

ORIGINAL

Decision No. 68337

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of James and Theresa Carpignano,)
doing business as WEST SAN MARTIN)
WATER WORKS, under Section 454 of)
the Public Utilities Code for)
authority to increase rates for)
water service.)

Application No. 46775
(Filed July 6, 1964)

Arthur K. Lund, William C. Miller, and
Thomas F. Boxler, for applicants.
John Barberi, for Morgan Hill Fire
District, interested party.
John D. Reader, for the Commission staff.

O P I N I O N

Applicants James Carpignano and Theresa Carpignano, doing business as West San Martin Water Works, seek authority to increase their rates for water service.

A public hearing on this application was held before Examiner Catey in San Martin on October 20, 1964. Copies of the application and notice of hearing had been served in accordance with this Commission's rules of procedure. The matter was submitted on November 9, 1964.

At the hearing, testimony on behalf of applicants was presented by two accountants. The Commission staff presentation was made by a staff engineer. Five customers testified regarding their objections to the proposed rate increase.

Service Area and Water System

Applicants' service area consists of a 55-acre portion of the community of San Martin, in Santa Clara County, located on the west side of U. S. Highway 101.

Applicants' water supply is obtained from two wells having a total capacity of 650 gallons per minute, equipped with pumps driven by electric motors. Water from these wells is pumped directly into the system, with a hydropneumatic tank and automatic controls maintaining the system pressure. The water is distributed through approximately 5,700 feet of mains ranging from two to eight inches in diameter. There are approximately 60 metered services and no flat rate services nor fire protection services.

Rates

Applicants' present rates were established in June, 1963, in applicants' previous rate and certificate proceeding. They consist of schedules for general metered service and public fire hydrant service.

Applicants propose to increase the rates for general metered service. They propose to cancel the public fire hydrant service schedule and to negotiate a revised schedule with Morgan Hill Fire District.

Following is a comparison of applicants' present general metered service rates, those requested in the application, and those recommended by the Commission staff in Exhibit No. 1, all based upon service through a 5/8 x 3/4-inch meter:

TABLE I
COMPARISON OF RATES

<u>Quantity</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	
		<u>Applicant</u>	<u>Staff</u>
First 600 cu.ft. or less	\$3.25*	\$6.50*	\$5.25*
Next 1,900 cu.ft. per 100 cu.ft.	.50	1.00	.70
Next 500 cu.ft. per 100 cu.ft.	.40	.80	.70
Over 3,000 cu.ft. per 100 cu.ft.	.40	.80	.55
Average monthly consumption of 1,000 cu.ft.	5.25	10.50	8.05

* A graduated scale of increased minimum charges is provided for meters larger than 5/8 x 3/4-inch.

Customer Complaints

Exhibit No. 1, prepared jointly by a staff engineer and a staff accountant, shows that the extensive improvements which applicants have made in compliance with previous Commission orders have solved practically all of their service problems. The principal complaint of the customers who testified at the hearing was the large percentage increase in rates requested by applicants. Other complaints related to lack of fire hydrants, an inadequate valve on a service pipe, a portion of the new mains' alleged location on private property, the high cost of frequent rate applications, alleged laxity in cleaning out a new meter box, applicants' refusal to provide a 3/4-inch standby service to one customer and a 20-inch service to another, dirty water over a period of years, and low pressure when neighbors use water. Many of the complaints appear to relate to conditions which have already been corrected.

The staff engineer pointed out that applicants do not have a listing under the name of West San Martin Water Works in the telephone directory for Santa Clara County. He recommended that this be corrected. His recommendation will be adopted herein.

Results of Operation

Witnesses for applicants and the Commission staff have analyzed and estimated applicants' operational results. Summarized in Table II, from the staff's Exhibit No. 1 and from applicants' Exhibit E attached to the application, are the estimated results of operation for the year 1964, under present water rates and those proposed by applicants and the staff. For comparison, this table also shows the results of operation adopted herein.

TABLE II
ESTIMATED RESULTS OF OPERATION, YEAR 1964

	<u>Staff</u>	<u>Applicants</u>	<u>Adopted</u>
<u>Present Rates</u>			
Operating Revenues	\$4,260	\$3,800	\$4,100
<u>Deductions</u>			
Operating Expenses	3,080	3,620	3,100
Depreciation	1,194	1,220	1,200
Taxes, Other than on Income	300	230	300
Income Taxes	-	-	-
Total	<u>4,574</u>	<u>5,070</u>	<u>4,600</u>
Net Revenue	(314)	(1,270)	(500)
Rate Base	37,300	43,993	37,300
Rate of Return	Loss	Loss	Loss
<u>Rates Proposed by Applicants</u>			
Operating Revenues	8,520	7,600	8,200
<u>Deductions</u>			
Other than Income Taxes	4,574	5,070	4,600
Income Taxes	400	-	300
Total	<u>4,974</u>	<u>5,070</u>	<u>4,900</u>
Net Revenue	3,546	2,530	3,300
Rate Base	37,300	43,993	37,300
Rate of Return	9.51%	5.75%	8.8%
<u>Rates Recommended by Staff</u>			
Operating Revenues	6,500		6,200
<u>Deductions</u>			
Other than Income Taxes	4,574		4,600
Income Taxes	61		-
Total	<u>4,635</u>		<u>4,600</u>
Net Revenue	1,865		1,600
Rate Base	37,300		37,300
Rate of Return	5.0%		4.3%

(Red Figure)

Operating Revenues

The 1964 revenue estimates of the staff and applicants are both based upon studies of actual monthly consumption for each customer during 1963. The staff's Exhibit No. 5 and applicants' Exhibit No. 2 differ considerably, however, in their summaries of actual consumptions for the first five months of the year. The staff checked the accuracy of its summaries by computing the revenues which should have been produced under the tabulated customer usage and found that the computed revenues were almost identical with recorded revenues. A similar check of applicants' summaries in Exhibit No. 2, shows that revenues computed from those summaries are significantly lower than recorded revenues,

One of applicants' witnesses testified that he checked the accuracy of the water usage data in Exhibit No. 2 by applying present rates thereto, and found that the computed revenues were reasonably close to recorded revenues for the first nine months of 1964. This does not verify the 1963 data, but does indicate that consumption for 1964 was lower than for 1963. The staff revenue estimates are adopted herein, with a downward adjustment of about five percent in recognition of possible lower consumption in the future than during the year 1963.

Operating Revenue Deductions

The principal difference between the 1964 operating expense estimates of the staff and applicants is due to the staff's reduced allowance for payroll and average annual expense of rate proceedings. The staff estimate of operating expenses, increased slightly to allow for additional postage expense, appears reasonable and is adopted herein.

The staff's estimate of depreciation expense is based upon the 2.8 percent rate prescribed by Decision No. 65286, dated May 1, 1963, in Application No. 43450. This rate has been used in computing the depreciation expense adopted herein.

Rate Base

The rate base estimated by the staff is lower than estimated by applicants due to the staff's exclusion of interest during construction and operating expense items from plant accounts, exclusion of part of the cost allocated to a portion of applicants' property used as a pump site, and exclusion of the extra cost of overbuilt plant.

The staff eliminated all interest during construction because the actual construction period was short. It is not normal nor recommended practice for small utilities to capitalize interest during construction, particularly in construction of short duration.

The other staff rate base adjustments also appear reasonable for the purpose of this proceeding and will be adopted herein. This, however, does not preclude applicants in future rate proceedings from presenting additional data, on the presently overbuilt plant if the customer density increases, and on the allocated cost of the site of Well No. 2 if additional information becomes available as to relative values of comparable nearby properties.

Rate of Return

At the conclusion of the hearing, applicants went on record as willing to accept the 52 percent increase in rates recommended by the staff, even though they do not concur with the staff's derivation of rate of return. They pointed out that their

total investment is much greater than indicated by the rate base because of the large parcel of land they had to purchase to obtain a small well site and because of their overbuilding of certain mains to effect long-range economies.

The history of applicants' operations, as outlined in previous Commission decisions, shows that applicants and their predecessors operated the water system for many years without authorization of this Commission. Had the installers of the original substandard system sought authorization of this Commission before construction was commenced, as required by Section 1001 of the Public Utilities Code, an appropriate system would have been required at that time and applicants' recent replacement of almost the entire system would have been unnecessary. Under these circumstances, applicants cannot expect to earn a normal return on their investment in the water system until such time as the investment per customer is reduced by addition of new customers. Increases in rates at this time to a level higher than recommended by the staff would discourage new customers and could even cause the loss of some present customers.

Fire Protection

Applicants' present tariffs include a schedule of rates for public fire hydrant service, providing for monthly charges of \$3.00 per hydrant, which hydrants are required to be installed and maintained by the utility. Morgan Hill Fire District has requested applicants to install certain fire hydrants, but applicants indicate they wish to negotiate the terms and conditions of fire hydrant service, as permitted by Section III.2.b. of General Order No. 103. Applicants are placed on notice that the

cited section of the General Order applies to situations where no applicable tariff has yet been filed by the utility and to those situations where both the fire protection agency and the utility agree to negotiate a change to be requested by the utility in an appropriate advice letter.

Inasmuch as a portion of applicants' present investment could reasonably be allocated to fire protection service when hydrants are installed, the investment of some \$300 to \$400 for each new hydrant installed warrants the monthly charge of \$3.00 per hydrant and would improve applicants' overall rate of return. In Exhibit No. 1, the staff suggests an alternative schedule with an appropriate reduction to \$2.00 per hydrant per month for any hydrants owned and maintained by the fire protection agency. The staff suggestion will be adopted herein.

Findings and Conclusion

The Commission finds that:

1. Applicants are in need of additional revenues, but the proposed rates set forth in the application are excessive.
2. The adopted estimates, previously summarized and discussed herein, of operating revenue, operating expenses and rate base for the year 1964, reasonably represent the results of applicants' operations and are reasonable, and under the circumstances outlined herein, a rate of return of 4.3 percent on said rate base is reasonable for the purposes of this proceeding.
3. The increases in rates and charges recommended by the staff, acceded to by applicants, and authorized herein, are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

4. Applicants do not have an adequate telephone directory listing.

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicants James Carpignano and Theresa Carpignano are authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be January 1, 1965, or four days after the date of filing, whichever is later.

2. Within thirty days after the effective date of this order, applicants shall make application for an appropriate listing in the telephone directory for Santa Clara County under the name of West San Martin Water Works, and shall file in this proceeding written notice that such application has been made.

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

Dated at San Francisco, California, this 15th day of DECEMBER, 1964.

Frederick B. Halaloff
President
George H. Turner
William W. Bennett
Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The western portion of the community of San Martin, and vicinity, Santa Clara County.

RATES

		<u>Per Meter</u>	
		<u>Per Month</u>	
Quantity Rates:			
First	600 cu.ft. or less	\$5.25	(1)
Next	2,400 cu.ft., per 100 cu.ft.70	
Over	3,000 cu.ft., per 100 cu.ft.55	
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$5.25	(1)
For	3/4-inch meter	7.75	
For	1-inch meter	12.50	
For	1 1/2-inch meter	25.00	
For	2-inch meter	34.00	
For	3-inch meter	57.00	
For	4-inch meter	90.00	

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

Schedule No. 5

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.

TERRITORY

The western portion of the community of San Martin, and vicinity, Santa Clara County.

RATE

	Per Month		
	Utility Owns and Maintains Hyd. Installation	Customer Owns and Maintains (c) Hyd. Installation	
For each hydrant	\$3.00	\$2.00	(c)

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

3. 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 ownership, type and the size of hydrant and the specific location at which each is to be installed.

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.