

**ORIGINAL**

Decision No. 69601

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of BANNING WATER COMPANY under Section 454 of the Public Utilities Code for authority to increase its public utility water rates.

Application No. 47299  
(Filed January 28, 1965)

Knapp, Gill, Hibbert & Stevens, by  
Wyman C. Knapp, and W. L. Arnold,  
for applicant.  
Chester O. Newman and E. C. Crawford,  
for the Commission staff.

O P I N I O N

Banning Water Company seeks authority to increase its rates for water service in and in the vicinity of Banning by a gross annual amount of \$66,682, or 21.5 per cent, based on its estimate of operations for the year 1965. Authority is also sought to change from a block-type and monthly-minimum-charge general metered service rate schedule to a single-quantity-rate and monthly-service-charge general metered service rate schedule.

Public hearings were held before Examiner Warner on July 14 and 15, 1965, at Banning. Three letters protesting the application were read into and received for the record;<sup>1/</sup> some 70 customers attended the hearings and 13 of them stated their opposition to the proposed increase; and two petitions containing approximately 700 signatures protesting the application have been filed. Protests generally were that many customers are

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<sup>1/</sup> Several letters of protest received subsequent to the hearings have been acknowledged.

retired, with limited and modest incomes, and the economic impact of the proposed increase would be a burden on them; many customers would have to restrict or even abandon lawn and garden watering, thus reducing the natural beauty of the city; and industries' usage of water might be curtailed and new business might not be attracted to Banning because of alleged high water rates.

Applicant averred that a rate increase is required to provide it with a fair rate of return and that its recorded results of operations for the years 1961, 1962, 1963, and 1964 had not produced a fair rate of return.

As of December 31, 1964, water service was being furnished to 3,932 metered customers, and 250 fire hydrants were connected to applicant's system. A Commission staff engineer estimated there would be 3,489 5/8 x 3/4-inch, 237 3/4-inch, 127 1-inch, 34 1 1/2-inch, 42 2-inch, 13 3-inch, 2 4-inch, and 1 6-inch metered customers, for a total of 3,945 metered customers on the average during the year 1965. Between January 1, 1960, and December 31, 1964, net additions to total utility plant amounted to \$436,334.41.

The following tabulation compares applicant's present rates, which became effective June 20, 1961, with the single-quantity-rate and monthly-service-charge general metered service rate proposed in the application; with an alternate block-type and monthly-minimum-charge rate schedule proposal; and with the

general metered service rates authorized hereinafter:

COMPARISON OF PRESENT, ORIGINAL AND  
ALTERNATE PROPOSED, AND AUTHORIZED RATES

Item	Per Meter Per Month		
	Present	Proposed	Authorized
	(A)	(B)	
	Original	Alternate	

Quantity Rates:

First	700 cu. ft., or less	2.25	-	\$ 2.75	-
Next	1,300 cu. ft., per 100 cu. ft.	.27	-	.32	-
Next	3,000 cu. ft., per 100 cu. ft.	.22	-	.26	-
Next	5,000 cu. ft., per 100 cu. ft.	.20	-	.24	-
Next	10,000 cu. ft., per 100 cu. ft.	.15	-	.20	-
Over	20,000 cu. ft., per 100 cu. ft.	.10	-	.15	-

Minimum Charge:

For	5/8 x 3/4-inch meter	2.25	-	2.75	-
For	3/4-inch meter	3.50	-	4.00	-
For	1-inch meter	5.00	-	6.00	-
For	1 1/2-inch meter	7.50	-	9.00	-
For	2-inch meter	10.00	-	12.00	-
For	3-inch meter	15.00	-	20.00	-
For	4-inch meter	25.00	-	35.00	-
For	6-inch meter	50.00	-	60.00	-
For	8-inch meter	75.00	-	100.00	-

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

Quantity Rate:

For all water delivered per 100 cu. ft.	\$ 0.21	-	\$ 0.20
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Service Charge:

For	5/8 x 3/4-inch meter	-	2.00	-	2.00
For	3/4-inch meter	-	2.75	-	2.75
For	1-inch meter	-	3.50	-	3.50
For	1 1/2-inch meter	-	4.50	-	4.50
For	2-inch meter	-	8.00	-	6.00
For	3-inch meter	-	17.00	-	9.00
For	4-inch meter	-	30.00	-	14.00
For	6-inch meter	-	60.00	-	21.00
For	8-inch meter	-	100.00	-	25.00

The Service Charge is a readiness-to-serve charge to which is to be added the monthly charge computed at the Quantity Rate.

Note: (A) Per application as filed.  
(B) Per Exhibit No. 5.

Applicant proposes to increase its present rate for limited measured irrigation service from 90 cents per service connection for each miner's inch day to \$1.20 per mid, and the minimum charge for each irrigation delivery from \$4.50 per service connection to \$6.00.

The record shows that the average use per customer is 27,311 cubic feet per year, or 2,276 cubic feet per month. At the present rates, for usage of 2,200 cubic feet per month, the charge for a customer with a 5/8 x 3/4-inch meter would be \$6.20 per month. Under the single-quantity-rate and monthly-service-charge-rate schedule proposed in the application, such charge would be \$6.62 per month; under the alternate proposed block-type rate schedule, such charge would be \$7.43; and under the authorized rates, such charge will be \$6.40; an increase of 3.2 per cent.

Exhibit No. 3 is a report on applicant's operations for the years 1963 and 1964 at present rates and for the test year 1965 at present and proposed rates, submitted by applicant's accounting witness. Commission staff accounting and engineering witnesses submitted a report, Exhibit No. 7, on applicant's results of operations for the estimated year 1965 at present and proposed rates. The following tabulation compares the

earnings data for the year 1965, estimated, contained in said exhibits:

SUMMARY OF EARNINGS

Item	Year 1965 Estimated			
	Present Rates		Proposed Rates	
	Per Co. : Exh. 3	Per PUC : Exh. 7	Per Co. : Exh. 3	Per PUC : Exh. 7
Operating Revenues	\$309,928	\$304,130	\$376,610	\$368,990
Operating Expenses	155,351	151,310	155,351	151,310
Depreciation	40,230	38,620	40,230	38,620
Taxes	49,204	47,970	83,118	80,950
Subtotal	244,785	237,900	278,699	270,880
Net Revenue	65,143	66,230	97,911	98,110
Rate Base	1,410,885	1,419,130	1,410,885	1,419,130
Rate of Return	4.6%	4.7%	6.9%	6.9%

There is no significant difference between any of the estimated rate of return components submitted by applicant and the staff, and neither applicant nor staff seriously contested the other's estimates.

The staff accountant recommended a rate of return of 6.35 per cent applicable to the staff rate base of \$1,419,130 for the test year 1965, and testified that such a rate of return would produce a return on common stock equity of 6.0 per cent. Principal factors which he considered in his recommendation were that applicant's proposed monthly service charge would lessen stockholder risk; future capital needs are expected to be modest and could be secured by issuance of long-term debt at an interest rate not exceeding 6 per cent; applicant's high equity, low debt

capitalization requires more revenue (because of taxes based on income) to service capital under those conditions; and interest earned on applicant's large deposits of cash, in excess of normal working cash needs or sinking fund requirements, which are largely deposited in savings and loan association accounts, drawing interest at 4 $\frac{1}{2}$ % - 5% does not enter net utility operating income.

Applicant's president testified with respect to Table No. 6 of Exhibit No. 3, Proposed Additions to Utility Plant Year 1965, that plans for obtaining a loan of \$165,000 to finance the total of \$162,519 of additions shown in said exhibit were dependent on the outcome of the instant application and that preliminary discussions with applicant's lending institution revealed that such a loan would not be available while applicant's earnings remained at their present level. Because a decision herein could not be issued until the third quarter of 1965 at the earliest, he could not estimate to what extent the proposed additions would be made in 1965. The Commission staff engineer included estimated additions of approximately \$37,000 for the replacement of distribution mains (out of a total of \$92,700 proposed by applicant in Exhibit No. 3) in his estimate of rate base for said year as shown in Exhibit No. 7, supra. He testified that he considered the amount of \$37,000 to be reasonable for the year 1965.

The record shows that the City of Banning filed a condemnation suit in September, 1963, to acquire applicant's water system and that a preliminarily discussed price was about \$2,500,000, but that negotiations are continuing.

No informal complaints concerning applicant's water service or system pressures have been filed with the Commission during the last three and one-half years, and applicant's water quality is satisfactory.

The staff engineer recommended that any increases in rates authorized herein be spread more equitably between customers having different sizes of meters installed than would be accomplished by applicant's proposals. The staff financial examiner recommended that copies of refund contracts for all main extension advances, as recorded in Account No. 241, Advances for Construction, should be obtained and maintained in applicant's files and applicant should revise its present procedures for capitalizing construction overheads so that such amounts capitalized in the future would bear a more reasonable relationship to costs actually incurred and applicable to construction of utility plant.

Based on the evidence we find that:

1. The rate of return of 4.7 per cent which would be produced by the revenues from the present rates for water service for the estimated and test year 1965 is deficient and applicant is entitled to financial relief.
2. The rate of return of 6.9 per cent which would be produced by applicant's proposed rates is excessive.
3. The estimates of rate of return components submitted by the Commission staff in Exhibit No. 7 reasonably indicate applicant's estimated results of operations for the test year 1965, and they are adopted for the purposes of this proceeding.

4. The rate of return of 6.35 per cent recommended by the Commission staff is reasonable.

5. The staff recommendations are reasonable.

6. The single-quantity-rate and monthly-service-charge type of rate schedule proposed is more equitable than the present or alternately proposed block-type quantity-rate and monthly-minimum-charge schedule.

7. The increases in rates and charges authorized herein are justified, and they are reasonable. The present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

8. Exhibit No. 1, a review of the domestic water account of Briargate Lodge, does not reveal any unreasonableness in water charge; nor does it show any inappropriateness of its classification as a domestic rather than an irrigation account.

It is concluded that the application should be granted in part and denied in part and that applicant should be authorized to file new schedules of rates which will produce gross annual operating revenues of \$352,350. This is an increase of \$48,220, or 15.9 per cent over the revenues which would be produced for the test year 1965 at present rates, but \$16,640 less than the increase in rates sought.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Janning Water Company is 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 September 16, 1965, or four days after the date of filing, whichever is later. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. For the year 1965, applicant shall apply the depreciation rates set forth in Table 3-3 in Exhibit No. 7. Until review indicates otherwise, applicant shall continue to use these rates. Applicant shall review its depreciation rates at intervals of three years and whenever a major change in depreciable plant occurs. Any revised depreciation rates shall be determined by: (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the result 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.

3. (a) Applicant shall obtain and maintain in its files copies of refund contracts for all main extension advances as recorded in Account No. 241, Advances for Construction.

(b) Applicant shall revise its present procedures for capitalizing construction overheads so that such amounts

capitalized in the future will bear a more reasonable relationship to costs actually incurred and applicable to construction of utility plant.

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

Dated at San Francisco, California, this 24<sup>th</sup> day of AUGUST, 1965.

Frederic B. Hallock  
President  
W. C. [unclear]  
Attorney  
[unclear]

[unclear]  
Commissioners

Commissioner George G. Grover did not participate in the disposition of this proceeding.

APPENDIX A  
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Banning and vicinity, Riverside County.

(T)

RATES

Per Meter  
Per Month

Service Charge:

(C)

For 5/8 x 3/4-inch meter .....	\$ 2.00
For 3/4-inch meter .....	2.75
For 1-inch meter .....	3.50
For 1 1/2-inch meter .....	4.50
For 2-inch meter .....	6.00
For 3-inch meter .....	9.00
For 4-inch meter .....	14.00
For 6-inch meter .....	21.00
For 8-inch meter .....	25.00

Quantity Rate:

For all water delivered, per 100 cu.ft. ....	0.20
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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 Rate.

(C)

APPENDIX A  
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Schedule No. 3ML

LIMITED MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to measured irrigation service furnished on a limited basis.

TERRITORY

Banning and vicinity, Riverside County. (T)

RATES

Per Service  
Connection

Quantity Rate:

For each miner's inch day ..... \$ 1.20 (I)

Minimum Charge:

For each irrigation delivery ..... 6.00 (I)

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

SPECIAL CONDITIONS

1. Service under this schedule is limited to the lands and those accounts which were active irrigation customers in the calendar year 1960.

2. Delivery of irrigation water under this schedule is limited to agricultural lands having a minimum area of two acres or more.

3. Requests for each irrigation delivery shall be made to the utility not less than 48 hours in advance of the time said delivery is desired.

4. A miner's inch day is defined as the volume resulting from a continuous flow of one-fiftieth of a cubic foot of water per second for a 24-hour period.