

**ORIGINAL**

Decision No. 70510

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
AMERICAN UTILITIES, INC., a California )  
corporation, under Section 454 of the )  
Public Utilities Code for authority to )  
increase rates for water service. )

Application No. 47834  
Filed August 23, 1965

Robert E. Kuerzel, for applicant  
J. E. Johnson, for the Commission staff.

O P I N I O N

Applicant, American Utilities, Inc., seeks herein authority to increase its rates for water service.

A duly noticed public hearing was held in this matter before Examiner Jarvis at Boulder Creek on January 20, 1966, and it was submitted on that date. No one appeared as a protestant at the hearing. The Presiding Examiner indicated to the members of the public, who attended the hearing, that anyone who desired could make a sworn statement to the Commission about the proceeding. No member of the public made a sworn statement.

Applicant provides water service in a subdivision known as Bear Creek Estates located near Boulder Creek in Santa Cruz County. Applicant presently provides service to 63 residential customers, 2 commercial customers and a sewage plant. It is estimated that, when the subdivision is fully developed, applicant will serve a

total of 115 customers. A comparison of applicant's present and proposed rates is as follows:

Presently Effective Rates  
And Proposed Increased Rates

Meter Rates

		<u>Per Meter Per Month</u>	
		<u>Present</u>	<u>Proposed</u>
		<u>Rates</u>	<u>Rates</u>
Monthly Quantity Rates:			
First	500 cu.ft. or less	\$ 3.50	\$ 7.00
Next	1,500 cu.ft., per 100 cu.ft.	.55	1.10
Next	2,000 cu.ft., per 100 cu.ft.	.45	.90
Next	3,000 cu.ft., per 100 cu.ft.	.40	.80
Next	5,000 cu.ft., per 100 cu.ft.	.35	.70
Over	12,000 cu.ft., per 100 cu.ft.	.25	.50

		<u>Per Meter Per Year</u>	
Annual Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ 42.00	\$ 84.00
For	3/4-inch meter	60.00	120.00
For	1-inch meter	96.00	192.00
For	1-1/2-inch meter	168.00	336.00
For	2-inch meter	252.00	504.00
For	3-inch meter	480.00	960.00
For	4-inch meter	960.00	1,920.00

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one-twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

At present rates, an average monthly consumption of 800 cubic feet would be billed at \$5.15. At rates proposed by applicant, the bill for 800 cubic feet would be \$10.30. Although the staff's recommended rates and applicant's proposed rates do not differ in amounts, the staff recommended that the full increase be authorized in two equal stages spaced not more than two years apart.

Applicant's present rates were authorized in Decision No. 62623 (Application No. 42985) issued on October 3, 1961. Applicant and the Commission staff presented results of operations for the recorded year 1964 and the estimated year 1967, which are as follows:

<u>APPLICANT</u>	<u>Actual Calendar Year 1964</u>
<u>Operating Revenues</u>	
Metered Revenues	\$ 3,187.99
Fire Protection Service	180.00
Total Revenues	<u>3,367.99</u>
<u>Deductions</u>	
<u>Operating Expenses:</u>	
Salaries or Payroll	none
<u>Outside Services:</u>	
Management Services	1,700.00
Ac. & Bkping Services	1,211.23
<u>Power &amp; Pumping Expenses:</u>	
Purchased Power	437.87
Maintenance	71.76
<u>Water Treatment Expenses:</u>	
Water Testing	100.00
Chemicals	412.55
Materials	67.20
Maintenance	550.88
Miscellaneous	12.90
Office Supplies	137.72
Transmission & Distr. Exp.	5.00
Insurance	104.56
Miscellaneous Expense	84.24
Subtotal	<u>4,895.91</u>
Depreciation Expense	4,634.61
Taxes Other Than Income	1,497.30
Income Taxes	-
Total Deductions	11,027.82
<u>Net Opera. Income (Loss)</u>	(7,659.83)
<u>Income Deductions (Interest)</u>	909.84
<u>Net Income (Loss)</u>	(8,569.67)

(Red Figure)

<u>STAFF</u>	<u>Recorded<sup>#</sup> Year 1964</u>
<u>Operating Revenues</u>	
Metered Sales	\$ 3,282 <sup>a</sup>
Fire Protection	180
Total	<u>3,462</u>
<u>Oper. Rev. Deductions</u>	
<u>Oper. Expenses</u>	
<u>Outside Services:</u>	
Management Service	1,700 <sup>b</sup>
Oper. & Maint. Labor	623 <sup>b</sup>
Accounting Service	1,211 <sup>b</sup>
Purchased Power	438
Chemical	412
O & M Material & Exp.	72
Office Supplies	138
Insurance	105
Water Analysis	100
Rate Case	-
General Expense	53 <sup>c</sup>
Subtotal	<u>4,852</u>
Depreciation	4,635
Taxes Other Than Income	1,497
Income Taxes	-
Total Deductions	<u>10,984</u>
Utility Oper. Income	(7,522)
Rate Base	-
Rate of Return	-%

(Red Figure)

- a. Increased metered sales by \$94 for unrecorded water sales to sewage disposal operation.
- b. No portions of these recorded charges have been allocated to sewage disposal operation.
- c. \$44 identifiable as applicable to and transferred to sewage operation.
- d. After staff accounting adjustments.

Item	Estimated Year 1967			
	Present Rates		Proposed Rates	
	Applicant:	Staff	Applicant:	Staff
<u>Operating Revenues</u>				
Metered Sales	\$ -	8,165	\$ -	\$16,330
Fire Protection	-	215	-	430
Total	7,867	8,380	15,734	16,760
<u>Operating Rev. Deductions</u>				
<u>Operating Expenses</u>				
Outside Services:				
Management Service	1,800	900 <sup>d</sup>	1,800	900 <sup>d</sup>
Oper. & Maint. Labor	1,050	-	1,050	-
Accounting Service	1,125	400	1,125	400
Purchased Power	1,000	900	1,000	900
Chemical	1,000	900	1,000	900
O & M Material & Exps.	100	200	100	200
Office Supplies	150	150	150	150
Insurance	105	270	105	270
Water Analysis	100	100	100	100
Rate Case	-	50 <sup>e</sup>	-	50 <sup>e</sup>
General Expense	100	100	100	100
Subtotal	6,530	3,970	6,530	3,970
Depreciation	3,971	4,040	3,971	4,040
Taxes Other Than Income	1,606	1,620	1,606	1,620
Income Taxes	-	-	633	1,320
Total Deductions	12,107	9,630	12,740	10,950
Utility Oper. Income	(4,240)	(1,250)	2,994	5,810
Rate Base	94,034	89,500	94,034	89,500
Rate of Return	-%	-%	3.19%	6.5%

(Red Figure)

- d. Includes operation and maintenance labor for water utility only.
- e. Staff prorated \$250 over a five-year period.

It is clear from the foregoing that applicant's rates are not sufficient and that it is entitled to an increase in rates.

The primary matters of controversy at the hearing related to the amount which should be allocated for working cash and the cost of certain land includable in applicant's rate base.

For the estimated test year 1967, applicant used the amount of \$1,088 for the working cash item in rate base. The staff used the figure of \$120. On cross-examination a staff witness indicated that the \$120 figure was not correct because it took into consideration customer advance payments which would not be available to any degree in the future. The witness estimated that the sum of \$810 would be a reasonable figure for working cash. The Commission, having considered the evidence on this point, finds that the sum of \$900 is a reasonable amount for working cash for the test year 1967 for the purpose of prescribing rates hereinafter set forth.

Applicant listed the value of two parcels of land used for utility purposes as \$6,500. On applicant's books the cost of the tankage area parcel was shown as \$1,500 and the treatment plant parcel was shown as \$5,000. The land had been transferred to applicant from its parent company, Bear Creek Estates, Inc., the original subdivider of the service area here involved. The staff accepted the \$1,500 figure as a reasonable estimate of original cost of the tankage area parcel. The staff contends that the sum of \$5,000 was not a reasonable amount to have been paid for the treatment plant parcel, and estimated \$2,500 as the original cost of that parcel. Applicant's president testified about the value of the two parcels. He stated that the parent company, Bear Creek Estates, Inc., had placed a value of \$3,084 on the treatment plant parcel and \$3,044 on the tankage parcel, and rounded out the amount of \$6,500 to reflect intangibles. No explanation was given of why the tankage parcel was stated at \$1,500 on applicant's books. The Commission, having considered the record on this matter, finds that, in the light of the dealings between parent and subsidiary, the original cost of the two parcels for rate-making and accounting purposes should be \$1,500 for the tankage parcel and \$3,000 for the treatment plant parcel.

Absent special circumstances, a utility cannot be compelled to operate at a loss, and a rate which causes operations at a loss is confiscatory. (Smyth v. Ames, 169 U.S. 466, 546; Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591.) The record indicates that applicant operates a well engineered water system and gives good service to its customers. The staff's exhibit states that "Applicant serves in a high standard service area with a sewage treatment plant, paved roads, country club and expensive homes. The system is well built and provides high quality water service; however, the large frontage lots, treatment plant and standby equipment all contribute to the relatively high investment per service connection."

Applicant would be forced to continue operating at a loss if the rates were now to be increased by only 50%, and the staff's recommendation for authorization of only half of the proposed increase will not be adopted.

In considering what constitutes an adequate return in this proceeding, the Commission has taken into consideration that the subdivision involved is still in development and that applicant is owned by the developer. In the circumstances, the Commission is of the opinion that at this time rates yielding a rate of return of four percent, based on the estimates of revenues, expenses and rate base hereinafter adopted, will be reasonable. Such rates although less than those requested, will permit applicant, even at the present state of development, to obtain revenues in excess of its out-of-pocket costs. (For average consumption of 800 cubic feet, the monthly bill will be \$8.45.)

No other points require discussion. The Commission makes the following findings and conclusions:

Findings of Fact

1. The following estimates of revenues, expenses (including taxes and depreciation), the rate base and rate of return for the

estimated test year 1967 at the rates hereinafter authorized reasonably represent the results of applicant's operations for the purposes of this proceeding.

<u>Operating Revenues</u>	
Metered Sales	\$13,440
Fire Protection	360
Total	<u>13,800</u>

<u>Operating Revenue Deductions</u>	
<u>Operating Expenses</u>	
Outside Services:	
Management Service	900
Oper. & Maint. Labor	-
Accounting Service	400
Purchased Power	900
Chemical	900
O & M Material & Exp.	200
Office Supplies	150
Insurance	270
Water Analysis	100
Rate Case	50
General Expense	100
Subtotal	<u>3,970</u>
Depreciation	4,040
Taxes Other Than Income	1,620
Income Taxes	540
Total Deductions	<u>10,170</u>
Utility Oper. Income	3,630
Rate Base	90,780
Rate of Return	4.0%

2. The estimates set forth in Finding of Fact No. 1, for the test year 1967 are reasonable for the purpose of prescribing rates herein.

3. The rates proposed by applicant will yield a rate of return of 4.0 percent on an average depreciated rate base of \$90,780, and these rates are reasonable.

4. The increases in rates and charges authorized by this decision are justified, the rates and charges set forth in Appendix A attached hereto are fair and reasonable for the service to be rendered and the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

5. As set forth in footnote a in paragraph 17 of Exhibit 1, various items in applicant's plant account are not correctly stated on its books.

6. Applicant also provides sewage disposal service which is not subject to regulation by this Commission.

Conclusions of Law

1. Applicant should be authorized to charge the rates set forth in Appendix A.

2. Applicant should be ordered to adjust its plant account to reflect the staff accounting adjustments in footnote a in paragraph 17 of Exhibit 1, and to reflect on its books the sum of \$3,000 as original cost of the water treatment plant site and the sum of \$1,500 as original cost of the tank site.

3. Applicant should be ordered to install and maintain such accounting procedures as are necessary to eventually allocate joint operating expenses between its water utility and other operations.

O R D E R

IT IS ORDERED that:

1. Applicant, American Utilities, Inc., is 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. The effective date of the revised schedules shall be May 1, 1966 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. Beginning with the year 1967, applicant shall apply the depreciation rates set forth in Table 1-A of Exhibit 1. Until review indicates otherwise, applicant shall continue to use these rates. Applicant shall review its depreciation rates at intervals of five years and whenever a major change in depreciable plant occurs. Any revised depreciation rates shall be determined by subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; dividing the result by the estimated remaining



life of plant; and dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

3. Applicant shall prepare and keep current the system map required by paragraph 1.10.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, drawn to an indicated scale of not more than 400 feet to the inch.

4. Applicant shall maintain records supporting overhead construction costs capitalized, showing the total amount of each overhead expenditure and the basis of distribution of such costs to utility plant accounts.

5. Applicant shall adjust its plant account to reflect the accounting adjustments in footnote a in paragraph 17 of Exhibit 1, and to reflect on its books the sum of \$3,000 as original cost of the water treatment plant site and \$1,500 as original cost of the tank site.

6. Applicant shall install and maintain such accounting procedures as are necessary to equitably allocate joint operating expenses between its water utility and other operations.

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

Dated at San Francisco, California, this 29th day of MARCH, 1966.

\_\_\_\_\_  
 President  
*George E. Trover*  
 \_\_\_\_\_  
*Augustin*  
 \_\_\_\_\_  
 Commissioners

-9 Commissioner Frederick B. Holboff, 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  
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Schedule No. 1A

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished on an annual basis.

TERRITORY

The unincorporated area known as Bear Creek Estates, and vicinity, located approximately 2 1/2 miles northeast of Boulder Creek, Santa Cruz County.

RATES

Per Meter  
Per Month

Monthly Quantity Rates:

First	500 cu.ft. or less .....	\$5.75	(I)
Next	1,500 cu.ft., per 100 cu.ft. ....	.90	
Next	2,000 cu.ft., per 100 cu.ft. ....	.74	
Next	3,000 cu.ft., per 100 cu.ft. ....	.66	
Next	5,000 cu.ft., per 100 cu.ft. ....	.58	
Over	12,000 cu.ft., per 100 cu.ft. ....	.41	

Per Meter  
Per Year

Annual Minimum Charge:

For	5/8 x 3/4-inch meter .....	\$69.00	
For	3/4-inch meter .....	99.00	
For	1-inch meter .....	156.00	
For	1 1/2-inch meter .....	276.00	
For	2-inch meter .....	408.00	
For	3-inch meter .....	792.00	
For	4-inch meter .....	1,584.00	(I)

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one-twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

(Continued)

APPENDIX A  
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Schedule No. 1A

ANNUAL GENERAL METERED SERVICE  
(Continued)

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month (T) period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least the preceding 12 months, he may elect, at the beginning of the calendar year, to pay prorated minimum charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods for water used in excess of the monthly allowance under the annual minimum charge. When meters are read bimonthly or quarterly, the charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis.

2. The opening bill for metered service, except upon conversion from flat rate service, shall be the established annual minimum charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ( $1/365$ ) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

(T)

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 unincorporated area known as Bear Creek Estates, and vicinity, located approximately 2½ miles northeast of Boulder Creek, Santa Cruz County.

RATE

Per Month

For each hydrant ..... \$ 3.30 (I)

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges shall be made at the quantity rates under Schedule No. 1A, Annual 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 specific location at which each is to be installed. (N)

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. (N)