

ORIGINALDecision No. 71333

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 TUSTIN WATER WORKS, for an Order)
 Authorizing a Raise in Rates.)

Application No. 47965
 (Filed October 11, 1965)

Milford W. Dahl, for applicant.
Thairell Burnette Johnson, Mrs. John R. Evans,
and Mrs. William Hostetler, protestants.
Stanley H. Bates, Cornelius A. Papp, C. L.
Stuart, for Southern California Water Company;
Clarence E. Rohrs, and Mrs. Ralph Waltner,
 interested parties.
Jerry Levander and Raymond E. Heytens, for the
 Commission staff.

O P I N I O N

Tustin Water Works, a corporation, furnishing public utility water service in Tustin and portions of Santa Ana and Orange, and in unincorporated portions of Orange County, seeks authority to increase its rates for water service by approximately \$80,240, or 14.9 percent, based on its estimates of its operations for the year 1966. Increases in rates for tank-truck hauling and private fire protection service are included in the gross annual amount of increases sought. Cancellation of its filed schedule for public fire hydrant service is requested, since Santa Ana and Orange County have no provision for the payment of and do not pay for such service. Reduction of the charge for construction flat rate service is also sought.

Public hearings were held before Examiner Warner on

June 28, 29 and July 1, 1966, at Tustin. All of applicant's customers were notified formally and Exhibit No. 8 is a copy of a letter addressed to them by applicant's manager. Protestants complained of low pressure conditions and sand in certain areas, but, universally, applicant's customers supported the application, if poor service conditions were remedied. Exhibit No. 1 is a report of applicant's investigation of these complaints. Its proposals for remedying any defective conditions are set forth in said exhibit. The matter was submitted on the last-named hearing date, subject to the filing of memoranda briefs which were finally received on July 15, 1966.

The staff engineer estimated that applicant furnished water service to an average of 9,092 customers during the year 1966. Applicant's engineer estimated that there would be 9,665 active service connections as of December 31, 1966. In the year 1954, the total number of meters installed (including inactive meters) was 2,042; in 1960, 6,162 and in 1964, 9,467.

Applicant's president is James B. Utt; its secretary-treasurer and general manager is Walter R. Rawlings; and its general superintendent is Earl Rowenhorst. The water system has been in operation and managed by the Utt family since 1896. There are 16 employees, and outside services are employed for the more difficult engineering work, auditing, legal counsel, and for financial matters.

During 1966, applicant sold \$300,000 of its 5-1/2 percent bonds to its customers. Its capital stock, according to its annual report to the Commission, was primarily held by members of the family. Dividends have been paid regularly on the \$300,000 of 5-1/2 percent preferred stock outstanding, but no

dividends have been paid on common stock, although earned surplus as of December 31, 1965 amounted to \$382,211.99 out of a total capitalization amounting to \$2,854,593.26.

Applicant effected two connections to Metropolitan Water District (MWD) agencies in 1964, and one in 1965, and alleges that it has committed itself to a plan of increased ratio of purchased water to total water production to reach a goal of 50 percent by the year 1970. The cost of water purchased from MWD by East Orange County Water District will have increased from \$38 per acre-foot as of January 1, 1964, to \$42 per acre-foot as of July 1, 1966; a \$3 per acre-foot increase (effective July 1, 1965) will not be passed on to the applicant's customers by said District, and the purchased water rate to Tustin Water Works will remain at \$39 per acre-foot.

Exhibit No. 12 shows that applicant estimates its average cost per acre-foot for water developed from well supply, based on 1966 operations, to be \$29.05. Said amount includes a total of \$52,770 replenishment assessment by Orange County Water District. Said District is the sole importer of MWD water to be used for underground basin replenishment in Orange County and it levies an assessment against water producers of \$11 per acre-foot of water pumped. Applicant owns 10 wells and pumps eight of them.

The following tabulation compares the present general metered service rates with those proposed in the application and with those authorized hereinafter.

COMPARISON OF PRESENT, PROPOSED AND
AUTHORIZED GENERAL METERED SERVICE RATES

<u>Quantity Rates</u>	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
First 800 cu. ft. or less		\$1.90	\$1.90
First 1,000 cu. ft. or less	\$2.00		
Next 2,000 cu. ft., per 100 cu. ft.	.16		
Next 3,200 cu. ft., per 100 cu. ft.		.18	.16
Next 7,000 cu. ft., per 100 cu. ft.	.13		
Next 6,000 cu. ft., per 100 cu. ft.		.17	.15
Over 10,000 cu. ft., per 100 cu. ft.	.10	.15	.13

Based on average consumption of 2,492 cubic feet per month, the present charge is \$4.39; the proposed charge would be \$4.95, an increase of 56 cents per month, or 13 percent; and the authorized charge will be \$4.60, an increase of 21 cents per month or 4.8 percent.

An exhibit attached to the application entitled "Revenue Requirement Study, August 1965", prepared by applicant's consulting engineers, and a revision thereof, Exhibit No. 5, set forth applicant's estimates of its operations for the year 1966 at present and proposed rates. Exhibit No. 6 submitted by a Commission staff accountant and a Commission staff engineer is a report on applicant's results of operations for the year 1966 estimated at present and proposed rates. The following tabulation summarizes the earnings data contained in Exhibits Nos. 5 and 6:

SUMMARY OF EARNINGS

Item	Year 1966 Estimated			
	Present Rates		Proposed Rates	
	Per Co.:	Per PUC	Per Co.:	Per PUC
	Ex. 5	Ex. 6	Ex. 5	Ex. 6
Operating Revenues	\$539,700	\$529,830	\$619,940	\$613,330
Operating Expenses	328,610	309,030	328,610	309,030
Depreciation	78,680	71,580	78,680	71,580
Taxes	50,200	60,370	91,790	103,650
Subtotal	<u>457,490</u>	<u>440,980</u>	<u>499,080</u>	<u>484,260</u>
Net Operating Revenue	82,210	88,850	120,860	129,070
Rate Base	1,545,700	1,546,900	1,545,700	1,546,900
Rate of Return	5.3%	5.7%	7.8%	8.3%

The difference in revenue estimates between those submitted by the applicant and the staff is the estimated weighted average number of customers. We consider the staff estimate to be more accurate.

Both the applicant and staff estimates of source of supply expenses for the year 1966 are based on an assumed purchase of 35 percent of applicant's water requirements from MWD sources, and the production of the balance from company wells. The testimony of Witness Crooke, manager of the Orange County Water District, in which he reviewed said District's practices and policies and Orange County's needs with respect to the availability and purchase of MWD water for spreading and to replenish underground water basins, supported applicant's water purchase policies reflected in its estimates. There is, however, no contract and the amount of MWD water purchased by

applicant for distribution to its own customers may be controlled and governed by the economics of applicant's overall operations. The record shows that applicant has expanded rapidly since 1954, but that its future growth is limited to about 20 percent; thus, its sources of water supply from its own wells now in operation together with the availability of MWD water will be adequate for anticipated future needs.

The record shows that the staff included in its 1966 operating expense estimates the annual compensation to an additional employee of \$10,800, and an amount of \$4,665 as the expense allocation for a pension plan recently put into effect.

Applicant's estimated directors' fees are \$6,000 per year, whereas the staff estimated \$2,400. Applicant's estimate is excessive and the staff's reasonable.

The staff excluded overtime expense charges for applicant's superintendent. This exclusion is proper since the superintendent is employed on a 24-hour seven-day week basis and is otherwise adequately compensated therefor in the staff estimates of annual payroll expense.

Applicant estimated the cost of the proceeding to be \$12,000 which, for ratemaking purposes, it amortized over a three-year period. It claimed that the actual cost to date exceeded \$16,000 for engineering, legal and accounting services associated with the preparation and trial of the instant application.

The staff estimated the reasonable cost to be \$9,000. The record shows that until recently, applicant had not established a work order system, and does not now maintain a property ledger. Each of these is required by the Uniform System of Accounts Prescribed for Class A, B and C Water Utilities. The record shows that the unusual cost of prosecuting this rate increase application is due to applicant's failure to maintain its records and accounts completely and properly, and we find the staff estimate in the total amount of \$9,000, amortized over a three-year period and the annual amount of \$3,000 to be reasonable.

The differences in rate base estimates are not readily apparent from the summary of earnings tabulation contained herein.

The staff has considered the applicant's Irvine and Browning wellsites, wells, pump, motor, reservoir and related equipment, together with additional pumping equipment, to be nonoperative, and has classified them other physical property owned by this utility, but not used in utility service and not held for future use. The resulting total adjustment to recorded utility plant in service as of January 1, 1966 was \$67,050, with a related adjustment to recorded depreciation reserve as of the same date of \$20,020. Applicant contended that it might need these wells and equipment at some future time. Considerable argument developed over the original cost of the reservoir at the Browning site. The reservoir did not cost as much as the amount shown as an addition to Account 342, Reservoirs and Tanks in applicant's 1958 annual report to the Commission; but it cost substantially more than the \$2,192 alleged by applicant, and more than the estimate of \$4,600 submitted by applicant's consulting engineer which did not include overhead or contractor's profit.

We cannot therefore determine such cost precisely, but we find it reasonable to exclude from Utility Plant In Service the items and amounts recommended by the staff, since applicant's records do not support their inclusion either as to future utility use or their cost. We find the staff rate base estimate to be reasonable.

There is merit to applicant's contention that it is entitled to some reward for exceptionally efficient maintenance and operation of its system compared with other Class B or C water utilities in California. The rate of return of 7.7 percent found by this Commission to be reasonable in 1954 was based on conditions existing in that year and the outlook for the future. The attrition in rate of return, calculated by the applicant to be .41 percent per year, is based on 1964 and 1965 operations which reflect the additional expenses associated with the costs of purchasing MWD water, but the impact on applicant's net available for return in years beyond 1966 will not be as great as in 1964 and 1965, and applicant's earnings should sustain themselves. Further, the staff rolled back non-revenue producing net additions of utility plant for full-year effect through the test year. These plant items included transmission mains, office equipment, transportation equipment and shop and garage equipment in the net amount of \$67,340. In its closing statement the staff pointed out that this rollback had the effect of compensating for the alleged slippage in rate of return.

Section II of Exhibit No. 6 and the testimony of the staff accounting witness show that applicant did not use a work order

system to record changes in utility plant as required by the Uniform System of Accounts for Class A, B and C Water Utilities. In the absence of a work order system, the total cost of a given plant installation has not been readily ascertainable from accounting records; plant additions were recorded on a cash basis. Payroll was distributed monthly among plant and expense accounts on an estimated basis. Payroll taxes and compensation insurance were omitted from allocation to plant construction costs; and applicant's method of adjusting book balance to physical inventory of materials and supplies, taken annually, affects capitalization of materials which have become obsolete, lost, destroyed or used in repairs.

The record shows that, since September 1965, applicant has employed a full-time accountant, among other things, to remedy the aforementioned bookkeeping and accounting deficiencies.

We find that:

1. The estimates of applicant's results of operations for the year 1966 at present and proposed rates submitted by the Commission staff in Exhibit No. 6 are reasonable and are adopted, except that estimated revenues of \$2,200 for public fire hydrant service should be added.

2. The rate of return of 5.7 percent, which would be produced by applicant's present rates for the test year 1966 is insufficient, and applicant is in need of financial relief.

3. The rate of return of 8.3 percent which would be produced by the rates proposed in the application is excessive.

4a. A rate of return of 6.6 percent applied to the adopted rate base of \$1,546,900 should result in net operating revenue of approximately \$102,000, which will provide for a return on equity capital of approximately 9.2 percent.

b. The rate of return of 6.6 percent recommended by the Commission staff is reasonable, and applicant should be authorized to file new schedules of rates which will produce that rate of return. Such new schedules should produce gross operating revenues of approximately \$557,000, which will be an increase of approximately \$27,200, or 5.1 percent over the revenues estimated by the staff to be produced by the present rates for the test year 1966.

c. 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.

5. The fact that applicant does not enforce its tariff and collect all monthly charges for public fire hydrant service is not sufficient reason for discontinuing that tariff. It would result in discrimination between the City of Tustin, which pays its lawfully levied charges for public fire hydrant service, and Santa Ana and Orange and Orange County, which do not pay such charges, and further would discriminate against all of applicant's general metered service customers, which bear the burden of such defaults. It would not be in the public interest to permit the cancellation of this tariff as requested or to ignore the estimated revenue due but not collected under this tariff.

It is concluded that the application should be granted in part and denied in part, and the order hereinafter will so provide.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Tustin Water Works is authorized to file the revised rate schedules attached hereto as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be October 15, 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. Applicant shall bring up to date its water system map required by paragraph I.10.a. of General Order No. 103 and file two copies with the Commission within three months after the effective date of the order in this proceeding.

3. For the year 1966, applicant shall apply the depreciation rates set forth in Table 3-A of Exhibit No. 6. 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 results 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.

4. Applicant shall install a work order system which provides accounting control of changes in utility plant. The system shall clearly reflect the actual material and labor costs, and appropriate indirect and overhead additives which pertain to plant additions and retirements.

5. Applicant shall distribute construction overhead allocations to all plant accounts (work orders) affected on the basis of appropriate studies, and refrain from the use of arbitrary amounts or percentages in capitalizing indirect and overhead construction costs.

6. Applicant shall install and maintain on a current basis a utility plant ledger incorporating a historical record of cost of utility plant, by location, in each category of plant.

7. Applicant shall adopt a materials and supplies perpetual inventory system, and in coordination therewith, the necessary materials requisition forms.

8. In all other respects the application is denied.

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

Dated at San Francisco, California, this 27th day of SEPTEMBER, 1966.

[Signature] President
George G. Hoover
Fredrick B. Holdoff
[Signature]
 Commissioners

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

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tustin and portions of Santa Ana, Orange and vicinity,
Orange County.

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 800 cu.ft. or less	\$ 1.90	(I)
Next 3,200 cu.ft., per 100 cu.ft.16	
Next 6,000 cu.ft., per 100 cu.ft.15	
Over 10,000 cu.ft., per 100 cu.ft.13	(I)
Minimum Charge:		
For 5/8 x 3/4-inch meter	1.90	(P)
For 1-inch meter	4.00	(I)
For 1 1/2-inch meter	6.50	
For 2-inch meter	10.00	
For 3-inch meter	15.00	(I)
For 4-inch meter	30.00	
For 6-inch meter	60.00	
For 8-inch meter	100.00	

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

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems. (T)

TERRITORY

Tustin and portions of Santa Ana, Orange and vicinity, Orange County. (N)

RATES

	<u>Per Month</u>	
For each 4-inch diameter service connection	\$ 6.00	(I)
For each 6-inch diameter service connection	10.00	(I)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund. (N)

2. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund. (N)

(Continued)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS (Continued)

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund. (N)

5. The utility will supply only such water at such pressures as may be available from time to time as a result of its normal operation of the system. (N)

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, organized fire districts and other political subdivisions of the State. (T)

TERRITORY

Tustin and portions of Santa Ana, Orange and vicinity, Orange County. (T)

RATE

	<u>Per Month</u>	
For each hydrant	\$1.00	(T)

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. 1, General Metered Service. (N)

2. The cost of relocation of any hydrant shall be paid by the party requesting relocation. (T)

3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and where appropriate, the ownership, type and size. (N)

4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system. (N)

Schedule No. 9MZ

HAULAGE RATES

APPLICABILITY

Applicable to all measured water service furnished for delivery to customers' tanks or containers. (T)

TERRITORY

Tustin and portions of Santa Ana, Orange and vicinity, Orange County. (T)

RATES

	<u>Per Load</u>	
Tank capacity 400 gallons or less	\$0.15	(I)
400 - 600 gallons	0.20	-----
600 - 800 gallons	0.25	
800 - 1,000 gallons	0.30	
Per tank capacity exceeding 1,000 gallons, each 200 gallons or fraction thereof	0.0575	

SPECIAL CONDITIONS

1. Water service under this schedule will be furnished only when surplus water is available and under conditions which will not adversely affect domestic service. The utility will be the sole judge as to the availability of such surplus water. (N)

2. The utility will determine the locations at which the service will be provided and the conditions governing said service. (N)

Schedule No. 9FC

CONSTRUCTION FLAT RATE SERVICE

APPLICABILITY

Application to all flat rate water service furnished for construction purposes. (T)

TERRITORY

Tustin and portions of Santa Ana, Orange and vicinity, Orange County. (T)

RATE

	<u>Per Service Connection Per Month</u>	
For each residence or commercial building during construction period not exceeding six months (N)	\$1.90	(R)