

ORIGINAL

Decision No. 63934

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of PACIFIC WATER CO., a California corporation under Section 454 of the Public Utilities Code, to increase its rates for its Westside Water System in San Bernardino County, California.

Application No. 43528

In the matter of the application of PACIFIC WATER CO., a California corporation, for a certificate of public convenience and necessity under Section 1001 of the Public Utilities Code for land adjoining its Westside Water System, San Bernardino County, California.

Application No. 33189
(5th Supplement)

Investigation on the Commission's own motion into the service, operations, rules and practices of PACIFIC WATER CO., a corporation.

Case No. 6387
(Further Hearing)

Moss, Lyon & Dunn, by George C. Lyon, for applicant.
William J. Ingels and Robert E. Harris, for Hinkley
Union School District; Mrs. H. F. Smith, by
H. F. Smith, Jane Kurbell, H. E. Hodgkin, William B.
Estes, Jr., Donald R. Smith, Constance E. Chase,
Thomas G. Fish, Seth L. and Mrs. Seth L. Myers,
Betty Wilcox, Joyce Beardshear, George L.
Morgan, Jr., Joseph J. Dwight, Ernest R. Gwin,
James E. Worland, Mrs. Paul (Twila) Miller,
Mrs. Robert D. Blackwell, George Ferrel, David L.
Bishop, Mrs. Ben N. (Mary) Stone, Rodney C.
Barrett, Mrs. Jose L. Peralta, Mrs. Inez Romero,
Charlotte Riffel, Esther E. Goodwater, F. E.
Goodwater, John H. Stewart, Donna Nelson,
Mrs. Ralph C. Sanchez, Mrs. Climaco Sanchez, and
G. L. Clemons, protestants.
Robert Munoz, Quinton T. Arend, Jack C. Parker, Davis
Crawford, J. E. Myers, H. M. Rowe, Carol Jasea,
Donna B. Stricher, Lucille Mathews, Kenneth R.
Curd, and Mrs. Ted Fuller, interested parties.
William C. Bricca and Sesto F. Lucchi, for Commission
staff.

O P I N I O N

Pacific Water Co. (hereinafter referred to as Pacific or as applicant) is a California corporation furnishing domestic water to consumers in 14 systems located in Los Angeles, Orange, Kern and San Bernardino Counties. By Application No. 43528, filed with this Commission on June 21, 1961, it seeks authority to increase its rates in its Westside System in San Bernardino County, California. By the Fifth Supplemental Application on Application No. 38189, which supplemental application was filed with this Commission on August 1, 1961, Pacific seeks the removal of a restriction that it ". . . shall not extend service . . . to any other area . . . without further order of this Commission . . ."

The Commission in Case No. 6387 is investigating the services, operations, rules, and practices of the company in its various systems; consolidated with the hearing on the applications herein, is an investigation, pursuant to Case No. 6387, into the Westside System of Pacific.

The three matters were consolidated for hearings and public hearings thereon were held before Examiner Kent C. Rogers on January 9, 1962 in Barstow, on January 10, 1962 in Lenwood (San Bernardino County), and on January 11, 1962 in Los Angeles. On the latter date the three matters were submitted subject to the receipt of an exhibit, which has now been filed. Prior to the first day of hearing notices thereof were published and mailed to consumers as required by this Commission.

Approximately 31 individuals appeared as protestants and an additional 10 appeared as interested parties. Consumers

complained that the water was of poor quality; that there was sand and rust therein; that there was poor pressure; that there was a broken meter box which applicant would not repair; that there were broken pipes; that a meter was in the street instead of the alley; and that there were water failures. Almost all said consumers complained of excessive rates.

The Westside service area is in San Bernardino County, California, along both sides of State Highway 66 (formerly U. S. Highway No. 66). The eastern portion of the area commences approximately four miles west of Barstow. The certificated area comprises approximately six and a quarter square miles including all of Sections 8, 9, 10, 15, 16 and 17 and portions of Sections 4 and 5, T9N, R2W, SBB&M. Applicant is prohibited from extending service to additional tracts in this certificated area without receiving supplementary authority from this Commission. The water is produced from four wells equipped with electrically driven deep-well turbine pumps. At present there are two nonconnected systems. The east portion is served with water from Wells 14 and 16 with a present total production of 222 gallons per minute delivered through a 5,280-gallon pressure tank. There is no other storage in this portion. The western portion of the service area contains the majority of the customers and the unincorporated community of Lenwood. This portion is served with water from Wells 13 and 15 having a total production of 804 gallons per minute. There are in this portion a 100,000-gallon storage tank and two small pressure tanks.

All services are metered or ostensibly metered. It appears that applicant has only meter rates, but that, due to lack of meters, it has been in the practice of installing connections without meters and billing the minimum monthly meter charge therefor. This practice will be considered and appropriately dealt with hereinafter. ✓

Applicant's present and proposed rates are as follows:

Quantity Rates:		<u>Per Meter</u>	<u>Per Month</u>
		<u>Present</u>	<u>Proposed</u>
First	900 cubic feet, or less	\$.3.00	\$3.60
Next	2,100 cubic feet, per 100 cubic feet. . . . .	.30	.35
Next	2,000 cubic feet, per 100 cubic feet. . . . .	.30	.30
Next	5,000 cubic feet, per 100 cubic feet. . . . .	.25	.30
Next	20,000 cubic feet, per 100 cubic feet. . . . .	.15	.20
Over	30,000 cubic feet, per 100 cubic feet. . . . .	.15	.15

Minimum Charges:

For	5/8 x 3/4-inch meter	\$ 3.00	\$ 3.60
For	1-inch meter	5.00	6.00
For	1-1/2-inch meter	7.50	10.00
For	2-inch meter	10.00	12.00
For	4-inch meter	30.00	40.00

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

In the event meters are not available when customers apply for service the proper size connection will be made and the customer charged the minimum meter rate per month for the size meter required.

Fire hydrant rates are to be \$2.50 per month. At present no revenue is derived from this service.

Applicant estimates that at present rates its rate of return for 1961 would be 4.49 percent. The Commission staff estimates that at present rates applicant would have a rate of return of 6.13 percent. At the proposed rates applicant estimates for

1961 it would have a 6.56 percent rate of return; the staff estimate is 8.27 percent.

The estimated number of customers for 1961 is an average of 612, exclusive of fire hydrants. A comparison of the staff's and applicant's estimates of results of operation at present and proposed rates is as follows:

Item	1961 Estimated			
	Present Rates		Proposed Rates	
	Staff	Company	Staff	Company
Operating Revenues	\$ 42,810	\$ 41,610	\$ 50,030	\$ 48,832
<u>Operating Expenses</u>				
Oper. & Maint. Expenses	13,220	13,714	13,220	13,750
Admin. & Gen. & Misc. Exp.	7,290	8,830	7,290	8,830
Taxes Other Than Income	3,070	3,142	3,070	3,142
Depreciation	4,850	4,908	4,850	4,908
Income Taxes	4,970	3,916	8,910	7,842
Total Oper. Expenses	\$ 33,400	\$ 34,510	\$ 37,340	\$ 38,472
Net Revenue	9,410	7,100	12,690	10,360
Depreciated Rate Base	153,440	158,012	153,440	158,012
Rate of Return	6.13%	4.49%	8.27%	6.56%

The difference in the estimates of operating revenues is due to estimates of fire protection revenues. The staff included \$1,200 per year for fire hydrant rentals and the applicant included none. The largest portion of the service area is in the Barstow Fire District. There are in this area 38 stand pipes. Two of these are dry-barrel fire hydrants and ten are wet-barrel fire hydrants. The Fire Chief testified that the district will pay \$2.50 per month for each fire hydrant usable for fire protection. The two dry barrels may be used as is. The ten wet-barrel fire hydrants are

usable but due to freezing weather, must be replaced as soon as possible with dry-barrel hydrants. The Fire Department is attempting to negotiate a contract with applicant whereby the \$2.50 per month for the two dry-barrel hydrants will be paid to applicant and the \$2.50 for each wet-barrel hydrant will be applied on the cost of replacing the wet-barrel hydrants with dry-barrel hydrants. The cost of hydrants is allegedly between \$350 and \$400 each. The remaining stand pipes in the area, of which there are approximately 26, are not usable, according to the Fire Chief, due to the fact that the threads are incorrect and, in some instances, the water pressure is too low. He testified that he will not recommend that a contract be signed for payment for any of these hydrants until such time as they are replaced. The staff in its figures calculated \$2.50 per month for each of 40 hydrants, which is two more than are in place and apparently 28 more than are usable. In determining estimated results of operations, we will use the estimated commercial revenues plus the revenues from two fire hydrants, giving total revenues of \$48,892 at proposed rates.

Applicant's estimates of operating and maintenance expenses exceeded those of the staff by \$494. The greater part of the difference was due to what the staff termed "excessive pumping expenses". This, in turn, according to the staff, was due to three major items: unaccounted for water, improper use of the pressure tank, and improper equalization of use of well pumps. The record shows that applicant is furnishing water to several customers without meters and charging these customers the minimum meter rate. This practice must be terminated, and applicant's manager stated he

will install meters forthwith. This is the possible cause of much unaccounted for water. Applicant's local representative also stated that the pressure tank in the easterly end of the system is kept very nearly full of water. This results in unnecessary frequency of pump operation and increases the pumping expenses. It appears that this usage is occasioned by excessive accumulation of sand in the tank. In view of the improper operations and the poor use of the pressure tank, it appears that the staff's estimate of \$13,220 as allowable operating and maintenance expenses is the more reasonable, and it will be adopted.

Concerning administrative and general expenses, there were two major points where the estimates differed. Regulatory Commission expenses (Account 797) as estimated by the company exceeded the staff by \$955. Allocated administrative and general expenses differed by \$758. The difference in the regulatory Commission expense arises from the fact that applicant charged regular employees' salaries to this extraordinary expense and, in addition, amortized the balance of the regulatory Commission expenses over a four-year period rather than a five-year period, as customarily calculated by the Commission. We find the staff estimate is reasonable. The difference in the allocated administrative and general expenses was explained in the staff's general report (S-1601) as due to the fact that the staff allocated certain percentages of the company's administrative employees' salaries to nonutility services thereby reducing the amounts of general salaries subject to allocation. The percentages of allocations used by the staff and applicant are very nearly the same: 7.21% of total company expenses

were allocated by applicant to the Westside Water System and 7.17% were allocated by the staff. We find that the staff figure of \$5,560 is reasonable, and it will be adopted, resulting in total administrative and general expenses of \$7,290.

Taxes other than on income were estimated by applicant to be \$3,142, and by the staff to be \$3,070 for the year 1961. However, applicant had received its ad valorem tax bill at the time of the hearing, and the total of the property taxes and unsecured personal property taxes shown for the system was \$2,602. This figure, together with the other non-income taxes, totals \$3,172, which will be used herein.

The staff estimate of depreciation is smaller than applicant's in a minor degree. We find the staff estimate to be reasonable.

Using the figures we have arrived at here, it appears that at the proposed rates applicant's operating revenues, operating expenses and net revenue ^{reasonably} would be approximately as follows:

<u>Operating Revenues</u>		\$48,892
<u>Operating Expenses</u>		
Operating and Maintenance Expenses	\$13,220	
Administrative and General Misc. Expenses	7,290	
Taxes Other Than on Income	3,172	
Depreciation	4,850	
Income Taxes	8,233	36,765
Net Income		\$12,127

The staff and applicant differed to some degree on the rate base. The difference between the staff's estimated rate base and applicant's is due mainly to applicant's including a truck in its 1961 beginning of the year plant and to weighting net additions

at 50 percent, whereas, the staff's estimate excluded the truck and reflected net additions in the latter part of the year. The staff rate base of \$153,440 would give a return of 7.90 percent using the figures set forth above, whereas, the applicant's rate base of \$158,012 would give a return of 7.67 percent. Each of these rates of return is excessive.

We have carefully reviewed each of the differences between the staff's and the applicant's estimates of rate base and find that the staff's estimate is ^{reasonable} ~~proper~~ and should be used in determining return at present rates.

The rate of return based on present rates for the estimated year 1961 (excluding all fire hydrant revenues, as no rates for such service are presently included in the utility's filed tariffs, and reflecting the expense estimates and rate base adopted above) is set forth below:

<u>Operating Revenue</u>		\$ 41,610
<u>Operating Expenses</u>		
Operating and Maintenance Expense	\$13,220	
Administrative and General Expenses	7,290	
Taxes Other Than Income	3,172	
Depreciation	4,850	
Income Tax	4,255	32,787
		<hr/>
Net Income		\$ 8,823
Rate Base		153,440
Rate of Return		5.75%

Relative to Application No. 38189, it appears that there is adequate water in the area and that the system has a high growth potential. The staff is of the opinion that the restriction against

expansion, in its present form, is not in the best interest of the public or the utility. The staff recommended that when future extensions are installed, the utility should be required to provide loop lines and also distribution mains of not less than eight inches in diameter on not more than 2,000-foot centers, and in addition that the utility be authorized to make extensions only into portions of its certificated area which are contiguous to either of its present systems, and in accordance with its filed rules.

In connection with the investigation relative to Case No. 6387, insofar as the Westside system is concerned, the staff stated that the wells, booster pump and storage tanks appeared to be adequate and in a well-maintained condition; that the 2,350-gallon pressure tank at Well No. 13 should be modified to serve as a sand trap; that the utility should be required to remove accumulated sand at regular intervals; that it should adjust the air charge within the tanks so that the tanks are not more than 20 percent full of water at the time the pump is turned on; that the 2,700-gallon pressure tank has no safety valve and no indication of allowable working pressure; that said tank should be checked with regard to safety and should be set to at least the minimum requirements of the Unfired Pressure Safety Orders of the Division of Industrial Safety; that the main in Jasper Road west of Birch should be replaced by a pipe not less than four inches in diameter.

Findings

Upon the evidence the Commission finds as follows:

1. Applicant is not earning a reasonable return in its

Westside system at present rates, but applicant has failed to justify the rate increases proposed in Application No. 43528. Applicant's rates should be increased to produce additional gross revenue of approximately \$1,690; with such additional revenue, applicant's net rate of return after income taxes ^{will} ~~should~~ be approximately 6.25% on the rate base of \$153,440 herein found reasonable; such rate of return is reasonable. The increases in rates and charges necessary to produce such additional revenue have been justified; the rates and charges set forth in Appendix A attached hereto are reasonable; applicant's present rates and charges for its Westside system, insofar as they differ from those set forth in Appendix A attached hereto, are for the future unjust and unreasonable.

2. Public health, safety and welfare require that applicant be required to improve its Westside System and the facilities and installations therein, as set forth in the following order.

3. Public convenience and necessity require that Application No. 38189, Fifth Supplemental, be granted, subject to the conditions set forth in the following order.

O R D E R

Application No. 43528, Application No. 38189, Fifth Supplemental, and Case No. 6387 relative to the Westside System having been heard, evidence having been presented and the Commission having made the foregoing findings, and based thereon,

IT IS ORDERED that:

1. Pacific Water Co., a corporation, is authorized to file with this Commission after the effective date of this order and in conformity with General Order No. 96-A, the schedules of rates

attached to this order as Appendix A and, upon not less than five days' notice to the Commission and to the public, to make such rates effective for service rendered on and after September 1, 1962.

2. Decision No. 54278, dated December 18, 1956, in Application No. 38189, is modified by deleting therefrom sub-paragraph (b) of paragraph (1) on page 10 of said decision, which paragraph reads as follows:

"(b) Applicant shall not extend service beyond its existing Westside service area to any area other than (1) the Lenwood area, (2) original Tract No. 4552, and (3) the improved lots along the existing transmission line east of Tract No. 4552 and south of U. S. Highway No. 66, without further order of this Commission. Such order may be applied for by supplemental application or applications, which shall include a proper showing as to an adequately engineered water system, an adequate water supply, and adequate financing. Whether or not a public hearing will be required on any of such applications will be determined when each application is filed."

3. In place of said deleted sub-paragraph (b) of paragraph (1) of Decision No. 54278, the following is substituted:

(b) Pacific Water Co. shall not furnish service to applicants for service, except where such service will be furnished by extension from the existing facilities of Pacific, without further order of the Commission. Such order may be applied for by supplemental application or applications, which shall include a proper showing as to an adequately engineered water system, an adequate water supply, and adequate financing. Whether or not a public hearing will be required on any application for such order will be determined when each such application is filed.

4. Pacific Water Co., not later than September 30, 1962, shall:

(a) Modify the 2,350-gallon pressure tank at Well No. 13 by installing risers over the intake and discharge pipes together with baffles within the tank. Applicant shall report compliance to this Commission in writing within ten days thereafter.

- (b) Install a safety valve at the 2,700-gallon pressure tank and indicate the allowable working pressure on the tank. Applicant shall report compliance to this Commission within ten days thereafter.
- (c) Operate and maintain the pressure tanks pursuant to at least the minimum requirements of the Unfired Pressure Vessel Safety Orders of the Division of Industrial Safety.
- (d) Adjust the air in all pressure tanks so that the tanks are not more than 20% full of water at the time each pressure pump is turned on, and install all necessary baffles to prevent air from entering the discharge pipes. Applicant shall report compliance with this requirement within ten days thereafter.
- (e) Replace the main in Jasper Road west of Birch Street by a pipe not less than 4 inches in diameter installed pursuant to the minimum requirements of General Order No. 103. Applicant shall report such compliance in writing within thirty days thereafter.

The effective date of this order shall be twenty days after service upon the applicant.

Dated at San Francisco, California, this 10th day of July, 1962.

George G. Trover
President
John R. ...
...
Everett ...
Fredrick B. ...
Commissioners

APPENDIX A
Page 1 of 2

Schedule No. WS-1
Westside Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Lenwood and vicinity, San Bernardino County. (T)

RATES

Quantity Rates:	<u>Per Meter Per Month</u>	
First 900 cu.ft. or less	\$ 3.10	(I)
Next 2,100 cu.ft., per 100 cu.ft. . . . .	.31	(I)
Next 2,000 cu.ft., per 100 cu.ft. . . . .	.30	
Next 5,000 cu.ft., per 100 cu.ft. . . . .	.27	(I)
Next 20,000 cu.ft., per 100 cu.ft. . . . .	.16	(I)
Over 30,000 cu.ft., per 100 cu.ft. . . . .	.15	
 Minimum Charges:		
For 5/8 x 3/4-inch meter	\$ 3.10	(I)
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	20.00	(N)
For 4-inch meter	30.00	

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

APPENDIX A
Page 2 of 2

Schedule No. WS-5
Westside Tariff Area

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

Lenwood and vicinity, San Bernardino County.

RATE

Per Month

For each hydrant \$ 2.50

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges shall be made at the quantity rates under Schedule No. WS-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. 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.
5. 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.