

ORIGINAL

Decision No. 72505

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
Elmer M. Kane and Burt L. Wetzel)
doing business as the Moro Water Co.)
under Section 454 of the Public)
Utilities Code for Authority to)
Increase Rates for Water Service.)

Application No. 49022
(Filed December 14, 1966)

O P I N I O N

Applicants Elmer M. Kane and Burt L. Wetzel doing business as Moro Water Co. seek authority to increase their rates for water service; it appears, however, that the intended applicant is Moro Water Company, a corporation.

By Decision No. 44235, dated May 26, 1950, in Application No. 31131, Elmer M. Kane and Burt L. Wetzel, partners, doing business as Moro Public Utility, were authorized to sell their water system and certificate of public convenience and necessity to Moro Water Company, a corporation, and the latter was authorized to issue not more than 80 shares of capital stock of the aggregate par value of \$8,000. On July 5, 1950, Moro Water Company, a corporation, of which Elmer M. Kane was president and Burt L. Wetzel secretary, filed a statement with the Commission stating that it had acquired the assets of the aforesaid Moro Public Utility, and that it adopted the rates, rules and regulations heretofore filed with the Commission by Burt L. Wetzel and Elmer M. Kane. An investigation by the Commission staff, infra, establishes that Moro Water Company, a corporation, is the proper applicant.

The Commission staff has investigated the application and the results thereof are summarized in a staff report, hereby made a part of the record as Exhibit 1. Applicant has notified its customers of the requested rate increase; such notice accompanied customer billings made in early January, 1967.

Service Area, Service and Facilities

In its service area comprising about 50 acres of unincorporated territory, in and near the community of Fallbrook, San Diego County, situated within the Fallbrook Public Utility District (District), applicant provided water service to eight customers during 1966 but since then lost two customers to the District and presently serves six customers.

When interviewed by the staff the six remaining customers or their tenants indicated that water quality and service pressure were satisfactory. No informal complaints have been filed with the Commission concerning applicant during the past two years. The results of recent bacteriological analyses of water samples taken by the San Diego County Health Department indicate that the water quality is satisfactory.

The sources of supply for the water system consist of two wells equipped with pumps driven by electric motors. A hydro-pneumatic tank controls the pressure as water enters the distribution system consisting of approximately 4,450 feet of 1 1/2-inch to 4-inch mains.

District

In view of applicant's declining operations and District's ability to serve, the staff obtained the following cost information pertaining to the District's providing water service to applicant's remaining customers: Three customers would require main extensions,

two of which would cost about \$950 each, and the third about \$3,600; all new customers of the District are charged a \$100 connection fee and an annexation fee of \$370 per acre minimum; four of applicant's customers have already paid the annexation fee. In summary, it appears that \$100 each for two of applicant's customers and \$470, \$1,050, \$1,420 and \$3,700 for the other four customers would represent the additional charges for obtaining water service from the District.

Tariffs

Applicant proposes to increase its present rates, which became effective December 1, 1945, from \$2 to \$27 per month for the first 3,000 gallons and from 10 cents to 50 cents per 1,000 gallons for quantities in excess of 3,000 gallons. The following tabulation compares representative monthly charges by applicant at present, applicant proposed, and staff recommended rates, and by Fallbrook Public Utility District:

		Applicant			Staff
<u>Monthly Consumption</u>		District	Present	Proposed	Recommended
Gallons	Cubic Feet	Rates	Rates	Rates	Rates
0	0	\$ 4.00	\$2.00	\$27.00	\$ 7.60
4,000	534.8	4.00	2.10	27.50	7.98
8,000	1,069.5	6.00	2.50	29.50	9.50
15,000	2,005.3	7.40	3.20	33.00	12.16
35,000	4,679.1	10.92	5.20	43.00	19.76
75,000	10,026.7	17.32	9.20	63.00	34.96

The staff recommended rates referred to above are: \$7.60 per month for the first 3,000 gallons and 38 cents per 1,000 gallons for quantities in excess of 3,000 gallons.

Results of Operation

Applicant and the staff have each analyzed and estimated applicant's operations for year 1966; their respective results are shown and compared in the following tabulation taken from Exhibit 1 herein:

Item	Year 1966 Recorded	Estimated Year 1966				Staff Proposed
		Present Rates		Proposed Rates		
	Applicant	Staff	Applicant	Staff		
Operating Revenues	\$ 374	\$ 180	\$ 310	\$2,100	\$2,815	\$1,155
<u>Oper. Rev. Deductions</u>						
<u>Operating Expenses</u>						
Payroll	-		300		300	300
Power	163		140		140	140
Materials	97		100		100	100
Transp. Exp.	-		25		25	25
Outside Contract						
Repairs	-		110		110	110
Accounting Exp.	70		70		70	70
Total Oper. Exp.	330	1,475	745	1,475	745	745
Depreciation	197	196	215	196	215	215
Taxes Other Than						
Income	65	170	95	170	95	95
Income Taxes	100	-	100	42	465	100
Total Deductions	692	1,841	1,155	1,883	1,520	1,155
Net Revenue	(318)	(1,661)	(845)	217	1,295	-

(Red Figure)

Outlined below is an explanation, taken also from Exhibit 1, of the differences between estimates used by applicant and estimates used by the staff.

- a. Operating Revenues. Applicant's estimated operating revenues reflect only the minimum charges; the staff's are based upon water use experience of six active customers.
- b. Operating Expenses. Applicant shows no detail of estimated expenses for the year 1966. Following is the basis for the staff's estimates:
 - (1) Payroll. Applicant does not show any amount for salaries or payroll in its 1966 estimate, but the application indicates that \$600 would have been paid in salaries in 1965 had funds been available. The staff considers that \$300 for payroll is adequate for a system serving only six customers.
 - (2) Power. The staff estimate reflects the loss of two customers during the latter part of 1966, whereas applicant's estimate does not.
 - (3) Transportation Expense. The staff estimates an amount of \$25 per year.
 - (4) Outside Contract Repairs - Pump Maintenance. The staff estimate covers the expense of periodically pulling the pumps and performing required maintenance.
 - (5) Accounting Expense. The staff has adopted the expense recorded in 1966.
- c. Depreciation. Applicant estimates the annual depreciation accrual at \$196, whereas the staff considers an average depreciation rate of 3 percent to be reasonable, resulting in an annual accrual of \$215.
- d. Taxes Other Than Income. Applicant has apparently included the California Corporation Franchise tax in this category, whereas the staff includes this item under Income Taxes. In addition to ad valorem taxes included by applicant, the staff included \$24 for payroll taxes.

Discussion

In this matter there is the confrontation of the obligation to serve and the economics of continued operations. Clearly in point is the level of rates proposed by applicant; such rates, if authorized, could reasonably be expected to cause most, if not all, of the six remaining customers to discontinue water service by applicant.

In view of the declining nature of applicant's operations the staff considers that an attempt to determine the original cost of plant facilities used and useful in furnishing public utility water service would not be justified, recommends that rate base and rate of return not be used as factors in determining rates and proposes that rates be designed basically to recover out-of-pocket expenses plus a reasonable allowance for depreciation.

The staff proposal appears to approach a desired balance of the interests of the utility and its customers, under which a continuation of service can result, and is not inconsistent with past practices of the Commission in situations where the serving capability of a water system greatly exceeds the number of customers served. Accordingly, the "Staff Proposed" operating results showing a cost of service of \$1,155 exclusive of return appear reasonable and will be adopted for estimated year 1966.

However, an allowance should be made for some further decline in applicant's operations, which would appear likely especially after a substantial increase in rates. For this purpose, the rates hereinafter authorized have been increased to produce 20 percent greater gross revenues than the staff-proposed rates.

The Commission finds that:

1. Applicant is in need of a rate increase.
2. A departure from normal rate-fixing procedures is justified in this unusual situation; the rates proposed by the staff and modified as discussed herein will permit basically the recovery of out-of-pocket expenses plus a reasonable allowance for depreciation; the rates set forth in Appendix A attached hereto are fair and reasonable for the service to be rendered.
3. The increases in rates and charges authorized herein are justified, that the rates and charges authorized herein are reasonable, and that the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.
4. A depreciation rate of 3.0 percent is reasonable to apply to applicant's depreciable plant.
5. Meters should be tested and kept in accurate operating condition.

The Commission concludes that the application should be granted to the extent set forth in the order which follows. It does not appear that a public hearing is necessary, but, because of the substantial differences between the rates proposed by applicant and those to be hereinafter authorized, applicant will be afforded an opportunity to request a hearing.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant Moro Water Company, a 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 15, 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 a depreciation rate of 3.0 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 the plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

3. Within ninety days after the effective date of this order, applicant shall test all meters and repair those found to be faulty and shall advise the Commission in writing within ten days after

such tests and repairs have been accomplished. Thereafter applicant shall keep all meters in accurate operating condition as required by the Commission's General Order No. 103.

The effective date of this order shall be twenty days after the date hereof unless before such effective date applicant shall have filed in this proceeding a written request for hearing, in which event the effective date of this order shall be stayed until further order of the Commission.

Dated at San Francisco, California, this 31st day of MAY, 1967.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service. (T)

TERRITORY

Portions of Lots 22, 35, 36, 37 and 38, Subdivision of Tract D, Rancho Monserrate, and vicinity, about three miles south of Fallbrook, San Diego County. (T)
(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 3,000 gallons or less	\$ 9.10	(I)
Over 3,000 gallons, per 1,000 gallons46	(I)

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 9.10	(I)
For 3/4-inch meter	9.10	(N)
For 1-inch meter	10.50	(I)
For 1 1/2-inch meter	13.25	(I)
For 2-inch meter	16.50	(I)

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