

Decision No. 61570

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
FRANCIS LAND AND WATER COMPANY, a
corporation, for authority to in-
crease its rates and charges for its
water system serving the Town of
Ferndale and adjacent unincorporated
territory, in Humboldt County.)

Application No. 42035
Amended

Warren A. Palmer and Orrick, Dahlquist,
Herrington & Sutcliffe, by Warren A.
Palmer, for applicant.

Harold Gold, R. Gerald Jones and Reuben
Losner, by R. Gerald Jones, for
Department of the Navy, United States
Government, protestant.

George Hindley, for Citizens' Committee
of Ferndale, protestant.

Elmer J. Sjostrom and John R. Gillanders,
for the Commission staff.

O P I N I O N

By the above-entitled application filed March 15, 1960,
and amendment thereto filed March 29, 1960, Francis Land and Water
Company, a corporation, seeks authority of this Commission to
increase its rates and charges for water service rendered in the
City of Ferndale and adjacent unincorporated territory in Humboldt
County, by a gross annual amount of \$24,246.

Public Hearing

After due notice, a public hearing was held before
Examiner E. Ronald Foster at Ferndale on August 2 and 3, 1960. On
the second day of hearing the matter was submitted subject to late
filing by applicant of three exhibits and by the Commission staff of
one exhibit. The said exhibits have been filed and the matter is
now ready for decision.

Applicant's Request

Basically, applicant requests the Commission to establish rates for water service which will enable applicant to realize a 7.5 per cent rate of return on its rate base. Exhibit D of the application indicates that to yield such a rate of return the gross operating revenues would need to be approximately 139 per cent more than the corresponding revenues obtainable at the present rates on the estimated level of business for the year 1960.

Rates, Present and Proposed

On or about November 23, 1954, the Citizens Utilities Company, a Delaware corporation, with administrative offices located in Stamford, Connecticut, purchased all of the capital stock of the Francis Land and Water Company. The meter rates and flat rates then in effect since September 1, 1948, had been authorized by Decision No. 41931, dated August 10, 1948, in Application No. 29007. The same meter rates were refiled and the schedule of flat rates was canceled by the new management in accordance with its Advice Letter No. 2 filed February 19, 1955.

After the instant application was filed, with its Advice Letter No. 8 filed April 29, 1960, applicant refiled the schedule of rates for general metered service to include minimum charges for 6- and 8-inch meters, which schedule became effective May 17, 1960, as authorized by the Commission's Resolution No. W-707. The following comparative tabulation summarizes the present rates and charges

and those proposed by applicant for general metered service, as amended at the hearing:

Quantity Rates:	Per Meter Per Month		
	Present	Proposed	Increase
First 3,000 gals. or less	\$ 1.35	\$ 3.25	141%
Next 7,000 gals., per 1,000 gals.	.40	.95	138
Next 10,000 gals., per 1,000 gals.	.35	.85	143
Next 20,000 gals., per 1,000 gals.	.25	.60	140
Next 30,000 gals., per 1,000 gals.	.15	.35	133
Over 70,000 gals., per 1,000 gals.	.10	.25	150

Minimum Charges:

5/8 x 3/4-inch meter	\$ 1.35	\$ 3.25	141%
3/4-inch meter	2.00	5.00	150
1-inch meter	3.50	8.50	143
1 1/2-inch meter	7.00	16.50	136
2-inch meter	10.00	24.00	140
3-inch meter	20.00	50.00	150
4-inch meter	40.00	95.00	138
6-inch meter	70.00	175.00	150
8-inch meter	100.00	250.00	150

The next tabulation shows a comparison of the cost of metered service for several usages, computed on a bimonthly basis and assuming service through a 5/8 by 3/4-inch meter:

Bimonthly Consumption (gallons)	Bimonthly Billing		
	Present Rates	Proposed Rates	Increase
6,000 or less	\$ 2.70	\$ 6.50	141%
10,000 (avg.)	4.30	10.30	140
20,000	8.30	19.80	139
30,000	11.80	28.30	140
40,000	15.30	36.80	141
50,000	17.80	42.80	140
75,000	24.05	57.80	140
100,000	28.30	67.80	140
150,000	35.30	84.30	139
200,000	40.30	96.80	140
300,000	50.30	121.80	142
400,000	60.30	146.80	143
500,000	70.30	171.80	144
1,000,000	120.30	296.80	147

In the application, the following special metered service rate was proposed for the U. S. Navy's recent Capehart Housing

Installation comprising 24 residences and three private fire hydrants, all served through a single 8-inch meter:

First 240,000 gallons per month	\$250.00
Over 240,000 gallons, per 1,000 gallons	.25

Because this proposal proved to be inconsistent with the schedule of rates for general metered service, subsequently filed to include service through an 8-inch meter, applicant retracted this request at the time of the hearing and stated its willingness for the Navy premises to be supplied under the general metered service schedule.

Although there is no filed schedule of rates for public fire hydrants, applicant has been charging for service being rendered to a number of such hydrants installed in connection with applicant's water system. Following is a comparison of the rates being charged and those proposed for such service:

	Rate Per Month		
	Present	Proposed	Increase
For Each Wharf Type Hydrant	\$1.50	\$2.50	67%
For Each Standard Hydrant	1.50	3.00	100

At the time the application was prepared there were a few customers still being billed at the flat rates authorized by the Commission in 1948 but which are no longer on file. Applicant proposed to discontinue this practice and to install meters on the remaining flat rate services.

Description of System

Tunnels and springs located south of the city are the principal source of water supply for this system. The water is conveyed partly by gravity to six collecting tanks holding a total of 36,500 gallons and partly through an electric motor-driven booster pump to two concrete reservoirs having a combined storage capacity of 1,330,000 gallons located on the hillside southwest of the city, from where the system is supplied by gravity through two 8-inch water mains.

Water is also procured from a well located northeast of the city and equipped with an electrically operated deep-well pump unit capable of producing 80 gallons of water per minute which is delivered directly into the distribution system through a 5-inch transmission pipeline approximately 3,500 feet long.

During the latter part of 1959, applicant installed approximately 8,700 feet of asbestos-cement pipe as a second feeder main from the storage reservoirs and as a replacement of some small-sized distribution mains, partly to supply the new Navy installation. At the close of the year 1959, there were approximately 52,900 feet of transmission and distribution mains, varying in size from 1½ to 8 inches in diameter, serving approximately 524 customers, practically all metered, and some 28 public fire hydrants. Since then, service has been completed to the Navy's 24-residence housing unit.

Participation by City of
Ferndale and other Customers

The mayor of the City of Ferndale introduced in evidence Exhibit No. 4 containing excerpts from minutes of the City Council Meeting of August 1, 1960, wherein the council unanimously went on record in opposition to applicant's requested return of 7½ per cent on its investment as being excessive and exorbitant. He testified that the council was not opposed to a reasonable increase in water rates for applicant.

A representative for a Citizens' Committee appointed by the mayor to study the proposed rate increase also appeared and testified in protest thereto. Exhibit No. 3 consists of a brief, setting forth the thinking of the committee, in which it is pointed out that of approximately \$23,000 more revenue to be obtained from the residential customers, some \$5,000 would be paid to the Federal Government as income taxes. The committee questioned the sudden increase in depreciation expenses from approximately \$3,000 in 1959 to \$7,000 in 1960 as shown in applicant's Exhibit No. 1. The brief also pointed to the confusion as to the ownership of the fire

hydrants in the city and claimed that all fire hydrants had been paid for by the city and are owned by it; this matter will be discussed further hereinafter under an appropriate heading.

An official of the Ferndale Union High School District testified that he was not opposed to an increase in rates which would render a reasonable return to applicant but that an increase of 140 per cent would create an undue hardship for the school, the annual budget for which was already prepared.

Two other customers, both living in the vicinity of Arlynda Corners in the most northern portion of the service area, testified in regard to the quality of service being rendered. One complained of low pressure resulting from small diameter pipes in the distribution system, a condition which applicant realizes is in need of improvement by the installation of larger piping. The other complained particularly about the quality of water from the Ambrosini well which is used to supplement the supply to the system. Applicant is aware of this condition and has very recently installed apparatus to introduce a chemical to reduce the effect of the iron content in the water, which discolors clothes being washed. The evidence shows that the well water is potable and safe for human consumption.

Counsel for the U. S. Navy Department questioned applicant's witnesses concerning the basis for the proposed increase in the charges for water service to the Navy's housing unit from \$100 to \$250 for the first 240,000 gallons or less water per month and from 10 to 25 cents per 1,000 gallons for usage in excess of that quantity. This customer appeared to be satisfied when applicant signified its willingness to supply this installation with water under the general metered service rate schedule.

Public Fire Hydrants

In connection with the 1948 rate increase proceeding, Application No. 29007, the staff's Exhibit No. 3 contained an appraisal of applicant's properties, which listed 25 fire hydrants

at a total cost of \$400, which amount has subsequently been carried in applicant's plant accounts. At the hearing in the instant proceeding, evidence was presented that the original 25 hydrants, as well as five more hydrants since installed on the system, were actually paid for by the Fire Department of the City of Ferndale. The local manager for applicant for the period from about 1934 to 1952 testified that even at the time when the appraisal was made in 1948 he knew the fire hydrants, including the standpipes and elbows connecting them to the water mains, were the property of the city. He stated that it had been the practice for the water utility to install the fire hydrants and then to bill the city for the cost thereof. Repairs and maintenance were likewise paid for by the city.

In view of the evidence introduced at the hearing pertaining to this subject, applicant expressed its willingness to relinquish any claim to ownership of all of the existing fire hydrants serving the City of Ferndale and, furthermore, requested the Commission to authorize such action by the execution of whatever document may be appropriate. The order herein will grant applicant's request in this respect.

Summary of Showings

Applicant's basic showing consists of a detailed results of operation report, Exhibit No. 1, which is identical with the revised report attached to the amendment to the application received March 29, 1960.

Exhibit No. 5 is a similar report on the results of applicant's operation for the years 1959 adjusted and 1960 estimated as prepared by the Commission staff and dated July 18, 1960.

The respective showings of applicant and the Commission staff, at both the present rates and those proposed by applicant, are compared for the two test years 1959 and 1960 in the following tabulations condensed from applicant's Exhibit No. 1 and the staff's Exhibit No. 5.

SUMMARY OF EARNINGS

Item	AT PRESENT RATES				
	Year 1959		Year 1960		
	Re-	Adjusted	Estimated		
	corded	Applicant: Staff	Applicant: Staff		
Revenues					
Gen. Metered Service	\$15,906	\$15,530	\$ 15,960	\$ 15,958	\$ 16,220
Flat Rate Service	128	128	-	-	-
Navy Housing Unit	-	-	1,200	1,000	1,200
Public Fire Hydrants	505	505	500	540	540
Total Revenues	16,539	16,163	17,660	17,498	17,960
Expenses					
Oper. & Maintenance	6,577	7,111	6,540	6,926	6,620
Customer Ac. & Collect.	2,197	2,903	2,350	2,830	2,370
Administrative & Gen.	2,979	2,298	2,932	4,644	3,714
Subtotal	11,753	12,312	11,822	14,400	12,704
Depreciation	3,052	3,052	3,938	7,107	4,069
Amortization of Property Loss	-	-	369	738	369
General Taxes	1,175	1,175	1,597	2,546	1,597
Taxes on Income	204	25	100	25	100
Total Expenses	16,184	16,564	17,826	24,816	18,839
Net Oper. Revenue	355	(401)	(166)	(7,318)	(879)
Av. Deprec. Rate Base	-	80,500	135,600	146,200	138,000
Rate of Return	-	(0.5)%	(0.12)%	(5.0)%	(0.64)%

(Red Figure)

AT APPLICANT'S PROPOSED RATES

Revenues			
Gen. Metered Service	\$ 38,540	\$ 38,278	\$ 38,890
Navy Housing Unit	3,000	2,500	3,000
Public Fire Hydrants	890	966	970
Total Revenues	42,430	41,744	42,860
Expenses			
Oper. & Maintenance	6,540	6,926	6,620
Customer Ac. & Collecting	2,350	2,830	2,370
Administrative & General	2,932	4,644	3,714
Subtotal	11,822	14,400	12,704
Depreciation	3,938	7,107	4,069
Amortization of Property Loss	369	738	369
General Taxes	1,597	2,546	1,597
Taxes on Income	6,997	5,988	6,829
Total Expenses	24,723	30,779	25,568
Net Oper. Revenue	17,707	10,965	17,292
Av. Deprec. Rate Base	135,600	146,200	138,000
Rate of Return	13.06%	7.5%	12.53%

The significant difference between the estimates submitted by the applicant and by the staff will be discussed under the headings indicated.

1. Operating Revenues. The differences between the two estimates of operating revenues are due (1) partly to dissimilar methods of estimating the average revenue per customer and the average number of general metered customers for the two test years and (2) partly to different treatment of the revenue from the recently installed Navy housing unit.

We adopt as reasonable the staff's adjusted amount of \$15,960 as the revenue in 1959 at present rates from an average number of 524 general metered customers. For further revenue computations, we also adopt as reasonable the staff's estimate of an average number of 529 such customers in 1960 and applicant's ratio of 2.3986 between revenues at proposed rates and at the present rates for this class of service.

We further adopt as reasonable for trending purposes in this proceeding the staff's amounts of revenue for the two test years for service to the Navy installation and to the public fire hydrants.

2. Operation and Maintenance Expenses. The expenses under this heading are incurred locally and are classified under subheadings of source of supply, pumping and water treatment; transmission and distribution; and customer accounting and collecting. Considered all together, both the applicant's and the staff's amounts for the two test years are appreciably higher than the total of these expenses as recorded for the year 1959, partly due to substantial increases in salaries and wages. In its estimates, the staff allocated approximately 10 per cent of the local manager's salary to capital additions and improvements, whereas applicant did not.

As a group, the staff's estimates appear to be the more consistent and realistic and they will be adopted as reasonable.

3. Administrative and General Expenses. The staff's adjusted amount of administrative and general expenses for 1959 is higher than applicant's while its estimate for 1960 is lower than applicant's.

The principal item of these expenses consists of charges allocated to applicant for mutual services rendered by its parent, Citizens Utilities Company at Stamford, Connecticut, and by its affiliate, Citizens Utilities Company of California at Redding, California. The staff used the same percentages developed by applicant by a 4-factor method for allocating these mutual service charges to applicant. The two main reasons for the differences in the allocated amounts are the differing methods used in estimating the construction credit elements and the elimination by the staff of the Delaware franchise tax which is applicable to the parent company only.

Among the direct charges, the largest single item is that for legal, regulatory commission and special services. This item includes the cost of the current rate proceeding, estimated by applicant at \$8,100 and by the staff at \$3,000, in each case to be prorated over a 5-year period, plus an amount for normal legal expense. In support of its estimate, applicant referred to recent proceedings of two affiliates where the total recorded rate increase proceeding costs were \$7,736 and \$6,482 for systems serving about 2,300 and 1,400 customers, respectively. The amount of \$8,100 is considered inordinate for the instant proceeding involving only 530 customers. Under cross-examination, the staff supported its estimate with detailed figures which appear to form a reasonable basis for the total amount of \$3,000. Such amount for regulatory

expense, prorated over a 5-year period, will be included in this item for both test years on a pro forma basis for trending purposes.

An annual amount of \$384 for rents shown in the staff's figures, but inadvertently omitted by applicant, appears to be proper and will be allowed as part of the direct charges.

After a careful review of all of the components upon the basis of which applicant's administrative and general expenses are determined, we adopt as reasonable the amounts of \$3,532 and \$3,714 for the two test years of 1959 and 1960, respectively.

4. Depreciation. Prior to the end of the year 1959, applicant's depreciation expense has been calculated by the use of the 5 per cent sinking fund method. Beginning January 1, 1960, applicant has indicated its intention to adopt the straight-line remaining life method of depreciation accounting.

For the estimated year 1960, the staff determined the annual depreciation accrual by the straight-line remaining life method based on the adjusted depreciable plant and the depreciation reserve, spread to the various plant accounts as of January 1, 1960, and including estimated beginning- and end-of-year average net plant additions for 1960. The same method was followed, projected back to the year 1959 adjusted, on a pro forma basis.

Applicant used the recorded amount of depreciation expense, calculated by the 5 per cent sinking fund method, for its 1959 adjusted figure. For 1960 applicant also determined the annual depreciation accrual by the straight-line remaining life method based on recorded depreciable plant and depreciation reserve. However, for three of the plant accounts, representing over three-fourths of all depreciable plant, applicant used a different weighting for arriving at the remaining life of each of these three classifications of plant. Whereas the staff used weighted average future dollar-years to determine the remaining lives, thus giving effect to the cost of substantial recent additions, applicant used units of physical property-years which, in effect, does not reflect

costs for the various items of plant. An inspection of applicant's method reveals that it leads to unreasonable results and it is unacceptable.

The staff's amounts, determined in accordance with recognized standard practices, are considered reasonable and will be used for the purposes herein. Such amounts will be revised, however, to eliminate the depreciation expense of \$15 on fire hydrants, which are not the property of applicant, as hereinbefore explained.

In the order which follows, applicant will be required to determine depreciation accruals, by accounts, by applying the following rates to depreciable utility plant as indicated:

<u>Account Number</u>	<u>Description</u>	<u>Rate</u>
	<u>Source of Supply Plant</u>	
312	Collecting & Impounding Reservoirs	3.27
315	Wells	5.6
321	Pumping Structures	2.5
324	Pumping Equipment	2.6
	<u>Water Treatment Plant</u>	
332	Water Treatment Equipment	3.2
	<u>Transmission & Distribution Plant</u>	
342	Reservoirs and Tanks	3.5
343	Transmission & Distribution Mains	1.8
345	Services	3.3
346	Meters	3.4
	<u>General Plant</u>	
372	Office Furniture & Equipment	9.8
373	Transportation Equipment	9.6
378	Tools, Shop & Garbage Equipment	7.9

5. Amortization of Property Loss. During 1959 applicant expended \$3,692 for the drilling of another well. Analysis of the water produced from the well indicated that it would be unsatisfactory for use in the system. Consequently applicant proposes to transfer this expenditure to Extraordinary Property Losses and to amortize the cost over a period of five years, or at the rate of \$738 per year, beginning with the year 1960. The staff used

10 years as the period for amortization, or \$369 per year, which it included in both test years on a pro forma basis.

For an item of this relative magnitude, it appears that an amortization period of five years is not unreasonable and applicant will be authorized to make such a charge of \$738 per year to the proper expense account, beginning with the year 1960.

6. General Taxes. The major portion of general taxes consists of ad valorem taxes, which the staff computed on the basis of the latest known 1960-61 assessment of utility plant supplied by the Humboldt County Assessor, using the latest known tax rate which was that for the 1959-60 tax year. Applicant anticipated an increase in the assessment for 1960-61 and estimated such increase at \$22,948, which accounts for applicant's estimated ad valorem taxes being considerably in excess of the amount estimated by the staff.

Included with applicant's late-filed Exhibit No. 10 is a letter dated August 8, 1960, from the office of the Humboldt County Assessor stating that the total assessment on applicant's land and improvements would be \$30,800 for the tax year of 1960-61, an increase of \$14,330 over the previous year. Accordingly, applicant revised its estimate of ad valorem taxes on that basis. However, applicant neglected to average the tax, thus computed, with the tax for the 1959-60 tax year to determine the ad valorem tax for the calendar year 1960.

In its late-filed Exhibit No. 11, the staff used the revised 1960-61 assessment of \$30,800 and the latest known tax rate in evidence and calculated an increase of \$570 in ad valorem taxes for the estimated year 1960. To be consistent with the staff's roll-back of utility plant for the adjusted year 1959 and the estimated year 1960, on a pro forma basis, the ad valorem taxes for the years

1959 and 1960 should be increased by about \$780 and \$1,110, respectively, over the staff's adjusted amounts shown in Exhibit No. 5.

As thus revised, the staff's amounts of general taxes for the two test years will be adopted as reasonable for the purposes herein.

7. Taxes on Income. Applicant has not elected to use liberalized depreciation in its filed income tax returns to date. In its calculation of income taxes, applicant used book depreciation and did not reflect deductions for advances for construction. In accordance with Commission policy, the staff's income tax calculations for the two test years reflect depreciation on the "as paid" basis and deduction of plant for advances for construction.

The staff's method of computing taxes based on income will be adopted, using the appropriate amounts determined on the basis of the revenues and expenses as revised herein, including the amortization of property loss, previously discussed.

8. Utility Plant and Rate Base. Based on the appraisal dated March 15, 1948, made in connection with Application No. 29007, applicant's recorded utility plant was \$63,516 as of that date. During the period from then until December 31, 1958, net additions to plant amounted to \$46,246 and net additions in 1959 totaled \$75,026, making the total recorded plant \$184,788 as of December 31, 1959. The 1959 net additions of \$75,026 represent approximately 62 per cent of the total net additions made since the appraisal date.

For the purpose of this proceeding, the staff considered \$70,238 of the 1959 net additions as not being associated with normal growth, which amount the staff included in utility plant for both test years on a pro forma basis. The staff's average depreciated rate base for the year 1960 is \$8,200 less than applicant's.

An analysis of this difference reveals it is due primarily to the following elements:

- a. The staff's average depreciation reserve is \$2,825 less than applicant's mainly because of the staff's smaller depreciation accrual for 1960, as previously discussed.
- b. Consistent with the staff's treatment of revenues and plant installed for the Navy's housing unit, the amount advanced for that installation was included in full for both test years, as a modification to rate base, whereas applicant included the advance for only a part of 1960, thus making a difference in that year of \$4,690.
- c. Based on the manner in which the utility's expenses are incurred and its revenues billed, the staff estimated the working cash allowance at \$1,100 compared with \$6,500 estimated by applicant, a difference of \$5,400. A review of the several factors involved in such amounts, determined by judgment, leads to the conclusion that the staff's estimate is the more justifiable and reasonable.

In view of all the evidence, the staff's average depreciated rate bases, corrected for the elimination of fire hydrants from applicant's utility plant, will be adopted as reasonable upon which to test the reasonableness of the revenues estimated as obtainable at applicant's proposed rates and at the rates to be authorized in this proceeding.

Rate or Return

Summarizing, after adjusting for the amounts found reasonable in the foregoing discussion, the following tabulation sets forth the revised results of applicant's operations herein adopted for the adjusted year 1959 at applicant's proposed rates and for the year 1960 as estimated at the present rates, at the proposed rates and at the rates hereinafter authorized.

REVISED RESULTS OF OPERATION AS ADOPTED

Item	1959			
	Adjusted:		1960 Estimated	
	Proposed:	Present	Proposed:	Authorized:
	Rates	Rates	Rates	Rates
<u>Revenues</u>				
General Metered Service	\$ 38,280	\$ 16,110	\$ 38,640	\$ 30,020
Navy Housing Unit	3,000	1,200	3,000	1,320
Public Fire Hydrants	890	540	970	970
Total Revenues	42,170	17,850	42,610	32,310
<u>Expenses</u>				
Operation and Maintenance	6,540	6,620	6,620	6,620
Customer Acct. & Collecting	2,350	2,370	2,370	2,370
Administrative & General	3,532	3,714	3,714	3,714
Subtotal	12,422	12,704	12,704	12,704
Depreciation	3,923	4,054	4,054	4,054
Amortization of Property Loss	738	738	738	738
General Taxes	2,377	2,707	2,707	2,707
Taxes on Income	6,199	100	6,125	2,637
Total Expenses	25,659	20,303	26,328	22,840
Net Operating Revenue	16,511	(2,453)	16,282	9,470
Average Deprec. Rate Base	135,400	137,800	137,800	137,800
Rate of Return	12.19%	Loss	11.82%	6.87%

(Red Figure)

The evidence demonstrates, as indicated by foregoing tabulations, that revenues obtained from existing water rates are inadequate to meet applicant's reasonable needs and that applicant is entitled to increased revenues. However, as indicated by the immediately foregoing tabulation, the rates which applicant has proposed would yield revenues considerably greater than a reasonable return would require. It may be noted that the rates of return at the proposed rates for the two test years indicate a downward trend of about 0.37 per cent.

Findings and Conclusions

The Commission finds and concludes that the estimates of operating revenues, expenses, including depreciation and taxes, and

the rate bases as revised herein, reasonably represent the results of applicant's operations for the years 1959 and 1960 and they will be and hereby are adopted for the purposes of this proceeding.

After considering all of the evidence, we find that applicant is entitled to a portion of the relief sought and that an order should be issued revising and increasing the rates for water service in the manner and to the extent set forth in Appendix A following the order herein. As indicated by a foregoing tabulation, the rates hereinafter authorized are estimated to produce for the year 1960 total operating revenues of about \$32,310, had such rates been made effective at the beginning of the year, which revenues are \$14,460 greater, or approximately 81 per cent more than those estimated to be obtainable from rates presently in effect. After due allowance for all reasonable operating expenses, depreciation and taxes amounting to \$22,840, the resulting net revenue of \$9,470 represents a rate of return of 6.87 per cent on the depreciated rate base of \$137,800. In view of an indicated decline of 0.37 per cent in the rate of return during the next 12 months, the Commission concludes that the water rates authorized herein will produce earnings sufficient to afford applicant an opportunity to earn a rate of return of 6.5 per cent for the immediate future, which rate of return we find to be fair and reasonable.

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.

Range of Monthly Minimum Charges

When applicant submitted, with its Advice Letter No. 8 dated April 28, 1960, a revised schedule of rates for general

metered service to include monthly minimum charges for 6- and 8-inch meters, there was attached thereto a "Rate Formula" tabulating the manner in which theoretical minimum charges were determined for all sizes of meters. However, in the accompanying schedule, applicant departed from the theoretical amounts and listed much higher minimum charges of \$70 and \$100 for 6- and 8-inch meters, respectively, to make them more consistent with those for meters from 5/8 by 3/4-inch through 4-inch in size which had been on file and in effect since 1948. In view of the current rate proceeding, the Commission by its Resolution No. W-707 authorized the rate schedule as submitted.

Inspection of the said schedule and the rate formula reveals that the minimum charges for 3- and 4-inch meters as previously filed were considerably in excess of the theoretical minimums developed in the rate formula. The record in the instant proceeding shows that the said rate formula was first developed by a Commission staff engineer in 1950, so that the minimum charges authorized and filed in 1948 did not have the benefit of the rate formula.

The rate formula for minimum charges, used in relation to any specific schedule of quantity rates, is based upon the minimum charge for the smallest size of meter and the relative delivery capacities of the larger meter sizes, with additives for certain other factors. The formula appears to be a reasonable method for approximating the monthly minimum charges which are appropriate for use in relation to the quantity rates in any authorized meter rate schedule. It will be used for the purposes of this proceeding to take advantage of this opportunity to establish more equitable monthly minimum charges.

Because of the circumstances under which the present minimum charge for an 8-inch meter was established and the fact that the estimated revenue from the Navy installation is based upon such minimum charge, it may be noted that the percentage increase for revenue from the 8-inch service to the Navy at the rates authorized herein is somewhat less than that for other customers. In effect, this corrects for certain inadvertent past inconsistencies.

Conversion of Water Meters

The present schedule of rates for general metered service is stated in units of 1,000 gallons and all of applicant's meters register deliveries of water in gallons. It is understood that the meters in water systems of all of applicant's California affiliates register water consumption by customers in cubic feet and their rate schedules are stated in units of 100 cubic feet.

In line with a continuing policy to achieve as much uniformity as possible in the form of rate schedules as set forth in General Order No. 96 and for convenience of comparison, the Commission staff recommended that the rates for measured service authorized in this proceeding be stated in units of 100 cubic feet instead of in units of 1,000 gallons as at present. Applicant is agreeable to making this change, provided it is compensated for the cost of converting the dials of its existing meters from readings in gallons to cubic feet. Applicant feels this procedure is necessary to preserve amicable relations with its customers, many of whom check their billings with their own meter readings, and also to facilitate machine billing which is processed for applicant and its affiliates at the central office in Redding.

In applicant's late-filed Exhibit No. 10, the cost of converting the existing 550 meters, including replacement parts and testing for accuracy, is estimated to total \$2,840, or slightly

over \$5 per meter, all to be accomplished within one bimonthly billing cycle. There is reason to believe that such cost, if prorated over a 10-year period, would be very little more than the annual expense already being incurred by applicant of periodically testing and repairing its meters in accordance with the minimum 10-year program prescribed by General Order No. 103. If tested all at one time in connection with the conversion of the dials, the regular meter testing program would be largely eliminated during the succeeding 10 years. Once all meters are converted to register deliveries in cubic feet, additional savings to applicant should result from the simplification of the machine billing procedure.

While applicant will not be required by the order herein to convert the dials of its existing meters from readings in gallons to cubic feet, it is recommended that applicant make such conversions at least whenever replacements and repairs to its existing meters make such conversion feasible, and that all new meters purchased should register deliveries in cubic feet.

The schedule of rates for metered service will be stated in units of 100 cubic feet. For as long as there may be any customers' meters registering consumption in gallons, applicant will be required to have posted in its office, for the convenience of all customers, a table illustrating the conversion of meter readings in gallons to billing quantities in cubic feet, together with appropriate charges therefor.

Service at other than Filed Rates

The record shows that applicant is serving two customers at other than filed rates. These services were begun long prior to acquisition of the utility by the present owner and in both cases such service is being rendered in partial consideration for rights

of way for certain pipelines belonging to applicant which transmit water from sources of supply.

Exhibit No. 7 is a copy of a lease agreement executed December 30, 1921, between applicant and Victor and Emma Ambrosini which provides, among other things, for the right to take water from a well located on a 12-foot square parcel of land located on the Ambrosini ranch and a right of way for a buried pipeline from said parcel to the end of Van Ness Avenue, for a 50-year period beginning January 1, 1922. In addition to a cash payment of rental of \$700 in advance, the applicant agreed to furnish all water necessary for household, domestic and stock purposes for not more than two families on the ranch. There is also at least one fire hydrant located on the pipeline within the ranch property.

There is no record of any written agreement with one James Swortzel, covering rights of way for two pipelines across his property from applicant's springs, which lines transmit about 95 per cent of the total water supply for applicant's system. Applicant's late-filed Exhibit No. 8 reveals all that is known concerning an agreement between Swortzel and the former water utility owners, made some time prior to 1920, which has passed verbally to succeeding managers and is presently being honored by applicant. In exchange for the rights of way for a total of approximately 2,860 feet of pipelines within the boundaries of Swortzel's property, he receives free water service for his residence and for a stock watering trough for some 12 or 14 dairy cows. It is possible that applicant has acquired an easement by prescription.

Nevertheless, regardless of the manner in which applicant has obtained the rights of way or easements, the Commission is of the opinion that the water service being rendered free of charge is unreasonably discriminatory and that these customers should be

served at filed rates. No reason appears why the three or four services involved cannot be equipped with meters. Applicant desires to eliminate these free water service arrangements. However, the affected parties were not present at the hearing in this matter and without further facts the Commission is, at this time, unable to determine the issue.

Applicant is put on notice that it should forthwith commence negotiations with each of the said parties with the objective of terminating the existing arrangements whereby water service is being rendered free of charge or at reduced rates and thereafter serving these customers at the duly authorized and filed rates.

O R D E R

Francis Land and Water Company, a corporation, having applied to this Commission for an order authorizing increases in rates and charges for water service rendered to its customers in the City of Ferndale and adjacent unincorporated territory in Humboldt County, a public hearing having been held, the Commission having been fully informed thereon, the matter having been submitted and now being ready for decision based upon the evidence and the findings and conclusion thereon expressed 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 April 1, 1961.

2. 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 utility properties of applicant.

3. Beginning with the year 1960, applicant shall determine the accruals to the depreciation reserve by multiplying the original cost of the plant by the depreciation rates for each plant account as hereinbefore set forth under the caption "Depreciation Expense." These rates shall be used until a review indicates that they should be revised. Applicant shall review the depreciation rates using the straight-line remaining life method, when major changes in plant composition occur and for each plant account at intervals of not more than three years. Results of these reviews shall be submitted to the Commission.

4. On or before April 1, 1961, and continuously thereafter as long as there are any customers' meters registering consumption in gallons, applicant shall have posted in its Ferndale office and open to public inspection, a table illustrating the conversion of meter readings for each 1,000 gallons, from zero to 20,000 gallons, to billing quantities in cubic feet, together with the appropriate charges therefor at the currently effective rate schedule or schedules. Within ten days after the initial posting, applicant shall file with the Commission two copies of such conversion table.

5. Applicant is hereby authorized to relinquish whatever claim it may have had heretofore to all the public fire hydrants now installed on its water system for use by the fire department of

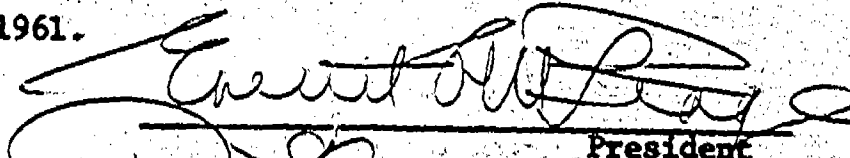
the City of Ferndale and, within ninety days after the effective date of this order, applicant shall witness such action by the execution of whatever document may be appropriate to vest the ownership of such hydrants with the City of Ferndale. Applicant shall file with the Commission a certified copy of such document within ten days after the execution thereof.

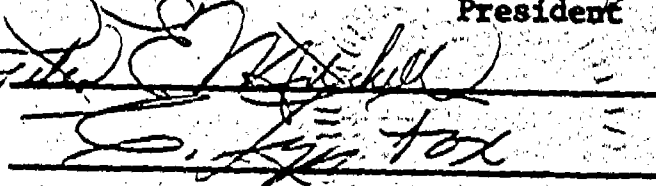
6. Applicant is hereby authorized to amortize the cost of approximately \$3,692 of the well, drilled in 1959 and found unusable, over a five-year period beginning with the calendar year 1960, in accordance with the procedure set forth in Paragraph 141, Extraordinary Property Losses, of the Uniform System of Accounts for Water Utilities as prescribed by this Commission.

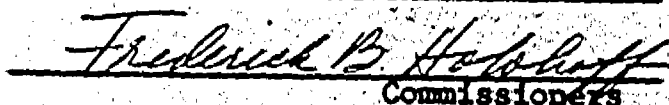
7. In all other respects the application be and it is denied.

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

Dated at San Francisco, California, this 21st day of FEBRUARY, 1961.


President


Commissioners


Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered service.

TERRITORY

The City of Ferndale and adjacent unincorporated territory, Humboldt County.

RATES

Per Meter
Per Month

Quantity Rates:

First	400 cubic feet or less	\$ 2.50
Next	1,600 cu. ft., per 100 cu. ft.58
Next	3,000 cu. ft., per 100 cu. ft.40
Next	5,000 cu. ft., per 100 cu. ft.24
Over	10,000 cu. ft., per 100 cu. ft.18

Minimum Charge:

For	5/8 x 3/4-inch meter	2.50
For	3/4-inch meter	4.00
For	1-inch meter	7.00
For	1 1/2-inch meter	13.00
For	2-inch meter	20.00
For	3-inch meter	32.50
For	4-inch meter	50.00
For	6-inch meter	75.00
For	8-inch meter	110.00

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 SERVICEAPPLICABILITY

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

TERRITORY

The City of Ferndale and adjacent unincorporated territory, Humboldt County.

RATES

	<u>Per Month</u>
For each wharf type hydrant	\$2.50
For each standard hydrant	3.00

SPECIAL CONDITIONS

1. Hydrants will be owned by, furnished, installed and maintained at the expense of the public authority. The utility will install and own the tee on the water main to which the hydrant is connected.
2. Relocation of any hydrant shall be at the expense of the party requesting relocation.
3. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.
4. 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.