

ORIGINALDecision No. 71487

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)

LATON WATER COMPANY,
a California Corporation,under Section 454 of the Public
Utilities Code for an Interim
Order from the Commission to
Increase Rates for Water Service.Application No. 48439
(Filed April 29, 1966)Helen M. Fraley, for applicant.
J. E. Johnson, for the Commission staff.O P I N I O N

Applicant Laton Water Company seeks authority to increase its rates for water service.

Public hearing was held before Examiner Catey in Hanford on August 26, 1966. Copies of the application had been served and notice of hearing had been mailed to customers and published, in accordance with this Commission's rules of procedure. The matter was submitted on August 26, 1966.

Testimony on behalf of applicant was presented by its Secretary-Treasurer. The Commission staff presentation was made by an engineer and by an accountant. No customers testified.

Service Area and Water System

Applicant's service area consists of the unincorporated community of Laton, Fresno County, about eight miles north of the city of Hanford, Kings County. The service area is cut into two parts by the Santa Fe Railway right-of-way.

The service area on each side of the railroad has its own well, hydropneumatic tank and distribution mains. The two

distribution systems are interconnected, however, by a single 4-inch main which crosses the right-of-way near the southern boundary of applicant's service area. The combined distribution systems include 28,300 feet of mains ranging in size from 1- to 6-inch. There are approximately 280 active flat rate services and no metered services.

System Improvements

The Commission staff points out in Exhibit No. 2 that the water system has a number of deficiencies: the present pumping capacity is not adequate; there are 14 dead-end mains and numerous undersized mains. The staff recommends that (1) a new larger pump equipped with at least a 20-hp motor be installed to replace the present 10-hp unit; (2) 1,350 feet of 4-inch and 1,600 feet of 2-inch or larger mains be installed to eliminate certain dead ends; and (3) applicant plans a continuing, long-term general program of replacing small mains.

Applicant acknowledges that service and facilities are sub-standard. Applicant's witness testified that all of the staff's recommendations would be carried out. She estimated that the more urgent improvements shown on Exhibit No. 4, a map prepared by the staff, would require ninety days to complete and that the granting of a reasonable rate increase would enable applicant to finance those improvements by borrowing and open-account purchasing. Exhibit No. 1 shows additional long-range improvements proposed by applicant. The staff's recommendations shown on Exhibit No. 4 are adopted in the order herein, modified to provide facilities which conform with applicant's long-range plans and thus will not need further replacement as those long-term plans are carried out.

Rates

Applicant's current and cancelled tariffs, of which we take official notice, show that except for some minor revisions in 1942, all of applicant's present rates became effective in 1923. They consist of a schedule of rates for general metered service and a schedule of flat rates for residential, business and fire protection service.

The unused present rates for metered service provide for a basic minimum charge of \$1.20 per month for 400 cubic feet or less through a 5/8 by 3/4-inch meter. Rates for use in excess of 400 cubic feet per month range from 25 cents to 15 cents per hundred. Appropriately greater minimum charges are provided for larger sizes of meters. Applicant proposes to increase the basic minimum charge to \$3.25 per month and to increase similarly the rates for use in excess of the amount allowed for the minimum charge. The Commission staff concludes in Exhibit No. 2 that a service charge type of meter rate schedule would be more equitable. Applicant has no objection to such a schedule and it is authorized in the order herein, at a level commensurate with the flat rates authorized herein.

Applicant's present flat rates for residential service provide for a basic monthly charge of \$1.25 with additional charges dependent upon the number of adult members in the customer's household, the number of plumbing fixtures, the number of farm animals and the area irrigated. Exhibit No. 2 shows that the average resulting charge per flat rate customer is about \$1.80 per month. Applicant proposes to eliminate the numerous additions to the present basic flat rate and to increase that basic flat rate to

\$4.00 per month. The Commission staff presented in Exhibit No. 3 a form of flat rates usually adopted by utilities in recent years. It provides for a basic charge covering a single-family residential unit on premises not exceeding a fixed area, to which charges are added for additional residential units and large premises. That form of rate is authorized as set forth in Appendix A to the order herein.

The present flat rates do not cover the two business customers. Applicant now proposes to offer only metered service to business customers. This is more equitable and is authorized by the order herein.

Applicant proposes no increase in the present fire protection monthly rate of \$2.00 per hydrant.

Results of Operation

Applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table I, from the staff's Exhibit No. 2 and from applicant's Exhibit E, are the estimated results of operation for the test year 1966, under present water rates and those proposed by applicant. The staff figures include the effect of recommended improvements. For comparison, Table I also shows the estimated results of operation, modified as discussed hereinafter, at present rates, at those proposed by applicant, and at those authorized herein.

TABLE I

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	\$ 6,880	\$ 5,980	\$ 6,880
<u>Deductions</u>			
Expenses Excl. Depr. & Taxes	7,160	4,328	7,160
Depreciation	970	2,169	1,540
Taxes Other Than On Income	990	816	990
Income Taxes	100	0	100
Total	<u>9,220</u>	<u>7,313</u>	<u>9,790</u>
Net Revenue	(2,340)	(1,333)	(2,910)
Rate Base	24,830	3,847	28,900
Rate of Return	Loss	Loss	Loss
<u>At Rates Proposed By Applicant</u>			
Operating Revenues	14,280	12,672	14,280
<u>Deductions</u>			
Expenses Excl. Depr. & Taxes	7,160	9,833	7,160
Depreciation	970	420	1,540
Taxes Other Than On Income	990	850	990
Subtotal	<u>9,120</u>	<u>11,103</u>	<u>9,690</u>
Income Taxes	570	445	570
Total	<u>9,690</u>	<u>11,548</u>	<u>10,260</u>
Net Revenue	4,590	1,124	4,020
Rate Base	24,830	3,847	28,900
Rate of Return	18.5%	29.2%	13.9%
<u>At Rates Authorized Herein</u>			
Operating Revenues	-	-	11,970
<u>Deductions</u>			
Excluding Income Taxes	-	-	9,690
Income Taxes	-	-	100
Total	<u>-</u>	<u>-</u>	<u>9,790</u>
Net Revenue	-	-	2,180
Rate Base	-	-	28,900
Rate of Return	-	-	7.5%

(Red Figure)

Operating Revenues and Expenses

From Table I it can be seen that applicant's requested rates would result in an increase of 108 percent in operating revenues, whereas the rates authorized herein will produce a 74 percent increase.

Applicant did not present any support for its estimates of revenues and expenses. The staff's estimates of these items were fully explained and justified by the staff engineering witness, appear reasonable, and are adopted herein.

Depreciation and Rate Base

Applicant's books and records have not been kept properly and accurately since 1923, the date of applicant's previous rate proceeding. Applicant's showing in the current proceeding includes only such plant items as it could definitely support without a detailed study. The Commission staff made such a study and used it in developing depreciation expense and rate base components. Except for the errors discussed hereinafter, the staff's study appears reasonable and is adopted with appropriate modifications to correct the errors.

The staff determined its estimate of a proper depreciation reserve requirement by using a 3.5 percent depreciation rate prior to 1966. This was the rate used by applicant for the years 1923 through 1941. Using the reserve requirement thus determined, a future straight-line remaining life depreciation rate of from 1.7 to 2.1 percent was derived in Exhibit No. 2. The sudden drop to about half of the previous rate suggests invalid assumptions, errors in calculations, or both.

A study of the tabulation on page 4 of Exhibit No. 2 indicates that the average ages of mains, services and hydrants are approximately 17, 11 and 13 years, respectively, instead of the 6, 4 and 4 years shown on Table 1-A of the exhibit. This error, when reflected back to the year 1923, affects both the depreciation reserve requirement and the future depreciation rate. Applying the

correct ages to Table 1-A shows that a 2.7 percent depreciation rate is appropriate for both prior and future years. The corrected reserve requirement is \$14,300, or about \$4,000 less than that developed in Exhibit No. 2. The corrected depreciation expense for the test year 1966 is \$1,540, or about \$600 higher than that developed in Exhibit No. 2.

Rate of Return

The staff recommends in Exhibit No. 2 a 7.5 percent return on rate base as reasonable provided applicant will proceed expeditiously to make the improvements it proposes. We concur. The 7.5 percent return should enable applicant to borrow the funds and obtain the open-account credit necessary for financing plant additions and replacements, as discussed herein under "System Improvements".

Findings and Conclusions

The Commission finds that:

1. a. Applicant is in need of additional revenues but the proposed rates set forth in the application are excessive.

b. The adopted 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 7.5 percent on applicant's rate base, with the proposed system improvements, 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.

2. Applicant's tariff service area map and rules are out of date and its printed forms are not incorporated in its filed tariffs.

3. The system improvements proposed by applicant and ordered herein will require revision of the system map prescribed by General Order No. 103.

4. The 1965 year-end staff adjusted balances of balance sheet items set forth in Exhibit No. 2, modified to reflect the corrected depreciation reserve of \$14,300, are the proper amounts to be shown on applicant's books.

5. A straight-line remaining life depreciation rate of 2.7 percent is reasonable for applicant's plant.

6. The system improvements recommended by the Commission staff in Exhibit No. 2, modified slightly to conform with applicant's long-range improvement plans, are reasonable and necessary.

The Commission concludes that the application should be granted to the extent set forth in the order which follows:

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant Laton Water Company is authorized to file the revised rate schedules attached to this order as Appendix A. Concurrently, applicant shall cancel its presently effective rates. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be December 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. Within forty-five days after the effective date of this order, applicant shall file a revised tariff service area map, appropriate general rules, and sample copies of printed forms that are normally used in connection with customers' services. Such filing shall comply with General Order No. 96-A. The effective date of the revised tariff sheets shall be four days after the date of filing.

3. Applicant shall keep current the system map required by Paragraph I.10.a of General Order No. 103. Within thirty days after completion of the improvements ordered herein, 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. 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 Class D Water Utilities prescribed by this Commission. As opening entries in those books, applicant shall record the staff's adjusted balances for utility plant and contributions in aid of construction as of December 31, 1965, as set forth in the tabulations on Pages 4 and 5 of Exhibit No. 2 in this proceeding. The corresponding reserve for depreciation shall be \$14,300.

5. For the year 1966, applicant shall apply a depreciation rate of 2.7 percent to the original cost of depreciable plant. Until review indicates otherwise, applicant shall continue to use this rate. Applicant shall review its 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 plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

6. On or before March 31, 1967, applicant shall:

a. Install and place in operation a motor of at least 20 hp and a pump designed for approximately a 20-hp load, to replace the present 10-hp unit.

b. Install and place in operation approximately 1,150 feet of 4-inch or larger pipe on Riverdale Street between Gonser Street and Pio Pico Street; approximately 200 feet of 4-inch or larger pipe on Murphy Street between Armstrong Street and Pueblo Street; approximately 500 feet of 2-inch or larger pipe on Gonser Street between Riverdale Street and Summit Street; approximately 650 feet of 4-inch or larger pipe along Latonia Street to DeWoody Street; and approximately 450 feet of 4-inch or larger pipe on Fowler Street between Latonia Street and Mt. Whitney Avenue.

c. File in this proceeding a report setting forth descriptions and costs of the improvements installed in compliance with this order.

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

Dated at San Francisco, California, this 1st day of NOVEMBER, 1966.

Ed. J. Ditchell
President

George G. Dwyer

Fredrick B. Holbrook

Augustus

William G. Bernard
Commissioners

Schedule No. 1

GENERAL METERED SERVICE

(N)

APPLICABILITY

Applicable to all metered water service.

(C)

TERRITORY

Laton and vicinity, Fresno County.

RATES

Service Charge:

	<u>Per Meter Per Month</u>	
For 5/8 x 3/4-inch meter	\$ 2.00	
For 3/4-inch meter	2.25	
For 1-inch meter	2.75	
For 1 1/2-inch meter	3.75	
For 2-inch meter	5.25	(C)
For 3-inch meter	9.00	(N)
For 4-inch meter	13.50	(N)

Quantity Rates:

For the first 5,000 cu.ft., per 100 cu.ft.	\$ 0.15	(C)
For all over 5,000 cu.ft., per 100 cu.ft.10	(C)

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 Rates.

(N)

(N)

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

(N)

APPLICABILITY

Applicable to all flat rate residential water service.

(C)

TERRITORY

Laton and vicinity, Fresno County.

(C)

RATES

Per Service Connection
Per Month

For a single-family residential unit,
including premises not exceeding
15,000 sq.ft. in area

\$3.35

(I)

a. For each additional single-family
residential unit (including cabins,
dormitories, apartments, trailers)
on the same premises and served
from the same service connection

2.20

(C)

b. For each 100 sq.ft. of premises in
excess of 15,000 sq.ft.

.01

(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger
than one-inch in diameter.

(N)

2. Residential service not provided for above shall be furnished
on a metered basis only.

(N)

3. If either the utility or the customer so elects, a meter shall
be installed and service provided under Schedule No. 1, General Metered
Service.

(C)

(C)

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.

TERRITORY

Laton and vicinity, Fresno County.

RATE

Per Month

For each hydrant \$2.00

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