

**ORIGINAL**

Decision No. 68743

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
BRUCE E. BAIRD and NEVA B. BAIRD, )  
doing business as BRUCE E. BAIRD )  
WATER CO., under Section 454 of the )  
Public Utilities Code for Authority )  
to Increase Rates for Water Service.)

Application No. 47030  
(Filed October 7, 1964)

O P I N I O N

Applicants Bruce E. Baird and Neva B. Baird, doing business as Bruce E. Baird Water Company, seek authority to increase their rates for water service.

At the request of this Commission, applicants sent a notice to each customer regarding the requested rate increase, inviting the customers to call the Commission's attention to any problems covering water service, billing procedure or other factors pertaining to a reasonable charge for water service. Eleven letters were received by the Commission. Objections set forth in those letters are summarized in a staff report, hereby made a part of the record as Exhibit No. 1.

The Commission staff made a field investigation of the utility's operations during November of 1964. Plant and facilities were inspected, customers were interviewed, and company records were reviewed. The results of the staff investigation also are presented in Exhibit No. 1.

Service Area and Water System

Applicants provide water service to some 300 customers in the northerly portion of the City of Salinas, Monterey County.

About 65 percent of the customers receive metered service and the remainder are served on a flat-rate basis. Four public fire hydrants are served by the system.

The sources of supply consist of two wells equipped with pumps driven by electric motors. Water is pumped from one of the wells into a storage tank, whence a booster pump delivers the water to the distribution system. Water from the other well is delivered by the well pump into the distribution system without storage or additional boosting. A hydropneumatic tank controls the pressure as the water enters the distribution system, which consists primarily of about 14,000 feet of 1½-inch to 6-inch mains.

Tariffs

Applicants' present meter rates and residential flat rates have been in effect since 1940. Table I shows a comparison of present rates, those proposed by applicants and those recommended by the staff in Exhibit No. 1.

Table I  
Comparison of Monthly Rates

<u>Item</u>	<u>Present</u>	<u>Proposed</u>	
		<u>Appli-</u>	<u>Staff</u>
		<u>cants</u>	
<u>Meter Rates</u>			
<u>Quantity Rates</u>			
First 500 cu.ft. or less . . . . .	\$1.50*	\$3.00*	\$2.25*
Next 100 cu.ft., per 100 cu.ft. . . . .	0.00*	0.40	0.00*
Next 150 cu.ft., per 100 cu.ft. . . . .	0.00*	0.40	0.25
Next 250 cu.ft., per 100 cu.ft. . . . .	0.20	0.40	0.25
Next 2,000 cu.ft., per 100 cu.ft. . . . .	0.15	0.30	0.25
Over 3,000 cu.ft., per 100 cu.ft. . . . .	0.10	0.20	0.15
<u>Minimum Charge</u>			
For 5/8 x 3/4-inch meter . . . . .	1.50	3.00	2.25
For 3/4-inch meter . . . . .	2.00	4.25	3.50
For 1-inch meter . . . . .	2.50	6.50	5.50
For 1½-inch meter . . . . .	3.50	11.00	9.00
For 2-inch meter . . . . .	5.00	16.00	12.50
For 3-inch meter . . . . .	-	30.00	21.00
For 4-inch meter . . . . .	-	45.00	32.00

\* Included in Minimum Charge.

Table I (Continued)

<u>Item</u>	<u>Present</u>	<u>Proposed</u>	
		<u>Appli-</u> <u>cants</u>	<u>Staff</u>
<u>Flat Rates</u>			
Single-family residential unit . . .	\$1.50	\$3.00	\$2.40
Add'l units on same premises . . .	1.50	2.00	2.00
Each 100 sq.ft. of premises in excess of 2,500 sq.ft., but not over 6,000 sq.ft. . . . .	0.025	0.00	0.04
Each 100 sq.ft. of premises in excess of 6,000 sq.ft. . . . .	0.025	0.50	0.04

Exhibit No. 1 states that applicants have been misapplying their meter rates for monthly usage of less than 1,000 cubic feet. Applicants are hereby placed on notice that Section 454 of the Public Utilities Code prohibits any such unauthorized increase.

Applicants' tariffs also include a schedule filed in 1955 providing for flat-rate service to 19 specific business customers. Exhibit No. 1 shows that several other business customers are being served at flat rates which are not on file. Applicants have not requested any change in business flat rates, but the staff recommends that the schedule be brought up to date by listing all present business flat-rate customers on the schedule. The staff points out that the business customers have widely varying water requirements and recommends that such service be provided only on a metered basis, as soon as meters can be installed. Exhibit No. 1 states that applicants intend to meter all business services during the year 1965.

Applicants do not have a filed rate for public fire hydrant service. The staff recommends that the present charge of \$2.00 per hydrant per month paid by the City of Salinas be incorporated in a conventional tariff schedule for such service.

Applicants' tariff service area map and most of their rules were filed in 1940. The staff recommends that these be brought up-to-date. The staff also recommends that applicants be required to prepare and keep current the detailed system map required by General Order No. 103.

#### Service and Improvements

Exhibit No. 1 shows that no informal complaints had been filed concerning applicants' operations during the years 1963 and 1964. Pressure readings taken at various places during the staff investigation showed operating pressures within the limits prescribed by General Order No. 103. The investigation disclosed, however, that two customers on Rochex Avenue are served through a single long 3/4-inch service pipe. The staff recommends that the two separate properties be provided with separate service connections.

#### Results of Operations

Applicants and the Commission staff have each analyzed and estimated applicants' operational results. Estimated results for the year 1964, under both present and proposed rates, are set forth in Exhibit E, attached to the application. Estimated results for the years 1964 and 1965, under present rates and under those proposed by applicants, are shown in the staff's Exhibit No. 1. Both presentations are summarized in Table II below, together with a summary of earnings at the rates recommended by the staff.

Table II  
Summaries of Earnings

<u>Item</u>	<u>1963 Recorded</u>	<u>Staff</u>	<u>1964 Applicants</u>	<u>1965 Staff</u>
<u>At Present Rates</u>				
Operating Revenues	\$ 8,032	\$10,361	\$ 9,084	\$10,390
<u>Deductions</u>				
Operating Expenses	9,439	10,275	19,486	10,400
Depreciation	1,113	1,610	1,571	1,680
Taxes Other than on Income	739	740	835	750
Total	<u>11,291</u>	<u>12,625</u>	<u>21,892</u>	<u>12,830</u>
Net Revenue	<u>(3,259)</u>	<u>(2,264)</u>	<u>(12,808)</u>	<u>(2,440)</u>
<u>At Rates Proposed by Applicants</u>				
Operating Revenues	-	20,870	18,488	22,800
<u>Deductions</u>				
Other than Income Taxes	-	12,625	21,892	12,830
Income Taxes	-	1,950	0	2,360
Total	<u>-</u>	<u>14,575</u>	<u>21,892</u>	<u>15,190</u>
Net Revenue	-	6,295	<u>(3,404)</u>	7,610
Rate Base	-	41,400	40,983	42,100
Rate of Return	-	15.2%	Loss	18.1%
<u>At Rates Recommended by Staff</u>				
Operating Revenues	-	-	-	16,160
<u>Deductions</u>				
Other than Income Taxes	-	-	-	12,830
Income Taxes	-	-	-	610
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,440</u>
Net Revenue	-	-	-	2,720
Rate Base	-	-	-	42,100
Rate of Return	-	-	-	6.5%

(Red Figure)

Operating Revenues

Exhibit No. 1 shows that applicants underestimated 1964 revenues. Total recorded billings for the first ten months of 1964 were over \$9,000, as compared with applicants' estimate of \$9,084

for the entire year. The staff's estimates for 1964 were based upon a water use table whose accuracy was found to be within one percent, based upon recorded revenues. The staff estimates of operating revenues for the year 1965 include an estimate of the additional revenues that would be realized from metering all business services and from two additional customers expected to be added during the year.

Operating Expenses

Applicants estimated that their 1964 expenses, exclusive of taxes and depreciation, would be \$19,486, which is more than double the recorded 1963 expenses. The staff estimated the reasonable level of those expenses to be \$10,275 for 1964 and \$10,400 for 1965. A detailed discussion of differences between applicants' and staff's estimates of the various components of operating expenses is presented in Exhibit No. 1. These differences are summarized in Table III below:

Table III

Differences in Expense Estimates

<u>Expenses</u>	<u>Applicants Exceed Staff</u>
Supply, Transm., Distr., & Treatment Expense	\$2,516
Payroll & Accounting Expense	2,462
Maint. & Repairs, Pumps & Meters	2,420
Transportation, Insurance & Office Expense	783
Rate Case Expense	750
Purchased Power	<u>280</u>
Total difference in estimates	\$9,211

The staff estimates of supply, transmission, distribution and treatment expense and of payroll and accounting expense are based upon analyses of such expenses actually incurred in prior years whereas many of applicants' estimates are more than double the recorded expenses in those years. The staff estimates for

maintenance and repairs of pumps and meters are based upon such expenses actually incurred, increased somewhat for a higher meter repair cost in the future, whereas applicants presented no explanation of the basis for their estimates. The staff estimates of transportation, insurance and office expense took into account the near proximity of the service area to the office, actual insurance coverage, and the fact that office space is shared with other enterprises of applicants, whereas applicants apparently did not consider these factors. The staff spread rate case expense over a five-year period to obtain an average annual expense, whereas applicants did not. The staff had more recent data on actual power bills than did applicants.

#### Depreciation

Applicants used the straight-line total life method for computing depreciation, with lives of 28 years assigned to some items of plant and 35 years applied to other items. The staff used the straight-line remaining life method of computing depreciation and a composite accrual rate of 3.0 percent.

#### Taxes Other Than on Income

The staff examined the ad valorem tax bills for 1963 and found the charges to be reasonable. This amount was used for the staff's 1964 estimate, with no recognition being given for increased amount of plant. The staff also included in its estimates reasonable amounts for payroll taxes, which had not been considered by applicants.

#### Rate Base

The staff's estimate of rate base for 1964 is higher than applicants' due primarily to later information available to the staff as to actual cost of plant additions. The corresponding

1965 estimate by the staff reflects the average of adjusted beginning-of-year and estimated end-of-year net plant.

Rate of Return

Applicants have made no showing as to what they consider to be a fair rate of return. The staff suggests in Exhibit No. 1 that a 6.5 percent return on applicants' rate base as computed by the staff for the year 1965 be considered reasonable. In suggesting this rate of return, the staff has given recognition to the fact that applicants intend to meter all of the remaining flat-rate residential services within five years, and that a more active metering program could result in higher gross revenues and net revenues than the staff forecasts for the year 1965.

Discussion

Because of the elimination of all flat rate business service during 1965, and changes in income tax rates effective January 1, 1965, the year 1964 would not be an appropriate test period for determining rates, unless estimates for that year were adjusted to reflect the change to metered service and the lower tax rate. The staff estimates of revenues for 1965 have been so adjusted, but corresponding adjustments were apparently not made in Exhibit No. 1 on a full-year basis for the effect on plant and working cash in rate base, for extra meter repair expense, and for additional depreciation expense and ad valorem taxes. The staff estimates for 1965 are adopted with modifications to ad valorem taxes in recognition of growth of plant, and to expenses, depreciation, taxes and rate base, consistent with the elimination of flat rate business service.



The revised summary of earnings for the test year 1965 is shown in Table IV, under present rates, under applicants' proposed rates and under the rates authorized herein.

Table IV

Adopted Summary Of Earnings

	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
Operating Revenues	\$10,390	\$22,800	\$16,500
<u>Deductions</u>			
Operating Expenses	10,500	10,500	10,500
Depreciation	1,700	1,700	1,700
Taxes Other than on Income	900	900	900
Income Taxes	0	2,300	600
Total	<u>13,120</u>	<u>15,400</u>	<u>13,700</u>
Net Revenue	(2,730)	7,400	2,800
Rate Base	-	43,000	43,000
Rate of Return	Loss	17.2%	6.5%

(Red Figure)

Table IV shows that an increase of approximately \$6,100, or 59 percent, in annual revenues at the 1965 level of business will be required to produce a rate of return of 6.5 percent on applicants' rate base. The rates authorized herein are designed to produce a 59 percent increase over the revenues at present rates. They are thus slightly higher than the rates recommended in Exhibit No. 1, which rates would have produced a 56 percent increase. The average monthly bill of about \$3.35 estimated by the staff under present meter rates is equivalent to the charge for a monthly consumption of 1,900 cubic feet, which quantity will cost \$5.60 under the rates authorized herein. The average monthly bill of about \$2.00 estimated by the staff under present flat rates is equivalent to the charge for a residence on a 45' x 100' lot, which service will cost \$3.30 under the rates authorized herein.

Findings and Conclusions

The Commission finds that:

1. Applicants are in need of increased revenues.
2. The estimates of operating revenues, expenses (including taxes and depreciation), and rate base as submitted by the staff for the year 1965, modified as discussed herein, reasonably represent the results of applicants' future operations and are reasonable.
3. A rate of return of 6.5 percent on applicants' 1965 rate base is reasonable for the purposes of this proceeding.
4. The increases in rates and charges recommended by the staff 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.
5. Applicants' present tariff service area map and rules need revision to bring them up-to-date.
6. Applicants have not prepared and kept current the system map required by General Order No. 103.
7. A depreciation rate of 3.0 percent is reasonable to apply to applicants' depreciable plant.
8. A single service pipe supplying two customers on Rochex Avenue is not adequate; a separate service pipe to each of these customers is necessary to provide adequate service.
9. To insure equitable distribution of charges, all business customers should be served only on a metered basis, but applicants should be given a reasonable time to install the necessary meters.

The Commission concludes that the application should be granted to the extent set forth in the order which follows. It does not appear that a public hearing is necessary but, due to the rather significant differences between the estimates of operational results presented by applicants and the staff, applicants will be afforded an opportunity to request a hearing.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicants Bruce E. Baird and Neva B. Baird 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 April 15, 1965, or four days after the date of filing, whichever is later.
2. Within forty-five days after the effective date of this order, applicants shall file a revised tariff service area map, appropriate general rules and sample copies of printed forms that are normally used in connection with customers' services. Such filing shall comply with General Order No. 96-A. The effective date of the revised tariff sheets shall be four days after the date of filing.
3. Applicants shall prepare and keep current the system map required by paragraph I.10.a. of General Order No. 103. Within ninety days after the effective date of this order, applicants shall file with the Commission two copies of this map.
4. For the year 1965 applicants shall apply a depreciation rate of 3.0 percent to the original cost of depreciable plant. Until review indicates otherwise, applicants shall continue to use

this rate. Applicants shall review their depreciation rates at intervals of five years and whenever a major change in depreciable plant occurs. Any revised depreciation rate shall be determined by: (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the remainder by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

5. Within sixty days after the effective date of this order, applicants shall install separate service lines for the two services presently served through one long 3/4-inch service connected to the main on Rochex Avenue. Within ten days after this installation is completed, applicants shall file in this proceeding written notice thereof.

6. On or before September 1, 1965, applicants shall install meters on the services of all business customers presently served under flat rates. Commencing July 30, 1965, and until the work is completed, applicants shall file in this proceeding monthly reports on the progress of this work.

The effective date of this order shall be twenty days after the date hereof unless before such effective date applicants shall have filed in this proceeding a written request for hearing, in which event the effective date of this order shall be stayed until further order of this Commission.

Dated at San Francisco, California, this 17<sup>th</sup> day of MARCH, 1965.

Frederick B. Halchett  
President

George D. Hoover

Augustor

William L. Bennett

Commissioners

APPENDIX A  
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Within the certificated area in the northerly portion of the City of Salinas, Monterey County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 600 cu.ft. or less .....	\$ 2.35	(I)
Next 2,400 cu.ft., per 100 cu.ft. ....	.25	
Over 3,000 cu.ft., per 100 cu.ft. ....	.15	(I)
Minimum Charge:		
For 5/8 x 3/4-inch meter .....	\$ 2.35	(I)
For 3/4-inch meter .....	3.50	
For 1-inch meter .....	5.50	
For 1 1/2-inch meter .....	10.00	
For 2-inch meter .....	14.00	
For 3-inch meter .....	22.00	
For 4-inch meter .....	36.00	(I)

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. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Within the certificated area in the northerly portion of the City of Salinas, Monterey County.

RATES

	<u>Per Service Connection Per Month</u>	
For a single-family residential unit, including premises not exceeding 2,500 sq.ft. in area .....	\$2.50	(I)
a. For each additional single-family residential unit on the same premises and served from the same service connection .....	2.00	
b. For each 100 sq.ft. of premises in excess of 2,500 sq.ft. ....	.04	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classifications shall be furnished only on a metered basis.
3. 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.

APPENDIX A  
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Schedule No. 2X

LIMITED BUSINESS FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished on a flat rate basis to business establishments of premises listed in this schedule, pending installation of meters.

TERRITORY

Within the certificated area in the northerly portion of the City of Salinas, Monterey County.

RATES

<u>Nature of Business and Address of Premises Served</u>	<u>Per Service Connection Per Month</u>
1. Garage - 7 Curtis St. ....	\$ 1.50
2. Motel - 11 Curtis St. ....	12.00
3. Builders Supply and Hardware - 15 Curtis St. .	1.50
4. Church - 26 Curtis St. ....	1.50
5. Beauty Shop - 1279 N. Main .....	3.50
6. Barber Shop - 1273 N. Main .....	1.50
7. Cleaning Shop - 1281 N. Main .....	1.50
8. Shoe Shop - 1275 N. Main .....	1.50
9. Liquor Store - 1277 N. Main .....	2.00
10. Motel - 1351 N. Main .....	18.00
11. Restaurant - 1297 N. Main .....	10.00
12. Motel - 1325 N. Main .....	20.00
13. State Highway Department - 1333 N. Main .....	15.00
14. Grocery Store and Rooming House - Curtis and N. Main .....	8.00
15. Motel - 1345 N. Main .....	20.00
16. Motel - 1287 N. Main .....	15.00
17. Service Station - 1299 N. Main .....	3.00
18. Market - 1271 N. Main .....	2.50
19. Drive-In Restaurant - 1307 N. Main .....	3.50
20. Restaurant and Motel - 1297 N. Main .....	30.00
21. ABC Towing - 1333 N. Main .....	17.50
22. Motel - 1345 N. Main .....	15.00
23. York Gin - 1325 N. Main .....	20.00
24. Motel - 1351 N. Main .....	15.00

(N)  
|  
(N)

(Continued)

Schedule No. 2X

LIMITED BUSINESS FLAT RATE SERVICE  
(Continued)

SPECIAL CONDITIONS

1. No new premises will be served under this schedule.
2. The above rates shall apply to the premises listed at the above addresses, regardless of change of occupant or owner.
3. On or before September 1, 1965, all customers served under this schedule will be served under Schedule No. 1, General Metered Service.
4. This schedule will be effective only to and including August 31, 1965 and thereafter will be withdrawn. (C)



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

Within the certificated area in the northerly portion of the City of Salinas, Monterey County.

RATE

Per Month

For each hydrant ..... \$2.00

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