

ORIGINALDecision No. 71558

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
 JULIO J. ROVAI and LOUIS J. ROVAI)
 doing business as RIO DELL WATER)
 SYSTEM under Section 454 of the)
 Public Utilities Code for)
 authority to increase their water)
 rates.)

Application No. 47820
 (Filed August 18, 1965)

Bertram S. Silver, for applicants.
Ronnie N. Clifford, for City of Rio Dell, protestant.
J. E. Johnson, for the Commission staff.

O P I N I O N

Extraordinary circumstances resulting from floods in Humboldt County formed the basis upon which this Commission issued an interim order in this proceeding (Decision No. 70200, issued January 11, 1966) by which the partnership of Julio J. and Louis J. Rovai, dba Rio Dell Water System, was granted rate relief pending public hearing for the receipt of evidence which would permit the determination of a proper rate base and the establishment of permanent rates. Public hearing was held before Examiner Emerson on June 23, 1966, at Rio Dell. The matter is submitted and ready for decision.

In the following tabulation the interim rates presently in effect are compared with those in effect prior to January 15, 1966 and with those which applicants request for the future.

Rate Comparison - Basic Rates

<u>Quantity</u>	<u>Prior Rate</u>	<u>Interim Rate</u>	<u>Proposed Rate</u>
First 500 cubic feet or less	\$3.10	\$3.50	\$3.85
Next 500 cubic feet per 100 cu.ft.	.50	.56	.65
Next 1000 cubic feet per 100 cu.ft.	.40	.45	.50
Over 2000 cubic feet per 100 cu.ft.	.30	.33	.35

The City of Rio Dell and the Rio Dell Elementary School protest any increase in water rates. The city's witness presented billing comparisons between other cities and communities in Humboldt County and those on the Rio Dell system. Comparability of the water system or their operations was not established, however. The school district's witness testified that the school district's annual water bill is about \$828, that the district has an average daily attendance of 660 children in two schools and that the district is "impoverished."

In recent years the Commission has recognized rates of return within the range of 6.25 to 7.0 percent as being reasonable for water utility operations comparable to those of applicants. In view of the low plant investment per customer and the hazards of recurrent floods and subsequent losses of plant which applicants experience, the Commission staff has recommended that applicants be accorded a rate of return of no less than 7.0 percent on a depreciated rate base. According to the staff report^{1/} the "prior" rates would produce a rate of return of only 4.4 percent on a depreciated rate base of \$207,700 during 1966.

With respect to near future operations, the earnings studies of applicants and the staff differ in three significant categories. The first of these, operating revenues, is difficult to estimate by projecting past customer growth trends because of the temporary influx of water users during or immediately following the floods of 1964-1965 and early 1966. Applicants' judgment, being derived from on-the-spot experience, is that a normal growth of 12 new customers will occur each year. Such anticipated growth appears to be reasonable and will be used herein for the purpose of estimating revenues.

^{1/} Exhibit No. 1 in this proceeding.

In the category of operating expenses, applicants and the staff differ primarily with respect to an allowance for life insurance for the partners, rate case prorata and depreciation expense for a backhoe.

Life insurance for the partners is normally only for the benefit of the surviving partner. No benefit enures to the utility as such. Under such circumstances it would be unreasonable to saddle the costs of insuring the lives of the partners upon the rate-payer. Life insurance premiums will not be included in the operating expenses found to be reasonable for the rate-making purposes of this proceeding.

The costs of rate cases are normally recovered by amortizing them over a period of years through charges to operating expenses. In this proceeding the staff has included one-fifth of the estimated cost of the present proceeding. Applicants' last rate proceeding was two years ago and since no pro-rata of the cost of that proceeding has been included by the staff, applicants' claim that at least three-fifths of that cost will be unrecoverable unless some allowance therefor is included in future operating expenses has some merit. The reasonable operating expenses determined herein will include a suitable amount for this item.

Applicants' have purchased a trenching or digging machine, commonly called a backhoe, at a cost of \$8,320. Applicants have assigned a life of ten years to this machine and claim an annual depreciation expense of \$300 for it. The staff did not include any amount in operating expenses for its depreciation. The machine is used and useful in the water utility business. The claimed \$300 amount is a reasonable charge to operating expenses to cover its depreciation and such amount will be included herein.

In the category of plant, the staff included the sum of \$1,000 for new land which applicants had informed the staff would be necessary as a result of the floods. Subsequently it has developed that such land is not necessary and in fact will not be purchased, hence this item will be deleted in determining rate base. The cost of the backhoe will be included in rate base.

Taking into account the inclusions and exclusions discussed above, the Commission finds that the following tabulation fairly portrays applicants' earnings position under "prior", "interim" and "proposed" rates.

Estimated Results of Operations
Year 1966

<u>Item</u>	<u>Prior Rates</u>	<u>Interim Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$ 52,530	\$ 59,040	\$ 65,540
Operating Expenses	44,770	46,200	47,990
Net Revenues	7,760	12,840	17,550
Rate Base (depreciated)	214,600	214,600	214,600
Rate of Return	3.62%	5.98%	8.18%

As demonstrated by the foregoing tabulation, applicants can not earn a reasonable return at "prior" rates, nor will the interim rates presently in effect produce the rate of return which the staff has recommended. A rate increase of 25 cents per month per customer, additive to the interim rates presently in effect, will produce a rate of return of 7.0 per cent on a depreciated rate base of \$214,600. We find such rate base to be fair and reasonable, such rate of return to be reasonable and commensurate with the risks involved, and such rate increase to be justified.

The Commission concludes that the application herein should be granted to the extent provided by the following order.

O R D E R

IT IS ORDERED that:

1. Julio J. and Louis J. Rovai (Rio Dell Water System) are authorized to file with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96-A, the schedule of rates attached to this order as Appendix A and on not less than five days' notice, to make said rates effective for water service rendered on and after December 1, 1966.

2. By not later than March 31, 1967, applicants shall file with the Commission two copies of a revised system map prepared as required by Paragraph I.10.a. of General Order No. 103. Such map should be current as of December 31, 1966 and may be prepared by adding appropriate notations and markings to the system map previously filed by applicants in compliance with Decision No. 66990, dated March 24, 1964, in Application No. 45485.

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

Dated at San Francisco, California, this 9th day of NOVEMBER, 1966.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Rio Dell and vicinity, Humboldt County.

RATES

		<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:			
First	500 cu. ft. or less	\$ 3.75	(I)
Next	500 cu. ft., per 100 cu. ft.56	
Next	1,000 cu. ft., per 100 cu. ft.45	
Over	2,000 cu. ft., per 100 cu. ft.33	
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ 3.75	(I)
For	3/4-inch meter	5.25	
For	1-inch meter	8.00	
For	1 1/2-inch meter	14.00	(I)
For	2-inch meter	20.00	
For	3-inch meter	35.00	

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