

ORIGINAL

Decision No. 65664

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 D. S. Kavanagh and Pauline Kavanagh,)
 individuals doing business as the)
 KAVANAGH VISTA WATER COMPANY, and)
 the Bank of America, N.T. & S.A., as)
 mortgagee,)
 for authority to increase rates for)
 water service rendered.)

Application No. 45002
(Filed December 5, 1962)

C. G. Ferguson, for applicant.
John D. Reader, for the Commission staff.

OPINION AND ORDER

After due notice, public hearing in this matter was held before Examiner Emerson on April 11, 1963, at Fresno.

By this application, D. S. Kavanagh and Pauline Kavanagh, as individuals, and the Bank of America, N.T. & S.A., as mortgagee, seek authority to increase rates for water service rendered in and in the vicinity of an unincorporated area generally known as Kavanagh Vista, approximately six miles north of the City of Fresno. Applicants provide public utility water service to 3 metered and approximately 550 flat-rate customers in such area. Although none of applicants' customers appeared at the hearing to protest or otherwise comment upon the rate request, 21 letters, representing 61 individual customers, had been received by the Commission prior to the hearings. Most of these letters complained of low pressures and poor or inattentive response to service problems.

A comparison of present and requested basic flat rate is as follows:

<u>Flat Rate Service Charge Per Month</u>		
<u>Residential</u>	<u>Present</u>	<u>Requested</u>
For lot not exceeding 8,100 sq.ft.	\$2.50	\$3.10
For lot of 8,101 to 9,500 sq.ft.	3.15	3.95
For lot of 9,501 to 14,000 sq.ft.	3.85	4.80
Additional residence, same lot	2.00	2.50
<u>Commercial</u>		
Automobile service station	5.00	6.25
Other business establishments	3.00	3.75

The rates proposed by applicants are designed to increase revenues by approximately 25 percent based upon the level of business during 1962. Evidence respecting earnings under both present and proposed rates was presented by applicants and by the Commission staff. A summary of the evidence respecting the results of applicants' operations is shown in the following tabulation:

<u>Results of Operations, Year 1962</u>		
<u>Present Rates</u>		
<u>Item</u>	<u>Applicants</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 22,610	\$23,020
Operating Expenses:		
Before Taxes and Depreciation	14,450	12,810
Taxes	1,870	2,810
Depreciation	3,190	2,940
Total Operating Expenses	19,510	18,560
Net Revenues	3,100	4,460
Rate Base (Depreciated)	107,850	89,800
Rate of Return	2.87%	5.0%

Assuming that applicants' proposed rates had been in effect during the year 1962, applicants' computations indicate a rate of return of 6.39 percent while on the Commission staff basis the rate of return would have been 9.1 percent.

For the estimated year 1963, the staff showing may be summarized as follows; applicants made no comparable presentation.

Estimated Results of Operations, Year 1963
Commission Staff

<u>Item</u>	<u>Present Rates</u>	<u>Requested Rates</u>
Operating Revenues	\$23,660	\$29,575
Operating Expenses	<u>19,000</u>	<u>21,150</u>
Net Revenues	4,660	8,425
Rate Base (Depreciated)	89,800	89,800
Rate of Return	5.2%	9.4%

With respect to the showings for the year 1962, the revenue figure developed by the staff is based on a review of the billing for each customer account, whereas applicants reported only collections during the period. The staff also excluded billings of charges for swimming pools, such charges being not in accordance with applicants' tariffs and unlawful. The staff assignment of expenses results from adjustments for salaries, electric power costs, water testing costs and for auto and truck expenses. In addition, the staff has made adjustments so as to separately state insurance costs, depreciation expenses and taxes for utility operations, since applicants have intermingled nonutility and personal expenses with their utility operations.

Applicants have had an original cost appraisal of their system made and have included \$2,800 for the appraisal and for processing the rate application, prorated over a seven-year period, in their operating expenses. The staff witness testified that such an appraisal was unnecessary, as plant records are fully available and adequate; however, he included an amount of \$1,000 prorated over five years. The evidence is convincing that the full amount is appropriate and it will be allowed as claimed.

With respect to rate base, the staff has excluded from applicants' claimed plant figures the costs of plant, within an area known as the Thunderbird Tract, not owned by applicants. Such elimination represents the major portion of the difference between the respective rate bases.

In view of the evidence respecting earnings, the major items of which are hereinabove mentioned, the Commission finds that the following tabulation represents fair and reasonable estimates of operating revenues and expenses for this utility for the average year 1963 under existing rates for water service:

Average Year 1963

<u>Item</u>	<u>Amount</u>
Operating Revenues	\$23,660
Operating Expenses:	
Before Taxes and Depreciation	13,700
Taxes	2,920
Depreciation	<u>3,025</u>
Total Operating Expenses	19,645
Net Revenues	4,015

In view of the evidence respecting rate base, the Commission finds that the sum of \$90,100 represents the fair and reasonable depreciated rate base for this utility for the average year 1963. Such amount is essentially the staff-derived rate base augmented by the estimated cost of pressure recording equipment. Relating the above-determined net revenue to such rate base indicates a rate of return of approximately $4\frac{1}{2}$ percent.

Applicants have demonstrated their need for and entitlement to increased revenues. The Commission finds that applicants should be accorded an opportunity to earn a rate of return of approximately $7\frac{1}{2}$ percent, which we hereby find to be reasonable, on a rate base of \$90,100 and that rates for water service should be increased so as to produce such a result. Such return will produce gross revenues of about \$27,500, an increase of 17 percent on the basis of the estimated average year 1963, and provides for operating expenses of \$20,750 on the same basis.

The staff investigation in this matter has disclosed a number of irregularities in applicants' operations. Applicants have installed facilities and provided service in two areas which are non-contiguous to their certificated service area; also, they serve water to and bill customers in an area in which they own no facilities and on which, apparently, they have no right even to do maintenance work. Applicants have unlawfully charged customers who own residential swimming pools an additional flat rate of one dollar per month. They have rendered two-months' bills to all customers, although their tariffs specify monthly billing. Their accounting practices have not been in accord with accepted accounting principles, nor are their accounts kept in full conformity with the Uniform System of Accounts prescribed by this Commission. No general ledger is maintained; no set of double-entry records is kept; personal and other funds are commingled with utility funds; and no records of customer complaints are maintained. With respect to service, applicants admit certain deficiencies, such as low pressure and past inadequate response to customer complaints and have testified that they are taking immediate steps to correct such service deficiencies.

The irregular practices and service deficiencies, in the main, have occurred because of applicants' preoccupation with their other business difficulties or through lack of knowledge concerning the obligations of public utilities. We are convinced that these errors have been made unwittingly and in no case deliberately. Applicants are hereby placed on notice, however, that all irregular practices must cease and that immediate corrective action must be taken. Applicants are admonished that no further discrepancies will be countenanced.

The Commission finds that the increases in rates and charges authorized herein are justified and that existing rates and charges, insofar as they differ from those herein authorized, are for the future unjust and unreasonable.

IT IS ORDERED that:

1. Applicants D. S. Kavanagh and Pauline Kavanagh, doing business as Kavanagh Vista Water Company, are 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, on not less than five days' notice to the Commission and to the public, to make such rates effective for service rendered on and after August 1, 1963.

2. Within forty-five days after the effective date of this order, applicants shall file with the Commission, in conformity with General Order No. 96-A, a revised tariff service area map, and copies of printed forms, normally used in connection with customers' services.

3. Within sixty days after the effective date of this order, applicants shall file with the Commission four copies of a comprehensive map drawn to an indicated scale of not more 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 applicants.

4. Applicants shall determine depreciation accruals for the year 1963 by multiplying average depreciable utility plant by a rate of 3.0 percent. Further, applicants shall determine the appropriate depreciation reserve applicable to the individual plant accounts and review the accruals for each account as of January 1, 1964, using the straight-line remaining life method. Applicants shall review the accruals when major changes in 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.

5. Within thirty days after the effective date of this order, applicants shall institute a continuous program to determine and maintain permanent records of operating pressures at various locations throughout each system during random periods representative of all operating conditions; and shall notify the Commission, in writing, that such program has been instituted, along with the details thereof, within ten days thereafter.

6. Within sixty days after the effective date of this order, applicants shall have established, and have properly recorded therein, books of account suitable to the recording and accounting of their utility operations in conformity with this Commission's "Uniform System of Accounts for Water Utilities" and shall notify this Commission that such has been accomplished, within ten days thereafter.

7. Within sixty days after the effective date of this order, applicants shall have refunded to their customers any and all amounts collected as a so-called charge for service to residential swimming pools and within ten days thereafter shall notify this Commission, in writing, of the names and addresses of such customers and the amount of the refund paid.

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

Dated at San Francisco, California, this 9th day of July, 1963.

William J. Bernard
President

Carl Holoboff

Robert J. Page

George L. Trover

Commissioners

Commissioner Holoboff present but not voting.

APPENDIX A
Page 1 of 3

Schedule No. 1

(T)

GENERAL METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area adjacent to Bullard Avenue located approximately 6 miles north of Fresno, Fresno County.

(T)
(T)

RATES

Per Meter
Per Month

Quantity Rates:

First 900 cu.ft. or less	\$ 2.65	(I)
Next 1,100 cu.ft., per 100 cu.ft.18	
Next 3,000 cu.ft., per 100 cu.ft.12	
Over 5,000 cu.ft., per 100 cu.ft.06	

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 2.65	
For 3/4-inch meter	3.60	
For 1-inch meter	5.25	
For 1 1/2-inch meter	8.50	
For 2-inch meter	11.00	(I)

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

(T)
|
(T)

APPENDIX A
Sheet 2 of 3

Schedule No. 2

GENERAL FLAT RATE SERVICE

(T)

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

The area adjacent to Bullard Avenue located approximately 6 miles north of Fresno, Fresno County.

(T)

RATES

Per Service Connection
Per Month

1. For a single-family residential unit, including premises having an area of:			
	8,100 square feet or less	\$2.90	(I)
	8,101 to 9,500 square feet. . . .	3.65	
	9,501 to 12,000 square feet	4.15	
	In addition, for each 100 square feet of premises in excess of 12,000 square feet03	
	For each additional single-family residential unit on the same premises and served from the same service connection	2.30	
2. For each automobile service station. .		6.00	
3. For each business establishment other than automobile service stations.		3.50	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter. (N)
(N)

(Continued)

APPENDIX A
Page 3 of 3

Schedule No. 2

GENERAL FLAT RATE SERVICE
(Continued)

SPECIAL CONDITIONS (Continued)

2. All service not covered by the above classifications shall be furnished only on a metered basis.

3. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service. (T)
|
(T)