

ORIGINAL

Decision No. 72199

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of JACKSON WATER WORKS, INC., a California corporation, under Section 454 of the Public Utilities Code, for authority to increase rates for water service.

Application No. 48732
(Filed August 23, 1966)

Verner R. Muth, for applicant.
Angelo J. De Paoli, for seventeen of applicant's customers, protestants.
Pierce Deasy, for City of Jackson, and James E. Deasy, for County of Amador, interested parties.
J. E. Johnson and E. J. Prando, for the Commission staff.

O P I N I O N

Applicant Jackson Water Works, Inc., seeks authority to increase its rates for water service.

Public hearing was held before Examiner Catey in Jackson on December 20 and 21, 1966. Copies of the application had been served and notice of hearing had been mailed to customers, posted and published, in accordance with this Commission's rules of procedure. The matter was submitted on December 21, 1966.

Testimony on behalf of applicant was presented by its manager, by its accountant and by its consulting engineer. The Commission staff presentation was made by an engineer and by an accountant. Seven customers testified, primarily concerning service problems.

Service Area and Water System

Applicant's service area consists of the City of Jackson and adjacent territory in Amador County.

A. 48732 ds

Applicant's entire supply of water is purchased from Pacific Gas and Electric Company. It is delivered from the latter utility's Tanner Reservoir and pipeline into applicant's reservoir. An additional reservoir and related purification facilities are proposed to be constructed by applicant to provide more storage capacity for peak demand periods and fire protection and to permit improvement of the quality of the water delivered to customers. Applicant also plans to install a new lining in its present reservoir.

From applicant's reservoir, two transmission mains connect to a single transmission main which delivers the stored water to almost all of the distribution mains. The small portion of the distribution system added by applicant's acquisition of the Jackson Gate water system is served by a separate transmission main. Applicant plans to install another transmission main along a new route, to provide better reliability and improve pressures and flows. The transmission and distribution system includes sixteen miles of mains, ranging in size from 2-inch to 12-inch. There are about 1,020 metered services and 160 public fire hydrants.

Rates

Applicant now has two schedules of rates for general metered service. The present rates in the small Jackson Gate Tariff Area were adopted in September 1965, unchanged from those authorized for the predecessor utility in 1953. Present rates for general metered service throughout the rest of applicant's service area were established in 1960.

Applicant proposes to increase its rates for general metered service to a uniform level throughout its service area. It proposes to leave its present graduated scales of fire hydrant

rates unchanged but make them also applicable to the Jackson Gate area for use in the event fire hydrant service is requested there. An increased rate is proposed by applicant for private fire sprinkler service, a service not heretofore offered in the Jackson Gate Tariff Area. Another schedule is proposed by applicant which would create a charge for establishment and reestablishment of service, a function heretofore performed without extra charge.

The following Table 1 presents a comparison of applicant's present meter rates, those requested by applicant and those authorized herein:

TABLE 1
COMPARISON OF RATES

<u>Item</u>	<u>Per Meter Per Month</u>				
	<u>Present</u>		<u>Pro- posed</u>	<u>Authorized Herein</u>	
	<u>Jackson</u>	<u>Jack.Gate</u>		<u>With Plant Improve- ments</u>	<u>Without Plant Improve- ments</u>
Minimum Charge.	\$2.00	\$1.85	\$4.00	\$3.00	\$2.40
First 500 cu.ft., per 100 cu.ft. ....	.00*	.00*	.00*	.00*	.00*
Next 100 cu.ft., per 100 cu.ft. ....	.00*	.00*	.00*	.35	.30
Next 200 cu.ft., per 100 cu.ft. ....	.27	.25	.00*	.35	.30
Next 1,200 cu.ft., per 100 cu.ft. ....	.27	.25	.37	.35	.30
Next 3,500 cu.ft., per 100 cu.ft. ....	.22	.20	.29	.20	.20
Next 500 cu.ft., per 100 cu.ft. ....	.16	.15	.29	.20	.20
Next 4,000 cu.ft., per 100 cu.ft. ....	.16	.15	.22	.20	.20
Next 5,000 cu.ft., per 100 cu.ft. ....	.16	.15	.22	.15	.15
Over 15,000 cu.ft., per 100 cu.ft. ....	.13	.15	.16	.15	.15

* Included in minimum monthly charge for 5/8 x 3/4-inch meter. A graduated scale of increased minimum charges is provided for larger meters.

A. 48732 ds

The Commission staff states in Exhibit No. 1 that applicant's proposed rates appear to contain an excessive number of quantity blocks in view of the relatively undiversified character of water use among customers. The staff recommends that no more than three quantity blocks be provided. This will simplify the calculation of charges by applicant and the checking of such calculations by customers. The staff's recommendation is adopted.

A representative of the Jackson Unified School District requested consideration of establishing a flat rate for schools. In an area, however, where the utility must buy all of its water for resale, it is not appropriate to eliminate metered service to customers such as schools, which have considerable fluctuation in consumption.

Applicant's manager testified that the proposed charge for establishment and reestablishment of service was to cover situations where year-round service was not needed by customers. He admitted that there were very few such customers on applicant's system. In fact, both applicant and the staff assumed in their estimates that no revenue whatsoever would be produced from the proposed charge. Under these circumstances, the establishment of the new charge is not warranted.

Customer Protests

The customers' primary concern appears to be the same as applicant's: There are major improvements needed to the storage, treatment, transmission and distribution facilities to insure the uninterrupted availability of good quality water at adequate pressure. The customers understandably would like some assurance that such improvements will actually be made if water rates are increased. The order which follows provides that the rates predicated upon the plant improvements will expire automatically unless applicant files proof of completion of the improvements within a reasonable time, so that a supplemental order can make the rates permanent.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table 2, from the staff's Exhibit No. 1 and from Exhibit E attached to the application, are the estimated results of operation for the test year 1967, under present water rates and those proposed by applicant. For comparison, this table also shows the results of operation, modified as discussed hereinafter, at present rates, at those proposed by applicant, and at those authorized herein.

TABLE 2
ESTIMATED RESULTS OF OPERATION, TEST YEAR 1967

Item	Staff	Applicant	MODIFIED	
			With Plant Improvements	Without Plant Improvements
<u>At Present Rates</u>				
Operating Revenues	\$ 56,640	\$ 58,200	\$ 56,640	\$ 56,640
<u>Deductions</u>				
Purchased Water	5,500	7,200	5,500	5,500
Water Treatment	1,350	1,800	1,800	1,000
O & M Materials	2,400	9,200	2,400	2,400
Payroll	21,500	25,000	21,500	21,500
Billing & Office Exp.	2,090	2,350	2,090	2,090
Insurance	1,200	2,200	1,200	1,200
Accounting	1,200	1,500	1,500	1,500
Vehicle Exp.	860	1,250	860	860
Other Exp. excluding Depreciation & Taxes	2,600	2,640	2,600	2,600
Depreciation	10,930	12,380	10,930	9,180
Taxes, excluding Franchise and Income Taxes	4,280	4,688	5,688	4,888
Subtotal	53,910	70,120	56,060	52,810
Local Franchise Tax	1,020	1,200	1,020	1,020
Income Taxes	100	0	100	150
Total	55,030	71,320	57,180	53,980
Net Revenue	1,610	(13,120)	(540)	2,660
Rate Base	216,000	256,700	251,000	181,000
Rate of Return	0.8%	Loss	Loss	1.5%
<u>At Rates Proposed by Applicant</u>				
Operating Revenues	91,880	92,420	91,880	91,880
<u>Deductions</u>				
Excl. Franch. & Inc. Taxes	53,910	70,120	56,060	52,810
Local Franchise Tax	1,660	1,800	1,660	1,660
Income Taxes	11,370	1,200	7,780	11,930
Total	66,940	73,120	65,500	66,400
Net Revenue	24,940	19,300	26,380	25,480
Rate Base	216,000	256,700	251,000	181,000
Rate of Return	11.6%	7.5%	10.5%	14.1%
<u>At Rates Authorized Herein</u>				
Operating Revenues	--	--	78,800	67,900
<u>Deductions</u>				
Excl. Franch. & Inc. Taxes	--	--	56,060	52,810
Local Franchise Tax	--	--	1,420	1,220
Income Taxes	--	--	3,710	3,040
Total	--	--	61,190	57,070
Net Revenue	--	--	17,610	10,830
Rate Base	--	--	251,000	181,000
Rate of Return	--	--	7.0%	6.0%

(Red Figure)

From Table 2 it can be seen that applicant's requested rates would result in an increase of sixty-two percent in operating revenues, whereas the temporary rates authorized herein will produce a thirty-nine percent increase. If applicant is unable to finance and install any of the approximately \$70,000 of abnormal or non-recurring system improvements (not involving contributions) indicated in Exhibit No. 1, the rates will revert back to a level only twenty percent higher than the present rates. The percentage increases for individual bills will vary somewhat, depending upon level of use and whether the customer is now in the Jackson Gate or Jackson Tariff Area. With the single source of supply, the consolidated operation, the proposed interconnected system, and a significant portion of the plant being for treatment, storage and transmission of water for all customers, we find that zone rates are no longer appropriate for this utility.

The principal differences between the estimates presented by applicant and those presented by the Commission staff for revenues and expenses, result from (1) the staff's having more recent data available when it made its estimates, and (2) the staff's estimates of payroll chargeable to expense being based primarily upon a study of payrolls of similar utilities. With the exception of water treatment expense, accounting expense, ad valorem taxes and income taxes, the staff's revenue and expense estimates are adopted in Table 2 in the column headed "With Plant Improvements". Appropriate further modifications are made to water treatment expense, depreciation, ad valorem taxes and income taxes, in the column headed "Without Plant Improvements".

Applicant's estimate of water treatment expense appears to reflect more accurately the cost of additional chemicals required if its proposed new treatment facilities are installed. Applicant's estimate of accounting expense is based upon actual costs, which costs have not been shown to be unreasonable. Neither applicant's nor the staff's estimates appear to consider the full effect on ad valorem taxes of plant additions. The staff's estimates, and apparently also those of applicant, do not reflect the reduction in income taxes which will result from interest on applicant's proposed loans to finance plant improvements. The aforementioned factors are considered in the amounts adopted in Table 2.

The full-year effect of nonrecurring plant improvements which do not affect operating revenues should be included in the test year summary of earnings. The staff's depreciation expense estimates follow this principle, but the staff's corresponding ad valorem tax estimates do not reflect any such plant improvements and the corresponding rate base estimate reflects only half of those improvements. The staff's estimate of rate base, modified to correct that deficiency is adopted in Table 2 in the column headed "With Plant Improvements" and is not significantly different from applicant's estimate. An appropriate reduction in rate base is made in the column headed "Without Plant Improvements".

Rate of Return

The Commission staff recommends in Exhibit No. 1 a rate of return of seven percent as a fair return for this utility. The staff accounting witness testified that if applicant were able to obtain a \$70,000 loan at an abnormally low interest rate from the Small Business Administration to finance the proposed system improvements, a somewhat lower rate of return on applicant's rate

base would be appropriate, whereas if applicant is unable to qualify for such a loan and, because of the present tight money market, is required to pay an abnormally high interest rate on a conventional loan, a somewhat higher return on rate base might be appropriate. Applicant was unable to state what type of loan, if any, it would be able to obtain.

Under the circumstances herein, we have assumed a seven percent loan interest rate and have adopted the staff's recommendation of seven percent return on rate base, provided applicant is able to finance and complete its proposed system improvements. If none of those improvements are effected within a reasonable period, a lower rate of return of six percent on rate base will then be appropriate, in recognition of the lower quality of service to the public.

Restriction of Expansion

The Commission staff recommends in Exhibit No. 1 that applicant be restricted from extending or furnishing water service to new subdivisions until such time as the overall water system is improved with the addition of the new reservoir, connecting mains and water treatment facilities. The situation does not appear to be sufficiently critical to warrant such restriction within the present dedicated area of service indicated by the service area boundary delineated on applicant's filed tariff service area maps. Some property owners may well have relied upon this indicated service area within which applicant is presently obligated to provide service under its filed rates and rules. Outside of that boundary, however, applicant is not now obligated to extend service; prohibition of applicant's expansion outside that boundary would not deprive any property owners of their present rights;

A. 48732 ds

and such action appears to be appropriate. The order which follows so provides.

Findings and Conclusion

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 1967 reasonably represent the results of applicant's future operations.

c. A rate of return of seven percent on applicant's rate base is reasonable if applicant completes its proposed plant improvements; a rate of return of six percent will be reasonable if none of those improvements are completed within approximately one year.

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. Data regarding the installation of all or part of the plant improvements proposed by applicant will be needed to provide a basis for establishment of permanent rates for general metered service.

3. The straight-line remaining life depreciation rates set forth in Exhibit No. 1 are reasonable for applicant's plant.

4. Applicant has not kept current the system map prescribed by General Order No. 103.

5. Expansion by applicant outside its present dedicated area of service would jeopardize the quality of service within the

present service area unless applicant is able to finance and complete its proposed plant improvements.

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.a. After the effective date of this order, applicant Jackson Water Works, Inc., is authorized to file the revised rate schedules attached to this order as Appendix A. Concurrently, applicant shall cancel all of its presently effective rates. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be May 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 and Rate Schedule No. 1X, Temporary General Metered Service, shall expire on July 1, 1968.

b. If applicant shall have completed its proposed plant improvements, as hereinbefore discussed, on or before May 1, 1968, to the satisfaction of the Commission, such increased temporary rates for general metered service shall be made permanent by supplemental order in this proceeding.

c. If applicant shall not have satisfactorily completed said improvements on or before said date, it will be required, by supplemental order in this proceeding, to file the rate schedule set forth in Appendix B to the order herein, to become effective upon expiration of the temporary rates authorized herein.

d. If applicant shall have completed only part of its proposed plant improvements on or before said date, it will be

A. 48732 ds

required, by supplemental order in this proceeding, to file a rate schedule for general metered service at an intermediate level between the rates set forth in Appendix A and Appendix B to the order herein.

2. On or before June 1, 1968, applicant shall file with this Commission a written report as of May 1, 1968, comparing the items of proposed plant additions summarized in Exhibit C to the application with the plant additions actually made, together with a statement showing the costs of the additions and the method used to finance those costs.

3. For the year 1966, applicant shall apply the depreciation rates set forth in Table 1-A of Exhibit No. 1. Until review indicates otherwise, applicant shall continue to use these rates. Applicant shall review its depreciation rates at intervals of five 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 result by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of the plant. The result of each review shall be submitted promptly to the Commission.

4. Applicant 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, applicant shall file with the Commission two copies of this map.

5. Except as provided by Decision No. 70948, dated July 12, 1966, in Application No. 48282, relative to Jackson Highlands Subdivision, applicant shall not extend service outside of its

A. 48732 ds

present service area, as delineated on its present tariff service area maps, nor file any revised tariff service area map indicating its willingness to so extend service, without first having obtained authorization therefor by further order of this Commission.

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

Dated at San Francisco, California, this 28th day of MARCH, 1967.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners

Schedule No. LX (T)

TEMPORARY GENERAL METERED SERVICE (T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Jackson and vicinity, Amador County. (T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 500 cu.ft. or less	\$ 3.00	(I)
Next 1,500 cu.ft., per 100 cu.ft. ....	.35	
Next 8,000 cu.ft., per 100 cu.ft. ....	.20	
Over 10,000 cu.ft., per 100 cu.ft. ....	.15	
Minimum Charge:		
For 5/8 x 3/4-inch meter	\$ 3.00	
For 3/4-inch meter	4.20	
For 1-inch meter	7.00	
For 1 1/2-inch meter	12.00	
For 2-inch meter	17.00	(I)
For 3-inch meter	25.00	(N)
For 4-inch meter	45.00	(I)

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

SPECIAL CONDITION (N)

This schedule shall be effective only to and including June 30, 1968, and shall thereafter be withdrawn. (N)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE (T)

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems, other than as provided by Schedule No. 5. (T)

TERRITORY

Jackson and vicinity, Amador County. (T)

RATE

Per Month

For each line of diameter of service connection \$1.25 (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. (T)

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.

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. (T)

5. 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.

Schedule No. 5

FIRE HYDRANT SERVICE

(T)

APPLICABILITY

Applicable to all fire hydrant service furnished.

(T)

TERRITORY

Jackson and vicinity, Amador County.

(T)

RATES

Per Hydrant Per Month

By	Hydrant	Type	Size of Connection	Number of Outlets	Minimum Size of Main Supplying Hydrant					
					Under 4"	4" and less than 6"	6" and less than 8"	8" and less than 10"	10" and Larger	
Customer	Wharf	Under 4"	Under 4"	1	\$1.00	\$1.00	\$1.25	\$1.50	\$1.50	(T)
Utility	Wharf	Under 4"	Under 4"	1	1.25	1.25	1.50	1.75	1.75	
Customer	Wharf	4-inch	4-inch	1	1.00	1.25	1.50	1.75	2.00	(T)
Utility	Wharf	4-inch	4-inch	1	1.25	1.50	1.75	2.00	2.25	
Customer	Barrel	4-inch	4-inch	1	-	1.25	1.50	1.75	2.25	(T)
Utility	Barrel	4-inch	4-inch	1	-	1.75	2.00	2.25	3.00	
Customer	Barrel	4-inch	4-inch	2	-	1.25	1.50	2.00	2.50	(T)
Utility	Barrel	4-inch	4-inch	2	-	2.00	2.25	2.75	3.25	
Customer	Barrel	6-inch	6-inch	2	-	1.50	1.75	2.25	2.75	(T)
Utility	Barrel	6-inch	6-inch	2	-	2.25	2.50	3.00	3.50	
Customer	Barrel	6-inch	6-inch	3	-	1.75	2.00	2.50	3.00	(T)
Utility	Barrel	6-inch	6-inch	3	-	2.50	3.00	3.50	4.00	

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates under the applicable schedule for general metered service.

(T)

(T)

(Continued)

Schedule No. 5

FIRE HYDRANT SERVICE
(Continued)

SPECIAL CONDITIONS (Contd.)

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 the customer. 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.

(T)

(T)

Schedule No. 1

(T)

GENERAL METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Jackson and vicinity, Amador County.

RATES

Per Meter
Per Month

Quantity Rates:

First 500 cu.ft. or less	\$ 2.40	(R)
Next 1,500 cu.ft., per 100 cu.ft. ....	.30	
Next 8,000 cu.ft., per 100 cu.ft. ....	.20	
Over 10,000 cu.ft., per 100 cu.ft. ....	.15	

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 2.40	
For 3/4-inch meter	3.50	
For 1-inch meter	6.00	
For 1 1/2-inch meter	11.00	
For 2-inch meter	16.00	
For 3-inch meter	23.00	
For 4-inch meter	42.00	(R)

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

(D)