

**ORIGINAL**

Decision No. 72352

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application	)	
of ALISAL WATER CORPORATION, a	)	
California corporation, under	)	Application No. 48677
Section 454 of the Public	)	(Filed August 1, 1966)
Utilities Code, for Authority to	)	
Increase Rates for Water Service.	)	

Verner R. Muth, for applicant.  
George G. Wilkus, for California Water  
 Service Company, interested party.  
J. E. Johnson and E. J. Prando, for  
 the Commission staff.

O P I N I O N

Applicant Alisal Water Corporation<sup>1/</sup> seeks authority to increase its rates for water service.

Public hearing was held before Examiner Catey in Salinas on January 12, 1967. 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.

Testimony on behalf of applicant was presented by its president, its general manager, two accountants and an engineer. The Commission staff presentation was made by an accountant and an engineer. No customers offered any testimony.

Service Area and Water System

Applicant's service area consists of the easterly portion of the City of Salinas and adjacent territory in Monterey County.

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<sup>1/</sup> Applicant sometimes does business under the fictitious firm name of "Alco Water Service" rather than its true corporate title.

Applicant's sources of supply consist of six local wells equipped with pumps driven by electric motors. Two of the pumps have standby gasoline engines for use in the event of electric power failure.

The well pumps and related hydropneumatic tanks deliver the water directly to the distribution system, consisting of about 25 miles of mains, ranging in size from 2-inch to 8-inch. There are about 2,640 metered services and 175 public fire hydrants.

Rates

Applicant now has schedules of rates for general metered service and for public fire hydrant service. These rates were established in 1962.

Applicant proposes to increase its rates for general metered service, to revise the sizes of various usage blocks within that rate structure, to add a charge for establishment and reestablishment of service, and to add a schedule for construction water service. No increase is requested in the rate for fire hydrant service.

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

TABLE I  
COMPARISON OF RATES

		<u>Per Meter Per Month</u>		
		<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
First	500* cu. ft. or less	\$ 1.80	\$ 2.50	\$ 2.30
Next	1,000 cu. ft., per 100 cu. ft.	.25	.28	.27
Next	500 cu. ft., per 100 cu. ft.	.20	.28	.27
Next	1,500 cu. ft., per 100 cu. ft.	.20	.23	.20
Next	500 cu. ft., per 100 cu. ft.	.15	.23	.20
Over	4,000 cu. ft., per 100 cu. ft.	.15	.17	.16

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

Charges for establishment and reestablishment of service normally are intended to cover situations where year-round service is not needed by a significantly large number of customers. No showing was made that such a charge would be appropriate in applicant's service area.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table II, from the staff's Exhibit No. 1, from Exhibit E attached to the application, and from oral testimony of applicant's witnesses, 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 II  
ESTIMATED RESULTS OF OPERATION, TEST YEAR 1967

<u>Item</u>	<u>Staff</u>	<u>Applicant</u>	<u>Modified</u>
<u>At Present Rates</u>			
Operating Revenues	\$138,050	\$134,330	\$138,050
<u>Deductions</u>			
Payroll	53,250	51,400	53,250
Contract Repairs & Materials	4,150	7,900	4,550
Pumping Power	10,950	13,700	10,950
Other Exp., excl. Depr. & Taxes	15,550	17,850	15,550
Depreciation	21,250	26,275	21,250
Taxes, Other than on Income	16,300	14,040	16,300
Subtotal	<u>121,450</u>	<u>131,165</u>	<u>121,850</u>
City Business License	1,050	675	1,050
Income Taxes	100	100	100
Total	<u>122,600</u>	<u>131,940</u>	<u>123,000</u>
Net Revenue	15,450	2,390	15,050
Rate Base	447,600	505,653	447,600
Rate of Return	3.5%	0.5%	3.4%
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	\$172,850	\$166,043	\$172,850
<u>Deductions</u>			
Excl. Bus. License & Income Taxes	121,450	131,165	121,850
City Business License	1,300	830	1,300
Income Taxes	6,300	3,480	5,600
Total	<u>129,050</u>	<u>135,475</u>	<u>128,750</u>
Net Revenue	43,800	30,568	44,100
Rate Base	447,600	505,653	447,600
Rate of Return	9.8%	6.0%	9.9%
<u>At Rates Authorized Herein</u>			
Operating Revenues	-	-	\$156,900
<u>Deductions</u>			
Excl. Bus. License & Income Taxes	-	-	121,850
City Business License	-	-	1,200
Income Taxes	-	-	1,400
Total	<u>-</u>	<u>-</u>	<u>124,450</u>
Net Revenue	-	-	32,450
Rate Base	-	-	447,600
Rate of Return	-	-	7.25%

From Table II it can be seen that applicant's requested rates would result in an increase of twenty-five percent in operating revenues, whereas the rates authorized herein will produce a fourteen percent increase. The percentage increase for individual bills will vary somewhat, depending upon level of use.

The principal differences between the revenue estimates presented by applicant and those presented by the Commission staff result from the staff's adjustment for (1) normal climatic conditions, (2) minimum charges for meters larger than 5/8 x 3/4-inch, and (3) corrections for partial months' billings during the period covered by the water use table upon which revenue calculations were based. The staff's revenue estimates are adopted in Table II.

The principal differences between the expense estimates (exclusive of depreciation and taxes) presented by the applicant and those presented by the staff result from (1) the staff's recognition of wage increases which went into effect after applicant prepared its estimates, (2) staff adjustments to exclude the effects of deferred meter maintenance and abnormal repairs, and (3) the projection by applicant of an abnormal prior trend in power costs resulting from exceptionally low power bills in 1964, associated with the correspondingly low water consumption in that year. With the exception of the staff's five-year proration of the cost of rewinding a pump motor, the staff's expense estimates are adopted in Table II. With six pump motors in applicant's system, it is not unreasonable to include the cost of the rewinding job in full for the test year.

The principal difference between the depreciation estimate presented by applicant and that presented by the staff results from applicant's assumption that (1) the main extension for

a potential new large subdivision would have been installed by 1967, and (2) that a composite depreciation rate of 3.2 percent is appropriate. The staff excluded depreciation on the future subdivision extension, consistent with its exclusion of future revenues, expenses and rate base items related to the extension. The staff's justification and derivation of a 3.0 percent depreciation rate is set forth in detail in Exhibit No. 1. The staff's depreciation estimate is adopted in Table II.

The principal differences between the estimates of taxes (other than on income) and of city business license presented by applicant and those presented by the staff result from the staff's having more current data on assessment ratios, tax rates and license fees when its estimates were being prepared. The staff's estimates for these items are adopted in Table II.

Applicant's income tax estimates reflect the Investment Tax Credit applicable at the time the estimates were prepared. The staff's income tax estimates reflect the suspension of that credit which had taken place by the time the staff's estimates were being prepared. At the present time it is not known when the reinstatement of the credit will take place. Rather than to delay this decision for Congressional action on this point, it is assumed in the calculation of the income taxes adopted in Table II that the Investment Tax Credit will be reinstated in essentially its original form. Since the suspension of that credit is still in effect, however, the revised rate schedule authorized herein will provide for the temporary collection of a surcharge to cover the increase in taxes that will be applicable during the suspension period.

The principal difference between the rate base estimate presented by applicant and that presented by the staff results from

applicant's inclusion in plant of the cost of fire hydrants installed for the City of Salinas and main extensions for a proposed large new subdivision, without reflecting the city's financing of the cost of the hydrants and the subdivider's advances which will be required if the subdivision extension is installed. The staff's rate base estimate is adopted in Table II.

Rate of Return

The Commission staff recommends in Exhibit No. 1 a rate of return of 7.25 percent as a fair return for this utility. Applicant does not base its requested increase upon any specific rate of return which it considers reasonable. The rates it proposes are almost identical with those of an adjacent utility. We have adopted the staff's recommendation of 7.25 percent return on rate base.

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 1967 reasonably represent the results of applicant's future operations.
  - c. A rate of return of 7.25 percent on applicant's rate base 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. The straight-line remaining life depreciation rates set forth in Exhibit No. 1 are reasonable for applicant's plant.

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

4. The accounting procedures, revisions and corrections recommended by the Commission staff in Exhibit No. 1 are reasonable.

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 Alisal Water Corporation is authorized to file the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be June 1, 1967, or four days after the date of filing, whichever is later. The revised schedule shall apply only to service rendered on and after the effective date thereof. ✓  
✓  
✓  
✓

2. For the year 1967, applicant shall apply the depreciation rates set forth in Table 3-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 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 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.

3. Applicant shall 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.

4. On or before July 1, 1967, applicant shall make the following accounting changes and file in this proceeding written notice of its compliance with each item:

- a. Establish a work order system in conformance with the requirements set forth in the Commission's prescribed uniform system of accounts.
- b. Record on its books of accounts the accounting adjusting entries set forth in Table 2-A of Exhibit No. 1.
- c. Reduce its depreciation reserve control account by \$6,585.78 to agree with the sum of the detail depreciation reserve account balances.
- d. Account for the installation of hydrants and the receipt of payments therefor from the City of Salinas in accordance with Paragraph 16, Pages 8 and 9 of Exhibit No. 1.

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

Dated at San Francisco, California, this 2nd day of MAY, 1967.

[Signature]  
President

[Signature]

[Signature]  
Commissioners

Commissioner A. W. Gatov, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Alisal and vicinity, Monterey County.

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RATES

Per Meter  
Per Month

Quantity Rates:

First 500 cu.ft. or less .....	\$ 2.30	(I)
Next 1,500 cu.ft., per 100 cu.ft. ....	.27	
Next 2,000 cu.ft., per 100 cu.ft. ....	.20	
Over 4,000 cu.ft., per 100 cu.ft. ....	.16	

Minimum Charge:

For 5/8 x 3/4-inch meter .....	\$ 2.30	
For 3/4-inch meter .....	3.10	
For 1-inch meter .....	4.60	
For 1 1/2-inch meter .....	8.50	
For 2-inch meter .....	12.00	(I)
For 3-inch meter .....	20.00	(N)
For 4-inch meter .....	31.00	
For 6-inch meter .....	64.00	(N)

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

SPECIAL CONDITION

Until the Investment Tax Credit is reinstated, bills computed under the above tariff will be increased by 0.6%.

(N)  
(N)