

Decision No. 61807**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 Spreckels Water Company, a corporation,
 to issue stock, for a certificate of
 public convenience and necessity to
 acquire, install and operate a water
 system and for an order establishing
 water rates.

Application No. 42599
 (Amended)

Francis C. Hutchens, for Spreckels Water Company,
 applicant.
David F. LaHue, for the Commission staff.

O P I N I O N

By the above-entitled application filed August 25, 1960, as amended by amendments filed September 28, 1960, and February 21, 1961, Spreckels Water Company requests authority to issue stock and further requests that the Commission issue a certificate of public convenience and necessity permitting it to acquire, install and operate the water system, described in the application, in the unincorporated town of Spreckels and certain adjacent areas, all in Monterey County, at certain proposed rates. Applicant also seeks an order of this Commission authorizing it to exercise franchise rights applied for but not yet secured from Monterey County.

A public hearing on the application was held before Examiner Wilson E. Cline at Salinas on February 15, 1961. The matter was taken under submission upon the filing of the second amendment to the application herein and late filed Exhibit No. 8 on February 24, 1961, and is now ready for decision.

Service Area

The water system under consideration was originally installed at the same time as the Spreckels sugar mill was constructed which was during the period 1896 to 1898. The system is adjacent to the sugar mill property and serves residences, commercial and community establishments within and in the immediate vicinity of the unincorporated town of Spreckels which is located about $4\frac{1}{2}$ miles southwest of the City of Salinas. The service areas as shown in red on Exhibit No. 3 comprise about 80 acres. The present number of customers is 170 of whom about one half occupy property owned by the Spreckels Sugar Company and the remainder occupy privately owned houses.

Description of the System

The water system is presently supplied from the water facilities installed for the operation of the sugar mill. Applicant proposes to install a new well to supply water for the system. It is contemplated that the new well will be equipped with a 25 h.p. pumping unit to deliver approximately 350 gallons per minute at system pressure of approximately 40 pounds per square inch. A hydropneumatic tank of some 4,000 gallons capacity is expected to stabilize the pressure. The peak demand on the system is expected to be 500 gallons per minute. A connection will also be made to Well No. 21 at the Spreckels sugar plant for auxiliary supply. Well No. 21 produces 2,000 gallons per minute.

The distribution system includes 11,400 feet of cast iron mains varying from 3 to 8 inches, 254 feet of 4-inch asbestos-cement mains, and 730 feet of $2\frac{1}{2}$ -inch and 3-inch galvanized iron mains. About 5,600 feet of $1\frac{1}{2}$ -inch galvanized iron pipe has been installed to serve three isolated groups of customers. The system also includes seventeen 3-inch standard fire hydrants.

Applicant has applied for and has been granted a domestic water permit by the State Department of Public Health subject to certain conditions with which applicant intends to comply. This permit is dated February 23, 1961, and is part of late filed Exhibit No. 8.

Historical Cost Appraisal

Attached to the application herein as Exhibit No. "B" is a historical cost appraisal and depreciation study, as of October 31, 1959, developed by consulting engineers which shows gross plant of \$18,648 and a depreciation reserve of \$10,824. Plant totals recorded on the books of account are not segregated and are not complete.

The Commission staff witness pointed out that the appraisal balance, if placed on the company books, would provide unit costs that are not now available, and would be of assistance in computing depreciation accruals and in recording retirements. He recommended that this historical appraisal and depreciation study be adopted as reasonable for purposes of this proceeding and that applicant be authorized to record these plant and depreciation reserve balances on its books.

Rate Base

Attached to the application herein as Exhibit "G" is an estimated rate base in the amount of \$43,824, summarized as follows:

Total Appraised Historical	
Cost of Facilities	\$18,648
Depreciation Reserve Requirement	10,824
Balance	<u>\$ 7,824</u>
Proposed Additions	28,000
Organization Cost	5,000
Working Cash	3,000
Total	<u>\$43,824</u>

Securities Proposed to be Issued

Applicant proposes to issue 78 shares of its \$100 par value stock to Spreckels Sugar Company in exchange for the existing water system, and to sell an additional 360 shares to Spreckels Sugar

Company for \$36,000 cash to provide funds for the proposed plant additions, organization costs, and working capital.

Proposed Additions

The applicant sets forth the estimated cost of proposed additions in Exhibit "E" attached to the application. These proposed improvements may be summarized as follows:

<u>Item</u>	<u>Estimated Cost</u>
A. Development of new well	\$ 8,500
B. Water lubricated deep well pump installed	2,300
C. Electrical service installed	700
D. C M L lined pressure tank	4,300
E. Pipe fitting	1,700
F. Meters and gauges	500
G. Structures	1,000
H. Additions to present system and location and installation of 20 valve boxes and covers on all lateral lines and connection of present system to a pump for flushing	4,500
I. Engineering	1,500
J. Sales Tax	500
K. Contingencies	2,500
Total	<u>\$28,000</u>

Average Rate Base Estimated
by the Commission Staff

The Commission staff witness in his computation of average rate base developed average figures for the estimated period from June 30, 1961, to June 30, 1962. The amounts estimated for working cash and organization expense by the Commission staff witness were considerably less than those set forth in the application. This average rate base is set forth in Exhibit No. 5 as follows:

<u>Utility Plant</u>	<u>Average Rate Base</u>	<u>Estimated Year 1961-62</u>
Organization		\$ 500
Existing Distribution System		18,450
Proposed Well & Pumping Plant		24,500
Subtotal		<u>\$43,450</u>
Materials and Supplies		500
Working Cash		350
Subtotal		<u>\$44,300</u>
Less Depreciation Reserve		11,500
Average Rate Base		<u>\$32,800</u>

Upon consideration of the evidence in this proceeding we find that the average rate base estimated by the Commission staff witness is reasonable and should be adopted for purposes of this proceeding, provided that the amount to be allowed for working cash shall be increased to \$500 and the amount to be allowed for organization expense shall be increased to \$1,500. In view of this finding applicant will not be authorized to sell the additional 360 shares of stock for \$36,000 cash as proposed but will be authorized to sell an additional 305 shares for \$30,500 cash to provide funds of \$28,000 for proposed plant additions, \$1,500 for organization expense, \$500 for materials and supplies and \$500 for working cash.

Rates

Exhibit No. 5 sets forth a tabulation of the flat rates presently charged by Spreckels Sugar Company and those proposed by Spreckels Water Company, together with the percent increase as follows:

<u>Description</u>	<u>Rate</u>		<u>Percent Increase</u>
	<u>Present</u> <u>Per Month</u>	<u>Proposed</u>	
<u>Company Owned</u>			
Dwelling House on One Lct	\$1.25	\$ 4.00	220.0%
Dwelling House on Two Lots	1.25	6.00	380.0
Labor Camp	-	8.00	-
Park	-	25.00	-
<u>Privately Owned</u>			
Dwelling House on One Lot	3.00	4.00	33.3
Dwelling House on Two Lots	3.00	6.00	100.0
Duplex on One Lot	3.50	6.00	71.4
Home & Apartment on One Lot	6.00	6.00	-
Triplex on One Lot	4.50	8.00	77.8
Triplex on One Lot	4.00	8.00	100.0
7-Unit Court	5.50	9.00	63.6
Commercial	3.00	4.00	33.3
School	6.00	25.00	316.7
Memorial Building	9.00	14.00	55.6
Fire Hydrant	-	2.00	-

Applicant also proposes a flat monthly rate of \$15.00 for fire protection to the certificated portion of Lot 99 southerly from Spreckels Boulevard.

Exhibit No. 6 introduced by the Commission staff shows rates for water service of thirty small predominantly flat rate water systems in various Central Valley Counties. Exhibit No. 7 likewise introduced by the Commission staff shows rates for water service of seven privately owned water utilities of various sizes in the vicinity of Salinas.

Summary of Earnings

Exhibit No. 5 points out that at present rates certain customers are rendered service without charge. On that basis the total revenue collected is \$4,140 per year which is insufficient to cover operating expenses. Under the proposed rates the parent company will pay for the free services rendered now.

Exhibit "G" attached to the application shows estimated annual revenues from proposed rates will amount to \$9,816 and that annual expenses before taxes will amount to \$8,066, which leaves net revenue before taxes of \$1,750.

The summary of earnings developed by the Commission staff as set forth in Exhibit No. 5 shows total annual operating revenues of \$10,030, total annual expenses of \$8,380 which includes \$940 of taxes, leaving a net revenue of \$1,650. The annual rate of return on an average depreciated rate base of \$33,950 amounts to 4.9%. ✓

Service

Exhibit No. 5 states that customers of Spreckels Sugar Company who were interviewed during the field investigation on January 18, 1961, indicated that the water service rendered is satisfactory with regard to pressure and quality of water. It also pointed out that there are three 1½-inch mains serving isolated groups of customers. These pipes were installed in 1952, 1911 and prior and exceed the maximum length of 200 feet for noncirculating pipelines set by this Commission's General Order No. 103. The ✓

Commission staff in Exhibit No. 5, however, concludes that if no additional customers are added to the pipelines there appears to be no urgent need to replace these mains at this time.

In Exhibit No. 5 the Commission staff concludes that the system as constructed will be capable of providing an adequate service to the present customers if an additional independent firm source of water supply is developed besides the one proposed well.

Recommendations of the Commission Staff

In Exhibit No. 5 the Commission staff recommended that:

- "a. Applicant enter into a written agreement with the Spreckels Sugar Company by which it will be assured of the continuous use of potable water supply for a reasonable period of time, and all the terms necessary to define or limit the service available under such an agreement.
- "b. Applicant be permitted to use the three existing 1½-inch mains on Spreckels Boulevard and Hatton Avenue until such time as additional customers require service from these pipelines, at which time applicant should be required to replace or parallel these mains.
- "c. Beginning with the year 1961, applicant shall determine depreciation accrual for utility plant by either multiplying the total depreciable plant amount by a straight-line remaining life depreciation rate of 2.9%, or if the applicant so elects, to develop and use a depreciation rate for each primary plant account. The rate or rates should be used until review indicates that they should be revised. It is further recommended that the applicant review the depreciation rates, using the straight-line remaining life method, whenever substantial changes in depreciable utility plant occur and at intervals of not more than five years, and revise the above rates in conformance with such reviews. Results of these reviews should be submitted to the Commission.
- "d. Applicant be authorized to record on its books the historical cost appraisal and depreciation reserve requirement study as of October 31, 1959 submitted with this application."

Franchise

The second amendment to the application states that applicant has applied to the County of Monterey for a franchise for the operation, maintenance and installation of underground water pipelines in certain public highways within, and in the vicinity of, the unincorporated town of Spreckels. The lines referred to constitute those portions of the water system described in and sought to be certificated under the application herein which are located within the boundaries of public highways. The Board of Supervisors of Monterey County on February 6, 1961, adopted a resolution of intention to grant said franchise, stating that bids therefor will be opened on March 13, 1961, and directing the publication of notice, which franchise had not yet been granted as of the hearing date in this proceeding.

Findings and Conclusions

Upon consideration of the record herein the Commission hereby finds and concludes that:

1. Public convenience and necessity require and will require that the proposed public utility water system be acquired, constructed, maintained and operated and that the requested certificate authorizing applicant to do so should be granted.
2. The rates which are set forth in Appendix A are fair and reasonable rates for the services to be rendered and should be authorized.
3. The recommendations of the Commission staff as set forth hereinabove are reasonable and will be appropriately included in the order which follows.
4. The money, property or labor to be procured or paid for by the issue of the securities hereinafter authorized to be issued by applicant is reasonably required for the purposes specified in paragraph 8 of the order which follows, and such purposes are not,

in whole or in part, reasonably chargeable to operating expenses or to income, and the issuance of such securities should be authorized.

5. Public convenience and necessity will require the exercise of the rights and privileges under the franchise which applicant contemplates securing from the County of Monterey but which has not yet been granted to applicant.

The certificate hereinafter granted shall be subject to the following provision of law:

That the Commission shall have no power to authorize the capitalization of this certificate of public convenience and necessity or the right to own, operate, or enjoy such certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right.

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. A certificate of public convenience and necessity is hereby granted to Spreckels Water Company to acquire, construct, operate and maintain a public utility water system within and in the vicinity of the unincorporated area in Monterey County known as Spreckels, as shown on Exhibit No. 3 in this proceeding.

2. The certificate granted in paragraph 1 of this order shall not become effective until applicant shall have provided for the reasonable continuation of an adequate supply of water in addition to applicant's own proposed well by entering into a written agreement with Spreckels Sugar Company acceptable to this Commission

respecting the firm supply of potable water from Spreckels Sugar Company Well No. 21, and by filing a copy of such written agreement with the Commission after the effective date of this order.

3. Applicant is authorized to file within thirty days after compliance with paragraph 2 of this order, the schedules of rates for water service set forth in Appendix A attached to this order, to be effective on or before the date service is first rendered to the public under the authority herein granted, together with rules and a tariff service area map acceptable to this Commission, in accordance with the requirements of General Order No. 96. Such rates, rules and tariff service area map shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

4. Applicant shall file, within thirty days after compliance with paragraph 2 of this order, four copies of a comprehensive map drawn to an indicated scale not smaller than 400 feet to the inch, delineating by appropriate markings the 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.

5. Applicant is authorized to record on its books the Historical Cost Appraisal and Depreciation Study, Water System - Town of Spreckels, California, as of October 31, 1959, attached to the application herein as Exhibit "B".

6. Beginning with the year 1961, applicant shall determine depreciation accrual for utility plant either by multiplying the total depreciable plant amount by a straight-line remaining life depreciation rate of 2.9%, or if the applicant so elects, by developing and using a straight-line remaining life depreciation rate for

each primary plant account. Such rate or rates should be used until review indicates that they should be revised. Applicant shall review the depreciation rates whenever substantial changes in depreciable utility plant occur and at intervals of not more than five years, and revise the above rates in conformance with such reviews. Results of these reviews shall be submitted to the Commission.

7. Applicant is authorized to serve the number of customers connected to the three 14-inch mains on Spreckels Boulevard and Hatton Avenue as of the effective date of this order. No additional customers may be served from these mains unless specific authorization is first obtained from this Commission to serve such additional customers or unless said mains are replaced or paralleled by larger mains in accordance with the provisions of the Commission's General Order No. 103.

8. Applicant may after the effective date of this order and on or before December 31, 1961, issue: (a) seventy-eight (78) shares of its authorized capital stock, having a par value of \$100 per share, to Spreckels Sugar Company in exchange for its water system properties, within and in the vicinity of the unincorporated area in Monterey County known as Spreckels, including the water rights, rights of way, easements and licenses, and (b) an additional 305 shares of its said capital stock to said Spreckels Sugar Company for cash in the amount of \$30,500, to provide funds in the amount of \$28,000 for plant additions, \$1,500 for organization expense, \$500 for materials and supplies and \$500 for working cash. Applicant's request to issue the remaining additional 55 shares of its capital stock is hereby denied. ✓

9. Applicant shall file with the Commission a report, or reports, as required by General Order No. 24A, which order, insofar as applicable, is made a part of the order herein. ✓

10. After applicant has obtained the contemplated franchise from the County of Monterey, this Commission will, upon supplemental application, issue to applicant, upon such terms and conditions as this Commission may designate, a certificate of public convenience and necessity authorizing the exercise of the rights and privileges granted to applicant under such franchise.

The authorizations herein granted will expire if not exercised on or before December 31, 1961.

This order shall become effective twenty days after the date hereof.

Dated at San Francisco, California, this 11th day of APRIL, 1961.

President

Commissioners

APPENDIX A
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Schedule No. 2

GENERAL FLAT RATE SERVICEAPPLICABILITY

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

TERRITORY

The unincorporated community of Spreckels, and vicinity, located approximately $4\frac{1}{2}$ miles southwest of the City of Salinas, Monterey County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
1. For a single family residential unit or commercial establishment, including premises not exceeding 8,000 sq.ft. in area, where the service connection is one inch or less in diameter	\$ 4.00
When supplied from the same service connection as initial service:	
a. For the next two single family residential units or commercial establishments, each	2.00
b. For more than three single family residential units or commercial establishments, each75
c. For each 8,000 sq.ft., or fraction thereof, of irrigated area in excess of the 8,000 sq.ft. included in the initial charge	2.00
2. For Labor Camp on Spreckels Blvd.	8.00
3. For Veterans Memorial District Building	14.00
4. For Public Park or Public School	25.00

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for privately owned fire protection systems.

TERRITORY

The unincorporated community of Spreckels, and vicinity, located approximately 4 1/2 miles southwest of the City of Salinas, Monterey County.

RATE

	<u>Per Service Connection Per Month</u>
For each inch of diameter of service connection	\$3.00

SPECIAL CONDITIONS

1. The customer shall pay, without refund, the entire cost of installing the fire protection service connection. Such service connection shall become and remain the property of the utility.
2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the utility at the cost of the applicant. Such cost shall not be subject to refund.
3. Service under the above rate will be furnished for private fire protection purposes only. Where water is used for any other purpose on the customer's premises, the applicable flat rate charge for such additional service will be added to the charge for fire protection 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.

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Spreckels, and vicinity, located approximately 4½ miles southwest of the City of Salinas, Monterey County.

RATE

	<u>Per Month</u>
For each hydrant	\$2.00

SPECIAL CONDITIONS

1. The above rate includes the use of water for fire protection and no other purpose.
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. 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.