

ORIGINAL

Decision No. 61319

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
C. WESLEY BIRD, doing business as
WESMILTON WATER SYSTEM, for Authority
to Increase Rates for Water Service.

} Application No. 41853
}

C. Wesley Bird, in propria persona, applicant.
Pierce C. Hyatt, protestant.
Alfred V. Day and M. F. Vineyard, for the
Commission staff.

O P I N I O N

In this application, filed January 14, 1960, C. Wesley Bird, doing business as Wesmilton Water System, requests authority to increase rates in the subdivision known as Khan Tract No. 1188, and adjacent territory, located approximately one mile north of the City of Selma, Fresno County.

In 1953 the applicant herein subdivided Khan Tract No. 1188 into 104 lots, installed a water system and filed Application No. 34772 requesting a certificate of public convenience and necessity to render water service within this tract. The certificate was granted and rates were established by authority of Decision No. 49449, issued December 21, 1953 therein.

The present application states that the investment in plant has more than doubled since that time. In order to realize a fair return on the present investment and to meet the rising cost of labor and materials, applicant now requests authority from the Commission to establish the increased rates proposed in the application. The rates requested are estimated to increase total revenues by about 26 percent.

Public Hearing

After due notice, a public hearing on the application was held before Examiner E. Ronald Foster at Fresno on November 15, 1960. On that date the matter was submitted subject to the late filing of an exhibit by applicant, which exhibit has since been filed and the matter is now ready for decision.

Description of System

Water for the system is obtained from two deep wells equipped with electric motor-driven pumps which deliver the water through a pressure tank and thence into the distribution system at operating pressures between 30 and 65 pounds per square inch.

As of January 1, 1960, the distribution system consisted of 6335 feet of mains varying in size from 2 to 6 inches in diameter, which include those in the easterly extension from Khan Tract No. 1188 into the contiguous Koontz Subdivision. At the beginning of 1960 there were about 90 active residential service connections, none of them metered, and 7 fire hydrants attached to the distribution mains.

Since the application was filed and subsequent to the staff's field investigation, water service has been extended to contiguous territory through an 8-inch line laid southwesterly under and across the Southern Pacific Railroad right of way and State Highway 99 to render fire protection to a certain bowling alley enterprise. Although no main extension agreement was executed, applicant testified that the entire cost of the extension, estimated at about \$11,000, was advanced by the customer, subject to a refund of twenty-two percent of the gross revenues derived therefrom. At present the only service rendered by the extension is that to four fire hydrants surrounding the bowling alley building, for which service the customer is being charged \$16 per month.

At the hearing it was learned that applicant also has extended service to contiguous territory north of Khan Tract No. 1188 by means of a water main installed across Dinuba Avenue and thence branching east and west, consisting of about 1200 feet of 6-inch pipe and costing approximately \$5,400. Applicant testified that he would bear the entire cost of the extended facilities, without benefit of any main extension agreement. With provision for 22 services to be supplied through this extension, only four or five customers are anticipated within the immediate future.

Rates, Present and Proposed

The following tabulation is a comparison of the present general metered service and flat rate service rates, which became effective January 1, 1954, and applicant's proposed rates.

GENERAL METERED SERVICE

| Item | Per Meter Per Month | | | |
|------------------------------------|---------------------|----------------|-----------------|------------------|
| | Present Rates | Proposed Rates | Increase Amount | Increase Percent |
| Quantity Rates: | | | | |
| First 900 cu.ft. or less | \$ 2.00 | \$ 4.00 | \$ 2.00 | 100.0% |
| Next 1,600 cu.ft., per 100 cu.ft. | .18 | .36 | .18 | 100.0 |
| Next 7,500 cu.ft., per 100 cu.ft. | .12 | .24 | .12 | 100.0 |
| Over 10,000 cu.ft., per 100 cu.ft. | .07 | .14 | .07 | 100.0 |
| Minimum Charge: | | | | |
| For 5/8 x 3/4-inch meter | 2.00 | 4.00 | 2.00 | 100.0 |
| For 3/4-inch meter | 2.50 | 5.00 | 2.50 | 100.0 |
| For 1-inch meter | 3.50 | 7.00 | 3.50 | 100.0 |
| For 1 1/2-inch meter | 5.00 | 10.00 | 5.00 | 100.0 |
| For 2-inch meter | 7.50 | 15.00 | 7.50 | 100.0 |
| For 3-inch meter | 15.00 | 30.00 | 15.00 | 100.0 |
| For 4-inch meter | 25.00 | 50.00 | 25.00 | 100.0 |

FLAT RATE SERVICE

| Item | Per Service Connection Per Month | | | |
|--------------------------------------|----------------------------------|----------------|-----------------|------------------|
| | Present Rates | Proposed Rates | Increase Amount | Increase Percent |
| For each 3/4-inch service connection | \$ 3.50 | \$ 4.50 | \$ 1.00 | 28.6% |

Applicant has proposed no change in the rates now on file for public fire hydrant service which are \$2.00 and \$4.00 per month for each 2½-inch and 4-inch hydrant, respectively.

Applicant's Showing

Applicant testified that his expenses of operation over the past five years had amounted to over \$5,000 in excess of operating revenues during that period. In Exhibit "G" attached to the application, the summary of earnings shows that, although revenues are expected to increase about \$180 each year, the estimated gross revenue for the year 1960 at present rates still would be about \$570 less than the estimated operating expenses. At the proposed rates, there would be a net revenue of \$915 after deducting the expenses of operation, including depreciation and taxes.

Applicant's Annual Report to the Commission for the year 1959, made of record in this proceeding by reference, shows plant additions during the year of over \$10,000, resulting in total utility plant at the end of the year of \$37,340, with a depreciation reserve of \$4,740, leaving a net utility plant at \$32,600. The income statement, as shown in the Annual Report, shows the following amounts for the year 1959:

INCOME STATEMENT FOR YEAR 1959

| <u>Item</u> | <u>Amount</u> |
|---|----------------|
| <u>Operating Revenues</u> | |
| Unmetered sales of water | <u>\$3,605</u> |
| <u>Operating Revenue Deductions</u> | |
| Source of water supply expenses | 290 |
| Power and pumping expenses | 1,402 |
| Transmission and distribution expenses | 379 |
| Customer accounting and collecting expenses | 383 |
| General expenses | <u>413</u> |
| Total operating expenses | <u>\$2,867</u> |
| Depreciation | 615 |
| Taxes (none on income) | <u>223</u> |
| Total operating revenue deductions | <u>\$3,705</u> |
| Utility operating income (Loss) | <u>(100)</u> |

The operating expenses in the foregoing tabulation include amounts of \$1,250 and \$200 as allowances to applicant for his own labor and car expense, respectively.

Field Investigation and
Appraisal of Utility Plant

A field investigation made by a financial examiner and an engineer of the Commission's staff revealed that applicant's records of account have not been maintained as required by the Uniform System of Accounts for Water Utilities as prescribed by the Commission, that applicant has not followed any consistent method for determining accruals to the depreciation reserve and that the records kept by applicant were too incomplete and inaccurate to reflect properly the utility plant and the depreciation reserve which should be related thereto.

Based upon the audit of such records as were available and a field inventory of the physical plant, the Commission's staff prepared an historical cost appraisal and depreciation reserve requirement study, the results of which are included in the staff report introduced as Exhibit No. 1 in this proceeding. By this appraisal, the utility plant was determined to amount to \$36,969.86 as of January 1, 1960, and the related depreciation reserve requirement of that same date was determined to be \$2,481.81. Pursuant thereto, applicant will be authorized to place the following figures upon his books of account as of January 1, 1960:

Utility Plant

| | | |
|---------|-----------------------------------|--------------|
| Ac. 301 | Intangible Plant | \$ 50.00 |
| Ac. 306 | Landed Capital | 1,500.00 |
| Ac. 311 | Structures | 2,445.47 |
| Ac. 315 | Wells | 1,789.15 |
| Ac. 324 | Pumping Equipment | 5,342.51 |
| Ac. 342 | Reservoirs and Tanks | 1,680.00 |
| Ac. 343 | Transmission & Distribution Mains | 19,213.29 |
| Ac. 345 | Services | 1,834.76 |
| Ac. 348 | Hydrants | 880.00 |
| Ac. 372 | Office Furniture and Equipment | 166.18 |
| Ac. 373 | Transportation Equipment | 2,000.00 |
| Ac. 374 | Other General Equipment | 68.50 |
| | Total Utility Plant | \$ 36,969.86 |
| | Depreciation Reserve | \$ 2,481.81 |
| | Net Utility Plant | \$ 34,488.05 |

Rate Bases

The rate bases hereinafter shown are predicated upon the staff's appraisal. An estimated amount of \$100 for materials and supplies and an allowance of \$300 for working cash have been included.

A deduction of \$4,520 has been made in determining the rate base to recognize the present level of advances for construction which would have resulted had the main extension to the sparsely settled Koontz Subdivision been installed under the utility's filed main extension rule applicable at the time the extension was made. This subdivision was developed in 1955 by the owner of the utility and the water system was installed therein for the utility at a total cost of \$6,580. Although there are 32 lots in the subdivision, only seven water utility customers have been connected so far. Since the main extension rule is designed primarily to protect the customers against this type of speculative and uneconomical development, it is proper to deduct from rate base the difference between the cost of this installation, which was \$6,580, and the refund payments on a proportionate cost basis for the seven customers presently served in this subdivision, which would total \$2,060. This difference amounts to \$4,520.

The rate bases developed by the staff in its report do not include the amount contributed for the main extension to the bowling alley premises, the effect of which on the rate of return would be nil inasmuch as no refunds have yet been made.

Neither do the staff's rate bases take into account the main extension to the sparsely settled area north of Khan Tract No. 1188 across Dinuba Avenue, the entire cost of which is being borne by the utility. This installation is somewhat parallel to that in the Koontz Subdivision, discussed above, and the possible effect on the rate of return in the current proceeding may be regarded as inconsequential.

The staff's average rate bases for the two test years 1959 and 1960 reflect the accounting adjustments hereinbefore discussed and the full year effect of certain plant improvements made by applicant in 1959. The only difference between the two rate bases is that represented by the respective deductions for the average adjusted depreciation reserve, resulting from the annual depreciation accrual of \$1,210.

Summary of Showings

The following tabulation is a summary of the results of operation for this utility for the adjusted year 1959 and the estimated year 1960, at both the present rates and those proposed by applicant, as developed by the staff in its report, Exhibit No. 1:

SUMMARY OF EARNINGS

| <u>Item</u> | <u>1959 Adjusted</u> | | <u>1960 Estimated</u> | |
|-------------------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Present Rates</u> | <u>Proposed Rates</u> |
| <u>Operating Revenues</u> | | | | |
| Residential Flat Rate Service | \$ 3,620 | \$ 4,655 | \$ 3,990 | \$ 5,130 |
| Fire Protection Service | 400 | 400 | 400 | 400 |
| Total Revenues | \$ 4,020 | \$ 5,055 | \$ 4,390 | \$ 5,530 |
| <u>Expenses</u> | | | | |
| Operating & Maintenance | \$ 3,465 | \$ 3,465 | \$ 3,705 | \$ 3,705 |
| Taxes Other Than Income | 250 | 250 | 250 | 250 |
| Depreciation | 1,210 | 1,210 | 1,210 | 1,210 |
| Income Taxes | - | 25 | - | 75 |
| Total Expenses | \$ 4,925 | \$ 4,950 | \$ 5,165 | \$ 5,240 |
| Net Revenue | \$ (905) | \$ 105 | \$ (775) | \$ 290 |
| Average Depreciated Rate Base | \$30,970 | \$30,970 | \$29,760 | \$29,760 |
| Rate of Return | Loss | 0.3% | Loss | 1.0% |

(Red Figure)

Fire Hydrant Service

In the foregoing tabulation, the staff has included revenues for service to 7 public fire hydrants located in the subdivisions and to 4 privately owned fire hydrants located on the bowling alley premises, although applicant testified that he has not been successful in collecting such revenue from either source.

Applicant's service area is within the boundaries of the Mid-Valley Fire District, having a fire house located in or near Selma, supported by taxes levied by the Fresno County Board of Supervisors. If the applicant utility is expected to render fire protection service, then it should be properly compensated for the investment and operating costs involved in rendering that service in conjunction with the primary service of water for residential and other purposes. It appears that the organized fire protection agency should pay for the service rendered to it, at the filed rates, the benefits from which are extended to the property owners in the area.

In any event, it is incumbent upon applicant to charge and collect for the service rendered at the authorized rates without deviation. If necessary, recourse may be had to the appropriate court of the land to enforce payment of the proper charges made to the fire protection agency concerned.

Likewise, applicant should charge and collect for the service rendered to the private fire hydrants at the bowling alley. Applicant testified that the only basis for such charges is contained in a letter of understanding written by applicant in connection with the extension of the water main to supply the service. By the order herein applicant will be required to prepare and file an appropriate agreement whereby the said extension was installed in accordance with applicant's filed main extension rule. The order herein will also authorize applicant to file a schedule of rates for private fire hydrant service.

Customer Participation

One of applicant's customers, claiming to represent some 66 others, testified in protest against any increase in rates. His principal basis for such protest was a comparison of applicant's proposed rates with those charged for service in some nearby communities, some of which are supplied by municipally owned water systems. The witness also complained of periods of low water pressure during the months of August and September and occasional instances when service was discontinued for several hours without advance notice.

Service Improvements

Service improvements recently made by applicant consist primarily of the second well and pumping equipment, designed to alleviate pressure drops in applicant's system during periods of peak demand. This installation will also provide dual operating equipment so that at least one well and pump should be available to supply the system at all times.

Applicant has installed an office in the service area where water bills may be paid. He lives in Fresno, about eight miles away and his name is listed in the telephone book so that customers may quickly contact him in case of emergencies.

A permit for the use of the water from the original well was issued by the State Board of Health on April 29, 1958. Tests of samples of water taken from different parts of the system since the second well was placed in operation indicate that the water supply meets U.S. Public Health drinking water standards. Applicant testified that he regularly flushes the mains by running water from the fire hydrants to eliminate sand occurring in the well supplies.

Findings and Conclusions

Both applicant's and staff's showings clearly show that the revenues obtainable from the present rates are deficient, and we so find.

After consideration of all of the evidence of record, it is our opinion, and we so find, that applicant is entitled to the rate relief sought, and that an order should be issued that would have resulted in increased revenues to applicant for the year 1960 in an over-all amount of approximately \$1,140 annually had the authorized rates been in effect for that year. This authorization will result in an increase in gross revenues of about 26 percent.

The Commission finds and concludes that rates substantially as proposed in the application will not be excessive or unreasonable and will, in fact, produce only a nominal return after providing for all expenses of operation. Using estimated revenues for the year 1960 of \$5,530 and estimated expenses of \$5,240, the rates hereinafter authorized will result in a net revenue of \$290, equivalent to a rate of return of approximately 1.0 percent on a \$29,760 depreciated rate base, which return and rate base we hereby adopt and find as reasonable for the purposes of this decision.

The rates requested by applicant will be authorized, except that the minimum charges for the larger sizes of meters will be increased to make them more consistent with their respective capacities in relation to that of the smallest-sized meter. A schedule of rates for private fire hydrant service will be authorized, comparable to that for public fire hydrant service, for which no increase was proposed.

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, in so far as they differ from those herein prescribed, are for the future unjust and unreasonable.

The order herein will require applicant to carry out certain staff recommendations pertaining to tariff filings, the filing of a comprehensive service and facilities map, and depreciation practices. Applicant is placed on notice that steps must be taken forthwith to comply with the accounting procedures as set forth in the Uniform System of Accounts for Water Utilities prescribed by this Commission.

O R D E R

The above-entitled application having been considered, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED that:

1. Applicant C. Wesley Bird, doing business as Wesmilton Water System, 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 February 1, 1961.

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 and acceptable to the Commission, a revised preliminary statement and tariff service area map, rules governing customer relations as revised to reflect present-day operating practices, and sample copies of printed forms that are normally used in conjunction with customers' services. Such preliminary statement, tariff service area map, rules and forms shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

3. Within forty-five 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 300 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 utility properties of applicant.

4. Within sixty days after the effective date of this order, applicant shall execute and file with this Commission for authorization to carry out the terms and conditions thereof, in conformity with the provisions of General Order No. 96, two certified copies of an agreement setting forth the terms and conditions under which water mains were extended and service now is being rendered to the premises occupied by a bowling alley enterprise located southwest of and across State Highway No. 99 from Khan Tract No. 1188. The said agreement shall contain such detailed information as the actual costs of the main extension and fire hydrants connected thereto, the ownership of the facilities, the amount advanced by the customer, the manner in which refunds are to be made, and the date on which the contract is deemed to have become effective.

5. Applicant is authorized to place on his books of account the amounts for utility plant and depreciation reserve as of January 1, 1960, hereinbefore set forth in the Opinion part of this decision.

6. Beginning with the year 1960, applicant shall determine depreciation expense by multiplying depreciable utility plant by a rate of 3.4 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 twenty days after the date hereof.

Dated at San Francisco, California, this 4th day of JANUARY, 1961.

Gerrit A. [Signature]
President
[Signature]
[Signature]

Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area including the subdivision known as Khan Tract No. 1188, and vicinity, 1 mile north of the City of Selma, Fresno County.

RATESPer Meter
Per Month

Quantity Rates:

| | | |
|-------|------------------------------------|---------|
| First | 900 cu.ft. or less | \$ 4.00 |
| Next | 1,600 cu.ft., per 100 cu.ft. | .36 |
| Next | 7,500 cu.ft., per 100 cu.ft. | .24 |
| Over | 10,000 cu.ft., per 100 cu.ft. | .14 |

Minimum Charge:

| | | |
|-----|----------------------------|---------|
| For | 5/8 x 3/4-inch meter | \$ 4.00 |
| For | 3/4-inch meter | 6.00 |
| For | 1-inch meter | 10.00 |
| For | 1 1/2-inch meter | 16.00 |
| For | 2-inch meter | 25.00 |
| For | 3-inch meter | 37.00 |
| For | 4-inch meter | 52.00 |

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

Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area including the subdivision known as Khan Tract No. 1188, and vicinity, 1 mile north of the City of Selma, Fresno County.

RATE

Per Month

For each 3/4-inch service connection \$4.50

SPECIAL CONDITIONS

1. All general service not covered by the above classification will be furnished only on a metered basis.
2. Meters may be installed at 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.

Schedule No. 4H

PRIVATE FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all water service furnished for privately owned fire hydrants.

TERRITORY

The unincorporated area including the subdivision known as Khan Tract No. 1188, and vicinity, 1 mile north of the City of Selma, Fresno County.

RATES

| | <u>Per Month</u> |
|--------------------------------------|------------------|
| For each 2½-inch wharf hydrant | \$2.00 |
| For each 4-inch hydrant | 4.00 |

SPECIAL CONDITIONS

1. Private fire hydrants will be attached to the utility's distribution mains for private fire hydrant service at the expense of the customer upon receipt of written request. Such request must designate the type and size of hydrant and the specific location at which each is to be installed.
2. Hydrants are to be owned by the customer and will be installed and maintained at the expense of the customer. The utility will install, own and maintain the tee in the main to which the hydrant is attached.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.
4. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.
5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated area including the subdivision known as Khan Tract No. 1188, and vicinity, 1 mile north of the City of Selma, Fresno County.

RATES

| | <u>Per Month</u> |
|--------------------------------------|------------------|
| For each 2½-inch wharf hydrant | \$2.00 |
| For each 4-inch hydrant | 4.00 |

SPECIAL CONDITIONS

1. Fire hydrants will be attached to the utility's distribution mains upon receipt of proper authorization from the appropriate public authority. Such authorization must designate the type and size of hydrant and the specific location at which each is to be installed.
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. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.
5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.