

ORIGINAL

Decision No. 66351

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 W. T. HAMMOND, doing business as the )  
 Denair Water Works for an order )  
 authorizing an increase in rates for )  
 water service in the Community of )  
 Denair, Stanislaus County. )

Application No. 45157  
 (Filed February 4, 1963)

W. H. Hammond and Richard Berger, for applicant.

Robert R. Coffin, Jr. and H. W. Jorgensen, for  
 the Denair Chamber of Commerce; Thomas E. Simms,  
 for the Denair Unified School District; Jack  
Noda, for the Denair County Rural Fire District,  
 protestants.

John D. Reader, for the Commission staff.

## O P I N I O N

Applicant requests an increase in rates for water service in accordance with Section 454 of the Public Utilities Code. The application asserts the increase in rates is necessary to provide sufficient revenue for an increase in operating costs and other expenses. It is alleged that this water system was established prior to 1912 and no certificate of public convenience and necessity was ever issued, also that the last increase in rates authorized by the Commission was by Decision No. 47048, dated April 22, 1952, in Application No. 32876. According to the balance sheet attached to the application as Exhibit "A", applicant operated at a loss of \$2,238.48 during the year 1961.

Public Hearings

After due notice, public hearings in this matter were held before Examiner Fraser on June 4 and 5, 1963. The matter was submitted on the latter date subject to the filing of a late-filed exhibit on or before August 1, 1963.

System Facilities

The utility produces its water from four wells at three separate locations. From the four wells, having pumps equipped with two 7.5 hp motors and a 15 and a 20 hp motor, water is pumped into three 1,200-gallon pressure tanks and then into the distribution system consisting of approximately 22,000 feet of mains ranging in size from 1½ inches to 4 inches in diameter. The system is laid out in such a manner that most of the mains have dead ends, resulting in very little circulation. The utility's service area is divided by a railroad, with three of the four wells being on one side of the track and a majority of the customers on the other side, with one 4-inch main as the only connection between the two sections. The system was serving 232 customers on June 4, 1963.

Present and Proposed Rates

The present and proposed rates are listed in Exhibits B-1 and B-2 of the application. The flat rates can be summarized as follows: ✓

The basic rate for a ¾-inch service connection to a single-family residential unit, including irrigation not exceeding 2,000 square feet in area, would be increased from \$2.75 to \$3.85 per month; the rate for the same unit served through a 1-inch service connection would be increased from \$3.50 to \$4.90 a month. Business establishments are charged the same rates as residential units served through ¾-inch service connections. For each additional single-family residential unit or business establishment on the same premises, the monthly rate on either size line would be increased from \$1.25 to \$1.75 a month. Irrigated areas greater than 2,000 square feet on both ¾- and 1-inch service connections would be furnished water at 70 cents per additional 1,000 square feet rather than at the present authorized rate of 50 cents per additional 1,000 square feet.

The following tabulation from Exhibit B-2 of the application shows applicant's present and proposed rates for general metered water service:

<u>Rates</u>	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
First 800 cu.ft. or less .....	\$ 2.25	\$ 3.15
Next 2,200 cu.ft., per 100 cu.ft. ....	.25	.35
Next 3,000 cu.ft., per 100 cu.ft. ....	.20	.28
Next 9,000 cu.ft., per 100 cu.ft. ....	.15	.21
Over 15,000 cu.ft., per 100 cu.ft. ....	.12	.17

Minimum Charge:

For 5/8 x 3/4-inch meter .....	\$ 2.25	\$ 3.15
For 3/4-inch meter .....	2.75	3.85
For 1-inch meter .....	3.50	4.90
For 1 1/2-inch meter .....	5.00	7.00
For 2-inch meter .....	9.00	12.60
For 3-inch meter .....	17.50	24.50
For 4-inch meter .....	30.00	42.00
For 6-inch meter .....	45.00	63.00

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

Following is applicant's schedule of rates for public fire hydrant service (Exhibit B-2):

<u>Rates</u>	<u>Per Month</u>
(Hydrants owned by fire protection agency)	
For each wharf type hydrant .....	\$1.00
For each standard hydrant .....	2.00
(Hydrants owned by the utility)	
For each wharf type hydrant .....	1.50
For each standard hydrant .....	2.50

No increase is sought by applicant in rates for public fire hydrant service.

Summary of Results of Operation

Set forth below are comparisons between the applicant's and the staff's adjusted and estimated results of operation under the present and proposed rates for 1963. Since applicant estimated his 1962 revenues and expenses to be approximately the same as those for 1961, they have also been assumed to be the same for 1963.

<u>Item</u>	<u>Staff</u>		<u>Applicant</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 9,280	\$13,160	\$ 8,700	\$12,180
<u>Deductions</u>				
Operating Expenses	6,350	6,350	7,850	7,850
Depreciation Expense	1,210	1,210	1,930	1,930
Taxes Other Than Income	850	850	380	380
Taxes On Income	-	800	-	420
Total Deductions	\$ 8,410	\$ 9,210	\$10,160	\$10,580
Net Revenues	\$ 870	\$ 3,950	\$ (1,460)	\$ 1,600
Average Depreciated Rate Base	\$21,510	\$21,510	\$27,130	\$27,130
Rate of Return	4.0%	18.4%	Loss	5.9%

(Red Figure)

The staff computation differs from that of the applicant because the latter failed to consider 20 new customers, did not consider the increased property tax rate in 1963, did not include payroll taxes on the owner's salary, used a depreciation rate of between 5 percent and 5½ percent on the straight-line method of computing depreciation, whereas the staff used 3 percent on the straight-line remaining life method. Applicant estimated revenues under the proposed rates simply by applying a 40 percent increase to the present rates, which include a \$75 a month rate to the School District, a garden irrigation charge and a 10 percent penalty charge for overdue bills, all not in accordance with applicant's presently filed tariff.

The Commission engineer derived the following breakdown of undepreciated utility plant as of January 1, 1963.

Intangibles	\$ 1,939.00
Land	1,763.00
Structures	24.00
Wells	5,075.00
Pumping Equipment	8,519.00
Reservoirs and Tanks	1,478.00
Transmission and Distribution Mains	19,122.00
Services	4,882.00
Meters	321.00
Hydrants	400.00
Transportation Equipment	1,200.00
General Equipment	840.00
Total	<u>\$45,563.00</u>

Applicant's depreciation reserve as of January 1, 1963 totaled \$10,398.03. The staff has estimated the depreciation reserve for the same period to be \$17,360. The applicant started his reserve from zero when he purchased the system in 1956, whereas the staff included \$7,860, the approximate reserve recorded at that time. This difference, plus approximately \$700 difference in the proposed accrual for 1962, accounts for the difference of approximately \$7,000 between applicant's and staff's estimates, and results in an average depreciation reserve for 1963 of \$17,771, on the staff basis.

Using the amounts developed for utility plant and depreciation reserve, and after deducting \$2,150 in contributed plant and \$5,090 in advances for construction and including \$300 for working cash and materials, the staff developed an average depreciated rate base of \$21,510 for 1963.

#### Position of the Applicant

The son of the applicant testified as follows: that the applicant has petitioned for a raise in rates due to rising costs, the present need to receive a reasonable salary for managing the water system and the fact no rate raise has been granted since 1952;

that the irrigation rate for 2,000 square feet or less is included in the rates charged for single-family residential units, but the applicant has asked that the basic irrigation rate of 50 cents on each 1,000 square feet in excess of 2,000 square feet be raised to 70 cents and that the Commission authorize a 10 percent penalty charge on all bills which are 30 days overdue. The witness stated that the applicant has been charging this 10 percent penalty on overdue bills since 1956 when he took over the management of the Denair Water Works, because the prior owner charged it and he thought it was authorized. The witness stated only a few bills have become 30 or more days overdue.

The witness testified that the Denair School District has been charged \$75 a month for water service since the applicant purchased the system in 1956. It was further testified that the tariff rate for the service provided to the school property is \$43. The witness testified \$75 has been charged because the prior owner collected \$75 and the applicant thought it was the authorized rate. The applicant requested that the Commission increase the present school district rate of \$43 to \$75.

The applicant produced his immediate predecessor in the ownership of the Denair Water Works. This witness testified he purchased the Denair Water Works in 1953 and sold it to the present applicant in 1956. He testified the School District was paying \$50 a month in 1953 and their facilities were expanding each year, so in 1955 he asked the district to pay \$100, which was reduced to \$75 as a compromise. He admitted that no application had ever been filed with this Commission to request any raise in rates during the period he owned the Denair Water Works.

The applicant testified as follows: he is the only employee of the water system and presently draws \$3,600 a year; there are now eight fire hydrants attached to the water system, but no income has been received from them and the bill owed by the Denair County Fire District remains unpaid; he started depreciating his utility plant as if it were new when he purchased it; he now realizes this is improper and will revise his system to conform with the usual procedure; he estimates the average pressure in the system to be 45 pounds per square inch, with a minimum of 25 pounds per square inch and that \$11,000 has been spent on improving the system from 1961 to June of 1963.

#### Customer Complaints

One customer testified that he installed a pressure gauge where the water line entered his house and made a notation whenever the pressure dropped below 25 pounds; these notations were recorded and have been placed in evidence as Exhibit No. 8. Several other witnesses testified regarding low pressure, including a representative from the local fire protection district. The latter witness testified that the fire district was advised not to pay the water bill by the county counsel; also that the fire hydrants cannot be used effectively due to the extremely low water pressure.

A representative of the Denair Unified School District testified that the present school property consists of three small parks in Denair; a new high school and elementary school; an old elementary school which has a lawn surrounding it and is located on approximately four acres of ground; and a combined clubhouse and meeting hall which has an attached lot with picnic tables and a barbecue pit, all located on school property. The new high school and elementary school now have their own water system, which has been in

operation since June 3, 1963; the new schools do not need service from the applicant now, although the school board may decide to keep the new schools connected to the applicant's system so a second source of water will be available at all times. The old elementary school has a lawn about 160 feet by 42 feet around it; the rest of the property is under irrigation; the building is no longer used as a school, although meetings are occasionally held in the auditorium. The clubhouse was built on school property by the people of Denair and is used for meetings and civic affairs. The clubhouse pays a rate of \$2.75 a month in the winter and \$5.50 a month in the summer, which is a rate set by the previous owner of the utility. It is not a tariff rate since all property owned by the school was supposed to be included in the \$43 rate.

#### Findings

After careful consideration of all of the evidence, the Commission finds as follows:

1. The revenues obtainable from the present rates are deficient and the increase in rates and charges authorized herein is justified. The present rates insofar as they differ from those herein prescribed are for the future unjust and unreasonable.
2. The estimates of operating revenues and expenses and the rate base recommended by the staff are reasonable and they are hereby adopted.
3. Meters should be installed by the applicant on the line serving the new high school and elementary school, at the old elementary school and at the clubhouse. Each meter should be installed so as to measure the water used on the ground surrounding the buildings. The three sections of lawn owned by the School District in the City of Denair should each be served at \$1 per month, which is a reasonable charge.



4. The irrigation rate should be based upon lot size in increments of 100 square feet for all area in excess of 5,000 square feet, which basis is reasonable. ✓

5. It is evident there is no further need for the fire hydrants on the applicant's water lines. It was agreed at the hearing that a late exhibit would be filed to show how many of the fire hydrants are needed by the Denair County Fire Protection District. This exhibit has not been received and we must therefore conclude that the applicant will receive no further income from these hydrants. The applicant is entitled to payment if the hydrants are used, however, at the tariff rate for hydrant service. The applicant did not ask for an increase in his fire hydrant rates and the old rates have therefore been adopted herein without change. Fire hydrant rates have been retained because the hydrants are still connected to the applicant's water system. ✓

6. A rate should be provided for duplex homes wherein each unit is assessed approximately half of the total rate charged two single-family residential units on the same lot served from the same connection.

7. The \$75 rate charged the School District and any other rates which are being charged by unauthorized agreement between the utility and the customer are unlawful. ✓

8. The increases in rates and charges authorized herein should produce approximately an eight and one half percent return on the test year basis. Such increases are justified and reasonable, and the present rates and charges insofar as they differ from those herein prescribed are for the future unjust and unreasonable.

9. The recommendations of the Commission staff set forth on Pages 6 and 7 of Exhibit No. 5 should be adopted.

10. The request for a ten percent penalty charge on overdue bills and that the school rate be raised to \$75 is unreasonable and has not been justified.

We conclude that the application should be granted to the extent provided in the following order.

O R D E R

IT IS ORDERED that:

1. W. T. Hammond, doing business as Denair Water Works, 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 January 1, 1964.

2. Within forty-five days after the effective date of this order, applicant shall file with the 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.

3. Beginning with the year 1963, applicant shall determine depreciation expense by multiplying depreciable utility plant by a rate of 3.0 percent. This rate shall be used until review indicates it should be revised. Applicant shall review the depreciation rate, using the straight-line remaining life method, when major changes in utility plant composition occur and at intervals of not more than five years, and shall revise the above rate in conformance with such reviews. Results of these reviews shall be submitted to this Commission.

4. On or before April 1, 1964, applicant shall institute a program for the improvement of service including the progressive replacement, within a period of not more than six years, of over 5,000 feet of distribution mains two inches in diameter and smaller presently installed in the system, with mains that conform with the requirements of the Commission's General Order No. 103, and shall report to the Commission, in writing, that such program has been instituted, with the details thereof, within ten days thereafter.

Such program should include:

- a. The prompt replacement of approximately 650 feet of 1½-inch main on Zeering Avenue between San Joaquin Avenue and Gratton Road.
- b. The addition in the near future of a second main not less than four inches in diameter connecting the two parts of the system presently separated by the railroad tracks, possibly in the vicinity of the intersection of Gratton Road and Merced Avenue.
- c. The early replacement of the 1,200-gallon pressure tank at the newest well site with a pressure tank of not less than 5,000-gallon capacity.

5. Applicant shall make application to have inserted in the next publication of the local telephone directory, a listing under the name "Denair Water Works" by which an employee or officer of the utility may be reached, and shall inform the Commission, in writing, within thirty days after the effective date of this order that such application has been made.

6. Within sixty days after the effective date of this order, applicant shall install meters on the service lines to the new high school and elementary school, to the old elementary school, and to the clubhouse, and, within ten days thereafter, shall report to the Commission, in writing, that this has been accomplished.

7. Applicant's request for a ten percent penalty charge on overdue bills and for an increase in the school rate to \$75 per month is denied.

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

Dated at San Francisco, California, this 10<sup>th</sup> day of NOVEMBER, 1963.

*William L. Brown*  
President

*John S. Hutchins*

*Charles H. Pope*

*George L. Grover*

*Fredrick B. Holcomb*  
Commissioners

APPENDIX A  
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Schedule No. 1

(T)

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Denair and vicinity, Stanislaus County.

(T)

RATES

	<u>Per Meter Per Month</u>	
Quantity Rates:		
First 800 cu.ft. or less .....	\$ 2.50	(I)
Next 2,200 cu.ft., per 100 cu.ft. ....	.28	
Next 3,000 cu.ft., per 100 cu.ft. ....	.22	
Next 9,000 cu.ft., per 100 cu.ft. ....	.17	
Over 15,000 cu.ft., per 100 cu.ft. ....	.13	
Minimum Charge:		
For 5/8 x 3/4-inch meter .....	\$ 2.50	(I)
For 3/4-inch meter .....	3.75	
For 1-inch meter .....	5.00	
For 1 1/2-inch meter .....	7.00	
For 2-inch meter .....	12.50	
For 3-inch meter .....	24.00	
For 4-inch meter .....	40.00	
For 6-inch meter .....	60.00	

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

APPENDIX A  
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Schedule No. 2 (T)

GENERAL FLAT RATE SERVICE (T)

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

Denair and vicinity, Stanislaus County.

RATES

	Per Service Connection	(T)
	<u>Per Month</u>	(T)
1. For a single-family residential unit, including premises not exceeding 5,000 sq.ft. in area:		
For 3/4-inch service connection	\$3.10	(I)
For 1-inch service connection	4.00	
a. For each additional single-family residential unit on the same premises and served from the same service connection .....	1.75	(I)
b. For each 100 sq.ft. of premises in excess of 5,000 sq.ft. during the six-month period, May through October .....	.02	(N)
2. For each unit of a duplex or multi-unit residence .....	2.50	(N)
3. For each business establishment .....	3.10	(I)
For each additional business establishment on the same premises and served from the same service connection .....	1.75	(I)
4. For each noncirculating, evaporative type air cooler during the six-month period, May through October .....	.50	
5. For each School District Park .....	1.00	(N)

Schedule No. 2

(T)

GENERAL FLAT RATE SERVICE

(T)

(Continued)

SPECIAL CONDITIONS

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

2. 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)