

**ORIGINAL**Decision No. 73295

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of SOBRANTE WATER COMPANY, )  
a corporation, for an order )  
authorizing an increase in rates )  
for water service. )

Application No. 49085  
(Filed January 17, 1967)

Ronald Craven, for Sobrante Water Company,  
applicant.

J. M. Gerow, for Contra Costa County Health  
Department, protestant.

John D. Reader, for the Commission staff.

O P I N I O N

Applicant Sobrante Water Company, hereinafter sometimes called Water Company, is a California corporation whose principal stockholders have no known affiliated interests. The management and operation of the utility, as well as the bookkeeping and accounting services, are provided by the principal stockholders of the corporation.

The construction of the water system commenced in 1935 and its public utility status was established in 1939. The present rates of the utility were authorized by Decision No. 52085, dated October 18, 1955 in Application No. 36574.

By its application the Water Company proposes to increase the present monthly minimum charge for a 5/8 x 3/4-inch meter from \$3.00 to \$4.50 and to reduce the amount of water included with the minimum charge from 400 to 300 cubic feet. The present rates provide for charges of 45 cents per 100 cubic feet for consumption from 401 to 2,000 cubic feet and 35 cents per 100 cubic feet for consumption

over 2,000 cubic feet. The Water Company proposes to charge 65 cents per 100 cubic feet for consumption from 301 to 3,000 cubic feet and 55 cents per 100 cubic feet over 3,000 cubic feet and to cancel the present flat rate charge of \$4.00 per month, since there are no flat rate customers.

Public hearing in this matter was held before Examiner Cline in San Francisco on May 25, 1967. At the conclusion of the hearing the matter was taken under submission.

The Water Company's service area is located entirely within the service area of the East Bay Municipal Utility District. Since the last rate proceeding the Water Company has extended its service area to include the Monte Verde area. Although Tracts 3043 and 3203 are still included in the Water Company's filed tariff service area map the Water Company has never provided water service in these tracts and they are now being served by East Bay Municipal Utility District. The East Bay Municipal Utility District provides meter rate service on a bimonthly billing basis to adjacent residential customers. The average monthly use per customer in the Water Company's service area is about 950 cubic feet. East Bay Municipal Utility District's charges for 950 cubic feet per month would be \$2.90 compared to the Water Company's charges of \$5.48 and \$8.73 under present and proposed rates, respectively.

#### Service

The Water Company's distribution system is composed of approximately 16,000 feet of pipe ranging in size from 3/4 to 3 inches in diameter. Major additions to the distribution system since the last rate proceeding were as follows:

- (a) Installation of approximately 1,000 feet of 2-inch pipe on Trigger Lane.

(b) Addition of about 3,000 feet of 2-inch and smaller pipe connecting the 23,000-gallon tank to the 55,000-gallon tank.

(c) Installation of about 500 feet of 3-inch asbestos cement pipe on Caliente Road pursuant to Decision No. 56846, dated June 17, 1958 in Case No. 5975.

Since 1941, the Water Company has purchased surplus water from East Bay Municipal Utility District. The water is obtained through a 1 1/2-inch meter located on Sobrante Avenue and is pumped into a 55,000-gallon steel tank by two 3-hp pumps. A 3/4-hp pump delivers water to a 23,000-gallon steel tank serving the Monte Verde area. During the summer months the Water Company, in addition to the primary pumping station, uses two 1 1/2-hp booster pumps to deliver water to the 55,000-gallon tank.

A field investigation was performed by the Commission staff in February and March 1967. Pressures were checked and customers were interviewed. A static pressure of 24 psi was measured at a residence at the end of Oak Knoll Road. This customer indicated that during some weekends in the summer, water was barely available and on occasion outages have occurred. The following system deficiencies were evident:

(a) Low pressure as indicated by static pressure measurement of 24 psi.

(b) With the exception of the 3-inch pipe on Caliente Road, the distribution mains are not in conformance with the standard regarding minimum pipe sizes. Most of the mains were installed prior to the effective date of General Order No. 103 which was July 1, 1956.

(c) A number of dead-end mains which are not flushed.

Accounting Records

The Water Company maintains a general ledger, cash receipts and disbursements journal, and a record of revenue billed. The general ledger is posted once per year. The accounts generally follow the Uniform System of Accounts for Class D water utilities. Source documents for prior years have not been preserved.

Utility Plant

The staff examination of plant accounts included a review of a staff appraisal as of December 31, 1954, prepared in connection with Application No. 36574, plus subsequent plant additions. The staff was unable completely to verify additions subsequent to 1954 because of the Water Company's failure to preserve supporting source documents. However, as a result of a physical inspection of presently existing facilities coupled with a review of such other data as were available, the staff witness accepted the recorded plant balances, as of December 31, 1966, as reasonably correct. A minor adjustment was made to the meters account (\$659) to reflect unrecorded amounts.

Advances for Construction and Contributions  
in Aid of Construction

The staff report, Exhibit No. 12 herein, shows the recorded balance for contributions in aid of construction as of December 31, 1966 included an erroneous credit for a main extension advance in the amount of \$829, which actually was an advance for construction, and that a further adjustment in the contribution in aid of construction account should be made for unrecorded depreciation accruals on contributed plant in the amount of \$656.

Utility Plant, Depreciation Reserve  
and Rate Base

The following table from Exhibit No. 12 sets forth the recorded and staff adjusted account balances for utility plant, depreciation reserve, advances for construction, and contributions in aid of construction, as of December 31, 1966.

Utility Plant in Service and Depreciation Reserve  
December 31, 1966

Item	Recorded: Balances: 12/31/66	Staff Adjustments: 12/31/66	Staff Adjusted Balances: 12/31/66
Land	\$ 2,810	\$ -	\$ 2,810
Pumping Equipment	2,119	-	2,119
Reservoirs and Tanks	4,405	-	4,405
Water Mains	11,222	-	11,222
Services	1,002	-	1,002
Meters	1,759	659 <sup>a</sup>	2,418
Structures	255	-	255
Office Equipment	29	-	29
Gross Plant in Service	\$23,601	\$659	\$24,260
Reserve for Depreciation	(12,867)	(656) <sup>b</sup>	(13,523)
Net Plant in Service	\$10,734	\$ 3	\$10,737
Advances for Construction	-	(829) <sup>c</sup>	(829)
Contributions in Aid of Construction	(2,621)	{ 829 <sup>b</sup> 656	(1,136)
Net Plant Investment	\$ 8,113	\$659	\$ 8,772

(Red Figure)

- a. Unrecorded costs of meter installed subsequent to 1954.
- b. Unrecorded depreciation on contributions in aid of construction.
- c. Reclassification.

The Commission staff witness in Exhibit No. 12 suggests that as finances become available for additional improvements the Water Company should consider the following:

- (a) Replacement of the small diameter pipe on Circle Drive, Skyline Drive and Oak Knoll Road with pipe of at least 4 inches in diameter.
- (b) Installation of a booster pump or a separate pressure system to serve the end of Oak Knoll Road.
- (c) Elimination of "dead end" mains or provision of a means of flushing the mains at such points.

The Commission staff witness recommended that the Water Company be required to replace the existing 2,500 feet of small diameter pipe from the pumping station on Sobrante Avenue to the 55,000-gallon tank with pipe of at least 4 inches in diameter.

The following tabulation taken from Exhibit No. 12 shows the Water Company's and the staff's estimated rate base for 1967. In addition, the tabulation shows an estimated rate base which includes the staff recommended improvement.

Rate Base - Estimated 1967

Item	Water Company	Staff Excluding Recommended Improvement	Staff With Recommended Improvement
Utility Plant - Beginning of Year	\$23,348	\$24,260	\$24,260
Weighted Additions	752 <sup>a</sup>	250 <sup>b</sup>	7,750 <sup>c</sup>
Average Utility Plant	24,100	24,510	32,010
Average Depreciation Reserve	(12,610)	(13,910)	(14,050)
Average Depreciated Plant	11,490	10,600	17,960
Average Contributions in Aid of Construction	(2,573)	(1,120)	(1,120)
Advances for Construction	-	(830)	(830)
Working Cash	750	1,150	1,150
Materials and Supplies	500	200	200
Rate Base	\$10,167	\$10,000	\$17,360
USE		10,170	

(Red Figure)

- a. The Water Company included \$500 for meter replacements and \$1,000 for the material cost of 1,000 feet of 2-inch main parallel to the existing main on Sobrante Avenue from the pumping station to about half way to the 55,000-gallon tank.
- b. Meter replacement program only.
- c. The staff included an amount of \$7,500 for the labor and material cost of 2,500 feet of 4-inch pipe to be installed from the pumping station on Sobrante Avenue to the 55,000-gallon tank, which the staff recommends in lieu of the Water Company's proposal to install only 1,000 feet of 2-inch main.

Results of Operation Analysis

The following tabulation also presents the results of operation, after staff accounting adjustments, for the recorded year 1966, and the Water Company's and the staff's estimated results of operation for the year 1967 under present rates and the Water Company's proposed rates. In addition, the tabulation shows the staff's estimated results of operation under the Water Company's proposed rates, with the staff recommended improvement.

Results of Operation

Item	1966# Recorded	1967 Estimated		1967 Estimated		Frop. # Rates : With : Recomm. : Improv. : Staff : Company : Staff :
		Staff	Company	Staff	Company	
<u>Operating Revenues</u>						
Metered Service	\$9,110	\$ 8,790	\$ 9,250	\$13,970	\$16,686	\$13,970
Fire Protection	-	-	-	-	-	-
Total	9,110	8,790	9,250	13,970	16,686	13,970
<u>Operating Revenue Deductions</u>						
Purchased Water	3,432	3,350	3,353	3,350	3,400	3,250
Purchased Power	876 <sup>a</sup>	800	963	800	1,000	800
O&M - Materials	348	200	229	.200	1,000	200
O&M - Contract Work	371 <sup>b</sup>	-	-	-	1,500	-
Office Supplies & Expense	236	180	252	180	300	180
Insurance Expense	128 <sup>b</sup>	130	162	130	200	130
General Expense	110	20	334	20	400	20
Management Salaries	2,400 <sup>b</sup>	3,500	2,335	3,500	4,100	3,500
Accounting	- <sup>b</sup>	120	700	120	1,200	120
Vehicle Expenses	969 <sup>b</sup>	300	816	300	1,000	300
Office Rent	165	300	295	300	400	300
Rate Case (5-Year Prorate)	-	50	-	50	-	50
Property Taxes	117 <sup>a</sup>	-	-	-	-	-
Payroll Taxes	12 <sup>a</sup>	400 <sup>c</sup>	330 <sup>c</sup>	400 <sup>c</sup>	400 <sup>c</sup>	430 <sup>c</sup>
Income Taxes	100 <sup>a</sup>	100	100	1,010	330	930
Subtotal	9,264	9,450	9,869	10,360	15,230	10,310
Depreciation	576	780	640	780	650	1,050
Total Operating Revenue Deductions	9,840	10,230	10,509	11,140	15,880	11,360
Net Operating Revenue (Loss)	(700)	(1,440)	(1,259)	2,830	806	2,610
Rate Base	-	10,000	10,170	10,000	10,170	17,360
Rate of Return	-	-	-	28.3%	-7.9%	15.0%

(Red Figure)

- # After staff accounting adjustments.  
a. Adjusted to reflect accounting on an accrual basis.  
b. Reclassification of expenses.  
c. Includes property and payroll taxes.

Recommended Rate of Return

As indicated in Exhibit No. 12 the Water Company is providing service of substandard quality. The staff is of the opinion that under such service conditions any rate increase should be limited to recovery of increased operating costs reflected in operating revenue deductions for the year 1967 as estimated by the staff. In footnote c. to the tabulation contained in paragraph 14 of this report, the staff has recommended the installation of 2,500 feet of 4-inch pipe. Should applicant agree in writing to make this improvement within six months of the effective date of the decision relative to this proceeding, the staff is of the opinion that a rate increase of approximately \$3,050 on an annual basis should be authorized. Such an increase would produce a return of 6 percent on the staff's estimated 1967 rate base of \$17,360 which includes the staff's recommended improvement. Compliance by applicant with this recommendation should raise the level of service to a more acceptable standard.

Other Staff Recommendations

The staff in Exhibit No. 12 further recommends that the Water Company be:

(a) Required to file new rules and a service area map which will reflect the utility's present actual service area.

(b) Ordered to prepare and keep current the system map required by paragraph I.10.a. of General Order No. 103. Within 90 days after the effective date of the order in this proceeding, applicant should file two copies of the map with the Commission.

(c) Required to record in its books of account the staff adjusted balances for utility plant, reserve for depreciation, advances for construction and contributions in aid of construction as of December 31, 1966, as set forth in the tabulation titled "Utility Plant in Service and Depreciation Reserve" in this report.

(d) Required to keep its books of account current, to maintain a work order system, and to retain all invoices and other documents needed to support entries in the books of account.

(e) Cautioned that the Commission does not look upon appraisals or reaccounting as acceptable substitutes for properly maintained records.

Position of Customers

Exhibit No. 11 is a petition signed by 27 customers of the Water Company urging that the application for an increase in rates should be rejected for the following asserted reasons:

(a) There is not sufficient water pressure and water for the normal needs of the customers during the spring and summer.

(b) The Contra Costa County Health Department has enjoined any owners of property in the Water Company's service area from building more houses until the Water Company is able to meet the needs of its customers.

(c) Because of said lack of water and water pressure the fire insurance rates are higher than adjoining similar properties served by the East Bay Municipal Utility District.

(d) The Water Company does not propose to remedy the deficiencies in its system.

(e) The cost of labor and product has not increased appreciably to the Water Company.

(f) The building and business recession has lowered the income of many customers of the Water Company.

(g) The Water Company's present rates are approximately twice those of the adjoining East Bay Municipal Utility District.

The Chairman of the Sobrante Water Committee testified that the Board of Supervisors has approved the formation of a water district to serve the area now served by the Water Company and requested that the disposition of this application be postponed until after the water district is formed.

Exhibit No. 13 is a statement of position of the Contra Costa County Health Department introduced pursuant to authorization of the Board of Supervisors. This statement asserts that (1) the improvements to the water system proposed in the application of Water Company will not satisfy the basic essential needs of the consumers, (2) the source of supply will not be increased to meet the demands, (3) hydrants for fire fighting will not be provided, and (4) the size of the water main to be installed will not meet acceptable standards. The statement points out that (1) in 1965 the Health Department in cooperation with the Building Department instituted procedures to limit further building in the service area of the Water Company, (2) there have been no additional water connections made to the system of the Water Company since this action was taken, and (3) recently the Board of Supervisors initiated the necessary actions for the formation of a county water district as a preliminary step toward possible future annexation to the East Bay Municipal Utility District, because the Water Company has demonstrated, during preceding years, its inability to provide the

financial support necessary to meet consumer needs, regardless of ownership. In the statement the Board of Supervisors (1) concludes that it cannot support the proposed increase in rates as the Water Company cannot accomplish the basic essential needs of its customers or the potential development of the area and (2) requests the Commission, through whatever means are available, to advise the consumers of the Water Company vigorously to pursue the advantages offered by annexation to the East Bay Municipal Utility District.

The Supervisor of the new Business Section of the East Bay Municipal Utility District testified that a firm proposal for water service if a county water district is formed has been made by the East Bay Municipal Utility District to the Sobrante Water Committee which will be held open so long as there is an honest effort being made to form a county water district.

#### Findings and Conclusions

We find that the rates set forth in Appendix A attached hereto will produce operating revenues of \$10,230 to meet the 1967 estimated total operating revenue deductions of \$10,230. This represents an increase of approximately 16 percent over the revenues at present rates. We adopt these figures as reasonable until the recommended staff improvements are made by the Water Company.

We further find that the rates set forth in Appendix B attached hereto will produce operating revenues of \$11,840 and net operating revenues of \$1,058 after deducting 1967 estimated total operating revenue deductions of \$10,782. This would result in an additional increase of about 16 percent over the revenues that would result from application of the rates set forth in Appendix A. We adopt these figures as reasonable providing the improvements recommended by the Commission staff are made by the Water Company.

Net operating revenues of \$1,058 will produce a return of 6 percent on a depreciated rate base of \$17,360 which includes an amount for the improvements recommended by the Commission staff, and we find this rate of return to be reasonable if such improvements are made by the Water Company.

We further find that the increases in rates and charges authorized herein are reasonable and justified and that the present rates and charges insofar as they differ from those prescribed herein are for the future unjust and unreasonable.

We find that the Water Company's customers are seriously considering the formation of a county water district so that service to such customers may be offered by East Bay Municipal Utility District.

We conclude that the Water Company should not be required to make the improvements to its water system recommended by the Commission staff at this time, but that it should be given the opportunity to determine whether or not such improvements should be made. We further conclude that (1) until Water Company makes such improvements it should be authorized to charge the rates set forth in Appendix A, and (2) if Water Company within one year from the effective date of the order herein makes the improvements to its Water System recommended by the Commission staff it should notify the Commission upon the completion of such improvements and thereafter by supplemental order, it should be authorized to charge the rates set forth in Appendix B. We further conclude that the other Commission staff recommendations are reasonable and should be incorporated in the order which follows.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant Sobrante 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 four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. In the event Sobrante Water Company within one year from the effective date of this order replaces the existing 2,500 feet of small diameter pipe from the pumping station on Sobrante Avenue to the 55,000-gallon tank with pipe of at least four inches in diameter, Sobrante Water Company shall so notify the Commission in writing within ten days after the completion of such installation. Further, in the event such installation is completed within one year from the effective date of this order, applicant Sobrante Water Company will be authorized by supplemental order in this proceeding to file the revised rate schedules attached to this order as Appendix B.

3. Within forty-five days after the effective date of this order, applicant shall file a revised tariff service area map, appropriate general rules, and sample copies of printed forms that are normally used in connection with customers' services. Such filing shall comply with General Order No. 96-A. The effective date of the revised tariff sheets shall be four days after the date of filing.

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. Applicant shall record in its books of account the staff adjusted balances for utility plant, reserve for depreciation, advances for construction and contributions in aid of construction as of December 31, 1966, as set forth in the tabulation titled "Utility Plant in Service and Depreciation Reserve" in the opinion above and in Exhibit No. 12 herein.

6. Applicant shall keep its books of account current, maintain a work order system, and retain all invoices and other documents needed to support entries in the books of account. Applicant is cautioned that the Commission does not look upon appraisals or reaccounting as acceptable substitutes for properly maintained records.

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

Dated at San Francisco, California, this 7<sup>th</sup> day of NOVEMBER, 1967.

[Signature]  
President  
[Signature]  
[Signature]  
[Signature]  
Commissioners

APPENDIX A

Schedule No. 1

METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

El Sobrante and vicinity, Contra Costa County.

(T)

RATES

Per Meter  
Per Month

Quantity Rates:

First 400 cu. ft. or less .....	\$ 3.50
Next 1,600 cu. ft., per 100 cu. ft....	.52
Over 2,000 cu. ft., per 100 cu. ft....	.42

(I)

Minimum Charge:

For 5/8 x 3/4-inch meter .....	\$ 3.50
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(I)

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

APPENDIX B

Schedule No. 1

METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

El Sobrante and vicinity, Contra Costa County.

(T)

RATES

Per Meter  
Per Month

Quantity Rates:

First	400	cu. ft. or less .....	\$ 3.80	(I)
Next	1,600	cu. ft., per 100 cu. ft. ....	.65	
Over	2,000	cu. ft., per 100 cu. ft. ....	.50	

Minimum Charge

For 5/8 x 3/4-inch meter .....	\$ 3.80	(I)
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The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.