

**ORIGINAL**Decision No. 62188

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
 THE ESCALON WATER AND LIGHT COMPANY  
 for an Order Authorizing an Increase  
 in Present Rates.

Application No. 42502

Bush, Ackley & Milich, by Leo Milich,  
 for applicant.  
Alfred V. Day and L. L. Thormod, for  
 Commission staff.

O P I N I O NApplicant's Request

Escalon Water and Light Company,<sup>1/</sup> a California corporation,  
 filed this application on July 25, 1960, requesting authority to  
 increase rates for public utility water service rendered in the  
 City of Escalon in San Joaquin County.

Public hearing in the matter was held before Examiner  
 James F. Haley at Escalon on March 30, 1961; evidence was adduced,  
 and the matter was submitted.

Description of Water System

Applicant's facilities for the production and distribution  
 of water consist of four drilled wells equipped with pumps, a  
 60,000-gallon elevated storage tank, two pressure tanks, and  
 approximately 31,000 feet of mains ranging from 1½ to 6 inches in

1/ Applicant provides water service only. It does not now, nor did  
 it ever, provide any other type of utility service.

diameter. As of the beginning of 1960, water service was provided to a total of 621 customers in and about the City of Escalon. Of these customers, only 5 were served through meters, the remaining 616 being served on a flat rate basis.

Applicant's Position

Present rates were established by Decision No. 43568, dated November 29, 1949, in Application No. 30524. Applicant represents that, since such rates became effective on January 1, 1950, its plant investment and operating costs have increased greatly with the general upward trend in other industries and businesses. It is applicant's position that its earnings do not now provide a fair and reasonable return on its investment. Applicant states that the salaries and wages it now pays are inadequate and below industry levels. It contends that a reasonable increase in the salaries and wages it pays is necessary but cannot be made at present water rates. Applicant states further that it will be necessary to install a new well and pumping station in the near future to provide adequate operating pressure throughout its system. These improvements will increase plant investment per customer but will not be revenue producing.

Earnings Results

The tabulation below compares results of operation for the year 1960 at present rates as estimated by the applicant and staff and as adopted herein as reasonable for test period purposes:

## RESULTS OF OPERATIONS

Year 1960 at Present Rates

Item	As Recorded	As Estimated By		As Adopted
		Applicant	Staff	
Operating Revenues:	\$20,566	\$20,100	\$20,800	\$20,600
Deductions:				
Operating Expenses	19,217	20,000	17,740	20,000
Taxes Other Than Income	1,105	1,235	1,265	1,265
Depreciation Expenses	1,526	1,650	760	760
Income Taxes	100	-	380	100
Total Deductions	21,948	22,885	20,145	22,125
Net Revenues	(Loss)	(Loss)	655	(Loss)
Rate Base:				
Utility Plant		72,273	70,140	70,140
Materials and Supplies		-	1,500	1,500
Working Cash		-	1,500	1,500
Subtotal		72,273	73,140	73,140
Deductions:				
Advances for Construction		-	1,005	1,005
Depreciation Reserve		15,431	41,700	41,700
Total Deductions		15,431	42,705	42,705
Depreciated Rate Base		56,842	30,435	30,435
Rate of Return		-	2.2%	-

Adopted Results

The estimates of applicant and staff for operating revenues at present rates are not significantly different from the recorded results for the test year 1960. We adopt as reasonable the amount of \$20,600, which closely approximates the actual revenues for 1960.

With respect to operating expenses, exclusive of taxes and depreciation, we find applicant's estimate of \$20,000 compatible with the level of such expenses as actually incurred during each of the past two years. The staff's figure for the test period is substantially lower than the level of operating expenses applicant has actually experienced during these past two years. Considering the higher costs with which applicant is confronted, the staff's estimate is seen to be too low. We adopt, as reasonable for test period purposes, applicant's figure of \$20,000 for operating expenses.

There is no substantial difference between the two estimates for taxes other than income. We adopt the staff's figure of \$1,265, which is based upon the latest available ad valorem tax rates and assessment ratios.

#### Depreciation

As of January 1, 1960, the ratio of depreciation reserve to depreciable plant was approximately 88%. While no theoretical reserve requirement study was made and introduced into the record, the staff did introduce a reserve requirement calculation which indicates that the reserve is heavily overaccrued based upon the arbitrary assumption of a 35-year composite average service life. Bearing in mind that the actual composite average service life of applicant's plant is unquestionably much closer to 50 years than 35 years, the reserve is seen to be even more overaccrued than indicated by the staff's calculation. In recognition of this overaccrued condition, the staff, for the purpose of testing rates, used an adjusted depreciation reserve in the determination of the depreciation expenses and rate base it recommends for the test period. The staff's adjustment has the effect of reducing the January 1, 1960

reserve balance from the recorded figure of \$63,265.46 down to \$41,324, a decrease of about one-third in the size of the reserve.

We adopt as reasonable for test period purposes the staff's figures for depreciation expenses in the amount of \$760 and its figure of \$41,700 for average test period depreciation reserve. Both of these amounts reflect the adjustment of the January 1, 1960 reserve balance to \$41,324.

Applicant's overaccrued reserve results from the use of excessive total-life rates over a period of many years. To reduce the likelihood of further overaccruals, the order herein will require applicant to determine its depreciation accruals by the straight-line remaining life method. It is inherent in the concept of the remaining life method of depreciation that, if the recorded reserve balance is materially in error, such balance should be restated at the time the utility adopts this method of depreciation accounting. Therefore, the order herein will require that applicant, prior to adopting the remaining life method shall make and submit to the Commission for its approval a depreciation reserve study for the purpose of restating the book reserve at its proper level.

#### Rate Base

In the determination of its rate base figure, applicant deducted only the depreciation it had accrued since its last rate case, Application No. 30524, supra. In so doing, it ignored prior accruals to the reserve on the premise that Decision No. 43568 in that matter set rates on the basis of an undepreciated rate base. The fact is that a sinking fund method, using an undepreciated rate base, was used for the rate determination in that decision in

accordance with the then frequent practice of the Commission with respect to small water companies. The Commission, for many years now, has been fixing rates on the basis of a depreciated rate base. Applicant's attempt to carry forward the undepreciated rate base of a prior proceeding by combining it with subsequent plant additions on a depreciated basis has the effect of grossly overstating rate base. Applicant's figure is spurious, and we must reject it.

We adopt the staff's estimate of \$30,435 for depreciated rate base. This figure, in addition to including the adjusted depreciation reserve balance hereinabove adopted as reasonable for purposes of testing rates, reflects correction of accounting errors disclosed in the staff's investigation, normal growth and includes an allowance of \$3,000 for another well and pump. This additional equipment is needed to correct pressure deficiencies shown by the record to exist in part of the area served by applicant's system. The order herein will require applicant to install the well and pump.

#### Rate of Return

The evidence is clear that applicant is operating at a loss and that it is entitled to rate relief. Applicant's proposed rates, however, would yield an excessive rate of return. Applicant will not be granted the full amount of the \$9,000 increase in annual charges to its customers which the requested rates would produce. Allowing for income taxes on the basis of a straight-line depreciation deduction,<sup>2/</sup> we find that a gross increase of \$4,800 on the test

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<sup>2/</sup> Pursuant to Decision No. 59926, dated April 12, 1960, in Case No. 6148.

year basis would yield approximately 7½ percent, which rate of return we find to be reasonable for applicant's operations based upon the evidence in this proceeding.

Authorized Rates

Applicant's present flat rate schedules are complicated and difficult to administer. The rates authorized herein will simplify applicant's rate schedules by eliminating unnecessary rate categories, for the benefit of user and utility alike.

The following tabulation compares the rates authorized herein with corresponding present rates for the principal types of flat rate service for connections of not more than 3/4-inch in diameter:

Flat Rate Service	Per Month			
	Present Rates	Authorized Rates	Increase Amount	Increase Percent
1. For a single family residence...	\$2.00	\$2.40	\$0.40	20.0%
a. For each additional residential unit served from same sev. connection.	1.25	1.50	.25	20.0
2. For each office, church or hall without living accommodations.	1.50	1.80	.30	20.0
3. For each shop, store or market..	2.50	3.00	.50	20.0
4. For each sev. station or garage.	3.00	3.60	.60	20.0
5. For each restaurant or tavern...	5.00	6.00	1.00	20.0
6. For each 100 sq.ft., or fraction thereof, of irrigated area, during the six-month period May through October.....	.05	.06	.01	20.0

For service connections greater than 3/4-inch in diameter, the rate schedules authorized will provide that service shall be furnished on a metered basis only. The meter rates authorized are designed to produce, under the hypothesis of a completely metered system, substantially the same rate of return as hereinabove found reasonable.

Findings and Conclusions

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

O R D E R

Escalon Water and Light Company having applied to this Commission for an order authorizing increased rates and charges for water service, public hearings having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order in conformity with the provisions of General Order No. 96, the schedules of rates and charges set forth in Appendix A attached to this order and, on not less than five days' notice to the public and to this Commission, to make said rates and charges effective for all water service rendered on and after August 1, 1961.

2. Applicant shall install and place in operation, not later than December 31, 1961, an additional well and pumping station and shall report to the Commission in writing within ten days following completion of the installation and place in operation of said well and pumping station.



3. Applicant shall forthwith adjust all pump controls so as to maintain at all times, at service connections throughout its system, normal operating pressures within the prescribed limits of 25 to 125 pounds per square inch gage, in accordance with the requirements of General Order No. 103.

4. Applicant shall forthwith submit to the Commission for approval, in accordance with Paragraph X of General Order No. 96, copies of all existing main extension contracts not previously authorized.

5. Applicant shall file in quadruplicate with the Commission, within forty-five days after the effective date of this order, in conformity with the provisions of General Order No. 96 and in a form acceptable to the Commission, a revised service area map showing definite boundaries, rules governing customer relations revised to reflect present day operating practices, and sample copies of printed forms that are normally used in connection with customers' services. Such rules, tariff service area map and sample forms shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

6. Applicant shall file with the Commission, within sixty days after the effective date of this order, 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 system properties of applicant.

7. On or before December 31, 1961, applicant shall make and submit to the Commission for approval a depreciation reserve study

for the purpose of restating its book reserve at the proper level. Following review of such study by the Commission and the restatement of its reserve to the level approved, applicant shall, beginning with the year 1961, base accruals to the reserve upon depreciation rates determined by spreading the original cost of plant, less estimated net future salvage and depreciation reserve, over the remaining life of the plant. Applicant shall review the depreciation rates when major changes in plant composition occur at intervals of not more than three years and shall revise the rates in conformance with the reviews. The 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 27th day of June, 1961.

*Charles W. Lane*  
 President

*W. J. [unclear]*

*[unclear]*

*George L. Crocker*

*Fredrick B. Hilchoff*  
 Commissioners

APPENDIX A  
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Escalon, and vicinity, San Joaquin County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 700 cu.ft. or less .....	\$ 2.10
Next 2,300 cu.ft., per 100 cu.ft. ....	.25
Next 7,000 cu.ft., per 100 cu.ft. ....	.18
Over 10,000 cu.ft., per 100 cu.ft. ....	.14
Minimum Charge:	
For 5/8 x 3/4-inch meter .....	\$ 2.10
For 3/4-inch meter .....	3.00
For 1-inch meter .....	5.00
For 1 1/2-inch meter .....	10.00
For 2-inch meter .....	15.00
For 3-inch meter .....	25.00
For 4-inch meter .....	40.00

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

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Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

The City of Escalon, and vicinity, San Joaquin County.

RATES

	<u>Per Service Connection Per Month</u>
1. For a single family residence .....	\$2.40
a. For each additional single family residential unit on the same premises and served from the same service connection .....	1.50
2. For each office, church or hall without living accommodations .....	1.80
3. For each shop, store or market .....	3.00
4. For each service station or garage .....	3.60
5. For each restaurant or tavern .....	6.00
6. For each 100 sq.ft., or fraction thereof, of irrigated area, during the 6-month period May through October .....	0.06

SPECIAL CONDITIONS

1. The above flat rates shall apply only to service connections not larger than 3/4-inch in diameter.

2. Meters may be installed at option of utility or customer for above classifications, in which event service thereafter will be furnished only on the basis of Schedule No. 1, General Metered Service.

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The City of Escalon, and vicinity, San Joaquin County.

RATE

Per Month

For each hydrant ..... \$1.50

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1, General Metered Service.
2. 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.