

Decision No. 62428

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of W. B. TENCH, doing business)
 as MENTONE DOMESTIC WATER COMPANY, and of)
 MENTONE DOMESTIC WATER COMPANY, a corpora-)
 tion, for an order authorizing the transfer)
 of assets, business and operating rights,)
 and for an order authorizing Mentone)
 Domestic Water Company, a corporation, to)
 issue its securities; for an order)
 increasing rates for water service, and)
 for an order for interim relief for such)
increases.

Application No. 42724
Amended

Charles A. Bierschbach, for the applicants.
A. L. Gielegem and D. B. Steger, for the
Commission staff.

O P I N I O N

This application was heard before Examiner Stewart C. Warner on May 10 and 11, 1961, at Redlands. It was submitted on May 23, 1961, upon receipt of late filed exhibits.

W. B. Tench, an individual doing business as Mentone Domestic Water Company, and Mentone Domestic Water Company, a corporation, by the above-entitled application, filed September 30, 1960, seek authority (1) for the transfer of the water system assets, business, and operating rights of W. B. Tench to the corporation; (2) for the issue of stock by the corporation to Tench for such assets; and (3) to increase their rates for water service in the community of Mentone, northeast of the City of Redlands, in unincorporated territory of San Bernardino County. The rates sought to be authorized would produce gross annual revenues of about \$11,000 in excess of the applicant's present rates. At the hearing, the applicants amended their application to seek authority to issue

10 shares of stock to W. B. Tench for cash to be used by the corporation as operating capital. They also sought authority to record the appraisal of their property contained in Exhibit No. 4.

General Information

The applicant's father commenced water system operations in Mentone about the year 1900, and about 1928 the applicant W. B. Tench began operations of the water system with and for his father and has continued to operate, to manage, and to finance his water system.

The applicant corporation filed its Articles of Incorporation with the Secretary of State on June 10, 1959. Its first directors are W. B. Tench, J. W. Bristow, and Dan L. Shoup, of Mentone, California. By its Articles it is authorized to issue 750 shares of stock of a par value of \$100 per share and an aggregate par value of \$75,000. Late filed Exhibit No. 12 is a personal balance sheet of W. B. Tench, individually, as of March 31, 1961. Said Exhibit shows current assets of \$3,867.29, fixed assets (net) \$51,308.80, deferred charges \$142.07, total assets \$55,318.16, and liabilities of \$25,624.20, and net worth of \$29,693.96. Page 2 of said Exhibit shows the breakdown of such assets, liabilities, and capital.

The area served by the applicant Tench is bounded on the north by San Bernardino Avenue, on the east by Ruby (Crafton) Avenue, on the south by Nice Avenue and on the west by Wabash Avenue, which is part of the limits of the City of Redlands. The area is one mile north and three miles east of downtown Redlands and along Mentone Boulevard (State Highway No. 190-D) enroute to Mill Creek Canyon resort areas.

The applicant's sources of water supply comprise (1) a prior right to 2.13 miner's inches (19.17 g.p.m.) continuous and perpetual flow of water from Mill Creek tunnels, (2) miscellaneous purchases of water from the City of Redlands, and (3) a 20-inch diameter, 307-foot deep well equipped with a natural gas engine and a pump having a production capacity of between 765 and 1,080 g.p.m. The applicant also has an auxiliary supply of water available to it from the so-called "Reese" well located about 450 feet south of Mentone Boulevard on the west side of Crafton Avenue. Past use of this well has been on a joint use basis by Reese and the applicant. Water is exchanged by them for delivery of water by the applicant to Bear Valley Mutual Water Company for irrigation purposes. Such water has been sold by the applicant to the Mutual on a surplus basis, and when requested by the Mutual.

The applicant's service area is restricted, and as of April, 1961, water service was being furnished to approximately 277 domestic and irrigation customers. Late-filed Exhibit No. 11 shows that as of March 31, 1961, the applicant was furnishing water service to 37 customers on a flat rate basis from \$1.50 per month to \$7.50 per month.

Rates

The applicant has no presently filed rates for flat rate service. However, the applicant charges his flat rate customers amounts varying from \$1.50 per month to \$7.50 per month.

The applicant's present meter rates for general service residence or domestic, and combined domestic and irrigation service, together with his rate for intermittent irrigation service

were authorized by Decision No. 37896, and have been in effect since June 1, 1945.

Applicant's presently filed Schedule No. 1, General Rates, for residence or domestic service provides for a charge of \$1.50 per meter per month for the first 2,000 cubic feet or less of water usage, and \$.03½ per 100 cubic feet for all usage over 2,000 cubic feet. Other charges are provided in this schedule for combined domestic and irrigation service, depending on the size of meter, but the record is silent as to whether or not any of the applicant's customers are furnished service under this portion of Schedule No. 1. The applicant's Schedule No. 2, Intermittent Irrigation Service, provides for a charge of \$.50 per miner's inch day where service can be made directly from the main reservoir. It is not clear in the record whether or not this is the rate applied to sales to the Bear Valley Mutual.

The applicant's proposed rates for general metered service include a charge of \$2 per meter per month for the first 1,000 cubic feet or less of usage; \$.15 per 100 cubic feet for the next 4,000 cubic feet; \$.10 per 100 cubic feet for the next 15,000 cubic feet; and \$.08 per 100 cubic feet for all usage over 20,000 cubic feet. The applicant also proposes a charge of \$3 per month for each 4" by 2-1/2" single-outlet public fire hydrant. Also proposed is a rate for irrigation service of \$5 per meter per month for the first 10,000 cubic feet or less of usage, and \$.05 per 100 cubic feet for all usage over 10,000 cubic feet.

The rates authorized by the Commission to be filed by the applicant are set forth in Appendix A attached to the order which follows.

Earnings

Exhibit No. 4 is a report on the applicants' operations submitted by their consulting engineering witness. It contains a summary of earnings for the year 1958 recorded, and for the years 1958 adjusted and 1959 estimated, both at present and proposed rates. Exhibit No. 5, submitted by Commission staff accounting and engineering witnesses, contains a summary of earnings for the years 1960 and 1961 estimated at both present and proposed rates. Exhibits Nos. 7 and 8 compare the earnings data shown in Exhibits Nos. 4 and 5. The earnings data in said latter exhibits are summarized as follows:

SUMMARY OF EARNINGS

Item	Present Rates		Proposed Rates	
	Year 1959 Estimated Per Co. Exh. No.4	Year 1960 Estimated Per PUC Exh. No.5	Year 1959 Estimated Per Co. Exh. No. 4	Year 1960 Estimated Per PUC Exh. No.5
Operating Revenues	\$ 6,539	\$12,055	\$17,340	\$23,300
Operating Expenses	10,730	10,525	10,967	10,820
Depreciation	1,689	2,050	1,689	2,050
Taxes	623	945	1,830	3,760
Subtotal	13,042	13,520	14,486	16,630
Net Revenue	(6,503)	(1,465)	2,854	6,670
Rate Base	52,023	48,380	52,023	48,380
Rate of Return	Nil	Nil	5.49%	13.8%

(Red Figure)

The principal difference between the estimates of operating revenues submitted by the applicants and the staff is attributable to the fact that the applicants excluded the revenues from the

sales of surplus water to the Bear Valley Mutual Water Company on the basis that (1) such sales were intermittent and were made only on an "available basis" and only when requested by the Mutual, (2) that surplus sales were unpredictable, and (3) that the applicant had received no benefits from such sales. The Commission staff averaged the sales of surplus water in making its estimate, and applied a quantity rate to the average sales for the years 1956 through 1960 of \$.55 per miner's-inch day. The staff included the amount of \$3,840 for this item in its estimates of operating revenue for the test year 1960.

The differences in the estimates of operating expenses are negligible.

The differences in depreciated rate base are attributable mainly to the difference between an appraisal of properties as of December 31, 1957, totaling \$74,959.89, submitted by the applicants, and the appraisal of the estimated historical cost of the applicant's total utility plant, including overhead, totaling \$60,963, as of December 31, 1960, submitted by the staff.

The depreciation reserve requirement as of December 31, 1957, submitted by the applicants, was \$22,370.31, whereas, the reserve requirement as of December 31, 1960, submitted by the staff, amounted to \$20,924.

Accounting and Financial Aspects
of the Application

A Commission staff accounting witness testified that the applicant Tench's accounting practices did not conform to the Uniform System of Accounts for Class D Water Utilities prescribed by

the Commission; that prior to 1953, transactions were recorded solely on the basis of incomplete information as contained in a check book and a diary maintained by the applicant; and that (1) original source documents were not retained, (2) proprietary labor was not recorded, (3) an insufficient history of additions and/or retirements was maintained, (4) out-of-pocket cash purchases were not supported, and (5) no work order system was maintained; that commencing in 1953 the applicant employed a bookkeeper to set up ~~and~~ maintain a set of accounting records for him and that this change had brought about a substantial improvement.

This witness testified that an examination of various main extension agreements indicated that customers were required to advance the total cost of mains and meters in return for which they would receive a credit of 50 percent on their monthly service billings in lieu of refunds. The total amount of advances for construction as of September 30, 1960, was \$7,499.67.

The record shows that the applicant has constructed 4,930 feet of 10- and 12-inch transmission and distribution mains to increase the quantity of water available to his customers, and that it is expected that in the future all customers will receive an adequate quantity of water at a minimum pressure of 25 pounds per square inch during maximum usage. Also, during 1960, the applicant installed an electrically driven booster pump, and an additional booster pump is included in the estimated costs of construction for the year 1961, totaling \$12,750, which said costs were included by the staff for rate making purposes in the rate base for the test year 1960.

The applicants requested a specific order authorizing them to place on their books of account the appraisal of the applicant Tench's properties submitted by their consulting engineer in Exhibit No. 4.

Staff Engineering Recommendations

In Chapter 12 of Exhibit No. 5 the Commission engineering staff recommended as follows:

1. That applicant determine accruals for depreciation by dividing the original cost of the utility plant, less estimated future net salvage, less depreciation reserve, by the estimated remaining life of the plant. Applicant should review the accruals when major changes in utility plant composition occur and at intervals of not more than 5 years. Results of these reviews should be submitted to the Commission. The first such review should be submitted to the Commission on or before March 31, 1963.

2. That applicant should file in accordance with General Order No. 96 and, in a form acceptable to this Commission, a revised and complete set of tariff schedules reflecting present day practices and setting forth the rates, rules, tariff service area map and copies of printed forms that are normally used in connection with customer services. If the utility elects to continue to offer flat rate service, it should be required to file rates to include a schedule of flat rates.

3. That deliveries of water to Bear Valley Mutual Water Company should be under a regularly filed tariff schedule for resale service authorized by this Commission.

4. That future extensions of service should be made in accordance with the utility's filed main extension rule.

5. That the utility install a measuring device at the source of supply.

6. That all utility facilities should be installed in conformity with at least the minimum requirements of General Order No. 103.

7. That the utility be required to institute the program required by General Order No. 103 for the periodic testing of each water meter in service at least once every ten years. All meters presently in service should be tested prior to January 1, 1966.

8. That the Commission consider the treatment to be accorded the unrefunded customers' advances for construction. The method of collection of advances and basis of refunds used by applicant are not in conformity with the policy of the Commission as set forth in the extension rule in Decision No. 50580 in Case No. 5501.

Findings and Conclusions

Upon review of the record the following findings and conclusions are made:

1. That the granting of the application of W. B. Tench, an individual doing business as Mentone Domestic Water Company, to transfer his water system assets to Mentone Domestic Water Company, a corporation, would not be adverse to the public interest, and that the application should be granted.

2. That the application of Mentone Domestic Water Company, a corporation, to issue to W. B. Tench 274 shares of its \$100 par value capital stock in an aggregate amount of \$27,400 to purchase all of Tench's water system assets, business and operating rights, and to issue to said Tench 10 shares for \$1,000 cash to be used as operating capital, is reasonable, and should be granted.

3.a. That the earnings of the applicants W. B. Tench, the individual, or Mentone Domestic Water Company, the corporation, produced by the present rates for water service for the test year 1960, are deficient and that the applicants are in need of and entitled to financial relief.

b. That the earnings estimates submitted by the Commission staff are more up-to-date, realistic, and reliable than those submitted by the applicants, and that the estimates of rate of return components for the test year 1960 at present and proposed rates submitted by the staff are reasonable and should be adopted for this proceeding.

c. That the rate of return of 13.8 percent for the test year 1960 at the proposed rates as computed by the staff is excessive, and that the application to increase rates for water service should be granted in part and denied in part.

As noted hereinbefore, the applicant's rates for water service have been in effect since the year 1945. They are abnormally low when compared with rates for water service in generally comparable areas. The rates authorized hereinafter will still be considerably lower than the rates which most other public

utility water company tariffs on file with the Commission provide. It is found not to be in the public interest to restrict the applicants' rate of return to the conventional amounts. It is further found as a fact that variables in the percentage of the applicant's rate of return are not necessarily meaningful due to the low dollar amounts of operating revenues, net revenue, and rate base involved wherein small dollar differences of estimates may produce rate of return percentage variables of considerable magnitude.

d. That a rate of return of 8 percent on the rate base of \$48,380 estimated by the staff for the test year 1960 is reasonable.

e. That the applicants, W. B. Tench, the individual, or Mentone Domestic Water Company, the corporation, whichever is appropriate, should be authorized to file new schedules of rates which will produce estimated gross annual revenues of \$19,670. This represents an increase of \$7,615 over the present rates, but \$3,630 less than the increases sought in the application.

It is further found as a fact and concluded 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.

f. That the recommendations of the Commission staff contained in Chapter 12 of Exhibit No. 5, hereinabove outlined, are found to be reasonable and the order which follows will direct the applicants W. B. Tench, the individual, or Mentone Domestic Water Company, the corporation, whichever is appropriate, to carry out said recommendations.

4. That the applicant corporation's request that it be authorized to place on its books of account the appraisal of its properties, submitted by its consulting engineer in Exhibit No. 4, should be denied in part and granted in part, and that in lieu of the applicant's appraisal, the Commission staff appraisal, and related depreciation reserve set forth in Exhibit No. 5, should be substituted.

ORDER

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

IT IS HEREBY ORDERED:

1. That W. B. Tench, an individual doing business as Mentone Domestic Water Company, be and he is authorized to transfer all of his water system assets, business and operating rights to, and Mentone Domestic Water Company, a corporation, be and it is authorized to acquire said water system assets, business and operating rights.

2. That Mentone Domestic Water Company, a corporation, be and it is authorized to issue 274 shares of its capital stock of a par value of \$100 per share and of an aggregate par value of \$27,400 to W. B. Tench for the purchase by the corporation from him of his water system assets, business and operating rights as outlined in the preceding opinion, and to issue to W. B. Tench ten shares of its capital stock of an aggregate par value of \$1,000 for cash to be used by the corporation for working capital, the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of the securities herein authorized is reasonably required for the purposes specified herein and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

3. That, if the transfer and issuance of stock authorized in Paragraphs 1 and 2 of this order are consummated, Mentone Domestic Water Company, the corporation shall: (a) Certify in writing to the Commission, over the signature of an officer of said corporation, that it has acquired the water system assets, business and operating rights of W. B. Tench, an individual, doing business as Mentone Domestic Water Company, and that it has issued stock to him as hereinabove provided; and (b) File with the Commission a report, or

reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of the order herein.

4.a. That the applicants W. B. Tench, the individual, or, if the transfer herein authorized is effected, Mentone Domestic Water Company, the corporation, whichever is appropriate, be and they are authorized and directed 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 and after October 1, 1961.

b. That concurrently with the filing authorized herein, Mentone Domestic Water Company be and it is authorized to withdraw and cancel by appropriate advice letter its presently filed effective rate schedules as follows:

- Schedule No. 1 - General Rates
- Schedule No. 2 - Intermittent Irrigation Service

5. That the applicants W. B. Tench, the individual, or Mentone Domestic Water Company, the corporation, whichever is appropriate, be and they are authorized to place on the books of account the estimated historical cost appraisal of the water system properties, including overheads and the depreciation reserve requirement, all as of December 31, 1960, as determined by the Commission staff and as set forth in Exhibit No. 5.

6. That the applicants W. B. Tench, the individual, or Mentone Domestic Water Company, the corporation, whichever is appropriate, be and they are directed to carry out the following:

a. Beginning with the year 1961, applicant shall determine the accruals for depreciation by dividing the original cost of depreciable utility plant, less estimated future net salvage and depreciation reserve, by the estimated remaining life of the plant, and shall use the depreciation rates shown in Table 7-A of Exhibit No. 5 in this proceeding. These rates shall be used until a review indicates that they should be revised. Applicant shall review the depreciation rates when major changes in depreciable utility plant composition occur and for each plant account at intervals of not more than five years. Results of these reviews shall be submitted to the Commission. The first such review shall be submitted to the Commission on or before March 31, 1963.

b. Within forty-five days after the effective date of this order, applicant shall file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96, and in a form acceptable to the Commission, rules governing customer relations revised to reflect present-day operating practices, a revised tariff service area map and sample copies of printed forms normally used in conjunction with customers' services. Such rules, 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.

c. On or before December 31, 1961, applicant shall install a suitable measuring device at its well source of supply and shall notify the Commission, in writing, when this has been accomplished, within ten days thereafter.

d. Within thirty days after the effective date of this order, applicant shall institute the program required by General Order No. 103 for the periodic testing of each water meter in service at least once every ten years, such program to accomplish the testing of all meters presently in service not later than January 1, 1966. Applicant shall report to this Commission, in writing, not later than October 31, 1961, that such program has been instituted, together with the details thereof.

e. Applicant shall, in the future, consummate main extension agreements and shall refund advances for construction strictly in accordance with its filed main extension rule.

f. Applicant shall, in the future, install all utility facilities in conformity with at least the minimum requirements of General Order No. 103.

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

The authority to transfer water system assets, business and operating rights and to issue stock shall expire if not exercised before September 30, 1961.

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

Dated at San Francisco, California, this 15th day of August, 1961.

Robert A. ...

President
E. J. Fox

George L. Crover

Fredrick B. Holdhoff

Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Mentone, and vicinity,
San Bernardino County.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 1,000 cu.ft. or less	\$ 1.90
Next 4,000 cu.ft., per 100 cu.ft.12
Next 15,000 cu.ft., per 100 cu.ft.10
Over 20,000 cu.ft., per 100 cu.ft.08

Minimum Charge:

For 5/8 x 3/4-inch meter.	\$ 1.90
For 3/4-inch meter.	2.60
For 1-inch meter.	4.00
For 1 1/4-inch meter.	5.50
For 1 1/2-inch meter.	7.25
For 2-inch meter.	11.00

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. 2L

LIMITED FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Mentone, and vicinity, San Bernardino County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
1. For a single-family residential unit . .	\$2.00
a. For each additional residential unit on the same premises and served from the same service connection. .	1.50
2. For the first unit of a multiple family dwelling, court, duplex or apartment . .	2.00
a. For each additional multiple family dwelling unit, served from the same service connection.50
3. For each business establishment, church or clubhouse	1.50

SPECIAL CONDITIONS

1. Service under this schedule is limited to those premises served as of the effective date of this schedule.

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

Schedule No. 3M

MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation service.

TERRITORY

The unincorporated community of Mentone, and vicinity,
San Bernardino County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rate:	
For all water delivered, per 100 cu.ft. . . .	\$0.05
Minimum Charge	5.00

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

SPECIAL CONDITIONS

1. A separate meter, 1-inch or larger, will be installed by the utility for irrigation service. Water for irrigation purposes only will be delivered by the utility through this meter.
2. Each irrigation service connection, whenever necessary, shall be protected by an adequate backflow prevention device installed at the customer's expense and shall be of a type approved by the public health authorities.

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Mentone, and vicinity, San Bernardino County.

RATE

Per Month

For each hydrant \$3.00

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.

Schedule No. 6L

LIMITED RESALE SERVICE

APPLICABILITY

Applicable to all water service furnished to Bear Valley Mutual Water Company for resale purposes.

TERRITORY

The unincorporated community of Mentone, and vicinity, San Bernardino County.

RATE

Per Miner's
Inch Day

For all water delivered \$0.60

SPECIAL CONDITIONS

1. The above rate is for water produced from wells of Mentone Domestic Water Company and served by gravity to Bear Valley Mutual Water Company.

2. A miner's inch, as used herein, is defined as 1/50th of a cubic foot per second.