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**ORIGINAL**

Decision No. 67549

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
DUNSMUIR WATER CORPORATION under )  
Section 454 of the Public Utilities )  
Code for authority to Increase Rates )  
for Water Service. )

Application No. 45842  
(Filed October 7, 1963)

Smith, Rives & Rodgers, by Chas. H. Heltzel, for applicant.  
Howard E. Jones, for City of Dunsmuir, protestant.  
David F. La Hue, for the Commission staff.

O P I N I O N

Proceeding

This application was heard before Examiner Coffey at Dunsmuir on February 4, 1964. It was submitted on February 24, 1964, upon the filing of the hearing transcript and the receipt of late-filed exhibits. Copies of the application and notice of hearing were served in accordance with the Commission's procedural rules.

Applicant presented three exhibits and testimony by three witnesses in support of its request for authority to increase its rates and charges for water service in Dunsmuir and vicinity, Siskiyou County. Two witnesses from the Commission staff presented the results of their independent studies and investigation of applicant's operations. All of the 50 members of the public at the hearing protested the requested increase in rates. One member of the public proposed a modification of the applicant's requested rates which would result in less gross revenue and would, relative to the large consumer, increase the bill of the small consumer. One witness complained of the water pressure available at his home.

System and Service Area

Applicant is a wholly owned subsidiary of the Boise Water Corporation, Boise, Idaho. Boise Water Corporation is a wholly owned subsidiary of General Water Works Corporation, a Delaware Corporation engaged in utility operations directly or through subsidiaries throughout the United States. A subsidiary of Boise Water Corporation, Oregon Water Corporation, with headquarters in Klamath Falls, Oregon, renders services to applicant.

As of December 31, 1962, applicant served 1,073 metered and one private fire protection customers and 102 public fire hydrants. The number of year-end metered customers has steadily declined from 1,114 in 1959. Witness for applicant testified that Dunsmuir is less prosperous now, with more vacant stores and fewer permanent residents, than when he first knew the city in 1951. Many railroad employees have left the area.

Applicant's Request and Rate Proposal

The following table sets forth applicant's present and proposed rates:

PRESENT AND PROPOSED RATES

GENERAL METERED SERVICE

|                 |   | <u>Per Meter Per Month</u> |                 |
|-----------------|---|----------------------------|-----------------|
|                 |   | <u>Present</u>             | <u>Proposed</u> |
| Quantity Rates: |   |                            |                 |
| First           | 600 cu. ft. or less . . . . .           | \$ 1.95                    | \$ 2.60         |
| Next            | 400 cu. ft., per 100 cu.ft.. . . . .    | .32                        | .43             |
| Next            | 2,000 cu. ft., per 100 cu.ft.. . . . .  | .27                        | .36             |
| Next            | 3,000 cu. ft., per 100 cu.ft.. . . . .  | .21                        | .28             |
| Next            | 6,000 cu. ft., per 100 cu.ft.. . . . .  | .15                        | .20             |
| Over            | 12,000 cu. ft., per 100 cu.ft.. . . . . | .10                        | .13             |

Minimum Charge:

|     |                                |         |         |
|-----|--------------------------------|---------|---------|
| For | 5/8 x 3/4-inch meter . . . . . | \$ 1.95 | \$ 2.60 |
| For | 3/4-inch meter . . . . .       | 2.80    | 3.75    |
| For | 1-inch meter . . . . .         | 4.45    | 5.95    |
| For | 1½-inch meter . . . . .        | 8.50    | 11.35   |
| For | 2-inch meter . . . . .         | 12.00   | 16.00   |
| For | 3-inch meter . . . . .         | 20.00   | 27.00   |
| For | 4-inch meter . . . . .         | 27.00   | 36.00   |
| For | 6-inch meter . . . . .         | 42.00   | 56.00   |
| For | 8-inch meter . . . . .         | 60.00   | 80.00   |

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

FIRE HYDRANT SERVICE

|  | <u>Per Month</u> |                 |
|--|------------------|-----------------|
|  | <u>Present</u>   | <u>Proposed</u> |
| For the first 75 hydrants or less,<br>minimum charge . . . . . | \$165.00         | \$266.00        |
| For each additional fire hydrant . . . . .                     | 2.00             | 2.80            |
| All Organized Fire Districts Outside<br>of City Limits:        |                  |                 |
| For each hydrant . . . . .                                     | 2.00             | 2.80            |

FIRE SPRINKLER SERVICE

|  | <u>Per Service Connection</u> |                 |
|--|-------------------------------|-----------------|
|  | <u>Per Month</u>              |                 |
|  | <u>Present</u>                | <u>Proposed</u> |
| For 3-inch service, or smaller . . . . . | \$ 2.25                       | \$ 3.00         |
| For 4-inch service . . . . .             | 3.40                          | 4.55            |
| For 6-inch service . . . . .             | 8.40                          | 11.20           |
| For 8-inch service . . . . .             | 14.00                         | 18.65           |
| For 10-inch service . . . . .            | 22.00                         | 29.35           |

The monthly bill for the average monthly consumption of 1,100 cubic feet would increase from \$3.50 under present rates to \$4.68 under proposed rates, 34 percent.

Issues

The following are issues in this proceeding:

1. Reasonableness of the estimates of operating revenues, expenses, including taxes and depreciation, and rate base.
2. Reasonableness of rate of return.

Results of Operation

The following tabulation compares the estimates made by the staff and by applicant for the results of operation under both present and proposed rates:

SUMMARY OF EARNINGS

| Item                  | Present Rates                                  |   | Proposed Rates                                 |   |
|-----------------------|--|---|--|---|
|                       | Applicant's Showing <sup>1/</sup><br>Exh.No. 3 | CPUC Staff Showing <sup>2/</sup><br>Exh.No. 4 | Applicant's Showing <sup>3/</sup><br>Exh.No. 3 | CPUC Staff Showing <sup>2/</sup><br>Exh.No. 4 |
| Operating Revenues    | \$ 55,637                                      | \$ 56,450                                     | \$ 74,052                                      | \$ 75,150                                     |
| <u>Deductions</u>     |  |   |  |   |
| Operating Expense     | 29,512   | 26,470  | 29,684   | 26,470  |
| Depreciation Expense  | 10,360   | 8,870   | 8,441  | 8,870   |
| Taxes:                |  |   |  |   |
| Other than on Income  | -  | 9,550   | -  | 9,550   |
| On Income             | -  | 3,640   | -  | 11,580  |
| Total Taxes           | <u>12,401</u>                                  | <u>-</u>                                      | <u>18,584</u>                                  | <u>-</u>                                      |
| Total Deductions      | 52,273   | 48,530  | 56,709   | 56,470  |
| Net Revenue           | 3,364  | 7,920   | 17,343   | 18,680  |
| Depreciated Rate Base | 251,067  | 248,800                                       | 254,288  | 248,800                                       |
| Rate of Return        | 1.3%   | 3.2%  | 6.8%   | 7.5%  |

<sup>1/</sup> 12 months ended September 30, 1963 (actual).

<sup>2/</sup> 1963 estimated.

<sup>3/</sup> 12 months ended September 30, 1963 (adjusted).

These results of operation are not directly comparable inasmuch as the test periods are not identical.

The staff's estimate of revenue at present rates is \$810 more than applicant's estimate. Witness for applicant indicated agreement with the staff revenue estimate. We find reasonable the staff estimates of revenue.

Applicant's estimate of operating expense exceeds that of the staff by \$3,000. This difference is largely due to the staff elimination of the annual amortization, \$1,270, of an extraordinary property loss which will be completed in 1965, the staff lower allowance for billing expense, and the lower staff estimate of salaries.

We will include in our adopted results the annual amortization of the extraordinary property loss. The reflection in the test year of isolated adjustments based on a relatively remote period is not reasonable.

This record does not support the reasonableness of the monthly charge for billing by the Oregon Water Corporation, applicant's affiliate. The adopted results will include a billing expense adjustment of \$530, the difference between applicant's 1962 recorded expense and the staff 1963 estimate.

This record does not support the reasonableness of the staff 1963 salary estimate which is \$350 less than that actually recorded in the year 1962. The adjustment cannot be supported by considering levels of construction, inasmuch as in 1961, 1962 and 1963 the actual additions to plant were \$3,700, \$7,200 and \$2,800, respectively.

Applicant in 1961 and 1962 computed the annual depreciation accrual at rates in effect prior to those authorized, but not ordered, by this Commission in 1960. The staff and applicant (in proposed rate showing) reduced the depreciation reserve by the excess of the amount actually accrued over the amount which would have been accrued if the depreciation rates authorized in 1960 had been used. The remaining life method of accruing depreciation tends to correct errors and inaccuracies and minimizes the necessity for adjustments to the depreciation reserve. Applicant applied the rates of its choice during 1961 and 1962. We are unable to accept as reasonable the concept that the depreciation reserve should be adjusted downward for rate-making purposes merely because applicant "erroneously" computed its depreciation accruals. To accept such a concept as reasonable would add to the burden of customers to provide for increased depreciation accruals and net revenues in future years, would deviate from basic premises and equities of the remaining life method, would be an open invitation to the overaccrual of depreciation and subsequent requests for depreciation reserve

adjustments, would circumvent the basic regulatory concept of depreciation that a public utility is entitled to recover the cost of property due to its consumption or prospective retirement, no more or no less.

The difference between the rate bases estimated by applicant and the staff results mainly from the allowances included for working cash and materials and supplies. The staff allowance included the effect of accruals of taxes in advance of payment and reduced the amount of materials and supplies to \$4,000. Applicant included in its rate base \$8,300 for materials and supplies. This amount is twice the average plant additions during the past three years. We will include the staff rate base in our adopted results of operation, modified to reflect recorded accrued depreciation.

#### Service and Rates

The staff reported that it found no water quality problems during its investigation but found both low and high pressure problems.

Applicant, in reply to the low pressure complaint of the public witness, has proposed action to satisfy the complaint. We will require applicant to report on its progress in satisfying the complaint.

Applicant opposes the suggestion by a member of the public that the rate structure be modified on the grounds that a large number of customers served in Dunsmuir are retired and that many of the bills to retired customers are for minimum amounts. This record does not contain the data essential to an informed determination of reasonableness or modification of the existing rate structure. In this proceeding we will not modify the existing rate structure.

Adopted Results

The staff recommended that the rate of return for applicant in Dunsmuir be from 6.25 percent to 6.50 percent. We will adopt a rate of return of 6.50 percent in this proceeding as reasonable.

We find that the estimates under present and authorized rates as set forth below are reasonable for the purposes of this proceeding.

ADOPTED SUMMARY OF EARNINGS  
YEAR 1963

| <u>Item</u>             | <u>Present Rates</u> | <u>Authorized Rates</u> |
|-------------------------|----------------------|-------------------------|
| Operating Revenues      | \$ 56,450            | \$ 67,880               |
| <u>Deductions</u>       |                      |                         |
| Operating Expenses      | 28,210               | 28,210                  |
| Depreciation Expense    | 8,870                | 8,870                   |
| Taxes Other than Income | 9,550                | 9,550                   |
| Taxes on Income         | <u>2,310</u>         | <u>5,320</u>            |
| Total Deductions        | 48,940               | 51,950                  |
| Net Revenue             | 7,510                | 15,930                  |
| Depreciated Rate Base   | 245,100              | 245,100                 |
| Rate of Return          | 3.1%                 | 6.5%                    |

These adopted results include the recorded operating expenses for the year 1963 modified by the staff's billing expense adjustment, first application in 1963 of the depreciation rates authorized in 1960, and the current income tax rates.

Findings

Upon consideration of the evidence the Commission finds that:

1. The foregoing adopted rates of return, operating revenues, expenses, including taxes and depreciation, and rate base, are reasonable for the purpose of prescribing rates.

2. Applicant is earning less than a reasonable rate of return and increased rates should be authorized.

3. The increases in 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.

We conclude that applicant's request for authority to increase its rates should be granted in part as provided in the following order.

Under the authorization the monthly bill for the average monthly consumption of 1,100 cubic feet will increase from \$3.50 to \$4.24, 21 percent.

O R D E R

IT IS ORDERED that:

1. Applicant Dunsmuir Water Corporation 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 September 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 after filing as hereinabove provided.



3. 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.

4. Within sixty days after the effective date of this order, applicant shall report in writing on the status of the work set forth in applicant's Exhibit 2-A as necessary to correct the low pressure complaint on Caldwell Avenue, Dunsmuir.

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

Dated at San Francisco, California, this 21<sup>ST</sup> day of July, 1964.

Frederick B. Holbrook  
President  
Ed. [unclear]  
Quent. [unclear]  
William L. [unclear]

Commissioners

I concur in the order.  
George E. Hoover

APPENDIX A  
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Schedule No. 1

Dunsmuir Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Dunsmuir and vicinity, Siskiyou County.

(T)

RATES

Quantity Rates:

|   | <u>Per Meter</u><br><u>Per Month</u> |
|---|--------------------------------------|
| First 600 cu.ft. or less .....          | \$ 2.35                              |
| Next 400 cu.ft., per 100 cu.ft. ....    | .39                                  |
| Next 2,000 cu.ft., per 100 cu.ft. ....  | .33                                  |
| Next 3,000 cu.ft., per 100 cu.ft. ....  | .24                                  |
| Next 6,000 cu.ft., per 100 cu.ft. ....  | .18                                  |
| Over 12,000 cu.ft., per 100 cu.ft. .... | .11                                  |

(I)

Minimum Charge:

|                                |         |
|--------------------------------|---------|
| For 5/8 x 3/4-inch meter ..... | \$ 2.35 |
| For 3/4-inch meter .....       | 3.30    |
| For 1-inch meter .....         | 5.25    |
| For 1 1/2-inch meter .....     | 10.00   |
| For 2-inch meter .....         | 14.00   |
| For 3-inch meter .....         | 24.00   |
| For 4-inch meter .....         | 32.00   |
| For 6-inch meter .....         | 50.00   |
| For 8-inch meter .....         | 70.00   |

(I)

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

Schedule No. 4

Dunsmuir Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems. (T)

TERRITORY

Dunsmuir and vicinity, Siskiyou County. (T)

RATES

|  | <u>Per Month</u> |     |
|--|------------------|-----|
| For 3-inch service, or smaller . . . . . | \$ 2.65          | (I) |
| For 4-inch service . . . . .             | 4.00             |     |
| For 6-inch service . . . . .             | 10.00            |     |
| For 8-inch service . . . . .             | 16.00            |     |
| For 10-inch service . . . . .            | 25.00            | (I) |

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund. (T)

2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by (T)

(Continued)

Schedule No. 4

Dunsmuir Tariff Area

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS (Contd)

the Board of Fire Underwriters for protection against theft,  
leakage or waste of water and the cost paid by the applicant.  
Such payment shall not be subject to refund.

(T)

†

(T)

4. 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.

(N)

†

(N)

Schedule No. 5

Dunsmuir Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

(T)

TERRITORY

Dunsmuir and vicinity, Siskiyou County.

(T)

RATE

|                            | <u>Per Month</u> |     |
|----------------------------|------------------|-----|
| For each hydrant . . . . . | \$ 2.45          | (I) |

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.

2. The cost of installation and maintenance of hydrants shall be borne by the utility.

3. Relocation of any hydrant shall be at the expense of the party requesting relocation.

(T)

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.

(T)

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.