

SK

ORIGINAL

Decision No. 72159

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
 of WILLIAM K. OWEN and MILDRED C.)
 OWEN doing business as the SMITH)
 RIVER WATER SERVICE under Section)
 454 of the Public Utilities Code)
 for Authority to Increase Rates)
 for Water Service.)

Application No. 48840
(Filed October 6, 1966)

O P I N I O N

William K. Owen is the owner of record of Smith River Water Service. By this application he and his wife, Mildred C. Owen, request authority to hold the water utility properties in joint tenancy and seek authority to increase rates.

Smith River Water Service conducts operations in the unincorporated community of Smith River, Del Norte County, approximately 15 miles north of Crescent City. Service is provided through meters to six customers, and 144 customers are serviced at a flat rate. The system, which was originally constructed in 1892, is supplied by water from two creeks. Water is delivered by gravity to the distribution system by approximately 4,700 feet of transmission pipe. The distribution piping totals 21,100 feet and varies in size from 1½ inches to 6 inches in diameter.

Survey by the Commission staff of the system and of applicants' records was transmitted to the Commission, and received in this proceeding as Exhibit 1.

The proposal to hold ownership of the properties in joint tenancy, as a practical matter, does not involve a change in the identity of ownership. It appears that the purpose of such change is for matters of estate. Applicants do not hold a certificate of public convenience and necessity; the construction of the system (other than normal extensions within the area already serviced) occurred prior to the enactment of Section 1001 of the Public Utilities Code. To the extent that a change in title of ownership of the properties of this water system requires authority from the Commission, that authority should be granted.

On or about October 20, 1966, applicants mailed a letter to each customer comparing the present rates with the proposed rates and notifying the customers to direct to the attention of the Commission any problems concerning water service, billing procedures or other factors pertaining to the service provided by applicants. We have received communications from four customers in response to said letter. The communications are in the same vein: there is insufficient volume of water and pressure and there are particles of debris in the water, particularly after heavy rains.

We have asked the staff its opinion concerning these subjects and have received the following information.

The principal source of supply of water for the system is provided by a diversion structure on Domini Creek. The diversion structure acts as a settling basin and impounding reservoir. Heavy rains cause Domini Creek to carry much sediment. Ordinarily during times of rain, water is taken from another diversion structure on an unnamed creek which does not carry as much sediment. The water

from these sources is transmitted to the distribution system in a main consisting of various sizes of pipe, some of which is 4-inch wooden pipe. There is no provision for filtration of the water. The County Sanitarian, however, informed the staff that, although surface sources are used for the water supply, periodic testing indicates that samples meet public health standards. A check was made of the pressure in the distribution system near the elementary school and was found to be less than 25 psi. At the time of the check the auxiliary source of supply on the unnamed creek was in use because of rainy weather. This source is higher in elevation than the Domini Creek diversion structure. The staff does not have information concerning the volume and the pressure of water where the transmission main connects with the distribution system nor does it have full information concerning the condition of the transmission main or of the differences in elevations between the sources of supply and the distribution system. It is the staff's opinion that there are many possible methods whereby the unsatisfactory conditions may be improved; some methods may not be practical or economical because of the amount of investment required.

Applicants and the staff presented estimates of the results of operations under present rates and under the proposed rates. Applicants estimate they will have a net revenue of \$20 under the present rates and staff estimates the net would be \$185. There is no doubt that an increase in rates is warranted. The question is how much of an increase is justified. Applicants and the staff estimate that the proposed rates will provide \$1,340 additional gross

revenue which applicants forecast will provide a rate of return of 8.5 percent and which the staff forecasts will provide a rate of return of 10.7 percent. The difference in the forecasts results mainly from the applicants estimating \$3,500 for salaries whereas the staff estimated \$3,200, and in the case of rate base and depreciation expense the staff made an appropriate adjustment to eliminate consideration of certain equipment purchased and retained by a prospective buyer who had operated and managed the system from March, 1964 to May, 1966.

The operating conditions described hereinabove indicate that considerable work will be required to protect against the intrusion of debris and foreign particles into the water system. We accept applicants' estimate of salaries.

The staff recommends a rate of return of 7.0 percent as reasonable for this utility. Applicants urge a rate of return of 8.5 percent. In terms of dollars the difference in net revenue amounts to \$185 because the rate base is only \$12,300.

There is a zone of reasonableness in the return to which a utility is entitled. The rate of return must consider present and future capital requirements, but, in addition, the service that is being provided the public deserves consideration. The balance sheet attached to the application shows no outstanding debt. The report of the staff, together with the communications from the customers, disclose that the service being provided by applicants is not good. The application does not disclose what action applicants contemplate to improve the service. Their estimate of rate base reveals applicants intend to make additions or improvements to the system requiring a capital expenditure of \$400.

It is apparent that the system is deficient with respect to volume, pressure and filtration and that some action is required to correct those deficiencies. It is unrealistic to require applicants immediately to make the capital expenditure necessary to rectify and restore the entire system. It is doubtful that applicants have the funds, or have the financial ability to borrow on reasonably favorable terms the amount of money that would be required for such work. Some improvements, however, would not require a substantial outlay of capital. A screen or coarse filter to remove large pieces of debris is one example of such an improvement.

Exhibit 1 discloses an apparent intent of applicants to sell the system. There is no indication that any substantial improvements are contemplated other than an expenditure of \$400 for additions. Under the circumstances we find a return of \$800 or 6.5 percent on a rate base of \$12,300 is reasonable for the operation of this utility.

The estimated results of operation for this utility for a rate year under present rates, proposed rates and the rates which will be hereinafter authorized are set forth below.

Smith River Water Service
Estimated Results of Operation

	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
Operating Revenue:			
Metered Service	\$ 630	\$ 770	\$ 755
Unmetered Service	5,380	6,580	6,305
Total	\$ 6,010	\$ 7,350	\$ 7,060
Expenses:			
Salaries	\$ 3,500	\$ 3,500	\$ 3,500
Purchased Power	25	25	25
Water Treatment	10	10	10
Materials	500	500	500
Billing	65	65	65
Office Supplies	15	15	15
Telephone	80	80	80
Insurance	45	45	45
Office Rent	240	240	240
Transportation	200	200	200
Uncollectibles	30	30	30
Rate Case (5 yrs.)	25	25	25
Subtotal	\$ 4,735	\$ 4,735	\$ 4,735
Depreciation Expense	660	660	660
Ad Valorem Taxes	385	385	385
Social Security			
Taxes	335	335	335
Subtotal	\$ 6,115	\$ 6,115	\$ 6,115
Taxes on Income	-	195	145
Total Expenses	\$ 6,115	\$ 6,310	\$ 6,260
Net Revenue	\$ (105)	\$ 1,040	\$ 800
Rate Base	\$12,300	\$12,300	\$12,300
Rate of Return	-	8.5%	6.5%

(Red Figure)

We find that the foregoing estimates of operating revenues, expenses, including taxes and depreciation, rate base and rate of return reasonably represent the results of applicants' operations for the purpose of the proceeding. We further find that the rates and charges set forth in Appendix A are reasonable for the services provided by applicants, that the increases resulting from the establishment of said rates and charges are justified, and that the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable. We further find that the adjustments in the balances of utility plant and reserve for depreciation accounts recommended in Exhibit 1 are reasonable and proper and that a public hearing is not necessary.

We conclude that:

1. Applicants should be authorized to have title to the public utility water system properties vested in William K. Owen and Mildred C. Owen as joint tenants.
2. Applicants should be authorized to establish, on not less than four days' notice to the Commission and to the public, the rates and charges set forth in Appendix A.
3. Applicants should file with the Commission two copies of the map of their system required by Paragraph I.10.a of General Order No. 103.
4. Applicants should be required to record on their books of account the adjusted balances for utility plant and reserve for depreciation accounts set forth in Exhibit 1.

O R D E R

IT IS ORDERED that:

1. William K. Owen and Mildred C. Owen are authorized to have title to the public utility water system properties known as Smith River Water Service vested in them as joint tenants.

2. After the effective date of this order, applicants William K. Owen and Mildred C. Owen, doing business as Smith River Water Service, are authorized to file the 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 April 1, 1967, 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.

3. Applicants shall prepare and 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, applicants 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. Applicants shall record in their books of account the staff adjusted balances for utility plant and reserve for depreciation accounts as of December 31, 1965, as set forth in the tabulation titled "Utility Plant and Depreciation Reserve" in Exhibit 1 in this proceeding

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

Dated at San Francisco, California, this 14th day of MARCH, 1967.

[Signature]
President
[Signature]
[Signature]
[Signature]
Commissioners

Schedule No. 1
GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Smith River and vicinity, Del Norte County. (T)

RATES

		<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:			
First	900 cu.ft. or less	\$3.20	(I)
Next	1,100 cu.ft., per 100 cu.ft.29	
Next	2,000 cu.ft., per 100 cu.ft.25	
Over	4,000 cu.ft., per 100 cu.ft.12	(I)
Minimum Charge:			
For	5/8 x 3/4-inch meter	\$ 3.20	(I)
For	3/4-inch meter	4.30	(N)
For	1-inch meter	6.65	
For	1-1/2-inch meter	11.30	
For	2-inch meter	14.50	(N)

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

Schedule No. 2

GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service. (T)

TERRITORY

Smith River and vicinity, Del Norte County. (T)

RATES

	<u>Per Service Connection Per Month</u>	
For each dwelling, store, shop or business unit on a single lot	\$ 3.65	(I)
For each additional dwelling, store, shop or business unit supplied through the same service connection	2.70	(I)

SPECIAL CONDITIONS

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

2. All service not provided for above shall be furnished on a metered basis only. (T)

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. (T)