

ORIGINAL

Decision No. 62922

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SONOMA WATER & IRRIGATION COMPANY, a corporation, for an order authorizing an increase in rates for water service rendered in the area generally described as the Sonoma Valley, Sonoma County, California.

) Application No. 43310
) (Filed April 14, 1961)
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)

Keil & Connolly, by Edward D. Keil and Richard F. Dole; and H. Zinder & Associates, Inc., by Eldridge Sinclair, for applicant.
David F. LaHue and L. L. Thormod, for the Commission staff.

O P I N I O N

Public hearing in this matter was held before Examiner F. Everett Emerson on September 7, 1961, at Sonoma. The matter was submitted subject to receipt of a late-filed exhibit, filed September 15, 1961, and is now ready for decision.

Applicant serves approximately 2,000 customers in areas known as El Verano, Feters Hot Springs, Agua Caliente, Boyes Hot Springs, Madrone and Sobre Vista in the Sonoma Valley under rates authorized by this Commission's Decision No. 58162, issued March 24, 1959. Applicant now seeks to increase its gross annual operating revenues by approximately \$31,000 based upon the level of business during the year 1961, which amount would represent an over-all increase of about 25.7 percent.

Applicant proposes to obtain the requested revenue increase by increasing only its rates for general metered service. A comparison of the existing and proposed rate schedule is as follows:

Annual Service Charge, Per Meter Per Year

	<u>Existing Rate</u>	<u>Proposed Rate</u>
For 5/8 x 3/4-inch meter	\$ 24.00	\$ 30.00
For 3/4-inch meter	27.00	36.00
For 1-inch meter	33.00	48.00
For 1 1/2-inch meter	48.00	60.00
For 2-inch meter	72.00	90.00
For 3-inch meter	132.00	150.00
For 4-inch meter	216.00	240.00

Monthly Quantity Rate, Per Meter Per Month

First 1,500 cu.ft., per 100 cu.ft.	0.23	0.355
Next 2,500 cu.ft., per 100 cu.ft.	.23	.300
All over 10,000 cu.ft., per 100 cu.ft.	.23	.250

Applicant's water system has had numerous service problems, stemming primarily from limited sources of supply, and is still operating under the provisions of prior decisions of this Commission which prohibit applicant from taking on any substantial new business. It has made relatively large expenditures in order to comply with the Commission's directives regarding improvements in service and it will continue to do so. Net additions to plant were about \$57,000 in 1959 and \$34,000 in 1960. During 1961, net additions to plant are estimated to be about \$75,000. Not all plant expenditures have been productive of improved operating conditions, however; for example, \$4,333 were expended for a new well which produced no water.

Statements of adjusted and estimated earnings, under existing and proposed water rates, were placed in evidence by applicant and by the Commission's staff. A summary of such evidence is shown in the following tabulations.

SUMMARY OF EARNINGS

Under Existing Water Rates				
Item	1960		1961	
	Applicant	CPUC Staff	Applicant	CPUC Staff
Operating Revenues	\$114,911	\$116,540	\$120,435	\$122,560
Operating Expenses				
Before Taxes and Deprec.	73,941	75,400	82,195	77,500
Taxes	13,892	13,500	12,324	15,260
Depreciation	14,848	14,360	16,709	15,580
Total Operating Exps.	102,681	103,760	111,228	108,340
Net Revenue	12,230	12,780	9,207	14,220
Rate Base (depreciated)	332,844	374,300	380,211	388,300
Rate of Return	3.7%	3.4%	2.4%	3.7%
Under Water Rates Proposed by Applicant				
Item	1960		1961	
	Applicant	CPUC Staff	Applicant	CPUC Staff
Operating Revenues	\$144,528	\$146,760	\$151,449	\$154,380
Operating Expenses				
Before Taxes and Deprec.	73,962	75,400	82,239	77,500
Taxes	26,654	25,430	23,985	28,810
Depreciation	14,848	14,360	16,709	15,580
Total Operating Exps.	115,464	115,690	122,933	121,890
Net Revenue	29,064	31,070	28,516	32,490
Rate Base (depreciated)	332,844	374,300	380,211	388,300
Rate of Return	8.7%	8.3%	7.5%	8.4%

The evidence is clear, as the tabulation shows, that applicant's earnings are substantially less than those which would provide a fair and reasonable rate of return. Applicant is in need of and entitled to increased revenues and the Commission finds the facts so to be.

As will be noted from the tabulations, the staff's adjusted and estimated revenues are consistently higher than those presented by applicant. Recorded revenues for the year 1960 totaled \$115,040. Adjustments by the staff increased such amount by \$1,500, while applicant's adjustment decreased the amount by \$129; both for the purpose of indicating what an "average" or "normal" year should produce. Each estimate was based upon the assumption of an average usage per customer. Applicant determined that such average usage for the year 1960 was 1,070 cubic feet, while the staff derived

a figure of 1,078 cubic feet for such year, which it increased to 1,106 cubic feet per customer per month for the estimated year 1961. In addition, the staff assumed that an increase would occur in the rates to be charged Sobre Vista Mutual Water Company. The mutual water company receives water deliveries from applicant under the terms of a special contract, however, and no change in the existing contract is proposed by applicant. In view of the evidence respecting revenues, the Commission finds that the adjusted and estimated amounts presented by applicant are reasonable and that it is proper to adopt them for the purposes of this proceeding.

With respect to operating expenses, the staff estimate for power purchased for the pumping of water is \$1,160 less than applicant's estimate even though the staff concluded more water would be pumped. The staff amortized the \$4,333 cost of the dry well over a period of ten years, whereas applicant spread such cost over a five-year period. The staff eliminated \$650 for reservoir maintenance and decreased by \$450 the amount which applicant intends to spend for meter testing. With respect to administration and general expenses, the staff felt that the insurance premiums to be paid by applicant were too high and allowed some \$280 less than applicant claimed as necessary. Further, the staff allowance for the salary of the company's Secretary is half that claimed by applicant. In view of the evidence, the Commission finds that applicant's treatment of these elements of operating expenses are fair and reasonable and applicant's amounts for the same will be adopted for the purposes of this proceeding.

With respect to depreciation expense, and its effect on the depreciation reserve and the resulting depreciated rate base, the record shows that applicant is using depreciation rates heretofore

recommended by the staff and is complying with a 1959 order of this Commission to use the straight-line remaining life method of depreciation accounting. In this proceeding, however, the staff revised depreciation rates applicable to meters; general structure; power operating equipment; tools, shop and garage equipment; and other general plant. In addition, the staff used an assumed normal plant growth rate of \$26,000 per year in computing depreciation accruals, whereas applicant relies on an estimated net plant increase of \$63,000 for the year 1961 and has applied the depreciation rates to the average of beginning and year-end plant balances. (The actual net additions for 1961 will exceed \$75,000.) The Commission notes that the depreciation rates used by applicant were determined by the staff in 1959 and that applicant was directed to review such rates at periods of five years. The results of the next such review are not due to be presented to the Commission until the year 1964. We note further that accounts for which the staff would now revise depreciation rates have in fact experienced no substantial changes since the existing depreciation rates were established two years ago. Under such circumstances and in view of the testimony, the Commission concludes that revision of such rates is not warranted at this time. The depreciation accruals claimed by applicant appear to be reasonable and will be adopted for the purposes of this proceeding.

In view of the evidence and the foregoing findings and conclusions, the Commission adopts the following as a summary of operations of applicant for the estimated year 1961:

ADOPTED RESULTS OF OPERATIONS
YEAR 1961, ESTIMATED

<u>Item</u>	<u>Existing Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$120,450	\$151,500
Operating Expenses	111,250	123,000
Net Revenue	9,200	28,500
Rate Base	380,200	380,200
Rate of Return	2.4%	7.5%

This Commission has heretofore found that a rate of return of approximately 7 percent was fair and reasonable for this particular applicant's operations. Nothing in the instant proceeding leads the Commission to alter its former conclusions in such regard. In the opinion of the Commission such a rate of return is fair and reasonable for this utility and its customers and, in the light of the evidence in this proceeding, should be applied prospectively. In this latter connection, the evidence shows that in the first full year following applicant's last rate proceeding slippage in rate of return amounted to more than one percent whereas provision was made for a slippage of only 3/10 of one percent. In the present proceeding the evidence is convincing that the water rates which applicant has proposed will produce a rate of return, on the hereinabove adopted rate base, of not in excess of 7 percent during the first full year in which new rates may be made effective. The Commission finds and concludes that the proposed rates are fair and reasonable and should be authorized without alteration. Further, the Commission finds that the increases in water rates authorized herein are justified and that existing rates, insofar as they differ therefrom, are for the future unjust and unreasonable.

As a result of the staff's investigation of applicant's operations, the staff brought to light one irregular practice and made a number of recommendations. Applicant will be required to

correct its irregular practice of not paying interest on customer's deposits and to implement the recommendations as hereinafter ordered.

Nothing in this opinion or order shall be construed as lessening the existing restriction heretofore placed upon applicant respecting the establishment of service to new or additional subdivisions. Applicant is expected to continue its program of system improvement and to make every reasonable effort to increase its water supplies.

O R D E R

Based upon the evidence and the findings contained in the foregoing opinion,

IT IS ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order and in conformity with the provisions of General Order No. 96, the schedules of rates and charges attached to this order as Appendix A and, on not less than five days' notice to the public and this Commission, to make said rates and charges effective for service rendered on and after January 5, 1962. ✓

2. By not later than January 1, 1963, applicant shall file with this Commission four copies of a comprehensive map, drawn to an indicated scale not smaller than 400 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.

3. By not later than July 1, 1962, applicant shall have eliminated main dead-ends on Melvin and Lomita Avenues and by not

later than ten days thereafter shall have notified this Commission in writing of having done the same and the means by which such elimination was accomplished.

4. Applicant shall forthwith adhere to the provisions of Rule No. 7, Section E, of its tariffs respecting the payment of interest on customer deposits and shall by not later than July 1, 1962, revise its "Customer's Deposit Receipt" forms so as to include a statement to the effect that 5 percent interest is payable on the deposit in accordance with its tariff provisions. In these respects, applicant shall inform this Commission in writing within fifteen days after the effective date of this order that it has taken appropriate steps to ensure that said adherence has been accomplished and shall by not later than July 15, 1962, file a copy of said revised "Customer's Deposit Receipt" with this Commission.

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

Dated at San Francisco, California, this 12th
day of DECEMBER, 1961.

Charles W. Boye
President
John S. Little
George B. Hoover
Fredrick B. Holshoff

Commissioners

Commissioner C. Lyn Fox, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

The areas known as Agua Caliente, Boyes Hot Springs, Donaghy Tract, El Verano and Fetters Hot Springs, and vicinity, located northwest of Sonoma, Sonoma County.

RATES

	<u>Per Meter Per Year</u>
Annual Service Charge:	
For 5/8 x 3/4-inch meter	\$ 30.00
For 3/4-inch meter	36.00
For 1-inch meter	48.00
For 1 1/2-inch meter	60.00
For 2-inch meter	90.00
For 3-inch meter	150.00
For 4-inch meter	240.00
	<u>Per Meter Per Month</u>
Monthly Quantity Rates:	
First 1,500 cu.ft., per 100 cu.ft.	\$ 0.355
Next 8,500 cu.ft., per 100 cu.ft.30
Over 10,000 cu.ft., per 100 cu.ft.25

The Service Charge is a readiness-to-serve charge applicable to all metered service to which is to be added the monthly charge computed at the Quantity Rates.

(Continued)

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Schedule No. 1A

ANNUAL GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITIONS

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. A customer who has established his permanency by having paid for service for the preceding 12 months may elect to pay the annual charge on a monthly basis equal to one twelfth of the annual service charge.

2. The charges for quantities of water used may be billed monthly, bimonthly or quarterly at the option of the utility on a noncumulative monthly consumption basis.

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Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The areas known as Agua Caliente, Boyes Hot Springs, Donaghy Tract, El Verano and Fetters Hot Springs, and vicinity, located northwest of Sonoma, Sonoma County.

RATES

	<u>Per Hydrant Per Month</u>		
	<u>Size of Main Supplying Hydrant</u>		
	<u>4-inch</u>	<u>6-inch</u>	<u>8-inch</u>
	<u>and larger</u>		
For each hydrant with one 2½-inch outlet	\$2.25	\$2.50	---
For each hydrant with two 2½-inch outlets.	2.50	2.75	\$3.25
For each hydrant with one 2½-inch and one 4½-inch outlet	2.75	3.25	4.00

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges will be made at the quantity rates under Schedule No. 1A, Annual 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 a result of its normal operation of the system.