

ORIGINALDecision No. 72510

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of Larkfield Water Company, a
California Corporation, Under
Section 454 of the Public Utilities
Code for Authority to Increase Rates
for Water Service.

)
)
) Application No. 48626
) (Filed July 15, 1966)
)

Charles M. Giovanetti, for applicant.
J. E. Johnson, E. J. Prando and A. L.
Gielegem, for the Commission staff.

O P I N I O N

Applicant, Larkfield Water Company, seeks authority to increase its rates for water service near Santa Rosa, Sonoma County.

After due notice, public hearing was held before Examiner Coffey in Santa Rosa on February 6, 1967, and in San Francisco on February 7 and 20, 1967. The matter is submitted.

Testimony on behalf of applicant was presented by its president, who with his wife are the sole stockholders of applicant. The Commission staff presentation was made by an engineer and by two accountants. Three members of the public testified or made statements regarding their objections to the proposed rate increase.

Service Area and Water System

This utility presently furnishes water for domestic and industrial purposes to about 460 metered customers within the Larkfield and Fulton areas, approximately one mile north of the city limits of Santa Rosa.

The water supply to serve customers in the Larkfield area is obtained from two wells with a combined capacity of 450 gallons per minute. This water is chlorinated and is treated with Calgon to

keep iron and manganese in suspension. Untreated water is purchased from the Sonoma County Flood Control and Water Conservation District (District), delivery being taken from the district aqueduct which traverses applicant's Fulton service area. The Larkfield and Fulton systems are interconnected by 5,080 feet of 12-inch pipe, about 1,550 feet of which serves as a distribution main in the Fulton area.

Water is pumped from the wells into the Larkfield system and to a 174,000-gallon concrete storage tank. To serve 84 service connections in a higher elevation zone, about 30 of which are presently active customers, water is boosted to two tanks with a total capacity of 61,000 gallons. A hydropneumatic system is used to serve customers at elevations higher than these tanks.

The distribution system consists of about 55,000 feet of main, principally cement-asbestos pipe.

Rates

Applicant proposes that the present minimum charge type of rate schedule for metered service be replaced by a service charge type. In the interest of rate simplicity and in the absence of cost-of-service analyses in this record, the authorized rates provide for two quantity charge usage blocks rather than three as proposed by applicant. The following Table I is a comparison of present meter rates, those requested by applicant and those authorized herein:

Table 1
Comparison of Rates

	Per Service Connection Per Month		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
<u>General Metered Service</u>			
Quantity Rates:			
First 1,500 cu. ft. or less . . .	\$ 4.50	-	-
First 1,500 cu. ft., per 100 cu. ft.	-	\$ 0.30	\$ 0.22
Next 1,500 cu. ft., per 100 cu. ft.20	.30	.22
Next 47,000 cu. ft., per 100 cu. ft.20	.20	.22
Over 50,000 cu. ft., per 100 cu. ft.17	.17	.18
<u>Minimum Charge:</u> (Includes some water use)			
For 3/4-inch meter	4.50	-	-
For 1-inch meter	7.00	-	-
For larger meters, according to size	9.00-22.00	-	-
<u>Service Charge:</u> (Includes no water use)			
For 5/8 x 3/4-inch meter		3.50	3.20
For 3/4-inch meter		4.00	3.50
For 1-inch meter		6.00	4.80
For larger meters, according to size		10.00-35.00	6.75-35.00

Applicant proposes a surcharge of 10 cents per hundred cubic feet to be added to the proposed quantity rates, to apply to customers in the high elevation pressure zone.

Applicant does not propose to increase the present rate for private fire protection service of \$1.25 per month for each inch of diameter of service connection or the present rate for public fire hydrant service of \$2.50 per month for each hydrant.

The bill for the typical usage of 2,000 cubic feet per month through a 3/4-inch meter would be \$5.50 under present rates and

would be \$10.00 under proposed rates, an increase of 82 percent. Under rates authorized herein the comparable bill will be \$7.90, an increase of 44 percent.

Customer Protests

The staff report in this proceeding, Exhibit 1, states that only one complaint, a disputed bill, has been informally filed with the Commission since 1959. The staff review of the utility records shows that it has had complaints regarding sand in the water and, recently, complaints regarding the odor of the water. Customers complained to the staff concerning the hardness and iron content of the water during the field investigation of this application. The Sonoma County Health Department tests the water quality monthly. These tests indicate that the water quality was satisfactory in 1966. Applicant has a health department water supply permit.

The public protests to the proposed rate increase were directed to the proposed surcharge, to the lack of necessity to purchase water from the aqueduct to serve the original areas, to the allocation of time of the owner of the utility between his functions of utility manager, general contractor, and real estate developer, and to the reasonableness of the amount of increase requested. A letter signed by 119 customers, 11 of whom wrote individual letters, protesting the rate increase was received during the staff investigation.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed applicant's operations, based on 500 customers, and each have estimated future operational results based on the years 1966 and 1967, respectively. The following tabulation compares the adopted results of future operations with estimates of operations made by the applicant and the staff at present and proposed rates.

Table 2
Results of Future Operations

Item	Present Rates		Proposed Rates		Adopted
	Applicant	Staff	Applicant	Staff	
<u>Operating Revenues</u>					
Metered Sales	\$ 43,200	\$ 52,700	\$ 65,295	\$ 75,000	\$ 64,710
Fire Protection Service	1,170	1,170	1,170	1,170	1,170
Total Operating Revenue	44,370	53,870	66,465	76,170	65,880
<u>Operating Revenue Deductions</u>					
<u>Operating Expenses</u>					
Payroll	18,351	12,000	18,351	12,000	12,000
Purchased Power	3,143	3,400	3,143	3,400	3,400
Purchased Water	6,246	9,200	6,246	9,200	9,200
Water Treatment Expense	593	900	593	900	900
Materials	1,533	500	1,533	500	500
Auto Expense	2,445	1,800	2,445	1,800	1,800
Other Operating Expenses	4,754	4,700	4,754	4,700	4,700
Total Expenses	37,065	32,500	37,065	32,500	32,500
Depreciation	8,948	8,050	8,948	8,050	8,050
Taxes Other than Income	6,995	6,870	6,995	6,870	6,870
Income Taxes	100	1,460	2,000	7,890	4,610
Total Deductions	53,108	48,880	55,008	55,310	52,030
Net Revenue	(8,738)	4,990	11,457	20,860	13,850
Rate Base	238,624	197,800	238,624	197,800	197,800
Rate of Return	-	2.5%	4.8%	10.5%	7.0%

(Red Figure)

From Table 2 it can be seen that the staff estimates of operating revenues are larger than those of the applicant and that the staff estimated the requested rates would produce about 42 percent more gross revenues and the applicant estimated about a 50 percent increase. The staff estimated separately the revenues from four large customers and applied the present and proposed rates to a water use table for the balance of the customers. Applicant based its estimates at present rates on an average consumption and average revenue figure, which were affected by the large customers and did

not take into account the full annual effect of a new large customer, and by utilizing an overall percentage increase to estimate revenues at proposed rates. We find reasonable the staff estimate of operating revenues.

Applicant's estimate of payroll expense exceeds that of the staff by \$6,351. Applicant included payroll taxes in this estimate and assumed that utility personnel were employed full time by the utility. Recognizing that applicant's employees are actually part-time employees of the utility, being also engaged in the real estate development and general contractor activities of applicant's president, the staff estimate was based on the experience of similar water utilities operating under similar conditions. We find reasonable the staff estimate of payroll expense.

The staff estimates of purchased power, purchased water and water treatment expense exceed those of applicant by \$257, \$2,954 and \$307, respectively. Applicant's estimate assumes that all water delivered in excess of the amount of water pumped in 1965 will be purchased. Applicant did not consider water which will be furnished to a new large customer. The staff believes that the existing wells, the water production costs of which are about 4 to 5 cents per Ccf., are capable of serving the Larkfield area, and that only the Fulton area, including the new large customer, will be supplied entirely with water purchased from District at about 12 cents per Ccf. We find reasonable the staff estimates for purchased power, purchased water and water treatment expense.

Applicant's estimate of materials exceeds that of the staff by \$1,033. Applicant's estimate is based on costs for the year 1965, increased to reflect growth to an average of 500 customers. The staff used an average figure for three latest recorded years,

adjusted for number of customers, in the estimated year. We find reasonable the staff estimate for material expense.

Applicant's estimate of automobile expense exceeded that of the staff by \$645 since the staff excluded from the estimate the portion pertaining to utility plant construction, which should be capitalized. We find reasonable the staff's estimate of automobile expense.

Estimates of other operating expenses and taxes other than on income were substantially the same and are now at issue. For the purposes of this decision, the staff's estimates for these items will be adopted.

We find reasonable the staff estimate of taxes other than income.

The staff rate base is \$40,824 less than that claimed by applicant. This difference is mainly the composite effect of staff accounting adjustments, the staff exclusion of a portion of the cost of the aqueduct as not being necessary to serve customers in the test year, a smaller staff allowance for working cash and staff's use of an average year 1967 rate base and the applicant's use of a 1966 estimate. We find reasonable the staff rate base.

The staff's estimated depreciation expense is less than applicant's and follows the plant adjustments adopted herein for rate base. We find reasonable the staff's estimate of depreciation expense.

Rate of Return

The staff recommended a rate of return of 7 percent as fair and reasonable. Factors influencing the staff's judgment in this regard are as follows:

1. Recent Commission decisions relating to rate increases for utilities considered comparable as to capital structure, and quality of service, have authorized rates of return in excess of 6.5 percent.

2. The fact that the capital structure of this utility is made up entirely of equity capital.

Considering applicant's capital structure and the risk of a substantial investment in plant installed to serve future customers, we find reasonable a rate of return of 7 percent.

Water Quality Improvements

The staff believes that additional measures would be necessary to improve the quality of the water and that the majority of customers want such improvements. The staff has made estimates of treating the water in the Larkfield area to remove iron and manganese, which are not health hazards but cause staining of fixtures, appliances and laundry. It is estimated that this treatment would increase the costs of operation to the extent of increasing the average customer's bill by \$1.50 to \$2.00 per month. It has also been estimated by the staff that abandonment of the Larkfield wells and using District's aqueduct water solely would increase the average bill in the same amount.

Presently about one-third of the customers either own or rent water softeners. If the well water were treated for iron and manganese removal, additional treatment could also soften the water at less expense than would be incurred in treating the equally hard aqueduct water. This would effect a savings to the renters of softeners and would benefit the people without softeners, but would be somewhat disadvantageous to the owners of softeners, who have invested in softening equipment for their homes.

This record does not disclose if the customers are willing to pay the increased costs of improving the water quality. We will not at this time require additional measures to improve water quality.

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 reasonably represent the results of applicant's future operations.

c. A rate of return of 7 percent on staff's rate base is reasonable.

d. Applicant has not demonstrated the reasonableness of the proposed surcharge for high elevation pressure zone service.

e. 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 here, are for the future unjust and unreasonable.

2. The accounting adjusting entries set forth on pages 2 and 3 of Exhibit 4 in this proceeding are proper entries to be recorded on applicant's books of account as of December 31, 1965.

3. Applicant has not established an adequate work order system. 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 Larkfield Water Company is authorized to file the revised rate schedules

attached to this order as Appendix A. Concurrently, applicant shall cancel its presently effective meter rates. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be June 23, 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. 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 such map, drawn to an indicated scale of not more than 400 feet to the inch.

3. Applicant shall establish an adequate work order system in conformance with the requirements set forth in Utility Plant Account Instructions Nos. 6 and 13 in this Commission's prescribed Uniform System of Accounts for Water Utilities (Class A, Class B and Class C).

4. Applicant shall record on its books of account the staff's accounting adjusting entries as of December 31, 1965 shown on pages 2 and 3 of Exhibit 4 in this proceeding.

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

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.

TERRITORY

Larkfield Estates and vicinity, located approximately three miles northerly of the City of Santa Rosa, Sonoma County. (T)
(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Service Charge:		(C)
For 5/8 x 3/4-inch meter	\$ 3.20	
For 3/4-inch meter	3.50	
For 1-inch meter	4.80	
For 1 1/2-inch meter	6.75	
For 2-inch meter	8.75	
For 3-inch meter	16.00	
For 4-inch meter	22.00	
For 6-inch meter	35.00	

Quantity Rates:

For the first 50,000 cu. ft., per 100 cu. ft.	\$ 0.22
For all over 50,000 cu. ft., per 100 cu. ft.	0.18

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

(C)