

Decision No. 65776**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 Henry K. George and Blanche George,)
 his wife, dba LINDALE MANOR WATER) Application No. 44510
 COMPANY for an increase in rates for)
 water service. The Company's service)
 area is approximately 2 miles northwest)
 of Porterville, California.)

Fred A. Strauss, for applicants.

Thomas J. Warren, Deputy County Counsel, for the
 County of Tulare, interested party.

Verner R. Muth and John J. Gibbons, for the
 Commission staff.

O P I N I O N

Public hearing was held before Examiner Power at Porterville on January 8, 1963, and the matter was submitted subject to receipt of a late-filed exhibit. This exhibit was received on January 21 and the matter is ready for decision.

The area involved in this proceeding is immediately west of the City of Porterville and is in an unincorporated area. The applicants received their first certificate in July of 1958 to serve a tract containing 71 lots. By June 30, 1963 the operation had grown to 293 total service connections, a few of which were inactive. Two wells drilled in 1960 and 1961 have been added to the first. A number of subdivisions have been added, not always in a fashion compliant with applicants' filed main extension rule.

The chief, indeed almost universal, rate now charged by applicants is their \$4.00 (per month) flat rate. They propose to increase this rate to \$5.75, an increase of 43-3/4 percent. For documentary evidence they have relied on their presentation in the application, presenting no new exhibits. The figures included therein are subject to certain deficiencies. Thus, the rate base is too large due to the failure to make required deductions. The depreciation rate is unreasonably high (5 percent). The estimate for customers was determined on a year-end 1961 count and therefore was somewhat obsolete at the time of the hearing.

The Commission's Finance & Accounts and Utilities Divisions collaborated in a study (in evidence as Exhibit No. 3) which we find is more nearly accurate than applicants' presentation and in accord with sound regulatory practice. Exhibit No. 3 will accordingly be made the basis of our decision.

The Commission will authorize an increase of 0.50 per month in the basic flat rate, which will yield an adequate rate of return for this utility. Such an increase for the basic consumer will amount to \$6.00 per year. Meter rates will also be increased to bring them into proper relationship with the flat rates. Table 1 following is a comparison of results of operation at present rates, proposed rates, and the rates herein adopted.

TABLE I

Lindale Manor Water CompanyReturn on Proprietary Investment and Rate Base that
Would Result from Various Increases in Gross RevenuesYear 1962 Estimated

<u>Item</u>	<u>Present Rates</u>	<u>Adopted Rates</u>	<u>Company Requested Rates</u>
Required Increase in Gross Revenues	\$ -	\$ 1,464	\$ 5,120
Estimated Operating Revenues Under Present Rate	13,900	13,900	13,900
Total Operating Revenues	\$13,900	\$15,364	\$19,020
Less:			
Estimated Operating Expenses	6,450	6,450	6,450
Estimated Depreciation	2,610	2,610	2,610
Estimated Income Taxes ^c	710	1,080	2,215
Estimated Other Taxes	450	450	450
Total Operating Revenue Deductions	\$10,220	\$10,590	\$11,725
Net Operating Revenues	3,680	4,774	7,295
Interest	1,125	1,125	1,125
Net Revenue	\$ 2,555	\$ 3,649	\$ 6,170
Return on Rate Base ^a	4.91%	6.37%	9.74%
Return on Proprietary Investment ^b	4.43%	6.33%	10.71%
Percentage Increase in Gross Revenues	0	10.53%	36.83%

- a. The percentage shown reflects the ratio of net operating revenues to the average rate base for the estimated year 1962, which was \$74,920.
- b. The percentage shown reflects the ratio of net revenue (after deducting interest) to proprietary investment. On the assumption that the proportion of total rate base attributable to proprietary investment is the same as the proportion of total capitalization attributable to proprietary investment (76.91%), the dollar amount of proprietary investment in rate base for the estimated year 1962 would be \$57,620.
- c. No consideration has been given in this table to investment tax credits.

Note: It is impossible to develop a trend in the rate of return of this utility due to the large number of vacant lots in the service area. There could be an increase in active services with a relatively insignificant increase of plant.

There are two issues, other than the rates themselves, which require special attention. First, there were many service complaints by consumers. There were 44 letters of complaint and 53 additional signatures on two petitions. Aside from rates, the principal specific complaints were: pressures (36.8% of complaints) and sand or air in the water (24.7%). The following order will require the installation of sand filters on Wells Nos. 1 and 2. Pressure complaints referred to fluctuations and increases, especially sudden increases, as well as deficiencies in the pressures. It is possible that the addition of overhead storage might help in the pressure problem. The staff estimated that a 20,000-gallon elevated storage tank and booster pumps would cost \$22,000 installed, or \$80.88 per customer.^{1/} This appears excessive, given the circumstances of this utility, for the amount of good it would do. However, applicants should maintain a constant police of their pressures with a view towards preventing undue fluctuations. Further, corrective measures should be taken, as and when indicated, to correct any special pressure problems as they arise.

The other issue has to do with main extensions. It is apparent that applicants have had ample funds of their own available for making these extensions. Accordingly, they have, in effect, extended credit. As a result, there have been deviations from applicants' filed main extension rule. For an example, the Hodgson Tract No. 316 will serve. The material for this extension appeared in three invoices. Two cover the same four tracts (No. 316 and three others) and the third covers two of them. The labor is included in a

^{1/} Based on 272 customers at year-end 1962, in Exhibit No. 3 the staff used 248 average customers for the year 1962.

fourth invoice with two other tracts. One of these tracts figures in the other three invoices and one does not figure in any of them. In some instances the deviations were too difficult to trace. There is no trace of the labor and material for three of the tracts to which extensions were made. Apparently these are included in bills submitted for other tracts by the same contractors or suppliers.

The applicants appear to have corrected these practices at present. Even so, the parties to prior transactions may have been prejudiced by the failure to follow the rule in the past. Where the record reveals the necessary facts, the order to follow will require appropriate accounting adjustments and replacement contracts in accordance with the rule. In connection with certain other transactions, where the present record is deficient, applicants will be required to determine the missing facts and to report them to the Commission.

The Commission finds that:

1. The estimates of operating revenues, expenses, including taxes and depreciation, and the rate bases submitted by the Commission staff for the year 1962 reasonably represent the results of applicants' operations for the purposes of this proceeding.

2. Applicants have extended their system to a tract called Mankin Circle; the cost was \$1,100; Mankin supplied \$250 thereof, applicant supplied \$850.

3. No refund should be ordered in the extension to Mankin Circle. The sum of \$250 should be credited to Account No. 265, Contributions in Aid of Construction.

4. Applicants have extended their system to the Carroll Tract (No. 306); the cost of said extension was \$1,509.70; Mrs. Carroll simultaneously sold Lot No. 1 to applicants for \$1,000; the fair and reasonable value of said lot at the time of sale was not less than \$2,509.70; applicants have since sold said lot for \$3,000.

5. During or after May 1960, applicants extended their system to Hodgson Tract No. 316; the amount advanced by the subdividers, represented by a promissory note and the deeding of a lot, was not less than \$4,150; the exact cost of installing said extension cannot be determined on this record.

6. The developers of Tracts Nos. 306 and 316 have provided advances for extensions. These advances have been in the form of cash, notes, land and discounts on land purchases. Applicants should enter into agreements for the refunding of these advances, to the persons who made them, under applicants' main extension rule filed and in effect at the time.

7. Applicants extended their system to Tract No. 339 under an agreement approved by the Commission on May 22, 1961 in Resolution No. W-759. Said agreement was twice modified by mutual agreement of the parties thereto. The second modification provided for the liquidation of applicants' obligation to refund in return for a cash payment of \$7,500. The unrefunded balance after said payment amounted to \$5,480.30.

8. The settlement between Kavanaugh Building Company and applicants respecting Tract No. 339 is not adverse to the public interest. The unrefunded portion of the advance should be credited to Account No. 265, Contributions in Aid of Construction. The amount to be so credited is \$5,480.30.

9. The No. 3 well site lot deeded by Kavanaugh Building Company to applicants should be credited to Account No. 265, Contributions in Aid of Construction. The amount to be so credited is \$500.

10. The increases in rates and charges authorized herein are justified, the rates and charges authorized herein are reasonable, and the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

11. There is not sufficient evidence in the record to warrant findings as to Tracts Nos. 89, 153, 172, 222, 270, Tomah Avenue or Putnam Avenue.

The Commission concludes that the application should be granted to the extent set forth in the following order.

O R D E R

IT IS ORDERED that:

1. Applicants Henry K. George and Blanche George 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, 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, 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, and in a manner acceptable to the Commission, revised rules governing service to customers, a revised tariff service area map and copies of printed forms 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. 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 make every reasonable effort to notify their customers of service interruptions and the expected duration thereof. Applicants shall also establish a record of interruptions as required by General Order No. 103 and within ten days thereafter notify the Commission that such record has been established.

5. Applicants shall maintain a record of complaints and the disposition thereof, as required by General Order No. 103.

6. Beginning with the year 1963, applicants shall determine depreciation accruals by multiplying the depreciable plant by a rate of three percent. This rate shall be used until review indicates that it should be revised. Applicants shall review the depreciation rate, using the straight-line remaining life method, whenever substantial changes in utility plant composition occur and at intervals of not more than five years, and revise the above rate in conformance with such reviews. Results of these reviews shall be submitted to the Commission.

7. On or before September 1, 1963, applicants shall:

(a) install a main not less than four inches in diameter on Putnam Avenue, and Patsy Lane, and (b) inform this Commission, in writing, of the completion of this installation.

8. On or before September 1, 1963, applicants shall:

(a) install adequate filtering equipment or institute a suitable flushing program to prevent sand from Wells Nos. 1 and 2 from accumulating in the distribution system, and (b) inform this Commission, in writing, of the means by which compliance with this requirement has been effected.

9. Applicants shall credit the sums listed below to Account No. 265, Contributions in Aid of Construction, and debit accounts as indicated:

<u>Reference</u>	<u>Account to be Debited</u>	<u>Amount</u>
No. 3 Well Lot	306	\$ 500.00
Kavanaugh Tract:		
Transmission and Distribution Mains	343	4,819.46
Services	345	505.38
Hydrants	348	155.46

10. Applicants shall reduce Account No. 204, Proprietary Capital, and Account No. 311, Structures, by \$2,597.10 to eliminate from the books of account of the utility a portion of the cost of the proprietors' residence improperly included therein.

11. Applicants shall transfer from Account No. 204, Proprietary Capital, to Account No. 265, Contributions in Aid of Construction, the sum of \$250, being the contribution received for extension of service to Mankin Circle.

12. Applicants shall, within sixty days after the effective date of this order, enter into agreements with the subdividers of Tracts Nos. 306 and 316 for refunding the advances set forth in the foregoing opinion. Such agreements shall provide for refunds retroactive to the date of beginning work in each of these tracts. Applicants shall report such agreement to the Commission, in writing, within thirty days after the execution thereof.

13. Applicants shall determine the actual cost of extending their system to each of Tracts Nos. 89, 153, 172, 222, 270, Tomah Avenue and Putnam Avenue and shall report the same to the Commission, in writing.

14. Copies of all journal entries required by this order shall be filed with the Commission within thirty days after such entries are made.

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

Dated at San Francisco, California, this 36th day of JULY 4, 1963.

William L. Bennett
President
John E. ...
Cecil ...
George J. ...
Fredrick B. ...
Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tract No. 264, and vicinity, located approximately two miles northwest of Porterville, Tulare County.

RATES

Per Meter
Per Month

Quantity Rates:

First	1,000 cu. ft. or less	\$3.75
Next	2,000 cu. ft., per 100 cu. ft.20
Next	2,000 cu. ft., per 100 cu. ft.18
Next	5,000 cu. ft., per 100 cu. ft.15
Over	10,000 cu. ft., per 100 cu. ft.12

Minimum Charge:

For	5/8 x 3/4-inch meter	\$3.75
For	3/4-inch meter	4.75
For	1-inch meter	7.00
For	1 1/2-inch meter	12.00
For	2-inch meter	17.00

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

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Tract No. 264, and vicinity, located approximately two miles northwest of Porterville, Tulare County.

RATES

	<u>Per Service Connection Per Month</u>
For a single-family residential unit, including premises not exceeding 10,000 sq. ft. in area . . .	\$4.50
a. For each additional single-family residential unit on the same premises and served from the same service connection	3.50
b. For each 100 sq. ft. of premises in excess of 10,000 sq. ft.03

SPECIAL CONDITIONS

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