

ORIGINALDecision No. 62550

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Charles L. Campodonico,)
 Silvia C. Smith, Marguerite E. Sampson,)
 Alma E. Anderson, Victoria M. Maretti,)
 Virginia Hourihan, Doris F. Metz, and)
 Edward H. Campodonico, dba Campodonico)
 Waterworks for Authority to Increase)
 Rates for Water Service in the City of)
 Guadalupe and Vicinity, Santa Barbara)
 County.)

Application No. 45917
 (Filed October 30, 1963)

Charles L. Campodonico, for applicants.
John J. Gibbons and Jerry J. Levander,
 for Commission staff.

O P I N I O N

Applicants seek an increase in charges for flat rate water service which would result in increases of 75 per cent to 100 per cent for single family residences. No increase is requested for metered service or for fire hydrant service.

The matter was heard and submitted before Examiner Patterson in Guadalupe on April 7, 1964, at which time no protests were entered to granting the application.

The utility is owned by a partnership composed of 8 persons, 3 of whom are the present operators. The water system was originally installed in 1894 as a private pumping plant and was later acquired by the father of the present operators.

Applicants serve all of the City of Guadalupe with domestic water for household and commercial purposes with the exception of an ice manufacturing plant which is supplied from its own well. As of December 31, 1963, there were 932 flat rate

customers and 18 metered customers. The metered customers are vegetable packing sheds and commercial operations. The water supply is obtained from 3 wells which had a total capacity of 1105 gpm when tested in August, 1963. Pressures of 40 to 60 psi are maintained in the system by discharge pressure of the well pumps and by the elevated storage tank which has a capacity of 103,000 gallons. There are approximately 55,000 linear feet of 2-inch to 8-inch transmission and distribution pipe in the water system.

It is applicants' position that rates for water service which were established in 1925, and which have not been changed since then, do not produce a fair return on the investment in plant and property devoted to the public use.

The Commission staff made an independent study of applicants' operations and presented the results in Exhibit 1.

A comparison of applicants' and the staff's estimates for the test year 1964 may be summarized as follows:

<u>Item</u>	<u>Applicants</u>	<u>CPUC Staff</u>
Under Existing Rates:		
Operating Revenues	\$ 30,000	\$ 28,410
Operating Expenses	27,590	27,850
Net Revenue	2,410	560
Rate Base (depreciated)	105,883	90,100
Rate of Return	2.3%	0.6%
Under Proposed Rates:		
Operating Revenues	39,600	46,510
Operating Expenses	30,660	31,020
Net Revenue	8,940	15,490
Rate Base (depreciated)	105,883	90,100
Rate of Return	8.4%	17.2%

The evidence shows that applicants' records have not been examined for many years and, as a consequence, the staff's review disclosed many discrepancies in applicants' accounting records and procedures and in the application of tariffs.

The staff accounting witness testified that the accounting records are inadequate for a utility of this size, and that improvement is necessary in revenue and plant accounting procedures. He recommended that, in the future, revenue and expenses be recorded on an accrual basis rather than on a monthly cash basis as at present and that especial care be exercised in properly classifying capital expenditures and in accounting for the retirement or abandonment of plant.

The staff accounting witness made a number of specific adjustments in conformity with the Uniform System of Accounts, all of which adjustments are reflected in adjusted balance sheets, income statements, plant accounts and depreciation reserve account statements. We find that all of these adjustments as set forth in Tables Nos. 2A, 2B, 2C and 2D of Exhibit 1 are reasonable and proper. His analysis also pointed out the fact that applicants' depreciation reserve which was 49.7 per cent of gross depreciable plant as of November 30, 1963, is extremely high as compared with an industry average of about 25 per cent. This high depreciation reserve has resulted from applicants' utilization of a straight-line depreciation rate of 5 per cent based on an estimated service life of 20 years until recent years. His analysis also disclosed that applicants expended approximately \$51,000 for main installations to serve 258 homes in the Treasure Park subdivision during the period 1960 to 1962. Such disbursement was not in accordance

with the main extension rule which requires that such cost be advanced by the subdivider and refunded in accordance with the terms of a main extension contract.

With respect to application of filed tariffs, the staff engineering witness testified that applicants bill residential customers having lawns at a rate of \$2.00 per month and those without lawns at \$1.75 per month. This is not in conformity with the filed flat rate schedule which is of a complex structure providing, in part, a basic rate of \$1.75 per month for a 5-room residence, including toilet and bath, with additional charges for additional rooms, water-using fixtures, barns, horses and cows, and \$.002 per square yard for irrigation of lawns. The staff witness estimated revenues for flat rate service on the basis of applicants' actual method of billing rather than on the filed tariff provisions. It would be necessary to conduct a detailed survey by individual premises to compute billings according to applicants' filed tariffs. Applicants' billing method of flat rates resulted in revenues lower than would be produced by strict application of the filed tariffs.

With respect to rates for metered service, the record shows that applicants have incorrectly applied the filed tariffs and the actual charges rendered have been in excess of the proper charges under the authorized tariffs. The extent of this difference may be judged by applicants' estimate of \$5,810 for metered service revenue, based upon its unauthorized application of rates for 1964, and the staff's estimate of \$4,520, based upon the filed rates.

The record also shows that applicants have been charging \$25.00 for installation of a new service. Applicants are admonished that a service connection charge is prohibited by General

Order No. 103 and also by the utility's filed Rule No. 16. Applicants' proposal of a \$40.00 connection charge contained in the application was stricken by oral amendment made at the hearing.

In regard to expenses, the record shows that in the past applicants have charged rather nominal amounts for management expenses. The staff engineer's estimate of operating expenses is based on reasonable water system operation and is approximately \$2,000 greater than applicants' for the year 1964. The difference between the estimates is due, in part, to staff use of average year pumping expenses and the inclusion of amounts for maintenance of pumping plant and storage facilities, for meter testing and maintenance and for amortization of regulatory expenses. These items were not considered in applicants' estimates.

The staff's calculations reflect application of federal income tax rates applicable in 1965 and allowance for investment tax credit.

With respect to utility plant and rate base, the staff's estimate reflects the accounting adjustments made by the accounting witness and additions to plant consisting of improvements to the elevated storage tank and a transmission main to interconnect portions of the distribution system, all of which improvements are deemed to be necessary to provide adequate service.

The staff's estimate includes appropriate allowances for advances to be made for new subdivision development in the year 1964, under the filed main extension rule. With respect to past operations in which no advances were secured for main extensions, the staff calculated a theoretical amount of outstanding advances for

construction based upon use of the proportionate cost option of the main extension rule in effect at the time of installation of the subdivision.

Based upon the evidence we find that the staff's estimates of revenues, expenses and rate base are reasonable and we will adopt them for purposes of this proceeding.

It is clear from the evidence that applicants are in need of and entitled to increased revenues. The rates which they have proposed, however, would produce an excessive return. The Commission finds that, based upon the test year 1964, a rate of return of approximately 7 per cent on a rate base of \$90,100 is fair and reasonable and concludes that water rates should be authorized so as to produce such a return. The increase hereinafter authorized for flat rate service will increase utility revenues by \$6,800 annually, and will increase customers' bills by from 27 per cent to 46 per cent.

Although applicants did not request any increase in the rate for metered service, we find that the filed metered rate should be increased so as to remain compatible with the increased flat rate tariff. The increase hereinafter authorized for metered service, while it appears to be of approximately the same percentage increase as for flat rate service, will result in practically no changes in metered customers bills because of applicants' past improper application of the tariff. The metered service rate hereinafter authorized, and which, under the circumstances, we find to be reasonable, is a service charge type of schedule which will be more compatible with actual billing practice than the

minimum charge type of schedule now existing.

The record shows that the quality of water produced from applicants' wells has deteriorated in recent years. Tests made on applicants' 3 wells on January 16, 1964, revealed that water from each of the wells had total dissolved solids and sulphates in excess of the State Department of Public Health requirements for a temporary water supply permit. Evidence introduced by the staff also showed that a test of the Union Sugar Company well, which is located south of the town of Guadalupe and within 200 feet of applicants' distribution system, indicates that this well supplies less highly mineralized water than applicants' wells. The record shows that this irrigation well is 460 feet deep, which is approximately 200 feet deeper than applicants' wells.

We find that the water served by applicants is of such poor quality that applicants should be required to investigate methods of improving the quality by such means as deepening existing wells, drilling new deep wells, or acquiring existing higher quality water sources. The order herein will require applicants to make such investigations and report the results thereof to this Commission.

Applicants are placed on notice that their operations are subject to the continuing jurisdiction of this Commission, and that anything less than satisfactory performance with respect to improving quality of the water or in strict application of tariffs, including adherence to the main extension rule, may engender a reopening of this proceeding and the rescinding of any or all of the revenue increases authorized herein.

At the close of the proceeding applicants requested that they be afforded the same consideration as certain other

utilities which were permitted to restate their depreciation reserves when they adopted remaining life depreciation.

Applicants' request will be denied as there was insufficient evidence developed to grant such request. The action taken herein, however, will not prejudice applicants from presenting to the Commission by an appropriate filing a request for restatement of the depreciation reserve.

We find that the increases in rates and charges authorized herein are justified, that the rates and charges authorized herein are reasonable, and that 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 September 1, 1964.

2. Within forty-five days after the effective date of this order, applicants 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, 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 1964, applicants shall base the accruals to the depreciation reserve upon spreading the original cost of the plant, less estimated future net salvage and depreciation reserve, over the remaining life of the plant, and shall use the depreciation rates shown in Table 3A of Exhibit 1 of the instant proceeding. These rates shall be used until a review indicates that they should be revised. Applicants shall review the depreciation rates when major changes in plant composition occur and for each plant account at intervals of not more than five years. Results of these reviews shall be submitted to the Commission.

5. Applicants shall forthwith investigate methods of improving the quality of their water supply by such means as

deepening existing wells, drilling new deep wells or acquiring existing higher quality water sources, and shall report the results of such investigation to this Commission within 180 days from the date hereof.

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

Dated at San Francisco, California, this 21st day of July, 1964.

Fredrick B. Hellock
President
George A. Brown
George A. Brown
George A. Brown
William H. Brown
Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Guadalupe and vicinity, Santa Barbara County.

(T)

RATES

Per Meter
Per Month

Service Charges:

For 5/8 x 3/4-inch meter	\$ 2.00	(C)
For 3/4-inch meter	2.50	
For 1-inch meter	3.25	
For 1 1/2-inch meter	4.25	
For 1 1/2-inch meter	5.25	
For 2-inch meter	7.00	
For 3-inch meter	13.00	
For 4-inch meter	21.00	

Quantity Rates:

For all water delivered, per 100 cu.ft.	\$ 0.07	(C)
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The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

(C)

(C)

APPENDIX A
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Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

Guadalupe and vicinity, Santa Barbara County.

(T)

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
1. For a single family residential unit, or first unit of an apartment or multiple unit residence court, including premises	\$2.55	(C)
a. For each additional residential unit or apartment	1.50	
2. For each hotel or rooming house, including premises	8.00	
a. For each room in excess of five40	
3. For each small business establishment, such as a drug store, bakery, bank, garage, barber shop and service station	2.75	
4. For each large business establishment and each wash rack, bar, beauty shop and cafe	3.75	
5. For each trailer park, including washroom and laundry	5.00	
a. For each trailer space60	(C)

(Continued)

Schedule No. 2

GENERAL FLAT RATE SERVICE
(Continued)

SPECIAL CONDITIONS

1. All service not covered by the above classifications shall be furnished only on a metered basis. (N)
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. (N)