

**ORIGINAL**

Decision No. 73015

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of HESPERIA WATER COMPANY, a )  
California Corporation, for an )  
Increase in Rates for General )  
Metered Service, )

Application No. 48742  
(Filed August 26, 1966)

Brobeck, Phleger & Harrison, by  
Gordon E. Davis, for applicant  
and for Kayem Investment Corpora-  
tion as interested party.  
Allen W. Noble, for Hesperia Property  
Owners Association and in his own  
behalf; Joe Emmons, for Hesperia  
Leisure League; Mrs. Natalie E.  
Bershon; William Anderson, for  
Hesperia Grange 668; and  
Hal E. Zeh, for Hesperia Property  
Owners Association and in his own  
behalf; protestants.  
Allen L. Ringler, for Hesperia Fire  
Department; W. Paul Payne; G. M. Hunton;  
Carl J. Petznick; and E. George Sasine;  
interested parties.  
Jerry J. Levander and Raymond E. Heytens,  
for the Commission staff.

O P I N I O N

Hesperia Water Company, a corporation, (Hesperia)  
by the above-entitled application seeks authority to increase its  
rates for general metered and irrigation service. Public hearings  
on the application were held in Hesperia before Examiner Rogers on  
May 25 and 26 and June 27, 1967. The matter was submitted on  
the latter date. Prior to the first day of hearing, notice  
thereof was published and mailed to consumers as required by  
the Commission.

Growth of Applicant

The history of the applicant is set forth in prior decisions and need not be repeated here except to state that at the end of the year 1960 applicant had approximately 1,600 general metered consumers and 68 irrigation consumers. The growth between 1961 and 1965, both inclusive, was as follows:

Year	Number of Customers		Water Sales Ccf x 1000	Operating Revenues
	Irrigation	General Metered		
1961	68	1600	398	\$ 85,864
1962	69	1713	382	114,021
1963	69	1887	397	115,424
1964	69	2118	527	143,141
1965	68	2303	522	151,414

As of November 1, 1966, service was being provided to 2,432 general metered consumers and 68 irrigation consumers situated in an area comprising approximately 42 square miles in and around Hesperia. In this area there are 70 tracts containing approximately 25,000 lots.

Ownership and Operation

On November 1, 1966, 18 percent of the water system assets was owned by applicant and the remaining 82 percent was owned by Kayem Investment Corporation (Kayem). The water system properties are operated by applicant as an integrated system. Although the corporations are separate entities, the officers and directors are generally identical for each company and a merger of the two companies is in process. The results of operation studies prepared by the applicant and the staff for this proceeding treat all utility plant as applicant's and exclude rental payments to Kayem.

California City Development Company (C.C.D.C.) performs management functions for applicant and Kayem (and twelve other corporations). Through its officers and employees in its office in California City, C.C.D.C. carries on the financial management of applicant and Kayem, maintains their accounts and records and arranges for main extensions. It maintains contact with service in the field and lays down policy and guide lines for the complete operations of the two companies.

Applicant's operating expenses reflect a significant change in 1966 from 1965. In the latter year applicant paid C.C.D.C. \$3,000 for services of an administrative head and \$6,000 for services rendered (billing, accounting, etc.). Starting in 1966, C.C.D.C. assessed applicant \$.50 per month per meter connection.

#### Fire Protection Service

There are approximately 2,000 fire hydrants in the service area, of which 1,800 are in the Hesperia Fire Protection District (Fire District). The applicant's tariff provides for a monthly charge of \$2 per hydrant. The Fire District has paid no fee to the applicant for such service since 1960. If the fire hydrant tariff charges were assessed and collected no increase in general metered or irrigation service revenues would be required.

#### Public Witnesses

A representative of the Hesperia Leisure League protested the proposed rate increase. He stated that he was convinced that the requested increase in rates was not justified and that one-third of the residents of the service area are on fixed incomes.

and cannot afford an increase. He requested that the Commission withhold any action on the increase until the Fire District and the applicant arrive at some agreement concerning revenues from the fire hydrants.

The Chief of the Hesperia Fire Protection District testified that until all deficiencies in the hydrants and fire flow are corrected, no fire hydrant rental will be paid by the Fire District.

One water user complained that she received rusty water from both hot and cold taps.

Rates

Applicant's present rates for general metered service and irrigation service were established pursuant to authority of Decision No. 62183 dated June 27, 1961, in Application No. 40862 (filed on February 19, 1959). The present and proposed rates are as follows:

<u>General Metered Rates</u>		<u>Per Month</u>	
<u>Quantity Rates</u>		<u>Present</u>	<u>Proposed</u>
First 400 cf or less		\$ 2.05	\$ 2.55
Next 500 cf per Ccf		.27	.34
Over 900 cf per Ccf		.21	.26
<u>Monthly minimum charges</u>			
5/8 x 3/4" meter		2.05	2.55
3/4" meter		2.75	3.45
1" meter		4.00	5.00
1 1/2" meter		7.00	8.75
2" meter		10.00	12.50
3" meter		18.00	22.50
4" meter		30.00	37.50
6" meter		60.00	75.00
<u>Irrigation Rates</u>		<u>Per Annum</u>	
<u>Quantity Rates</u>		<u>Present</u>	<u>Proposed</u>
Per Ccf		0.08	0.10
<u>Annual Minimum charge</u>			
5/8 x 3/4" meter		\$ 6.50	\$ 8.15
3/4" meter		9.00	11.25

Earnings

Earnings for the year 1966 at present rates as estimated by the applicant, and for the years 1966 and 1967 at present and proposed rates as estimated by the staff, are summarized as follows:

Item	1966 Estimated			1967 Estimated	
	Applicant:	Staff		Staff	
	Present Rates	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$151,040	\$151,100	\$187,900	\$157,500	\$195,900
<u>Deductions</u>					
Operating Expenses	86,640	76,700	76,700	78,100	78,100
Depreciation Expenses	28,591	24,600	24,600	25,500	25,500
Taxes Other Than on Income	29,792	25,600	25,600	26,600	26,600
Taxes on Income	1,133	2,000	12,500	2,800	13,800
Total Deductions	146,156	128,900	139,400	133,000	144,000
Net Revenue	4,884	22,200	48,500	24,500	51,900
Average Depreciated Rate Base	557,166	570,400	570,400	545,900	545,900
Rate of Return	0.9%	3.9%	8.5%	4.5%	9.5%

Revenues

The gross revenues for the year 1966 were estimated by the applicant and the staff. The staff also estimated the revenues for 1967. The applicant, on the other hand, developed the amount of gross income required in 1967 to realize a return of 7 percent on its 1966 estimated figures. Comparisons of the revenues for the year 1966 at present and proposed rates as estimated by the applicant and the staff, and for the year 1967 as estimated by the staff, are set out below:

Item	1966 Estimated				1967 Estimated	
	Applicant		Staff		Staff	
	Present	Proposed	Present	Proposed	Present	Proposed
	Rates	Rates	Rates	Rates	Rates	Rates

Revenues

General Metered	\$148,500	\$185,625	\$148,570	\$184,750	\$154,970	\$192,750
Irrigation	2,510	3,138	2,500	3,120	2,500	3,120
Other	30	30	30	30	30	30
<b>Total</b>	<b>151,040</b>	<b>188,793</b>	<b>151,100</b>	<b>187,900</b>	<b>157,500</b>	<b>195,900</b>

We find that the staff's estimates are reasonable, and they will be used herein.

In 1960 the applicant's contract with the Fire District expired and has not been renewed due to the fact that the Fire District claims that many of the fire hydrants are unusable and the water supplies and pressures inadequate. The record shows that there have been some negotiations for a new contract but no contract had been executed as of the date of the final hearing herein. The staff and the applicant disregarded any revenues which could be realized from the Fire District although the hydrants and related expenses are considered in the utility plant and reserves.

The record shows that there are 500 hydrants in the Fire District which are connected to 6-inch or larger mains and could provide a fire flow acceptable to the Fire District. At the tariff rate of \$2 per month per hydrant there could be \$12,000 per year in additional revenues from the 500 acceptable fire hydrants at a cost of \$25,000 for rehabilitation work, about \$2,500 per year in fixed charges and \$2,700 per year in payroll expense. We urge the applicant and the Fire District to continue negotiations relative to an agreement which could increase applicant's revenues and decrease the cost to the consumers.

Operating Expenses

The applicant's and the staff's estimated operating and maintenance expenses for the year 1966, and the staff's estimated operating and maintenance expenses for the year 1967, are as follows:

Item	1966 Estimated		1967 Estimated
	Applicant	Staff	Staff
Source of Supply	\$ -	\$ 300	\$ 300
Power and Pumping	23,260	23,900	24,500
Water Treatment	110	100	100
Trans. & Distr. Expense	32,170	13,900	14,100
Customer Accounting & Collect.	11,440	14,900	15,200
Sales Expense	100	100	100
General Expenses	23,380	22,300	22,600
Miscellaneous	1,200	1,200	1,200
Total	91,660	76,700	78,100

Some of the differences in the estimates of operating expenses for 1966 are due to the fact that applicant allocated the expenses among the accounts in a different manner than the staff. The major differences in the estimates of operating expenses are in transmission and distribution expense<sup>1</sup> which applicant estimated \$18,270 higher than the staff, and in customer accounting which the staff estimated \$3,460 higher than the applicant. The net difference between the applicant's and the staff's estimates for 1966 is \$14,960, the applicant's being the higher.

One of the reasons why the applicant's total estimated operating expense is higher is that applicant has certain services performed by the C.C.D.C. in California City and pays C.C.D.C. 50 cents per month per connection. With 2,432 general and 68 irrigation consumers this would result in a total expense of approximately \$15,000 for the year 1966.<sup>2</sup> This charge is in addition to the payroll at Hesperia which in 1966 was estimated to be \$35,880, of which \$2,500 was capitalized.<sup>3</sup>

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1 Applicant estimated its 1966 transmission and distribution expense to be \$32,170, an increase of \$4,405 over 1965. Its reported transmission and distribution expense for 1966 was \$28,391, or \$3,779 less than estimated.

2 Applicant actually included a flat sum of \$1,200 per month in its 1966 estimate. Prior to 1966 applicant paid \$9,000 per year for the services.

3 In 1966 the Hesperia payroll was \$32,526, of which \$1,261 was capitalized.



The staff adjusted the operations as if the entire operation were performed in Hesperia, reclassified some of the distributed sums and allowed for new employees and equipment. The changes resulted in an estimated expensed payroll of \$36,700 for 1966, plus approximately \$2,350 which was capitalized.

We find that the staff's estimates of operating expenses for 1966 and 1967 are reasonable and they will be adopted with the exception of the regulatory Commission expense which the staff estimated at \$5,000 and the applicant at \$6,000, both spread over a three-year period. The applicant's witness testified that its actual cost exceeded \$6,000. We will use the applicant's estimate, which we find reasonable. For the purpose of this decision we will use total operating expenses for the year 1966 of \$77,033 and for 1967 of \$78,433.

Taxes Other Than Income

The following is a summary of the applicant's and the staff's estimate of such taxes for the year 1966 at present and proposed rates, and the staff's estimate for 1967 at present and proposed rates:

Item	1966 Estimated			1967 Estimated	
	Applicant	Staff		Staff	
	Present Rates	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Property Taxes	\$27,437	\$23,500	\$23,500	\$24,500	\$24,500
Payroll Taxes	2,355	2,100	2,100	2,100	2,100
Total	29,792	25,600	25,600	26,600	26,600

The applicant's estimate of 1966 property taxes was made by comparing the net utility plant with property taxes in past years, arriving at a percentage factor to be used and applying that

to the 1966 estimated utility plant in service. The applicant then charged 85.3 percent of the amount of estimated property taxes for 1966. Applicant estimated \$32,165 for total property taxes in 1966. The payroll taxes were adjusted to exclude the amount of labor estimated to handle the construction labor. The result apparently includes a small amount of capitalized payroll.

The staff adjusted the property taxes to exclude taxes on property held for future use and plant not reasonably required to provide service to the present consumers.

The staff's estimate of payroll taxes was calculated on expensed payroll only.

We find that the following estimates of taxes, other than income taxes, are reasonable, and they will be used herein:

Item	1966		1967	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Property Taxes	\$27,437	\$27,437	\$28,445	\$28,445
Payroll Taxes	<u>2,355</u>	<u>2,355</u>	<u>2,355</u>	<u>2,355</u>
Total	\$29,792	29,792	30,800	30,800

#### Depreciation Expense

Applicant estimated the depreciation expense for 1966 to be \$28,591. The staff estimated the expense would be \$24,600 in 1966 and \$25,500 in 1967. We find the staff's estimates of depreciation expenses for the years 1966 and 1967 reasonable and adopt them.

#### Income Taxes

Both the applicant and the staff used the then effective state corporation franchise tax rate of 5-1/2 percent in their analyses. The Commission takes notice of the fact that this tax rate was increased to 7 percent on July 29, 1967, applicable to

earnings for the year 1967. Accordingly, the income taxes for the adopted results of operation reflect the use of the increased tax rate. Using the adopted figures plus interest estimated in the amount of \$23,500 in 1966 and \$24,000 in 1967, we find the income taxes for 1966 will be \$1,503 at present rates and \$15,331 at the proposed rates, and for 1967 will be \$2,270 at present rates and \$17,599 at the proposed rates.

Rate Base

At the beginning of the year 1966 the applicant and the staff had virtually the same dollar amount of utility plant, i.e., the applicant had \$2,046,047,<sup>4</sup> and the staff had \$2,046,018.<sup>5</sup>

The applicant assumed that in 1966 Hesperia and Kayem would merge, replace pumping equipment, add special mains and pressure-regulation facilities, replace various mains, install meters and fire hydrants and acquire a truck and various equipment. Its estimated gross utility plant at the end of 1966 was \$2,127,982 and its related depreciation reserve was \$690,546 with an average depreciation reserve of \$656,677.

For the purposes of this matter the applicant reduced the 1966 utility plant by deducting 17 percent of the mains and hydrants, leaving an adjusted 1966 utility plant of \$1,785,279 with a related depreciation reserve of \$545,850. This utility plant includes the assets of Kayem. It appears from the record that Kayem's utility plant was depreciated on a straight-line total life basis and as a result some of the Kayem assets are totally depreciated.

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The applicant has deducted plant held for future use from the figure given. The staff deducted from the gross utility plant herein given \$81,600 for plant held for future use.

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In each instance the figures include the assets of Kayem.

The staff made several adjustments to the beginning-of-the-year 1966 utility plant of \$2,046,018. The financial staff adjusted the plant by the addition of \$1,732 for plant expensed in error in 1965. The engineering staff adjusted the plant on a pro-forma basis to reflect the entire operation being handled in Hesperia and also added \$66,929 for utility plant in Tract 5694 inadvertently omitted by applicant. The effect of the staff's changes was to have an adjusted utility plant balance at the beginning of the year 1966 of \$2,162,478. With additions and retirements during the year the staff estimated a beginning-of-the-year 1967 plant value of \$2,201,478, with an average 1966 utility plant of \$2,182,000. The staff estimated \$18,800 in plant additions in 1967 with \$500 in retirements, giving an average utility plant in 1967 of \$2,210,600. In both instances the staff deducted \$81,600 of plant held for future use.

There is very little difference between the average depreciation reserve for 1966 estimated by the applicant prior to adjustment, \$656,677, and the staff's adjusted beginning-of-the-year figure of \$655,394. The applicant adjusted reserve for depreciation by removing approximately 17 percent of the dollar amount of mains and fire hydrants from utility plant. This resulted in a reserve of \$545,850.

The applicant's depreciation expense and accrual, at least for Kayem, was not based on a proper method of depreciation. In addition, the applicant has used shorter lives. We have reviewed the record and find that the staff's average utility plant and depreciation reserve for the years 1966 and 1967 are proper.

Advances and Contributions

We find that the staff's estimates of contributions in aid of construction and advances for construction for the years 1966 and 1967 are reasonable and they will be adopted for purposes of this opinion.

Materials and Supplies and Working Cash

Materials and supplies and working cash are judgment figures. We find that the applicant's estimates of \$1,890 for materials and supplies and \$14,440 for working cash are reasonable. These figures will be used for the years 1966 and 1967.

We find that an average depreciated rate base for the year 1966 of \$572,830 and an average depreciated rate base for the year 1967 of \$548,330 are reasonable.

Findings

Using the figures as adjusted herein, the Commission finds that:

1. Applicant's revenues in 1966 were \$151,100 at present rates and \$187,900 at proposed rates, and its revenues in 1967 will be \$157,500 at present rates and \$195,900 at proposed rates.
2. Applicant's operating expenses were \$77,033 in 1966 and will be \$78,433 in 1967.
3. Taxes other than on income were \$29,792 in 1966 and will be \$30,800 in 1967.
4. Income taxes for 1966 were \$1,503 at the present rates and would be \$15,331 at the proposed rates, and for 1967 will be \$2,270 at the present rates and \$17,599 at the proposed rates.

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5. Applicant's depreciation expense was \$24,600 in 1966 and will be \$25,500 in 1967.

6. Applicant's average adjusted utility plant was \$2,182,000 in 1966 and will be \$2,210,600 in 1967, less, in each instance, \$81,600 for average utility plant held for future use.

7. Applicant's average depreciation reserve in 1966 was \$680,700 and will be \$732,000 in 1967.

8. In 1966 and 1967, allowances of \$1,890 for materials and supplies and \$14,440 for working cash are reasonable.

9. In 1966, applicant's contributions in aid of construction were \$817,000 and its advances for construction were \$46,200. In 1967, applicant's contribution in aid of construction will be \$790,000 and its advances for construction will be \$75,000.

10. In 1966, applicant's average depreciated rate base was \$572,830, and in 1967 its average depreciated rate base will be \$548,330.

11. The amounts tabulated below, including taxes and computed on the basis of the foregoing findings, fairly represent the prospective earnings of the applicant for the years 1966 and 1967 under present and proposed rates:

Item	1966 Estimated		1967 Estimated	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$151,100	\$187,900	\$157,500	\$195,900
<u>Less</u>				
Operating Expenses	77,033	77,033	78,433	78,433
Depreciation Expenses	24,600	24,600	25,500	25,500
Taxes Other Than Income	29,792	29,792	30,800	30,800
Taxes on Income	<u>1,503</u>	<u>15,331</u>	<u>2,270</u>	<u>17,599</u>
Total Deductions	132,928	146,756	137,003	152,332
Net Revenue	18,172	41,144	20,497	43,568
Average Depreciated Rate Base	572,830	572,830	548,330	548,330
Rate of Return	3.17%	7.18%	3.74%	7.95%

12. Applicant is in need of and entitled to increased revenues.

13. The applicant requested revenues of \$39,002 on its estimated 1966 adjusted rate base of \$557,166. We have adjusted the 1966 rate base to \$572,830 and the 1967 rate base to \$548,330. The staff has recommended a rate of return of 7 percent on the 1967 rate base. We find such a rate of return to be fair and reasonable on the 1967 rate base.

14. The increased rates authorized herein will produce gross revenues totaling approximately \$185,230, an increase of \$27,730 over the revenues at existing rates, and will yield net returns of approximately \$38,400.

15. The increases in rates authorized herein are justified, the rates and charges authorized herein are reasonable, and the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

The Commission concludes that the application should be granted to the extent specified in the order herein.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant, Hesperia Water Company, is 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 October 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.

2. For the year 1967, applicant and Kayem Investment Corporation shall apply the depreciation rates set forth in Tables 3-A and 3-B of Exhibit 6 in this application. 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.

3. Within sixty days after the effective date hereof, applicant shall file a revised tariff service area map which shall comply with General Order No. 96-A.

4. Within sixty days after the effective date of this order, Hesperia Water Company and Kayem Investment Corporation shall establish a work order system and maintain appropriate clearing



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accounts as required by the Uniform System of Accounts for Water Utilities (Class A, Class B and Class C).

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

Dated at San Francisco, California, this 6<sup>th</sup> day of SEPTEMBER, 1967.

*D. E. Mitchell*  
President

*William L. ...*

*Augusta ...*

*William ...*

*Shed P. ...*  
Commissioners

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Hesperia, and vicinity, San Bernardino County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 400 cu.ft. or less .....	\$ 2.50	(I)
Next 500 cu.ft., per 100 cu.ft. ....	.31	
Over 900 cu.ft., per 100 cu.ft. ....	.24	
Minimum Charge:		
For 5/8 x 3/4-inch meter .....	\$ 2.50	(I)
For 3/4-inch meter .....	3.25	
For 1-inch meter .....	4.75	
For 1 1/2-inch meter .....	7.75	
For 2-inch meter .....	11.00	
For 3-inch meter .....	20.00	
For 4-inch meter .....	32.00	
For 6-inch meter .....	65.00	

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

Schedule No. 3LM

LIMITED MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all water delivered for irrigation purposes.

TERRITORY

Hesperia, and vicinity, San Bernardino County.

RATE

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		
Per 100 cu.ft. or less .....	\$ 0.10	(I)
Annual Minimum Charge:		
For 5/8 x 3/4-inch meter .....	\$ 8.15	
For 3/4-inch meter .....	11.25	(I)

SPECIAL CONDITION

Service under this schedule is limited to those premises served as of October 4, 1958.