

ORIGINALDecision No. 65940

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of PACIFIC OAKS WATER CO., INC.,)
a corporation, for authority to)
increase the rates for domestic)
water service rendered in, and in)
the vicinity of the Pacific Oaks)
Subdivision, City of Stockton,)
San Joaquin County, California.)

Application No. 45246
(Filed March 14, 1963)

William Stava, for applicant.
William Coats, for Pacific Oaks
Homeowners' Association, protestant.
John D. Reader and John J. Gibbons, 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 July 9, 1963, at Stockton.

Applicant seeks authority to increase its rates for water service so as to produce increased revenues of \$5,887, an increase of 35 percent, annually.

Applicant first provided water service to the public on October 6, 1958, in an area whose ultimate development is expected to include eight subdivision units in an area which extends slightly over one mile in length in an east-west direction and about one-half mile in a north-south direction within the City of Stockton. At the present time, about one third of the area has improved streets and contains completed homes, homes under construction and vacant lots. The remaining two thirds of the area is undeveloped. During 1962, applicant served approximately 312 domestic customers and had 31 fire hydrants connected to its system.

Applicant is affiliated with some 20 copartnerships and corporations, generally known as Stone Brothers and affiliated companies. Activities include land development, real estate brokerage, construction and building, apartment house operations and rentals, lumber and building supplies, general insurance and a service company furnishing administrative services for some of the affiliated companies. Applicant maintains no office and has no full-time employees, all of its needs being supplied by affiliates. General and administrative services are obtained under a contract with Homebuilders Service Company, an affiliate. The costs of these services to applicant consist of quarterly allocations of total expenses, using estimates of affiliate office-employee time spent on each company.¹

The initial water system of applicant was financed by issue of stock. Subsequent plant additions have been financed largely through construction advances. Funds for plant construction, from date of inception to December 31, 1962, were provided as follows:

Source and Application of Funds

<u>Item</u>	<u>Amount</u>	<u>Percent of Total</u>
Net Income from Operations	\$ 498.54	
Depreciation (non-cost outlay)	15,009.97	
Total from Operations	15,508.51	10.2%
Sale of Stock	58,770.00	38.7
Advances for Construction		
From Affiliates (net)	47,746.25	31.4
From Non-Affiliates	29,946.38	19.7
Total Advances	77,692.63	
Total Funds Provided	151,971.14	100.0
Net Depreciable Plant (12-31-62)	134,401.29	

¹ Such a method of allocation, while to date not having worked to the disadvantage of applicant, is wrong in principle; for the resulting costs to applicant vary with the activities of the affiliates and not with the actual costs of applicant's needed services.

At December 31, 1962, advances for construction represented 57.3 percent of applicant's net depreciable plant. This Commission's Decision No. 64536, issued in Case No. 5501 on November 3, 1962, prohibits utilities from making any further extension of distribution mains (except on authorization of the Commission) whenever the outstanding advance contract balances exceed 50 percent of the net depreciable plant. All of applicant's contracts for advances were entered into prior to said decision, nevertheless applicant's advances now exceed the 50 percent limitation. Applicant is placed on notice that, in accordance with Section A.2.a. of the Main Extension Rule made effective by said decision, it may not lawfully extend its distribution mains beyond their present extent without the specific authorization of this Commission.

The following tabulation is a condensed comparative income statement covering applicant's operations as recorded from 1959 through 1962:

<u>Comparative Income Statement</u>				
<u>Item</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
Operating Revenues	\$ 5,803	\$8,852	\$12,152	\$15,056
Operating Expenses	<u>7,098</u>	<u>2,681</u>	<u>11,439</u>	<u>13,362</u>
Net Revenue	(1,295)	171	713	1,694

(Loss)

During applicant's first full year's operations, applicant's revenues were sufficient to meet all of its expenses except charges for depreciation. As will be noted from the tabulation above, succeeding years have seen a progressive improvement in earnings. When earnings are measured as a rate of return on a rate base, however, the maximum return equates to earnings of approximately two percent. The evidence respecting earnings for the

estimated year 1963, as presented by applicant and by the Commission staff, is summarized in the following tabulation:

Results of Operations
Year 1963, Estimated

Under Existing Water Rates

<u>Item</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$16,926	\$18,480
Operating Expenses	15,407	15,760
Net Revenue	1,519	2,720
Average Rate Base (depreciated)	67,602	77,550
Rate of Return	2.2%	3.5%

Under Applicant's
Proposed Water Rates

Operating Revenues	\$22,813	\$24,700
Operating Expenses	17,400	17,870
Net Revenue	5,413	6,830
Average Rate Base (depreciated)	67,602	77,550
Rate of Return	8.0%	8.8%

The revenue differences apparent in the above summary tabulation arise primarily because of errors in applicant's water-use data. The staff estimates include corrections of such errors and assume proper billings to all customers, including applicant's affiliates. They are the more accurate.

Differences in operating expenses, while in summation not large, occur in many accounts. The staff made a detail review of applicant's past expenses and estimates of future expenses and eliminated therefrom such items as travel, entertainment, general promotion, sales promotion, six construction office expense accounts, and undesignated legal and professional fees. In other accounts the staff has included amounts, for such items as meter maintenance and bacteriological testing, which are greater than those estimated by applicant.

With respect to rate base, the staff has assumed a continued normal growth of the system and has included, in 1963

additions, amounts of \$17,000 for a completely new pumping station, \$1,400 for two flow meters and \$7,825 for new customers' meters and service connections. These amounts cover needed items of plant and are properly includable in the test year rate base.

In response to a notice sent to all customers, respecting the filing of applicant's rate increase proposal, the Commission received nine letters and one petition, carrying signatures representing 188 service connections, expressing opposition to the proposal and complaining of the type of water service presently being rendered. In addition, six customers, called by the Homeowners Association, testified at the hearing respecting interruptions in service, improper billings, broken or inoperative meters, low pressure, inability to reach applicant's representatives, and inattention to customer complaints. The service complaints are justified and the conditions producing them require correction.

Experience demonstrates that applicant's system has now reached a size and stage of development where system difficulties, normally to be expected during the first few years of operation, should permanently be corrected and the system become self-sustaining and provide fully adequate service to all customers. In the opinion of the Commission, the size of the system and the water demands of its existing customers have reached the point where a second source of supply is essential to the system's proper operation. Prompt attention to the service needs of its customers and to proper billing practices are also essential. In the latter respect, applicant is admonished that its tariffs, including rates and rules, are as fully binding upon it as upon its customers. The water usages of its affiliates must be as properly metered and billed as are its other customers.

In view of the evidence, the more important elements of which are hereinabove discussed, the Commission makes the following findings:

1. Applicant is in need of and is entitled to increased revenues.
2. A rate of return to applicant of 6.5 percent on a 1963 test year rate base of \$77,550 is fair and reasonable.
3. Applicant should be authorized to file new rates which, on the 1963 test year basis, will provide increased revenues of approximately \$3,500 annually. The effect of such an increase will be to increase the bill to the average residential customer by approximately 19 percent.
4. The increases in rates herein authorized are justified and existing rates, insofar as they differ from those authorized herein, are for the future unjust and unreasonable.
5. Applicant should be required to install a second source of supply and to meter each source of supply in conformity with the provisions of General Order No. 103.
6. System water pressure regulation should be increased by 10 psig, in both lower and upper limits, at the source of supply.
7. Proper attention to customer needs require that applicant provide for the availability of adequately experienced maintenance personnel for attention to customer emergency needs during non-office hours.
8. Applicant should be required to file up-to-date maps and rules revised to reflect present day practices and to set up and maintain records of customer complaints.

O R D E R

IT IS ORDERED as follows:

1. Applicant 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 hereto as Appendix A and, on not less than five days' notice to the public and to this Commission, to make said rates effective for service rendered on and after October 1, 1963.

2. By not later than January 1, 1964, applicant shall have installed and in proper operation a second source of supply facility complete with a well, pumping unit, electric controls and necessary appurtenances.

3. By not later than January 1, 1964, applicant shall have installed and in proper operation adequate measuring devices at each source of supply.

4. Within ten days after the effective date of this order, applicant shall:

(a) Increase the pressure regulation at its pumping station by not less than 10 psig.

(b) Apply to the telephone company for an emergency listing, under its corporate name, by which an employee or authorized agent of applicant may be contacted by the public during non-business hours.

(c) Set up, and thereafter maintain, an appropriate system whereby customer complaints and the disposition thereof are properly recorded.

5. Applicant shall inform this Commission, in writing, of its compliance with or completion of each of the items enumerated in paragraphs 2, 3 and 4, above, within ten days after each such compliance or completion.

6. Within forty-five 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 such filing.

7. Within sixty days after the effective date of this order, applicant 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 applicant.

8. Applicant shall comply with General Order No. 103 and with the standards of the State of California, Department of Public Health, as regards collecting and testing of water samples and of maintaining permanent records thereof, and shall notify this Commission, in writing, of the arrangements and details thereof, within twenty days after the effective date of the order herein.

9. Beginning with the year 1963, applicant shall determine depreciation accruals 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. Such accruals shall be reviewed when major changes in depreciable plant composition occur and for each plant account at intervals of not more than five years. Results of the reviews shall be submitted to this Commission.

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

Dated at San Francisco, California, this 3rd
day of SEPTEMBER, 1963.

Stella Lee Bennett
President
W. C. [unclear]
George L. Brown
Fredrick B. Goldhoff
Commissioners

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portion of Stockton, San Joaquin County. (T)

RATES

		<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:			
First	500 cu.ft. or less	\$ 2.40	(I)
Next	2,000 cu.ft., per 100 cu.ft.24	
Next	3,500 cu.ft., per 100 cu.ft.14	
Next	54,000 cu.ft., per 100 cu.ft.11	
Over	60,000 cu.ft., per 100 cu.ft.08	(I)
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ 2.40	(I)
For	3/4-inch meter	3.00	
For	1-inch meter	4.50	
For	1 1/2-inch meter	8.00	
For	2-inch meter	11.00	
For	3-inch meter	17.50	
For	4-inch meter	25.00	(I)

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