

ORIGINALDecision No. 70809

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
HAZEL WALKER SWENGLE, doing business
as Walker Water Company under Sec-
tion 454 of the Public Utilities
Code, for authority to increase rates
for water service.

Application No. 48178
Filed January 13, 1966

In the Matter of the Application of
HAZEL WALKER SWENGLE, doing business
as Walker Water Company under Sec-
tion 851 of the Public Utilities
Code, for authority to borrow money
and execute and deliver a note,
mortgage of chattels, Security
Agreement and Deed of Trust in con-
nection therewith: Request for
Ex Parte Order.

Application No. 48179
Filed January 13, 1966

Ernest H. Tuttle and Verner R. Muth, for
Hazel Walker Swengle, applicant.
J. E. Johnson, for the Commission staff.

O P I N I O N

Hazel Walker Swengle, an individual, doing business as Walker Water Company, seeks suthority (1) for the transfer of a water system to her from M. E. Walker, (2) to execute a note, (3) to encumber utility property, and (4) to increase rates for water service.

Public hearing was held before Examiner Catey in Fresno on April 21, 1966. Copies of the applications and notice of hearing had been served and notice of hearing published in accordance with this Commission's rules of procedure. The consolidated matters were submitted on April 21, 1966. Testimony was presented by applicant, by a consulting engineer retained by applicant, and by a Commission staff engineer. No protestants appeared or testified.

Service Area and Water System

Decision No. 48139, dated March 2, 1953, in Application No. 33919, granted a certificate to M. E. Walker to construct a public utility water system in the 20-acre, 95-lot Bethel Tract, Fresno County Tract No. 1249, located about 1-1/2 miles west of Parlier. Extensions were later made into contiguous tracts known as Griffith Acres, Sutherland Subdivision and Cox Subdivision. The total service area covers approximately 80 acres with about 200 active unmetered service connections.

The water supply is obtained from two deep wells and is pumped through hydropneumatic tanks to the distribution system. Pressures throughout the 9,900 feet of distribution mains range from 35 to 45 psi. A Commission staff engineer testified that, because of the improvements made by applicant, as ordered in Decision No. 69359, dated July 7, 1965, in Case No. 8052, the source of supply and water system are now more than adequate for the number of customers served.

Rates

Applicant's present rates are the initial rates authorized for the system in 1953. They consist of schedules for general metered service and residential flat rate service.

The following Table I shows a comparison of monthly flat rates now in effect, those requested by applicant, those recommended in Exhibit No. 5 by the Commission staff and those authorized herein:

TABLE I
Comparison of Monthly Flat Rates

<u>Item</u>	<u>Present Rates</u>	<u>Proposed Rates</u>		<u>Authorized Herein</u>
		<u>Applicant</u>	<u>Staff</u>	
First single-family residence	\$2.50	\$4.25	\$3.00	\$3.20
Each additional single-family residence	1.50	2.50	2.00	2.00
Each adjoining lot with garden, April-September	2.50	*	*	*
Each 100 sq.ft. of premises over 12,000	*	.03	*	*
Each 100 sq.ft. of premises over 15,000	*	*	.01	.01
Each evaporative cooler, May-October50	.75	*	*

* Not applicable.

A rate of 1 cent per 100 square feet of premises over 15,000 square feet in area, as recommended by the Commission staff, is justifiable because of the low usage of water by customers in this area. If any customer does extensive gardening, the rate may not be compensatory, but applicant has the option of installing a meter.

The unused present rates for metered service provide for a minimum charge of \$2.25 per month for service through a 5/8 by 3/4-inch meter, with tapered quantity rates ranging from 30 to 12 cents for monthly consumption in excess of 700 cubic feet. A graduated scale of increased minimum charges is provided for larger meters up to 2-inch. Applicant requests approximately a 70 percent increase in meter rates and proposes to establish minimum charges for service through 3- and 4-inch meters.

We concur with the Commission staff recommendation that a service charge type of rate schedule is more equitable in this instance and should be authorized in lieu of the minimum charge rate schedule now in effect. Although no meter installations are planned for the near future, the meter rates authorized should bear a proper relationship to the authorized flat rates. The meter rate schedule authorized herein is designed to produce higher revenues than the flat rates for above-average consumption but is neither so low as to elicit unwarranted requests for metered service by customers nor so high as to cause the utility to meter services of customers with only slightly higher use than the average. The quantity rates are high enough to cover production costs and discourage waste, yet low enough to encourage beneficial use of water.

Applicant proposed a special condition that would require new customers initially to pay for three months' service in advance. None of this payment would be refundable if service to the customer is discontinued within three months. The Commission staff suggests that a Service Establishment Charge, such as the one in effect in Guerneville and Felton, would be a more equitable solution to the problem of frequent turnoffs and turnons at some residences. Such a charge is incorporated in the rates authorized herein.

Applicant proposes to establish rates for fire protection service. She requests a monthly charge of \$2 for service from a 4-inch or smaller main and \$3 for service from a main of larger than 4-inch diameter. Although there is now no public fire protection agency in applicant's service area, a Community Services District is being formed and may wish to obtain public fire hydrant service some time in the future.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operations. Summarized in Table II, from the staff's Exhibit No. 5 and from applicant's Exhibit D, attached to the application, are the estimated results of operation for the test year 1966, under present water rates, under those proposed by applicant, and under those recommended by the Commission staff. For comparison, the table also shows the results of operation, modified as discussed hereinafter, at present rates, those proposed by applicant and staff, and those authorized herein.

TABLE II

Estimated Results of Operation, Test Year 1966

<u>Item</u>	<u>Staff</u>	<u>Applicant</u>	<u>Modified</u>
<u>At Present Rates</u>			
Operating Revenues	\$ 7,700	\$ 6,150	\$ 7,700
<u>Deductions</u>			
Management Salaries	1,400	1,800	1,400
Accounting and Legal Expense	250	400	400
Vehicle Expense	200	600	200
Other Expenses	4,100	4,050	4,100
Depreciation	940	983	920
Taxes other than on Income	250	500	250
Income Taxes	0	0	0
Total Deductions	7,140	8,333	7,270
Net Revenue	560	(2,183)	430
<u>Rate Base</u>			
Without Adjustment for Contributions	24,900	26,032	24,900
Contributions in Aid of Construction	0	0	400
Net Rate Base	24,900	26,032	24,500
Rate of Return	2.2%	loss	1.8%
<u>At Applicant's Proposed Rates</u>			
Operating Revenues	\$14,000	\$10,450	\$14,000
<u>Deductions</u>			
Other than Income Taxes	7,140	8,333	7,270
Income Taxes	1,190	350	1,250
Total Deductions	8,330	8,683	8,520
Net Revenue	5,670	1,767	5,480
Rate Base	24,900	26,032	24,500
Rate of Return	22.8%	6.8%	22.4%
<u>At Staff's Recommended Rates</u>			
Operating Revenues	\$ 8,900	\$ -	\$ 8,900
<u>Deductions</u>			
Other than Income Taxes	7,140	-	7,270
Income Taxes	60	-	110
Total Deductions	7,200	-	7,380
Net Revenue	1,700	-	1,520
Rate Base	24,900	-	24,500
Rate of Return	6.8%	-	6.2%
<u>At Rates Authorized Herein</u>			
Operating Revenues	\$ -	\$ -	\$ 9,450
<u>Deductions</u>			
Other than Income Taxes	-	-	7,270
Income Taxes	-	-	210
Total Deductions	-	-	7,480
Net Revenue	-	-	1,970
Rate Base	-	-	24,500
Rate of Return	-	-	8.0%

(Red Figure)

From Table II it can be seen that applicant's requested rates would result in an increase of about 82 percent in operating revenues, whereas the rates authorized herein will produce a 23 percent increase.

The staff's estimates of revenues, which we adopt, are based upon an analysis of customer billing cards, whereas applicant's estimate was based upon the assumption that there would be only 205 single family residential units served, none of which would use evaporative coolers.

Table II shows the principal differences between the operating expense estimates of applicant and staff. The staff's lower estimates of management salaries and vehicle expense, which we adopt, are based upon normal operating costs for a public utility of this size and reflect operating conditions of this utility. Applicant's higher estimate of accounting and legal expense, which we adopt, appears consistent with applicant's intention to maintain books and records properly and to avoid repetition of past infractions of regulatory requirements. The staff's lower estimate of ad valorem taxes, which we adopt, results from exclusion of taxes on nonutility property which has been sold by applicant. The staff's basis for computing income taxes is adopted, with minor modification to amortize the investment tax credit over the same 5-year period used for average interest deduction rather than over a 3-year period. Applicant did not present details of income tax calculations.

The staff's lower rate base estimate results from adjustment of applicant's historical cost appraisal to reflect actual invoice costs and staff estimates of the owner's labor in installing a well and pump. Testimony by applicant shows that no advances for construction were collected from the developer of the various tracts

into which mains were extended from the initial development in the Bethel Tract. The staff witness testified that, had the advances been collected and refunded as required by applicant's main extension rule, there would now be an unamortized balance of about \$400 in Contributions in Aid of Construction. We have deducted this amount in determining the rate base allowed herein and appropriately reduced depreciation expense, consistent with the Commission's treatment of similar situations¹ with other water utilities. The customers thus are not penalized for failure of the utility's owners to abide by their filed rules.

Applicant points out that a rate of return of 8 percent has been allowed other small water utilities in the past. The record shows that the staff estimates of expenses are based upon reasonably efficient operation by applicant. The record also shows that applicant is faced with a refinancing problem requiring an indebtedness representing about 22 percent of the rate base. Applicant testified that she is unable to borrow money at less than 8 percent interest. Rates are authorized herein to provide a return of 8 percent on rate base.

Transfer of Title

Applicant has for many years assumed responsibility for operating the system but has not yet acquired title to it. On September 5, 1956, applicant entered into a "Property Settlement Agreement", Exhibit No. 1, in which her then husband, M. E. Walker, agreed, among other things, to transfer the water system to her. Applicant now seeks authority to effect the transfer in accordance with the terms of that agreement.

¹ Such as Decision No. 61319, dated January 4, 1961, in Application No. 41853 and Decision No. 60416, dated July 12, 1960, in Application No. 41833.

Financing

Applicant has installed a number of improvements, as ordered by this Commission in Decision No. 69359, dated July 7, 1965, in Case No. 8052. The cost of those improvements is approximately \$6,600. Applicant requests authority to issue an 8 percent, 69-month note for \$5,500, using the water system as collateral. She testified that she is unable to secure a loan on any more favorable terms. The proposed Deed of Trust is Exhibit A-1 attached to Application No. 48179, the proposed form of note is Exhibit A-2, and the proposed Security Agreement is Exhibit B. Subparagraph 3(e) of the Security Agreement is not applicable to an unincorporated utility and is in conflict with subparagraph 3(f) of the agreement. Applicant alleges that the parties to the agreement are willing to delete the objectionable subparagraph 3(e).

Findings and Conclusions

The Commission finds that:

1. The proposed transfer of title will not be adverse to public interest.
2. The money to be procured by the issue of the note 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.
 - 3.a. Applicant is in need of additional revenues but the proposed rates set forth in the application are excessive.
 - b. The adopted modified estimates, previously summarized and discussed herein, of operating revenues, operating expenses and rate base for the test year 1966, reasonably represent the results of applicant's future operations.
 - c. A rate of return of 8 percent on applicant's rate base is reasonable.

d. The increases in rates and charges 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. A straight-line remaining life depreciation rate of 3.0 percent is reasonable for applicant's plant.

5. Applicant has not filed with the Commission the up-to-date system map required by General Order No. 103.

6. Applicant has not filed a copy of her "Bill of Service" form as required by General Order No. 96-A.

7.a. Applicant has not established formal books of accounts as required by the Uniform System of Accounts for Water Utilities (Class D) prescribed by this Commission.

b. The staff's adjusted balances for utility plant and reserve for depreciation presented in Exhibit No. 5 reasonably reflect original cost, estimated if not known, of applicant's plant.

The Commission concludes that it should authorize the requested transfer, note and encumbrance of utility property, should authorize certain rate increases, additions and modifications, and should require applicant to establish and maintain certain records, all as set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1.a. Within one year after the effective date of this order, M. E. Walker may transfer to applicant Hazel Walker Swengle (formerly Hazel Walker), doing business as Walker Water Company, the water system referred to herein, substantially in accordance with the terms of the Settlement Agreement, a copy of which is Exhibit No. 1 in this proceeding.

b. Within five days after filing the instrument of transfer with the Fresno County Recorder, applicant shall file in this proceeding a written statement showing the date of such recordings together with a true copy of the instrument of transfer.

c. Upon transfer of the water system as hereinabove authorized, M. E. Walker shall stand relieved of his public utility obligations in the area served by the transferred system.

2.a. Within six months after the effective date of this order, applicant may issue an 8 percent note in the principal amount of not to exceed \$5,500 to retire short-term indebtedness incurred to pay for system improvements and may execute a Deed of Trust and Security Agreement, which documents shall be in, or substantially in, the same form as those attached to Application No. 48179, except that paragraph 3(e) of the Security Agreement shall be deleted before execution.

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

3. After the effective date of this order, applicant is authorized to file the new and 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 July 1, 1966, or four days after the date of filing, whichever is later. The new and revised schedules shall apply only to service rendered on and after the effective date thereof.

4. For the year 1966, applicant shall apply a depreciation rate of 3.0 percent to the original cost of depreciable plant. Until review indicates otherwise, applicant shall continue to use this rate. Applicant shall review her 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 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.

5. Applicant shall 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, drawn to an indicated scale of not more than 400 feet to the inch.

6. On or before July 1, 1966, applicant shall file a copy of her "Bill for Service" form, as Form No. 3 of her sample form tariff sheets, containing the wording required by her filed Rule No. 5.

7. On or before December 31, 1966, applicant shall establish and thereafter maintain formal books of accounts in conformity with the Uniform System of Accounts for Water Utilities (Class D) prescribed by this Commission. As opening entries in those books, applicant shall record the staff's adjusted balances for utility plant and reserve for depreciation as of December 31, 1965, as set forth in the tabulation on Page 4 of Exhibit No. 5 in these proceedings.

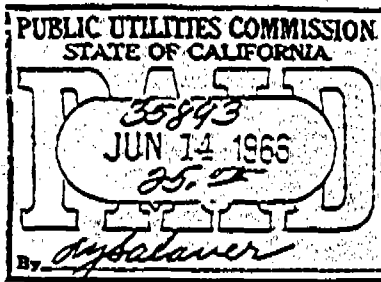
The authority herein granted to issue a note will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$25. In all

other respects, the effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 8th day of JUNE, 1966.

Fredrick B. Hallock President
Arthur E. Mitchell
George H. Turner
Augustus
 Commissioners

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



APPENDIX A
Page 1 of 5

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated areas known as Bethel Tract, Griffith Acres, Sutherland Subdivision and Cox Subdivision, and vicinity near Parlier, Fresno County.

RATES

	<u>Per Meter Per Month</u>	
Service Charge:		(C)
For 5/8 x 3/4-inch meter	\$ 1.75	
For 3/4-inch meter	2.00	
For 1-inch meter	2.50	
For 1 1/2-inch meter	3.50	
For 2-inch meter	5.00	(C)
For 3-inch meter	8.50	(N)
For 4-inch meter	13.00	(N)

Quantity Rates:

For the first 5,000 cubic feet, per 100 cu.ft....	0.15	(C)
For all over 5,000 cubic feet, per 100 cu.ft....	0.10	

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly usage charge computed at the Quantity Rates.

Service Establishment Charge:

For each establishment or reestablishment of water service.....	\$ 2.00	(N)
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(Continued)

Schedule No. 1

GENERAL METERED SERVICE
(Continued)

SPECIAL CONDITION

The service establishment charge provided for herein is in addition to the service charge and quantity charge calculated in accordance with this schedule and will be made each time a metered service account is opened or reopened for a customer at the time metered water service is to be (a) established at customer's request, (b) reestablished after discontinuance at customer's request, or (c) transferred from a former customer. The charge shall not apply when a customer's flat rate service is metered at the utility's election.

(N)

(N)

APPENDIX A
Page 3 of 5

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

The unincorporated areas known as Bethel Tract, Griffith Acres, Sutherland Subdivision and Cox Subdivision, and vicinity, near Parlier, Fresno County.

RATES

	<u>Per Service Connection</u>	
Monthly Charges:		
For a single-family residential unit, including premises not exceeding 15,000 sq.ft. in area.....	\$ 3.20	(I)
a. For each additional single-family residential unit (cabins, dormitories, trailers) on the same premises and served from the same service connection.....	2.00	(I)
b. For each 100 sq.ft. of premises in excess of 15,000 sq.ft.....	0.01	(N)
Service Establishment Charge:		
For each establishment or reestablishment of water service.....	\$ 2.00	(N)

(Continued)

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE
(Continued)

SPECIAL CONDITIONS

1. Flat rate charges are payable monthly in advance.
2. The above flat rates apply to service connections not larger than one inch in diameter.
3. All service not covered by the above classifications shall be furnished only on a metered basis.
4. 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.
5. The service establishment charge provided for herein is in addition to the monthly charges calculated in accordance with this schedule and will be made each time a flat rate service account is opened for a customer at the time flat rate water service is to be (a) established at customer's request, (b) reestablished after discontinuance at customer's request, or (c) transferred from a former customer.

(N)

(N)

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 areas known as Bethel Tract, Griffith Acres, Sutherland Subdivision and Cox Subdivision, and vicinity, near Parlier, Fresno County.

RATE

	<u>Per Month</u>
For each hydrant connected to:	
1. A main 4 inches or less in diameter.....	\$2.00
2. A main over 4 inches in diameter.....	3.00

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. 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.

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.