

ORIGINAL

Decision No. 62055

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of BANNING WATER COMPANY }
under Section 454 of the Public }
Utilities Code for authority to }
increase its public utility water }
rates. }

Application No. 42776

Wyman C. Knapp and W. L. Arnold, for applicant.
George J. Taylor, in propria persona, protestant.
William C. Bricca and Donald B. Steger, for the
Commission staff.

O P I N I O N

Banning Water Company, a corporation, by the above-entitled application filed October 20, 1960, seeks authority to increase its rates for water service in the City of Banning, and vicinity, by approximately \$100,000 based on its estimated operations for the year 1961, an increase over present rates of 43.0%. The applicant also seeks authority to discontinue its presently filed Schedule No. 3, Measured Irrigation Service, and to transfer the present irrigation customers to its proposed Schedule No. 1, General Metered Service.

Public hearings were held before Commissioner Frederick E. Holoboff and Examiner Stewart C. Warner on March 22 and 23, 1961, at Banning. Some letters protesting the granting of the application were received, and a petition containing approximately 71 signatures protesting the application was received as Exhibit No. 2. Testimony was given by some 20 customers, each of whom protested the application, and about one-half of whom were irrigation customers who,

according to the application, would be placed on the applicant's general metered service schedule and would pay for water service thereunder. The over-all increase proposed for irrigation customers would amount to 388% based on an average monthly use of 787 hundreds of cubic feet. The matter was submitted on the last-named date subject to the receipt on or before March 31, 1961, of late-filed Exhibits Nos. 9, 10 and 11. Such exhibits have been received and the matter is now ready for decision.

General Information

The applicant is the result of the consolidation of Banning Water Company, a mutual water company, and City Water Company of Banning, a public utility corporation, which said consolidation was authorized to be continued by Decision No. 54560, dated February 19, 1957, in Application No. 37504. Said decision also established the applicant's present rates.

As of December 31, 1959, water service was being furnished within the limits of the City of Banning and adjacent areas to 3,537 customers, of which 84 were classified as 7-months' season irrigation customers, and 231 fire hydrants were connected to the water system. The following tabulation, set forth on page 1 of Exhibit No. 5, a report on the applicant's operations submitted by its public accounting witness, shows in hundreds of cubic feet the sales of water for irrigation use and other sales and the percent of the total sales represented by irrigation sales for the years 1954 through 1959 recorded, and for the years 1960 and 1961 estimated.

	<u>Irrigation Sales</u>	<u>Other Sales</u>	<u>Per Cent of Total Irrigation Sales</u>
1954	1,371,721	814,522	63%
1955	1,209,721	822,776	60%
1956	1,031,655	851,343	55%
1957	619,403	856,776	42%
1958	571,101	894,104	39%
1959	344,058	1,053,338	25%
1960	211,852	1,069,491	17%
1961	90,167	1,130,977	7%

The applicant estimated that the average number of its active consumers for the year 1961 would increase to 3,705, including 20 irrigation customers, excluding fire hydrants.

The record clearly shows that the economy of the City of Banning is rapidly losing its agriculture, and that subdivisions of existing large property holdings are progressing and are increasing fairly rapidly. Land once used for the growing of almonds, peaches, cherries, apricots, alfalfa, and hay is being subdivided for residential purposes.

The applicant's water system has been in operation for nearly 75 years, and its water supply is obtained by surface diversion and pumping from wells in Banning Canyon and from one deep well in the San Gorgonio Pass area west of the central part of the City.

The wells in Banning Canyon, which derive their sources of supply from the spreading of surface waters at elevations higher than the wells in the Canyon, discharge water into a power pipe line which operates the pumps, installed in those wells located at lower elevations, powered by hydraulic turbine units. All of the applicant's Banning Canyon water supply is discharged into and gathered in a 1,000,000-gallon steel tank at the lower end of the Canyon, but at the top of the applicant's service area. The water stored in said tank is delivered by gravity into the distribution system.

The deep well in the San Gorgonio Pass area is equipped with a gas engine driving a deep well turbine pump which discharges directly into distribution mains at the westerly end of the system.

Rates

As heretofore noted, the applicant's present rates were established by Decision No. 54560, and they became effective on June 11, 1957. The following tabulation compares the present rates with those proposed in the application, and with those authorized by the order herein.

COMPARISON OF PRESENT, PROPOSED, AND
AUTHORIZED GENERAL METERED SERVICE RATES

		<u>Per Meter Per Month</u>		
		<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
Quantity Rates:				
First	900 cu. ft. or less	\$2.25		
Next	1,100 cu. ft., per 100 cu. ft.	.21		
Next	8,000 cu. ft., per 100 cu. ft.	.15		
Next	10,000 cu. ft., per 100 cu. ft.	.11		
Over	20,000 cu. ft., per 100 cu. ft.	.07		
First	600 cu. ft. or less		\$2.25	
Next	1,400 cu. ft., per 100 cu. ft.		.30	
Next	3,000 cu. ft., per 100 cu. ft.		.25	
Next	5,000 cu. ft., per 100 cu. ft.		.20	
Next	10,000 cu. ft., per 100 cu. ft.		.15	
Over	20,000 cu. ft., per 100 cu. ft.		.10	
First	700 cu. ft. or less			\$2.25
Next	1,300 cu. ft., per 100 cu. ft.			.27
Next	3,000 cu. ft., per 100 cu. ft.			.22
Next	5,000 cu. ft., per 100 cu. ft.			.20
Next	10,000 cu. ft., per 100 cu. ft.			.15
Over	20,000 cu. ft., per 100 cu. ft.			.10

A domestic water use tabulation for the calendar year 1958, considered by the applicant to be representative of water use, shows that 25% of the consumer months fell within an average consumption of between 0 and 600 cubic feet per month; that 37.2% fell between 0 and 900 cubic feet per month; and that 51.98% fell between 0 and 1,400 cubic feet per month. Generally speaking, this may be interpreted to represent that approximately 25% of the applicant's customers used 600 cubic feet, or less, per month on the average; that approximately 37% used 900 cubic feet, or less, per

month on the average, and that about 52% of the customers used 1,400 cubic feet, or less, per month on the average.

Under the present rates, the charge for a monthly consumption of 600 cubic feet is \$2.25; under the proposed rates this charge would remain the same. For 900 cubic feet the present charge is \$2.25; the proposed charge would be \$3.15, an increase of 40%; and under the authorized rates said charge will be \$2.79, an increase of 24%. It will be noted from the preceding tabulation that no increase in charge is authorized for a consumption of 700 cubic feet or less per meter per month, and that such authorized charge is \$2.25. For an average usage of 2,300 cubic feet the present charge is \$5.01; under the proposed rates such charge would be \$7.20, an increase of 43.7%; and under the rates authorized hereinafter, such charge will be \$6.42, an increase of 28.1%.

The present irrigation rate is equivalent to \$0.02315 per 100 cubic feet. The proposed quantity rate for general metered service produces an average rate of \$0.11305 per 100 cubic feet when applied to the present average monthly irrigation use of 787 hundreds of cubic feet hereinbefore referred to. The authorized rate for measured irrigation service is equivalent to \$0.051 per 100 cubic feet.

The testimony of the many irrigation customers who protested the application was that the drastic increase in rates for irrigation service, which would be effected by placing them on the general metered service schedule as proposed in the application, would cause them to abandon their agricultural pursuits.

The Commission staff engineer in his report of an investigation of the application, Exhibit No. 7, showed that there was an average of 42 irrigation customers in the year 1960, but that of

these 42 customers, 31 were not using the irrigation water service for agricultural irrigation purposes. His testimony was based on his study and an examination of each irrigation customer's land area served, a review of total water used, the time and duration of deliveries of water, and the pattern of land use and development. He qualified 11 accounts as users of irrigation water for agricultural purposes. Said witness' late-filed Exhibit No. 11 qualifies 17 accounts as such.

The record shows that all water service furnished by the applicant is provided from the lines which supply domestic water service.

Earnings

Exhibit No. 5 is the report referred to above.

Exhibit No. 7 contains financial operating and earnings data submitted by Commission staff accounting and engineering witnesses.

Exhibit No. 8 is a comparison of the company and staff results for the test year 1961 at present and proposed rates. The following tabulation summarizes the earnings data set forth in Exhibits Nos. 5, 7, and 8.

Summary of Earnings

Item	Year 1960:		Year 1961 Estimated		
	Recorded:		Present Rates		Proposed Rates
	Per Co. : Exh. #5	Per Co. : Exh. #5	Per PUC : Exh. #7	Per Co. : Exh. #5	Per PUC : Exh. #7
Operating Revenues	\$ 220,753	\$ 231,830	\$ 252,700	\$ 331,606	\$ 362,000
Operating Expenses	120,440	121,641	123,200	121,641	123,200
Depreciation	30,247	35,123	35,800	35,123	35,800
Taxes	30,304	31,120	41,800	85,638	101,500
Subtotal	180,991	187,884	200,800	242,402	260,500
Net Operating Revenue	39,762	43,946	51,900	89,204	101,500
Rate Base	1,106,331	1,279,747	1,289,600	1,279,747	1,289,600
Rate of Return	3.59%	3.43%	4.0%	6.97%	7.8%

The differences in estimates of operating revenues for the test year 1961, at present and proposed rates, between those submitted by the applicant and the staff are primarily accounted for by the fact that the applicant, in its estimates of revenues at both present and proposed rates for the test year 1961, made its estimates on its assumption that present water users presently being served under the applicant's presently filed Schedule No. 3ML, Measured Irrigation Service, would cease using water if required to be metered either according to the applicant's present or proposed general metered service rates, whereas the staff, in its estimates of revenues at both the present and proposed rates for the test year 1961, made its estimates on the staff's assumption that all of the present 42 irrigation customers would be placed on the limited measured irrigation service rate schedule as the applicant proposed in its application.

There are no significant differences between the estimates of total operating expenses, including depreciation expense and taxes, submitted by the applicant and the staff for the test year 1961.

The record shows that the applicant's ad valorem taxes were increased from \$8,000 per year to \$24,000 per year between 1957 and 1960, but were adjusted downward by Riverside

County to approximately \$17,000, and are estimated in the amount of \$17,500 for the tax year 1961.

The record shows that the applicant has not in the past utilized, nor is presently utilizing, liberalized depreciation in its computations of depreciation expense for income tax purposes, and therefore the applicant has no deferred or accumulated income tax reserve in any form or amount as the result of liberalized depreciation on its books of accounts.

Depreciation expense and depreciation reserve requirement for rate making purposes herein were determined both by the applicant and the staff, in all respects, according to the straight-line remaining life method of making such determinations.

Exhibits Nos. 4-A, -B, -C, and -D are schedules which show additions to fixed capital by accounts and individual items, together with related dollar costs, for the period June 1, 1957 through the year 1960. The items are segregated between dollar amounts advanced by subdividers, by other amounts in aid of construction, and by items financed by the applicant. Said exhibits show total additions for the 3½-year period amounting to \$390,785.38, of which \$103,265.50 is represented by advances in aid of construction, and \$287,519.88 is represented by amounts financed by the applicant.

Adjusted utility plant for the test year 1961 estimated was submitted by the staff engineer in Exhibit No. 7. Said exhibit included the addition to utility plant, for the test year 1961, of dollar amounts for pressure regulating valves, gate valves and tie mains for the consolidation of system operations; the installation of a 2,000,000-gallon reservoir and tie line; the remodeling of the applicant's general office to provide billing department separation; the relocation of an existing 200,000-gallon storage tank in conjunction with the operation of the San Gorgonio Pass well and the water system in the westerly end of Banning; and the installation of fixed station and mobile radio units. It also included the deletion from utility plant of dollar amounts for inoperative plant consisting of a well, pumping equipment, structure and tank acquired as a part of the applicant's Midway system, and the deletion of Upper and Lower gravity feed irrigation reservoirs.

Service

The record contains no significant customer complaints regarding water service by the applicant.

Recommendations

The staff engineer recommended the immediate addition of at least 2,000,000 gallons of distribution system reservoir storage to provide an adequate supply during interruptions in well-pumped operations. He also recommended more adequate communication facilities which could be supplied through the installation of fixed and mobile radio communication units in order to provide closer supervision of source facilities in Banning Canyon and more efficient operation and assignment of operating and maintenance personnel, especially in the westerly extension of the applicant's service area.

He also recommended the construction of a separate area for billing departments in order to improve customer billing and collection procedures, and the relocation of a 200,000-gallon tank.

Findings and Conclusions

After a careful review of the record, the Commission finds as a fact and concludes that the rate of return for the test year 1961, which would be produced by revenues received from the applicant's present rates, is deficient, and that the applicant is entitled to financial relief. It is further found as a fact and concluded, however, that the rate of return for the test year 1961, which would be produced by the revenues at the rates proposed in the application, is excessive, and that the application should be granted in part and denied in part.

It is further found as a fact and concluded that the applicant's request to cancel its presently filed Schedule No. 3, Measured Irrigation Service, and its request to transfer its present irrigation customers to its Schedule No. 1, General Metered Service, is not fully justified on the record, and that it would place an unreasonable burden upon those present irrigation customers who can legitimately be classified as users of water for agricultural purposes. However, it is further found as a fact and concluded that the present rates for water service to those of applicant's customers who meet the special conditions of Schedule No. 3ML, Limited Measured Irrigation Service, as set forth in Appendix A attached to the order herein, should be reasonably increased in order that they bear their just and reasonable burden of and contribute justly and reasonably to the applicant's operations, without placing an unjust and discriminatory burden on the applicant's general metered service customers, and that the order hereinafter will so provide.

It is found as a fact and concluded, however, that those present irrigation customers which cannot so legitimately qualify reasonably should be transferred to, placed on, and furnished water service in accordance with the applicant's Schedule No. 1, General Metered Service; the schedule of rates for which will be authorized to be filed by the applicant by the order which follows.

It is found as a fact and concluded that the estimates of operating expenses, including taxes and depreciation, and rate base determined by the Commission staff for the test year 1961, as set forth in Exhibit No. 7, are reasonable; that they should be adopted for this proceeding; and that a rate of return of 6.5% on a rate base of \$1,290,000 is just and reasonable.

The order which follows will authorize the applicant to file new schedules of general metered service and limited measured irrigation service rates, which, it is estimated, will produce gross annual operating revenues of \$323,000 or an increase of approximately \$70,000 over the operating revenues estimated by the staff to be produced during the test year 1961 at the present rates, but which is approximately \$39,000 less than the increases in operating revenues estimated by the staff to be produced by the rates sought in the application.

The Commission further finds as a fact and concludes that the increases in rates and charges authorized herein are justified, and that present rates, insofar as they differ from those herein prescribed, will for the future be unjust and unreasonable.

It is further found as a fact and concluded that the staff recommendations hereinbefore outlined, and as contained in Chapter 12 of Exhibit No. 7 in Item 4 thereof, are reasonable. The order which follows will provide that the applicant carry out such recommendations. It is further found as a fact that the Commission staff

recommendations, Items 2 and 3 contained in said chapter of said exhibit dealing with depreciation practices, and the filing of a revised tariff service area map and sample copies of printed forms normally used in conjunction with customers' services are reasonable. The order which follows will also provide that the applicant carry out those recommendations.

O R D E R

Application as above-entitled having been filed, public hearings having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED as follows:

1. a. That Banning Water Company, a corporation, be and it is authorized to file in quadruplicate with the Commission on or after the effective date of this order, in conformity with the Commission's General Order No. 96, the schedules of rates shown in Appendix A attached hereto, and upon not less than five days' notice to the Commission and to the public to make such rates effective for water service rendered on or after July 1, 1961.
- b. That, concurrently with the filing authorized herein, Banning Water Company be and it is authorized to withdraw and cancel by appropriate advice letter its presently effective irrigation rate schedule as follows:

Schedule No. 3 - Measured Irrigation Service.
2. That the applicant shall review depreciation accruals by the straight-line remaining life method when major changes in utility plant composition occur and for each plant account at intervals of not more than three years, beginning with the next review as of January 1, 1963. Results of these reviews shall be submitted to the Commission.
3. That the applicant be and it is directed to file in quadruplicate with the Commission, within sixty days after the effective date hereof, in conformity with the provisions of General Order No. 96, in a form acceptable to the Commission, a revised tariff service area map and sample copies of printed forms normally

used in conjunction with customers' services. Such tariff service area map and forms shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

- 4. a. That the applicant shall program its immediate plant additions by giving first consideration to (a) the installation of a 2,000,000-gallon reservoir, (b) the construction of a separate area for billing department operations, (c) the installation of mobile radio communications equipment and a fixed station unit, and (d) the relocation of its 200,000-gallon tank.
- b. That said program shall provide for completion of such plant additions by not later than December 31, 1961; that a written copy of this program shall be furnished to the Commission within forty-five days after the effective date of this order; and that applicant shall report in writing to the Commission when each of said plant additions has been completed and placed in operation, within ten days thereafter.
- 5. That 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 31st day of May, 1961.

Carl H. [Signature]
 President

C. Lynn Fox

Frederick B. Holliff

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

-13- Commissioner George G. Grover did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Banning, and vicinity, Riverside County.

RATES

Per Meter
Per Month

Quantity Rates:

First	700 cu. ft. or less	\$ 2.25
Next	1,300 cu. ft., per 100 cu. ft.27
Next	3,000 cu. ft., per 100 cu. ft.22
Next	5,000 cu. ft., per 100 cu. ft.20
Next	10,000 cu. ft., per 100 cu. ft.15
Over	20,000 cu. ft., per 100 cu. ft.10

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 2.25
For	3/4-inch meter	3.50
For	1-inch meter	5.00
For	1 1/2-inch meter	7.50
For	2-inch meter	10.00
For	3-inch meter	15.00
For	4-inch meter	25.00
For	6-inch meter	50.00
For	8-inch meter	75.00

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

Schedule No. 3ML

LIMITED MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to measured irrigation service furnished on a limited basis.

TERRITORY

The City of Banning, and vicinity, Riverside County.

RATES

Per Service
Connection

Quantity Rate:

For each miner's inch day \$.90

Minimum Charge:

For each irrigation delivery 4.50

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

SPECIAL CONDITIONS

1. Service under this schedule is limited to the lands and those accounts which were active irrigation customers in the calendar year 1960.
2. Delivery of irrigation water under this schedule is limited to agricultural lands having a minimum area of two acres or more.
3. Requests for each irrigation delivery shall be made to the utility not less than 48 hours in advance of the time said delivery is desired.
4. A miner's inch day is defined as the volume resulting from a continuous flow of one-fiftieth of a cubic foot of water per second for a 24-hour period.