

ORIGINAL

63501

Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of EVERGREEN SERVICE)
COMPANY to increase rates for water)
service as presently supplied and)
to further increase rates for water)
service upon completion of proposed)
water softener plant.)

Application No. 43470

Frank L. Sprague, for applicant.
W. J. Kassen, for Evergreen Acres Home
Owners' Association, protestant.
John Gibbons and Donald Steger, for
the Commission staff.

O P I N I O N

Applicant requests authority to increase water service rates for its system, which serves some 700 domestic and a few commercial consumers in unincorporated areas of Santa Barbara County about three miles south of Santa Maria.

The application, filed June 5, 1961, was heard and submitted on December 5, 1961 at Santa Maria before Examiner John M. Gregory. Earlier plans, described in the application, for construction of a water softening plant, estimated to cost about \$60,000, were abandoned prior to the hearing and do not figure in the rate studies by applicant or the Commission staff.

The utility, a closely held family corporation, was granted a certificate in 1952 and authorized to establish present rates in the affiliated Evergreen Acres residential tract, south of Santa Maria, with 212 metered connections (Decision No. 48083, December 22, 1952, Application No. 33745). Extensions, financed chiefly by subdividers' advances, have since been made to adjoining

tracts. The system now has a potential of some 806 metered services of which approximately 641 were active by the end of 1961.

The following condensed table indicates the amount of the requested rate increases (from Exhibit 6, pages 16 and 17):

Quantity	Per Meter Per Month		Increase	
	Present Rates	Proposed Rates	Amount	Percent
1,000 cu.ft.	\$ 2.25	\$ 4.00	\$ 1.75	77.8%
1,500 cu.ft.	3.00	5.50	2.50	83.3
2,000 cu.ft.	3.75	7.00	3.25	86.7
5,000 cu.ft.	8.25	13.00	4.75	57.6
10,000 cu.ft.	15.75	23.00	7.25	46.0
50,000 cu.ft.	75.75	103.00	27.25	36.0

Estimated results of operation for 1962, at present and proposed rates, as indicated by the company's amended exhibits and as developed, after adjustments, by the staff, are shown in condensed form (from Exhibits 4, 6, 7 and 8):

Item	1962 - Estimated			
	Present Rates		Proposed Rates	
	Staff	Company	Staff	Company
Operating Revenues	\$ 47,340	\$ 46,413	\$ 78,890	\$ 78,230
Total Operating Expenses, including Depreciation and Taxes	41,140	58,976	54,230	65,985
Net Revenues	6,200	-	24,660	12,245
Depreciated Rate Base	123,700	229,762 (12/31/62)	123,700	229,762
Rate of Return	5%	-	19.9%	5.3%

Estimated operating expenses as developed by the company include interest in the amount of \$4,278, which is not an allowable expense for the determination of utility net revenue.

The disparity in rate bases, shown in the above summary, derives chiefly from a deduction by the staff, from the weighted average utility plant for 1962, of \$128,800 in average construction advances subject to refund under the percent of revenue option of the utility's main extension rule. As of June 30, 1961 the company had outstanding \$117,942.56 in advances to which it expected to add

\$40,000 in 1962. The company estimates that refund payments on these contracts will amount to about \$5,274, annually, at present rates and \$8,728 at the requested rates.

Other staff adjustments do not require special comment. The company has used only straight-line depreciation for income tax purposes and intends to follow that practice. Taxes based on income have been computed by the staff on the basis employed by the company.

The company, on June 30, 1961, had an unbalanced capital structure. Only \$52,724.36, or 23.79%, was represented by common equity. Eighteen demand notes, payable to stockholders or members of their families, totaling \$50,956.10, or 22.99%, and subdividers' advances of \$117,942.56, accounting for 53.22%, made up the balance. Accrued interest on the notes, amounting to \$7,633.85, had neither been recorded on the utility's books nor reflected in the June 30, 1961 balance sheet. The company presented a plan at the hearing for payment of accrued and current interest over a period of five years and, if possible, some of the principal.

The utility, prior to 1961, was operated and managed, with part-time help, by a family partnership, Ramada Company, which also, beginning in 1953, advanced the money covered by the demand notes. Those funds, for the most part, were used for construction of plant facilities. Tract facilities have largely been installed by subdividers or outside contractors. The company is currently managed by its president, who is also a general partner of the affiliated Evergreen Land Company, pioneer developer of the area served by the utility.

Growth of the system has led to recent improvements in operating practices and facilities, including employment of a full-time clerk-bookkeeper and an additional full-time maintenance man

(the present maintenance man will retire about mid-1963), and the opening of an office, shared with the land company, at a central location in the service area. Water service facilities appear to be adequate at the present time, although some consumers, prior to 1961, experienced occasional summer pressure drops or temporary shortages due to power failures. Installation of improved pumping and pressure facilities appears to have alleviated the pressure problem. The utility, as a further step toward improved operations, plans to acquire title, now held by its president, to two lots in the pioneer tract used as sites for Well No. 2 and its related storage tank. Financial aspects of the foregoing improvements were developed by the company from exhibits made available, for the first time, at the hearing (Exhibits 4 and 5).

Summary, Findings and Conclusions

Two facts stand out on this record: (1) the present rates are insufficient to provide for the utility's necessary expenses of operation, including depreciation expense, and a reasonable return on its investment; (2) the utility needs to improve its common equity position before negotiating additional construction advance contracts which, without more common equity, will only serve to increase the imbalance in its capital structure.

In connection with operating expenses, which do not include payments of accrued or current interest on the outstanding demand notes or refunds of construction advances, we recognize that the utility has embarked on an improvement program consistent with the system's growth and that reasonably adequate provision should be made in the rates for meeting the added expenses thus entailed. The major portion of these added expenses, the record shows, will occur in connection with employment of full-time bookkeeping and

maintenance personnel and payment of full rent on the new office facilities. We consider that an additional amount of \$6,000 in operating expenses for 1962 is reasonably required for those purposes. The staff's estimates for 1961 and 1962, in other respects, were not challenged by the utility and will be adopted, as modified herein, for the purposes of this proceeding.

The requested rates are excessive when related to the rate base developed by the staff. The rates authorized in the following order are estimated to produce gross revenues of \$57,000, net revenues of \$8,625 and a rate of return of approximately 6.97% on the average depreciated rate base of \$123,700. We find said rate of return and rate base to be reasonable for the purposes of this proceeding.

Applicant has requested authority to revise its Rule No. 7-A-1a, b, to require a deposit of \$10 for a 5/8-inch meter as an amount to establish credit. The current Rule No. 7-A-1a provides for a deposit of \$5.00 when bills are rendered monthly or \$10 when bills are rendered bimonthly. Applicant renders its bills monthly and has not justified the additional charge. The request should be denied.

Applicant has also requested authority to revise its Rule No. 11-G to provide for a reconnection charge of \$2.50. General Order No. 103, Section 6-f, provides for filing a tariff charge of \$2.50 for reconnection of service during regular working hours or \$5.00 otherwise. Applicant should revise its tariff schedules to include the reconnection charges provided by the general order.

As of December 31, 1960 there were 44 fire hydrants connected to the system. Applicant requests authority to make a

hydrant rental charge, although no negotiations or contracts have been entered into, as yet, with any fire protection agency in the county. The requested monthly rate of \$5.00 per hydrant is considerably higher than the rates charged by other utilities for similar service and applicant did not present any justification for it. The order herein will authorize the establishment of a nominal monthly rate of \$1.00 per hydrant. If negotiations are initiated for a change in this rate for fire protection service, applicant should so advise the Commission, in writing, and submit pertinent data, including the proposed revision in charge. If an agreement is reached with the agency, applicant may submit such revised charge and related conditions of service for filing in its schedules in accordance with normal tariff filing procedures.

Finally, applicant should take immediate steps to secure title to the well and tank sites for Well No. 2, in the Evergreen Acres tract.

We find, on this record, 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

Public hearing having been held herein, the matter having been submitted, the Commission being fully advised and basing its order on the findings and conclusions contained in the foregoing opinion,

IT IS HEREBY ORDERED that:

1. Evergreen Service Company, a corporation, is authorized to file in quadruplicate with this Commission, after the effective

date of this order and in conformance with the provisions of General Order No. 96-A, the schedules of rates attached to this order as Appendix A, and on not less than five days' notice to the Commission and to the public, to make such rates effective for all service rendered on and after May 1, 1962.

2. Evergreen Service Company, within forty-five days after the effective date of this order, shall file in quadruplicate with the Commission, in conformity with the provisions of General Order No. 96-A and in a manner acceptable to this Commission, an up-to-date tariff service area map, rules governing customer relations revised to reflect present-day operating practices and sample copies of printed forms, including a standard form of contract for main extensions, normally used in connection 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.

3. Evergreen Service Company, within sixty days after the effective date of this order, 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.

4. Beginning with the year 1962, Evergreen Service Company shall determine the accruals for depreciation by dividing the cost of depreciable utility plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the plant. Applicant shall review the accruals when major changes in depreciable 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, 1965. Results of these reviews shall be submitted to the Commission in writing.

5. Evergreen Service Company shall take steps, forthwith, to acquire title to lots 2-A and 6-A, in the Evergreen Acres tract, now used as sites for the utility's Well No. 2 and Tank No. 2, and shall report to the Commission in writing, on or before September 30, 1962, the results of such negotiations.

6. Except as granted herein, the application is denied.

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

Dated at San Francisco, California, this 3rd day of APRIL, 1962.

Ernest W. Ray

President

E. J. Fox

George G. Weaver

Fredrick B. Hallock

Commissioners

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

APPENDIX A
Page 1 of 2

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

(T)

TERRITORY

The areas known as Evergreen Acres, Magestic Homes, Tract 10003, Tract 10017, Country Club Estates and Bel Aire Estates, and vicinity, located approximately three miles south of Santa Maria, Santa Barbara County.

(T)

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 1,000 cu.ft. or less	\$ 2.75	(I)
Over 1,000 cu.ft., per 100 cu.ft.18	
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 2.75	(I)
For 3/4-inch meter	4.00	
For 1-inch meter	6.50	
For 1 1/2-inch meter	10.00	
For 2-inch meter	15.00	
For 3-inch meter	25.00	
For 4-inch meter	50.00	

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

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The areas known as Evergreen Acres, Majestic Homes, Tract 10003, Tract 10017, Country Club Estates and Bel Aire Estates, and vicinity, located approximately three miles south of Santa Maria, Santa Barbara County.

RATE

	<u>Per Month</u>
For each hydrant	\$1.00

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges shall be made at the quantity rates under Schedule No. 1, General Metered Service.
2. The cost of installation and maintenance of hydrants shall 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.
5. Fire hydrants shall be attached to the utility's distribution mains upon receipt of proper authorization from the appropriate public authority. Such authorization shall designate the specific location at which each is to be installed.