

Decision No. 66990**ORIGINAL**

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

In the Matter of the Application of )  
 JULIO J. ROVAI and LOUIS J. ROVAI, )  
 doing business as RIO DELL WATER )  
 SYSTEM, under Section 454 of the )  
 Public Utilities Code for authority )  
 to increase their water rates. )

Application No. 45485  
 Amended  
 (Filed June 4, 1963)

Bertram S. Silver, for applicant.  
Edmund J. Texeira, for the Commission staff.

O P I N I O N

Applicant copartnership requests an increase in water service rates in the community of Rio Dell, Humboldt County, to meet increased operating expenses anticipated over the next three years and to provide for financing of improvements and a reasonable return on the investment devoted to the service of some 1,000 residential and business customers.

The facts disclosed at a public hearing, held at Rio Dell on November 20, 1963 before Examiner Gregory, show that Julio and Louis Rovai, who, as partners, have owned, operated and managed the system, described in a staff report (Exhibit 5), since the death of their mother in 1953 (Decision No. 52796, March 19, 1956, Application No. 37725), plan to secure a 10-year bank loan of \$29,000, at six percent interest, to finance the cost of improvements in the distribution system during 1964. During the period January 1, 1956 - December 31, 1962 funds provided from operations alone were more than adequate to finance all additions to plant. The record reveals that

the system has been operated efficiently and economically; that the owners have operated the system with no office staff and with only occasional contract labor; that there have been no informal or other service complaints during the last two years.<sup>1/</sup>

The utility's request, based on data included in its second amendment to the application, involves an increase of about 40 percent in the rates which have been in effect since August 1, 1956 (Decision No. 53286, Application No. 37684) and an estimated rate of return, for 1963, of 6.47 percent.

The staff, after making certain adjustments in applicants' figures, to be noted later, has estimated that, for 1963, the utility's proposal would produce a rate of return of 13.3 percent. The staff has recommended, on the basis of its adjustments, a rate of return of about 7 percent, which would require an increase of about 12.25 percent in gross operating revenues.

The utility, at the hearing, disagreed with a number of the staff's adjustments but was in general agreement with the form and content of the staff's studies. The utility, giving effect to proposals for additional salary and other operating expense and to purchase of office equipment, estimated, from rough calculations made during the hearing, that an increase of about 30 percent in gross operating revenues would be required to produce a rate of

<sup>1/</sup> Efficiency of operations is reflected in the tabulation below (from Exhibit 6), which compares the Rio Dell system with 46 Class C water companies on a per customer average basis for 1962.

	<u>Net Plant</u>	<u>Operating Revenue</u>	<u>Operating Expense</u>
<u>Rio Dell Water System</u>	\$153	\$44	\$23
<u>Average</u>			
Mean	\$426	\$71	\$46
Median	282	62	34

return of 7 percent for the estimated year 1963. The utility urged that prevailing conditions of management and operating efficiency should be considered in fixing a rate of return.

The condensed table below indicates adjusted results of operation for 1963 as estimated in the staff study, at present and proposed rates, and as calculated from data supplied by applicants at the hearing in addition to its formal exhibits. (The data supplied in applicants' exhibits, while comprehensive, is not readily adaptable to comparison in tabular form with that appearing in the staff's study.) If effect is given to applicants' additional data in connection with the staff's adjusted results, an increase of about 13 percent over present rates would be required to produce an estimated rate of return of 7 percent for the year 1963.

<u>Item</u>	<u>Present Rates</u>	<u>Estimated-1963 Proposed Rates</u>	<u>Adopted Rates</u>
Operating Revenues	\$ 46,240	\$ 64,740	\$ 52,370
<u>Deductions</u>			
Operating Expenses	26,850	26,850	29,870 (a)
Taxes Other Than Income	3,390	3,390	3,390
Depreciation Expense	5,750	5,750	5,800 (b)
Taxes on Income	1,270	7,650	2,070
Total Deductions	37,260	43,640	41,130
Net Revenues	8,980	21,100	11,240
Average Depreciated Rate Base	158,900	158,900	160,550 (c)
Rate of Return	5.7%	13.3%	7.0%

(a) - Additional operating expenses include: future office help, extra water testing, extra telephone charges.

(b) - Includes depreciation expense on approximately \$1,700 of new office equipment.

(c) - Adjusted to include new office equipment.

While applicants disagreed with the staff's adjustments on a number of items, some concededly of a minor nature, they took serious issue with the staff on the treatment accorded certain expense items in the staff's study based on applicants' formal exhibits. The major differences between the staff's and applicants' estimates result from the following:

- (a) Applicants' salary allowance for 1963 exceeded the staff's by about \$7,500, although the staff's allowance for 1962 was \$400 higher than applicants.
- (b) The staff prorated rate case expense over five years, whereas applicants included this entire expense in 1963.
- (c) The staff deleted rental charges applicable to trenchers owned by applicants and excluded nonrecurring expenses pertaining to an ineffectual attempt by a water district to acquire the system in 1962.
- (d) The staff included an allowance of \$300 for additional accounting assistance.

The only questioned items that appear to require special comment are those pertaining to salaries and trencher rental. Applicants have requested additional salary expense of about \$7,000, of which \$4,000 would apply to partners salaries and \$3,000 to part-time office help. With respect to trencher rental, the record reveals that the utility had included in its plant account certain rental charges at an hourly rate of \$9.00 for two Jeep diggers which it owned. The staff eliminated these charges, totalling \$7,150, since the cost of the equipment had been included in Account 373, Transportation Equipment, and the related expenses of operation and maintenance had already been included in operating expenses.

We do not think that the additional general administrative expenses for future office help, telephone charges and water testing, proposed by applicants, are unreasonable in view of the effort devoted by the partners to this system as well as in the interest of improved service to consumers. The staff's treatment of trencher rentals is reasonable, since consumers should not be expected to reimburse the utility twice for the use of the same equipment.

The staff's field investigation prior to the hearing revealed that several services had not been metered, although the utility had previously been directed by the Commission to do so (Decision No. 53286, June 26, 1956, Application No. 37725, etc., as supplemented by an order extending time to December 31, 1960, issued July 14, 1959). The staff included in its estimates amounts of utility plant necessary to complete metering of all services, including seven now receiving free water. Revenue estimates are based on actual billings and reflect full metering of the system, elimination of free water service and an average growth of twenty customers. Applicants' revenue estimates were based on recorded revenues, which the staff could not verify when checked against its water use tabulation. The staff has recommended that applicants report revenues on the accrual basis.

For the typical residential customer, applicants' proposed metered service rates would result in an average monthly cost of \$5.67 for water service compared with \$4.05 at present rates, based on an average monthly usage of 800 cubic feet. This is based on the following monthly quantity rates and minimum charges, which are

compared in the tabulation below with rates found to be reasonable on this record:

	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Adopted Rates</u>
Quantity Rates:			
First 500 cu.ft. or less . . .	\$2.70	\$3.78	\$3.10
Next 500 cu.ft., per 100 cu.ft. . . .	.45	.63	.50
Minimum Charge:			
For 5/8 x 3/4-inch meter . . .	2.70	3.78	3.10

Note: Other present, proposed and adopted rates for larger quantities and larger-sized meters are shown in present rate schedules, in the application, or in the schedules appearing in the appendix to this decision.

There appear to be no problems on this system with regard to pressure or water quality, or with respect to customer service generally. However, the fire chief testified that the fire hydrants were paid for and installed by the district and requested that no increase in the fire hydrant rate be authorized. He also requested that the fire hydrant schedule be changed in accordance with usual utility practices to permit the use of water for testing and fire drills and to give the district the option of determining the location of fire hydrants. In authorizing the increases in rates herein we are aware of what the record shows concerning the efficient and economical operation of this system and of the policy of this State, with regard to fixing utility rates, that allows a utility to profit, to the extent permitted by the Commission, from any economies, efficiencies, or improvements which it may make (Public Utilities Code, Sec. 456).

The Commission finds that:

1. The estimates of operating revenues, expenses, including taxes and depreciation, and the rate bases as submitted by the staff for the years 1962 and 1963 (including the operating estimates shown in the above tabulation under the heading "Adopted Rates") reasonably represent the results of applicants' operations for the purposes of this proceeding.

2. 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.

O R D E R

IT IS ORDERED that:

1. Applicants 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 May 1, 1964.

2. Within forty-five days after the effective date of the order in this proceeding, 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 the order in this proceeding, 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. Beginning with the year 1963, applicants shall determine depreciation accruals for each plant account, using the rates shown in Table 3-A of Exhibit 5 herein. These rates shall be used until review indicates that they should be revised. Applicants shall review the depreciation rates when major changes in utility plant composition occur and at intervals of not more than five years. Results of these reviews shall be submitted to the Commission.

5. On or before May 31, 1964, applicants shall install the distribution mains as set forth in Exhibit F of their Second Amendment to Application No. 45485 and shall notify the Commission, in writing, of the completion of such installation, within ten days thereafter.

6. On or before May 31, 1964, applicants shall install meters on all unmetered services in the distribution system, including

customers receiving free water service, and shall so notify the Commission in writing, within ten days thereafter.

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

Dated at San Francisco, California, this 24<sup>th</sup> day of MARCH, 1964.

*William L. Burnett*  
President  
*W. E. Ratchford*  
*George E. Grover*  
*Frederick B. Hollofort*

Commissioners

Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A  
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Rio Dell and vicinity, Humboldt County.

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 500 cu.ft. or less . . . . .	\$ 3.10	(I)
Next 500 cu.ft., per 100 cu.ft. . . . .	.50	
Next 1,000 cu.ft., per 100 cu.ft. . . . .	.40	
Next 2,000 cu.ft., per 100 cu.ft. . . . .	.30	
Minimum Charge:		
For 5/8 x 3/4-inch meter . . . . .	\$ 3.10	(I)
For 3/4-inch meter . . . . .	4.50	
For 1-inch meter . . . . .	7.00	
For 1 1/2-inch meter . . . . .	12.00	
For 2-inch meter . . . . .	18.00	
For 3-inch meter . . . . .	30.00	

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

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Schedule No. 2X

TEMPORARY FLAT RATE SERVICE

(T)

APPLICABILITY

Applicable to all flat rate water service furnished on a temporary basis.

TERRITORY

Rio Dell and vicinity, Humboldt County.

(T)

RATES

Per Service Connection  
Per Month

- |   |        |     |
|---|--------|-----|
| 1. For a single-family residential unit, including premises . . . . . | \$3.60 | (I) |
| 2. For each commercial establishment. . . . .                         | 3.70   | (I) |

SPECIAL CONDITION

This schedule shall be effective only to and including May 31, 1964, and will thereafter be withdrawn. (N)  
(N)

APPENDIX A  
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Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, (T)  
duly organized fire districts and other political subdivisions of the  
State.

TERRITORY

Rio Dell and vicinity, Humboldt County.

RATE

	<u>Per Month</u>
For each hydrant or cistern . . . . .	\$ 3.50

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes,  
charges shall be made at the quantity rates under Schedule No. 1,  
General Metered Service. (T)
2. The cost of installation and maintenance of hydrants shall  
be borne by the public authority. (N)
3. Relocation of any hydrant shall be at the expense of the  
party requesting relocation.
4. Fire hydrants shall be attached to the utility's distribution  
mains upon receipt of proper authorization from the appropriate public  
authority. Such authorization shall designate the specific location  
at which each is to be installed. (N)
5. The utility will supply only such water at such pressure as  
may be available from time to time as a result of its normal operation  
of the system.