

65896

ORIGINAL

Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of ARVIN WATER COMPANY, a Corporation, for an order authorizing it to increase rates charged for water service within its certificated area, Sacramento County, California.

Application No. 45179 (Filed February 14, 1963) (Amended April 29 and May 3, 1963)

Martin McDonough, for applicant; Bennett T. Karoly, for State Department of Public Health, Bureau of Sanitary Engineering, interested party; David F. LaHue, for the Commission staff.

O P I N I O N

After due notice, public hearing in this matter was held before Examiner Emerson on June 21, 1963, at Sacramento.

Applicant serves approximately 1,515 customers in an unincorporated area to the north of the community of Carmichael, the service area consisting of about 1,100 acres of land of which 660 acres are subdivided into 2,000 residential lots. Two physical systems supply the overall area; one being supplied by four wells and one being supplied by a single well, all wells being about 450 feet deep. About two years ago there occurred an unforeseen and unavoidable entry of Leptothrix, a bacterium which thrives on the iron content of water, into the underground waters and thence into the supply and distribution system. In cooperation with the State Department of Public Health, applicant has undertaken the special treatment of its supply in order to control the Leptothrix problem. While producing no harmful effects on humans, this bacterium produces a discolored and unpalatable water to which customers object. Its control consists, among other things, of

an "over-chlorination" of the supply, producing a taste of chlorine in the water, to which some customers also object. The latter condition is far preferable to the former, however, and the treatment has been and is now being done under the close scrutiny and to the full satisfaction of the Department of Health. The costs of the special water treatment, coupled with the rise in labor, material, pumping, and tax costs since 1955, when applicant's present rates were established, have combined, according to applicant, to jeopardize applicant's financial position and make rate relief necessary. Of the gross annual increase of \$16,865 in revenues sought by applicant, \$12,000 is attributable solely to the additional direct costs of water treatment.

Arvin Water Company, controlled by Mr. R. L. Stockton, provided water service in the town of Arvin for many years. In 1955, Mr. Stockton formed a new corporation, Oakvale Water Company, to operate in an area in Sacramento County known as Whitney Village. In 1953 the assets of Arvin Water Company were sold to the Arvin Community Services District but the corporate entity survived. In January 1958, the assets of Oakvale Water Company were sold to Arvin Water Company and Oakvale was dissolved. In October 1958, the portion of the Arvin water facilities located within the Northridge Park County Water District were sold to that district. Since 1953, Arvin has experienced rapid growth and most of its expansion has been financed through main extension agreements.

The Commission staff investigation of applicant's operations, made in connection with this proceeding, discovered substantial errors and discrepancies in applicant's books and records and clearly shows that applicant's accounting system has been

inadequate. In consequence, numerous accounting adjustments have had to be made by the staff in such accounts as organization, franchise, land, transportation equipment, plant, operating expenses, depreciation reserve, advances for construction and contributions in aid of construction. Applicant has been inconsistent, from year to year, in charging expenses to accounts and in salary distribution to the proper accounts and, in addition, has recorded operating expenses and taxes associated with non-utility operations in the utility's accounts. As a result, applicant's presentation respecting its earnings position is unreliable in many respects. For the purposes of this proceeding the Commission will rely on and adopt as being fair and reasonable the complete presentation made by its staff.

The staff's evidence shows that applicant's earnings for the year 1962 approximated a rate of return of slightly over one percent on an average depreciated rate base of \$217,200. For the estimated year 1963, applicant's present rates for water service are expected to produce a rate of return of no more than 1.1 percent on a rate base of \$230,200. With respect to operations under the water rates which applicant has proposed, the evidence respecting estimated earnings may be summarized as follows:

Summary of Operations

Proposed Rates - Estimated Year 1963

<u>Item</u>	<u>Amount</u>
Operating Revenue	\$ 79,550
Operating Expenses	
Before taxes and depreciation	41,350
Taxes on Income	5,150
Other Taxes	3,260
Depreciation	13,900
Total Operating Expenses	<u>64,270</u>
Net Revenue	15,280
Average depreciated rate base	230,220
Rate of Return	6.6%

We find that the foregoing operating results, together with the rate base and rate of return, are reasonable.

In view of the evidence, the Commission finds that applicant's need for and entitlement to increased revenues has clearly been demonstrated. Further, the Commission finds that the increases in water rates as proposed by applicant and as authorized herein are justified and that existing rates, insofar as they differ therefrom, are for the future unjust and unreasonable.

A comparison of existing and authorized water rates is as follows. The new rates will increase the bill of the average water user by approximately 28 percent.

Flat-Rate, Residential Service, per month

	<u>Present</u>	<u>Authorized</u>
Lot area 7,000 sq. ft. or less	\$3.00	\$3.90
7,001 - 9,000 sq. ft.	3.25	4.20
9,001 - 11,000 sq. ft.	3.50	4.50
11,001 - 13,000 sq. ft.	3.75	4.80
13,001 - 15,000 sq. ft.	4.00	5.10
15,001 - 20,000 sq. ft.	4.60	6.00

General Metered Service, per month, 5/8" x 3/4" meter

300 cu. ft. or less	3.00	3.90
Next 4,200 cu. ft., per 100 cu. ft.	.20	.25
Next 5,000 cu. ft., per 100 cu. ft.	.15	.20
Next 10,000 cu. ft., per 100 cu. ft.	.125	.15
Over 20,000 cu. ft., per 100 cu. ft.	.10	.125

The substantial errors in recorded plant investment, the failure to maintain a work order system for recording plant additions, the absence of internal control over cash receipts and the improper recording of revenues and expenses require correction by applicant. The order herein will direct applicant to adjust its books to reflect those adjustments found necessary by the Commission staff. Further, applicant will be directed to determine depreciation accruals by using the straight-line remaining life method of depreciation accounting. Up-to-date maps of the system are desirable and applicant's tariff rules should also be revised in

order to reflect present-day practices. The order herein will require the same to be filed by applicant within a reasonable time.

O R D E R

IT IS ORDERED as follows:

1. Arvin Water Company is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96-A, the schedules of rates attached to this order as Appendix A and, after not less than five days' notice to the public and to the Commission, to make said schedules effective for water service rendered on and after October 1, 1963.

2. By not later than fifteen days after the effective date of this order, applicant shall have set up and in operation an appropriate work-order system for the recording of plant additions and retirements and within ten days thereafter shall notify this Commission in writing of the details thereof and that the same has been accomplished.

3. By not later than thirty days after the effective date of this order, applicant shall submit to this Commission proposed adjusting entries whereby its accounts shall be brought into conformity with proper accounting methods and specifically be adjusted to correct the errors and discrepancies set forth in Chapter 2 of Exhibit No. 2 in this proceeding. Upon approval or modification of such proposed entries by the Commission, applicant shall make said entries within thirty days thereafter and shall notify this Commission in writing that the same have been made within ten days following.

4. Beginning with the year 1963, applicant shall determine the accruals for depreciation by dividing the original cost of depreciable utility plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the plant. Further, applicant shall review the depreciation rates using the straight-line remaining life method whenever substantial changes in depreciable utility plant composition occur and for each plant account at intervals of not more than five years, and revise the depreciation rates in conformance with such reviews. Results of these reviews shall be submitted to the Commission.

5. Within sixty days after the effective date of this order, applicant shall file with this 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 applicant.

6. Within thirty days after the effective date of this order, applicant shall file with this Commission, in conformity with General Order No. 96-A, 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 said filing.

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

Dated at San Francisco, California, this 20th day of AUGUST, 1963.

William L. Brundage
President
W. C. Hutchins
W. A. Kegan
George T. Crover
Fredrick B. Holoboff
Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area located north of Carmichael, Sacramento County. (T)

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>	
First 800 cu. ft. or less	\$ 3.90	(I)
Next 4,200 cu. ft., per 100 cu. ft.25	
Next 5,000 cu. ft., per 100 cu. ft.20	
Next 10,000 cu. ft., per 100 cu. ft.15	
Over 20,000 cu. ft., per 100 cu. ft.125	
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 3.90	(I)
For 3/4-inch meter	4.50	
For 1-inch meter	8.25	
For 1 1/2-inch meter	12.65	
For 2-inch meter	18.40	
For 3-inch meter	30.25	
For 4-inch meter	58.75	
For 6-inch meter	86.75	

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. (T)

TERRITORY

The area located north of Carmichael, Sacramento County. (T)

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
For each residential unit without swimming pool, including a lot having an area of:		
7,000 sq. ft. or less	\$ 3.90	(I)
Over 7,000 sq. ft. to 9,000 sq. ft.	4.20	
Over 9,000 sq. ft. to 11,000 sq. ft.	4.50	
Over 11,000 sq. ft. to 13,000 sq. ft.	4.80	
Over 13,000 sq. ft. to 15,000 sq. ft.	5.10	
Over 15,000 sq. ft. to 20,000 sq. ft.	6.00	
Over 20,000 sq. ft., for each additional 1,000 sq. ft. or fraction thereof.....	.10	
For each noncirculation type evaporative room cooler, during the months of May through September inclusive, in addition to single family residence rate65	(I)

SPECIAL CONDITION

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