

ORIGINAL

Decision No. 69445

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Jurupa Hills Water Company, a Corporation, for an order authorizing increases in present water rates.

Application No. 47187
(Filed December 14, 1964)

Robert O. Hunter, for applicant.
E. C. Crawford and H. J. Lindenmeyer, for the Commission staff.

O P I N I O N

Applicant seeks an increase of 100 per cent in rates for general metered service. No increase is requested in rates for limited metered surplus irrigation service, public fire hydrant service or water haulage service. As of January 1, 1965, service was being provided in the northwest portion of Riverside County to 280 meter rate customers and 14 fire hydrants.

The matter was heard and submitted before Examiner Patterson in Riverside on April 13, 1965. No customers appeared at the hearing.

Present rates as established by Decision No. 60502, dated August 2, 1960, in Application No. 40932, for a certificate of public convenience and necessity, include a basic minimum monthly charge for general metered service of \$2.00 for 800 cubic feet or less.

The summary of earnings included as Exhibit D in the application as filed is based upon the 12-month period ending October 31, 1964. The summary shows operating revenues of \$18,197

including water haulage of \$4,268 for water delivered to tank trucks for construction purposes. Operating expenses including depreciation, taxes, and apparently interest on debt, are shown as exceeding revenues. The development of a depreciated rate base of \$147,399 is also shown.

At the hearing applicant amended its application to show recent additions to plant and an estimate for 1965 operations. By the amendment permission was requested to issue stock and to sell surplus water to Rubidoux Community Services District.

The Commission staff made an independent study of applicant's operations and presented the results in Exhibit 1. According to the staff report applicant's present certificated area covers 555 acres located 2 miles east of the community of Pedley in Riverside County. The service area ranges in elevation from 720 feet to 1,217 feet, and has an ultimate potential of 800 residential customers. The water supply is obtained from 2 wells located in the Santa Ana River Basin, 1 mile east of the certificated area.

The combined production of these wells is reported by the staff to be 600 gallons per minute against a total head of 368 feet. The report indicates that there has been little change in the standing water level since 1962 and that additional wells can be drilled in the area should the need for additional production arise. The two well pumps are manually controlled and discharge into a 3,800-foot 8-inch transmission main and the distribution system. A 100,000-gallon reservoir is located at an elevation of 1,080 feet.

The staff engineer testified that since the well pumps

are manually controlled the reservoir often overflows. A 10-horsepower pressure controlled booster pump supplies water to customers in the upper service zone. A 28,000-gallon reservoir is installed at an elevation of 1,208 feet to operate in connection with the booster pump but the reservoir has never been connected to the system.

Applicant is operating under a water supply permit issued by the Riverside County Department of Public Health. Application has been made for a State Department of Public Health permit but as yet it has not been issued.

A letter survey to each of applicant's customers initiated by the staff comparing present rates with those proposed in the application resulted in 18 letters and 2 petitions containing 74 signatures, all protesting the magnitude of the proposed increase in rates.

The staff made field investigations of applicant's operations and reported that operating water pressure at the highest elevations on the booster pump system fluctuated between 10 and 45 pounds per square inch. Several customers interviewed by the staff engineer protested numerous service interruptions without prior notification and complained of dirt and air in the water when service was resumed. The staff report indicates that these service deficiencies have been pointed out in previous proceedings involving applicant and they had not been corrected at the time of the staff field investigations.

The staff accounting witness testified it was necessary to make a number of adjustments to recorded 1964 expenses and utility plant items. These adjustments as detailed in Exhibit 1 include a utility plant acquisition adjustment of \$15,929. The adjustment

eliminates from the plant accounts amounts recorded therein for pumping equipment and Well No. 8 which were not part of the water system properties acquired from the former owner of the utility system.

The staff report contains a comparison of recorded operating results for the year 1964 with 1964 adjusted and 1965 estimated. A summary of these results at present rates is shown below:

RESULTS OF OPERATION - PRESENT RATES

Item	: 1964 : Recorded	: 1964 : Adjusted	: 1965 : Estimated
<u>Operating Revenue</u>			
Metered Service	\$14,587	\$15,100	\$19,100
Metered Haulage Service	4,829	4,800	4,800
Total Revenue	19,416	19,900	23,900
<u>Operating Rev. Deductions</u>			
<u>Operating Expenses</u>			
Payroll	3,918	4,680	5,350
Power	3,823	2,630	3,000
Maint. Expenses	1,702	1,830	1,900
Billing & Collecting	(16)	980	1,000
Transportation	-	260	500
General Expense	1,116	1,200	1,200
Total	10,543	11,580	12,950
Depreciation	4,529	4,281	5,014
Taxes Other Than Income	3,101	1,840	1,973
Taxes Based on Income	100	100	100
Total Deductions	18,273	17,801	20,037
Net Revenue	1,143	2,099	3,863
Average Depr. Rate Base		76,140	75,270
Rate of Return		2.8%	5.1%

At proposed rates the staff calculations show a rate of return of 18.6 per cent for the adjusted year of 1964 and 25.5 per cent for the estimated year 1965.

The staff figures under operating revenues reflect water use under normal rainfall and temperature conditions and an adjustment for applicant's failure to read meters during the months of

May and June which resulted in lower revenue due to improper prorating of bills in July 1964.

Under operating expenses the staff adjusted payroll upwards by \$762 to reflect a more reasonable allocation of personnel between utility operations and affiliated interests; power for pumping was adjusted downward to include only the energy charges required to pump water sold plus 15 per cent allowance for unaccounted for water; billing and collecting expense was adjusted upward by \$1,000 to include a reasonable amount for postage, printing and other material associated with those activities; and under transportation an allowance of \$5 per week was provided for use of the foreman's private vehicle.

Taxes other than income were adjusted downward to reflect only water company payroll taxes. Federal income taxes reflect tax rates which will be in effect in 1965 and the effect of investment tax credit.

Depreciation expense was adjusted to reflect the effects of the utility plant acquisition adjustment and other adjustments recommended by the staff witnesses.

The staff's rate base is much less than applicant's rate base because of staff adjustments to utility plant and depreciation reserve and because applicant, in its estimate, failed to deduct unrefunded advances for construction. The staff's rate bases reflect deductions for advances of \$60,800 for the 1964 adjusted year and \$82,290 for the 1965 estimated year. The staff included allowances for working cash and material and supplies totaling \$2,271 more than applicant had allowed.

The staff engineering witness recommended that applicant

be required to install and place in operation automatic controls on all well pumps; a main not less than 4 inches in diameter to connect the existing 28,000-gallon reservoir to the distribution system; additional storage capacity of at least 200,000 gallons; and a connection not less than 8 inches in diameter from the distribution system in Tract No. 2354 with the existing main in Limonite Avenue. The staff report details the estimated cost of these recommended plant improvements as follows:

Land for new reservoir site	\$ 1,000
Main to connect to 28,000-gal. reservoir	1,310
Automatic controls for wells	350
200,000-gallon storage reservoir	10,000
8-inch main to connect Tract No. 2354	10,000
Contingencies and overhead	340
Total	\$ 23,000

If these staff-recommended improvements are installed the staff calculated under present rates a rate of return of 1.2 per cent for the 1964 adjusted year and 3.0 per cent for the 1965 estimated year.

Exhibit 1 shows applicant's capital and liabilities adjusted at December 31, 1964 as follows:

Common Stock Equity	\$ 1,119
Long Term Debt - Payable to T. L. Clay	75,000
Note Payable to Cinderella Estates	11,514
Current and Accrued Liabilities	5,483
Advances for Construction	73,926
Total Capital and Liabilities	\$ 167,042

The staff accounting witness testified that the \$11,514 note payable to Cinderella Estates and bearing a 6 per cent interest rate should be considered as analagous to common equity as Cinderella Estates, a developer of land served by applicant, is an affiliate of applicant having the same common sole stockholder.

In view of the fact that applicant's capital structure is largely composed of the \$75,000 note bearing a 4 per cent per annum interest rate, the staff accounting witness concluded that a 5 per cent rate of return on rate base would be reasonable and adequate, provided applicant does not install the plant improvements recommended by the staff. If applicant does install these improvements he recommended that a 6 per cent rate of return be allowed due to the probable higher cost of financing such improvements. These rates of return would produce returns on equity capital of 6.4 per cent and 8.2 per cent respectively.

The staff suggested that when the recommended improvements had been installed to the satisfaction of the Commission, applicant could be authorized by supplemental order to file revised rates which would increase gross revenues by approximately \$2,100, thereby yielding a 6 per cent rate of return on the staff rate base.

By amendment made at the hearing, in contrast to revenues of \$18,197 on which the application was based, applicant urged the adoption of a revenue estimate for 1965 of \$15,800. This estimate is comprised of \$15,389 for metered sales based on a projection of the 5.5 per cent increase experienced during the first three months of 1965 as compared with 1964, and a water haulage revenue of \$420. Applicant contended that the recorded water haulage revenue of \$4,829 for the 1964 recorded year was abnormally high because of purchase of construction water by subdividers. Water haulage for that year, exclusive of purchases by the four subdividers, amounted to \$389. Applicant's president testified that Heers Development Company had ceased purchasing construction water as it had developed a source of water more economical to use. He also presented in

Exhibit K letters from his three affiliates, Jurupa Estates, Inc., Cinderella Estates, Inc., and Jurupa Development Corporation, each stating in substance that they would not require construction water in the future from the utility as they would secure it from the 350" Water Company, a mutual company.

For expenses applicant urged the adoption of approximately \$22,000 as reported by the utility on its Federal Income Tax return for 1964.

Applicant presented in Exhibit I a cost summary of the improvement program substantially as recommended by the staff. Applicant's president testified, and Exhibit I indicates that connection of Tract No. 2354 with the existing main in Limonite Avenue has been completed at a cost of approximately \$12,481, and connection of the upper reservoir to the distribution system by a 6-inch main has been completed at a cost of approximately \$5,634. The witness testified further that he will proceed to install in 1965, automatic controls on all pumps and a 150,000-gallon reservoir. His estimated cost for these items, along with expenditures already made, and an allowance for contingencies of approximately \$2,885, results in a requirement for system improvement of \$30,000.

By amendment made at the hearing applicant requested permission to issue \$30,000 of stock to finance the plant additions described above, and up to \$45,000 of stock for operating capital in the event no increase in rates is granted.

By the amendment applicant also requested authority to sell surplus water on a temporary basis to Rubidoux Community Services District. As support for adequacy of supply for such surplus sales, applicant presented Exhibit E summarizing reports

of pump tests made on Well No. 11 in 1960 and Well No. 13 in 1962, showing under low head conditions a combined production of 866 gallons per minute.

In comparing the staff's and applicant's estimates, we note that the staff's estimates reflect adjustments for abnormal conditions and the expense estimates, which are consistent with the revenue estimates, indicate that detailed consideration has been given to each item. Applicant's estimates are not consistent as revenues are based upon a short period of the 1965 year whereas expenses are taken directly from the 1964 recorded year without even eliminating interest expense. We are of the opinion that the letters from applicant's affiliates in Exhibit K are self-serving documents which do not reflect conditions as they will exist in the year 1965. Under the circumstances we find that the staff's estimates of revenues and expenses for the year 1965 are reasonable and we will adopt them for the purposes of this proceeding.

In regard to rate base, we find that the staff's estimate which reflects the plant acquisition adjustment and the deduction of unrefunded advances is reasonable, provided it is adjusted to more nearly reflect the probable costs of system improvements for 1965. Applicant's allowances for system improvements as set forth in Exhibit I are acceptable with the exception of the amount for contingencies. We find that a total allowance of \$28,000 for 1965 system improvements is reasonable. This results in the adoption of a depreciated rate base for 1965 of \$101,930.

In consideration of the requirements for financing the system improvement program, we find that a rate of return of 6.0 per cent on the adopted rate base is fair and reasonable.

Such a return will require gross revenues of \$27,360. We conclude therefore that an increase of approximately 18.1 per cent in rates for general metered service should be authorized so as to produce a \$3,460 increase in gross revenues. The rates hereinafter authorized will yield such increase.

The issuance of stock as proposed would improve applicant's equity ratio. We find it will be reasonable to authorize applicant to issue stock to finance installation of the specific system improvements heretofore discussed and the order will grant such authorization in the amount of \$28,000. We also find it will be reasonable to authorize applicant to issue stock in the amount of \$2,000, to raise funds for working capital and the order will so provide. We further find that the money, property or labor to be procured or paid for by the issue of the stock and indebtedness herein authorized is reasonably required for the purposes specified herein, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

In seeking authorization to sell surplus water on a temporary basis to Rubidoux Community Services District, applicant did not establish that the District desires to purchase water nor was any evidence produced as to the effect of such sales on applicant's revenues and expenses. We find that applicant failed to show that such sales would be in the public interest and consequently the request will be denied.

The record shows that by prior order of the Commission (Decision No. 68076) applicant was denied permission to expand its service area to encompass the area which it now wishes to supply through surplus sales. The denial in that instance was upon the basis that certain deficiencies in applicant's operations existed and would have to be corrected before the Commission could entertain an application to extend. When applicant has completed the system improvements recommended by the staff, and has obtained a water

permit from the State Department of Health applicant may be in a position to obtain authorization to expand.

We find that the net plant adjustment of \$15,929 made by the staff accurately reflects the elimination of utility plant not acquired on purchase of the water system and conclude that applicant should be required to record such adjustment on its books of accounts.

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. After the effective date of this order, applicant Jurupa Hills Water Company, is authorized to file the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be September 1, 1965, or four days after the date of filing, whichever is later. The revised schedule shall apply only to service rendered on and after the effective date thereof.
2. Applicant shall within 30 days after the effective date of this order install automatic controls on all well pumps, and within 10 days thereafter shall report to the Commission in writing the costs thereof along with any other pertinent information.
3. Applicant shall within 90 days after the effective date of this order install a minimum of 150,000 gallons of additional storage capacity and connect it to the distribution system, and

within ten days thereafter shall report to the Commission in writing the cost thereof along with any other pertinent information.

4. Applicant 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, applicant shall file with the Commission two copies of this map.

5. Applicant shall adjust its books of accounts for utility plant not acquired by debiting \$3,205 to Account No. 250, Reserve for Depreciation of Utility Plant, and by crediting \$1,000 to Account No. 306, Land; \$209 to Account No. 311, Structures; \$14,031 to Account No. 315, Wells; and \$3,894 to Account No. 324, Pumping Equipment, with a concurrent debit of \$15,929 to Account No. 100-5, Utility Plant Acquisition Adjustments. Within thirty days after the effective date of this order, applicant shall file a written report with the Commission setting forth a copy of the journal entries made in its books of accounts in compliance with this portion of the order.

6. Applicant is authorized to issue not to exceed \$30,000 par value of its common stock for cash and to use \$28,000 of the proceeds to finance the system improvements considered herein, and \$2,000 for working capital. This authorization will expire if not exercised within six months of the effective date of this order.

7. Applicant shall file with the Commission a report or reports as required by General Order No. 24-B, which order, insofar as applicable, is made a part hereof.

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

Dated at San Francisco, California, this 27th day of July, 1965.

Frederick B. Holbrook
President
George E. Glover
Augusta

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Jurupa Hills and vicinity, Riverside County.

RATES

		<u>Per Meter</u>	
		<u>Per Month</u>	
Quantity Rates:			
First	800 cu.ft. or less	\$ 2.35	I
Next	700 cu.ft., per 100 cu.ft.24	—
Next	1,000 cu.ft., per 100 cu.ft.18	—
Next	2,500 cu.ft., per 100 cu.ft.14	—
Over	5,000 cu.ft., per 100 cu.ft.12	I
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ 2.35	I
For	3/4-inch meter	4.00	—
For	1-inch meter	6.00	—
For	1 1/2-inch meter	10.00	—
For	2-inch meter	16.00	—
For	3-inch meter	25.00	I

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