customers.

Prospective Growth

Testimony of record indicates that in the portion of applicant's service area lying within the City of San Jose, the first unit of 100 houses of a subdivision known as Meadow Fair was under construction and was expected to be completed during May 1960.

Construction of a second unit of 100 homes was scheduled to start in June 1960. Construction of a third unit of 100 homes was scheduled to begin in July 1960. A total of 500 homes is ultimately planned for the tract, but scheduling details of the last 200 homes are not yet firm. Because the Meadow Fair tract is considerably removed from its present customers in the community of Evergreen, the utility plans to serve the new subdivision from a separate, noninterconnected water system, with its own wells and a 150,000-gallon storage tank. The proceeds from the issuance of the stock, for which authority to issue is sought herein, will be used for the construction of the system needed to serve the new subdivision.

Rates, Present and Proposed

Present rates for metered service have been in effect since the utility was first certificated by the Commission in 1954. There are no filed flat rates; however, 33 of applicant's present customers are not metered. These services are charged the minimum meter rate. Applicant plans to have installed meters for all services by July 1, 1960.

Under the rates proposed by applicant, the typical user consuming 1,500 cubic feet of water in an average month would pay \$17.50 compared to \$4.90 at present rates. This would represent an increase of 250 per cent over the amount he now pays.

Although fire hydrants are installed, applicant has no rate schedule on file for public fire hydrant service and has not requested a schedule for such service. However, applicant has collected fire hydrant rentals in the past and the evidence indicates that there is need for this service. Consequently, a schedule for public fire hydrant service will be established at this time.

Earnings Results

Because the extension of service to Meadow Fair tract will have the controlling weight in determining applicant's level of earnings, the current year is unsuitable as a test period. The calendar year 1961 is a more appropriate test period for determining the proper level of rates. Applicant introduced estimated results of operations for the calendar year 1961 but did not revise its showing to reflect the changes in rate base brought about by its amendment to the proposed method of financing plant additions. The Commission staff, on the other hand, introduced estimated earnings results for 1961 which include such changes in rate base. The staff results for 1961 are summarized in the tabulation below:

	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenue	\$ 16,200	\$ 58,000
Operating Expenses and Taxes	18,760	34,540
Net Revenue	(2,560)	23,460
Depreciated Rate Base	119,000	119,000
Rate of Return	(2.2)%	20.0%

(Red Figure)

The staff estimate for 1961 reflects applicant's 77 existing customers plus 200 additional customers in the Meadow Fair tract, or a total of 277. According to the record in this proceeding, the

prospects are that 1961 will see more than 200 homes in Meadow Fair. One hundred homes are on the verge of completion; construction is about to begin on another unit of 100; and construction is scheduled to start on another 100 homes later in 1960. Thus, applicant can reasonably be expected to be serving an average of 377 homes during the year 1961. Accordingly, we adopt as reasonable for test period purposes the following results, which contemplate the serving of 377 homes and which include sufficient investment and expenses to operate a total of four wells equipped with pumps:

	<u>Present Rates</u>	<u>Authorized Rates</u>
Operating Revenue	\$ 21,700	\$ 36,300
Operating Expenses & Taxes	22,850	26,960
Net Revenue	(1,150)	9,240
Depreciated Rate Base	132,000	132,000
Rate of Return	(0.9)%	7.0%

(Red Figure)

Authorized Rates

The evidence is conclusive that applicant is not earning a fair return on its present operations. However, the rate levels requested by applicant would yield an excessive rate of return and will not be authorized. We find that applicant is entitled to charge rates which would increase annual gross revenues by \$14,600 at the estimated 1961 level of business. For the test year 1961, such rates would yield applicant a return of 7.0 per cent, which rate of return we find to be reasonable for applicant's operations.

The return on applicant's operations should improve if the Meadow Fair subdivision reaches its ultimate development of 500 homes. The Commission may reopen this proceeding for the purpose of adjusting water rates should applicant's earnings become excessive.

The rates adopted herein will result in the average monthly water bill of a typical residential customer being increased by

\$3.10 from \$4.90 at present rates to \$8.00 at authorized rates, or approximately 63 per cent. The tabulation below shows a comparison of present and authorized rates for general metered service.

Rates

		Per Meter Per Month		
		Present	Authorized	Increase
Quantity Rates:				
First	500 cu.ft., per 100 cu.ft.	\$0.34	\$ -	\$ -
First	500 cu.ft. or less	-	3.00	-
Next	500 cu.ft., per 100 cu.ft.	.34	.50	0.16
Next	500 cu.ft., per 100 cu.ft.	.30	.50	.20
Next	500 cu.ft., per 100 cu.ft.	.30	.40	.10
Next	500 cu.ft., per 100 cu.ft.	.26	.40	.14
Next	500 cu.ft., per 100 cu.ft.	.26	.30	.04
Next	500 cu.ft., per 100 cu.ft.	.20	.30	.10
Over	3,500 cu.ft., per 100 cu.ft.	.20	.20	-

Minimum Charge:

For metered service	\$2.00	\$ -	-
For 5/8 x 3/4-inch meter	-	3.00	-
For 3/4-inch meter	-	4.50	-
For 1-inch meter	-	7.50	-
For 1 1/2-inch meter	-	12.50	-
For 2-inch meter	-	17.50	-
For 3-inch meter	-	26.50	-
For 4-inch meter	-	40.00	-

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

Capital Stock

Applicant proposes to issue 8,809 common shares and 2,600 6 per cent preferred shares, both classes of stock to have a par value of \$10 per share. Applicant states that the funds produced from the sale of this stock, less a selling commission of not to exceed \$1,500, will be used for the construction of plant required to serve the Meadow Fair tract and to retire debts related to such construction.

Applicant proposes to issue 5,359 shares of the common stock to repay loans and other indebtedness. In addition it plans to issue 3,450 common shares and 2,600 preferred shares for cash.

Main Extension Rule

Applicant states that it is requesting dismissal of Application No. 41865 because the proposed financing, as detailed above, will make it unnecessary to deviate from its main extension rule. Applicant and the subdivider of the Meadow Fair tract have agreed to rescind their contract providing for such deviation. Accordingly, we will grant applicant's request for dismissal of Application No. 41865.

Findings and Conclusions

The Commission has carefully weighed all the evidence of record. The action we are taking herein will produce an over-all result which will be fair and reasonable. We find 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, in so far as they differ from those herein prescribed, are, for the future, unjust and unreasonable.

The Commission further finds that the money, property or labor to be procured or paid for by the issuance of stock herein authorized is reasonably required for the purposes specified herein and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. Therefore, the request of the applicant for authorization to issue capital stock will be granted, subject to the conditions in the order which follows.

The authority herein granted authorizing the issuance of shares of capital stock shall not be construed to be a finding of the value of applicant's stock or properties nor as indicative of amounts to be included in future rate bases.

O R D E R

The above-entitled applications having been considered, public hearings having been held, the matters having been submitted and now being ready for decision,

IT IS ORDERED as follows:

1. Applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order, in conformity with the provisions of General Order No. 96, the schedules of rates and charges set forth in Appendix A attached to this order and, upon not less than five days' notice to the public and to the Commission, to make said rates and charges effective for all water service rendered on and after August 1, 1960.
2. Application No. 41865 is dismissed without prejudice.
3. Applicant, for the purposes set forth in the amendment to Application No. 42096, may issue on or before December 31, 1961, 8,809 shares of its common stock at \$10 per share par value and 2,600 shares of its preferred stock at \$10 per share par value. A selling commission of not to exceed \$1,500 may be paid from the proceeds of the sale of such stock.
4. Within ninety days after the effective date of this order, applicant shall file in quadruplicate with this Commission, rules governing customer relations revised to reflect present-day operating conditions, a revised tariff service area map acceptable to the Commission and sample copies of printed forms normally used in connection with customers' services.
5. Within ninety 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 1,000 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.

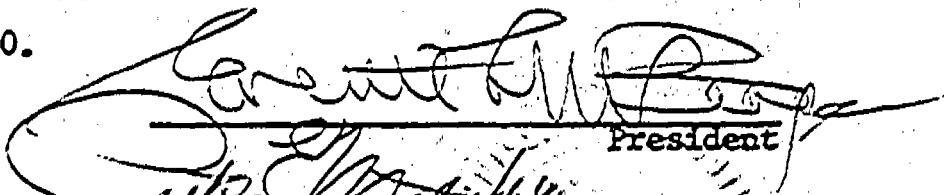
6. By not later than December 31, 1960, applicant shall have installed water meters on no fewer than 15 services presently unmetered and shall have submitted a written report to this Commission advising that this has been accomplished and setting forth a program by which the balance of unmetered services may be metered by not later than June 30, 1961.

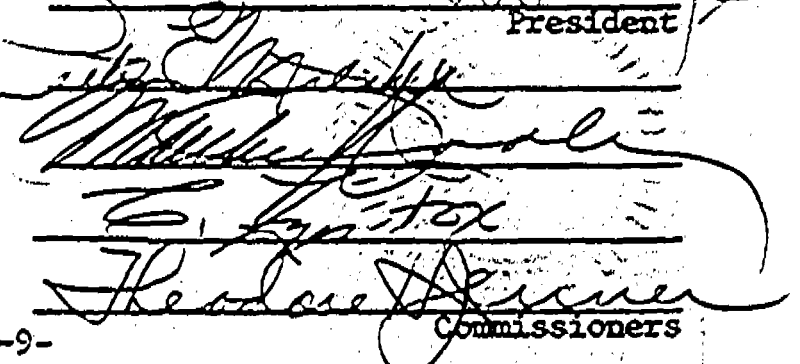
7. Beginning with the year 1960, applicant shall determine depreciation expense by multiplying depreciable utility plant by a rate of 3.6 per cent. This rate shall be used until review indicates it should be revised. Applicant shall review the depreciation rate using the straight-line remaining life 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.

8. Applicant shall file a report, or reports, of the issue of the stock herein authorized as required by General Order No. 24-A, which order, in so far as applicable, is made a part of this order.

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

Dated at San Francisco, California, this 20th day of June, 1960.



President


Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

A certain portion of the City of San Jose, including the subdivision known as Meadow Fair, and unincorporated territory including the community of Evergreen, and vicinity, Santa Clara County.

RATES

Quantity Rates:

	Per Meter Per Month
First 500 cu.ft. or less	\$ 3.00
Next 1,000 cu.ft., per 100 cu.ft.50
Next 1,000 cu.ft., per 100 cu.ft.40
Next 1,000 cu.ft., per 100 cu.ft.30
Over 3,500 cu.ft., per 100 cu.ft.20

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 3.00
For 3/4-inch meter	4.50
For 1-inch meter	7.50
For 1 1/2-inch meter	12.50
For 2-inch meter	17.50
For 3-inch meter	26.50
For 4-inch meter	40.00

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

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Schedule No. 21X

LIMITED TEMPORARY FLAT RATE SERVICE

APPLICABILITY

Applicable to all water furnished on a flat rate basis.

TERRITORY

A certain portion of the City of San Jose, including the subdivision known as Meadow Fair, and unincorporated territory including the community of Evergreen, and vicinity, Santa Clara County.

RATE

Per Month

For each 3/4-inch service connection \$ 3.00

SPECIAL CONDITIONS

1. Service under this schedule will be furnished to premises served hereunder as of the effective date of this tariff sheet only until such time as meters are installed.
2. This schedule will be effective only to and including June 30, 1961, and thereafter will be withdrawn.

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Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized or incorporated fire districts or other political subdivisions of the State.

TERRITORY

A certain portion of the City of San Jose, including the subdivision known as Meadow Fair, and unincorporated territory including the community of Evergreen, and vicinity, Santa Clara County.

RATES

Per Month

For each hydrant owned by the public authority	\$2.50
For each hydrant owned by the utility	3.25

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.