

**ORIGINAL**Decision No. 73314

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of the PATTON VILLAGE  
 NO. 2 WATER COMPANY for authority  
 to increase rates for water service  
 in the vicinity of Herlong, Lassen  
 County, State of California.

Application No. 49411  
 (Filed May 29, 1967)

Sidney Landis and Warren Steinhauser, for applicant.  
Eugene Shirley, for West Patton Village Association,  
 protestant.  
Fred K. Hendricks and David K. Wong, for the  
 Commission staff.

O P I N I O N

Applicant Patton Village #2 Water Company<sup>1/</sup> seeks authority to increase its rate for water service.

Public hearing was held before Examiner Catey in Susanville on September 26, 27 and 28, 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. The matter was submitted on September 28, 1967, subject to receipt of a late-filed exhibit. That exhibit has been received.

Testimony on behalf of applicant was presented by its president, its accountant and its local representative. The Commission staff presentation was made by an engineer and an accountant. A member of West Patton Village Association testified for that group.

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<sup>1/</sup> Incorrectly shown in the application as Patton Village No. 2 Water Company.

Service Area and Water System

The area served by applicant is West Patton Village, near Herlong, Lassen County. Applicant provides both water and sewer<sup>2/</sup> services to about 144 customers adjacent to the Sierra Army Depot. Most of the customers are army civilian employees.

All of applicant's water supply is purchased from the Army. Applicant has approximately 3,400 feet of transmission main extending from the Army's mains to a master meter situated in the northeast corner of applicant's service area, where the transmission main connects to applicant's distribution system. There are approximately 5,700 feet of distribution mains, ranging in size from 4-inch to 6-inch, and 144 active unmetered services.

Service

Staff Exhibit No. 7 states that no informal complaints have been filed against the utility, that customers interviewed by the staff indicated that service is satisfactory, that applicant's water system is adequate to serve the area, and that the system meets the minimum requirements of General Order No. 103.

Rates

Applicant's present tariffs include a schedule for flat rate service only, at \$5.50 per month. This rate was in effect at the time applicant was found to be a public utility in 1963.

Applicant proposes to increase the flat rate to \$17.28 per month. The Commission staff recommends in Exhibit No. 7 that a flat rate of \$9.25 per month be authorized. The order which follows authorizes a monthly flat rate of \$9.55.

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<sup>2/</sup> The Commission does not have jurisdiction over applicant's sewer operations.

Protestant contends that metered service would be more equitable than flat rate service. Only about half of applicant's customers are members of protestant and the views of the other customers are not known. Applicant plans to install meters on all services at some time in the future but is not in a position to request specific meter rates at this time. Protestant introduced exhibits showing water rates charged in Reno, Bieber, Westwood and Susanville by various public utilities and districts. There is no showing, however, that the operations are comparable with applicant's.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table I, from Exhibit No. 7 and from Schedule A and Page 3 of the application are the estimated results of operation for the test year 1967, under the present rate, under that proposed by applicant, under that recommended by the Commission staff and under that authorized in the order which follows. For comparison, this table also shows the corresponding results of operation when modified as discussed hereinafter.

TABLE I  
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	\$ 9,500	\$ 9,500	\$ 9,500
<u>Deductions</u>			
Purchased Water	10,000	10,050	9,900
Operation & Maintenance	100	170	100
Office Salary & Exp., Insurance, Rent & Vehicle Exp.	880	1,280	880
Management Salary	1,300	5,700	1,300
Acctg., Legal & Regulatory Exp.	390	3,250	750
Travel Expense	0	400	270
Depreciation	650	650	650
Taxes Other than on Income	730	1,900	730
Interest on Long-Term Debt	0	3,690	0
Subtotal	14,050	27,090	14,580
Income Taxes	100	0	0
Total	14,150	27,090	14,580
Net Revenue (Loss)	(4,650)	(17,590)	(5,080)
Rate Base	25,880	39,645	25,930
Rate of Return	Loss	Loss	Loss
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	\$29,860	\$29,865	\$29,860
<u>Deductions</u>			
Excluding Income Taxes	\$14,050	27,090	14,580
Income Taxes	3,770	0	3,630
Total	17,820	27,090	18,210
Net Revenue	12,040	2,775	11,650
Rate Base	25,880	39,645	25,930
Rate of Return	46.5%	7.0%	44.9%
<u>At Rates Recommended by Staff</u>			
Operating Revenues	\$15,980	-	\$15,980
<u>Deductions</u>			
Excluding Income Taxes	14,050	-	14,580
Income Taxes	100	-	100
Total	14,150	-	14,680
Net Revenue	1,830	-	1,300
Rate Base	25,880	-	25,930
Rate of Return	7.1%	-	5.0%
<u>At Rates Authorized Herein</u>			
Operating Revenues	-	-	\$16,500
<u>Deductions</u>			
Excluding Income Taxes	-	-	14,580
Income Taxes	-	-	100
Total	-	-	14,680
Net Revenue	-	-	1,820
Rate Base	-	-	25,930
Rate of Return	-	-	7.0%

From Table I it can be seen that applicant's requested rate would result in an increase of about 215 percent in operating revenues, whereas the rate authorized herein will produce a 74 percent increase.

#### Operating Expenses

The principal differences between the expense estimates presented by applicant and those presented by the Commission staff result from differences in estimated payroll, accounting, legal, regulatory and travel expenses and in property taxes.

Although the staff estimate for cost of purchased water was only 50 dollars lower than applicant's, the staff was cross-examined by applicant at length on this item. This cross-examination disclosed that, in fact, the staff estimate was 100 dollars too high, based upon the average water consumption over the past three calendar years. The staff estimate, reduced by 100 dollars, is adopted.

Applicant's estimate of operation and maintenance expenses was based upon its 1966 recorded expenses. The staff's investigation showed that all of those recorded operation and maintenance expenses were related solely to applicant's sewer system. The staff's estimate of normal water system expenses in this category is adopted.

Applicant charges the salary of its local representative, the cost of office supplies and expenses, insurance, vehicle expense, and taxes other than on income, entirely to the water operations. The staff allocated appropriate portions of these items to the sewer system operation. The staff's estimates of those items are adopted.

Applicant's board of directors, of which applicant's president is a member, has set the president's salary at \$6,000 per year, of which all but \$300 is charged to the water system. The staff based its estimate of a reasonable allowance for water system

management salary upon the amounts paid by other small water utilities. Admittedly it is difficult to evaluate the worth of an individual's services as an officer of a small corporation. The staff's estimate results in an allowance of about \$5 per hour for such services. Although the individual's time might well be worth more when devoted to the affiliated real estate development enterprises operated from the same Los Angeles office utilized as applicant's headquarters, the staff allowance appears reasonable for a water system with only 144 active services, and is adopted.

The operation of applicant's water system jointly with other enterprises effects certain economies, as reflected in the allocation of various expenses hereinbefore discussed and in the nominal office rent allowance adopted. Consistent with the recognition of these economies, it would not be reasonable to ignore certain offsetting costs resulting from the joint operations. One would expect higher than normal accounting costs for properly assigning expenditures to the various operations, some extra costs due to duplication of records maintained both by applicant's local representative and by applicant's president in Los Angeles, some travel expense between Los Angeles and Patton Village, and higher regulatory expense from prorating the cost of attending hearings at a considerable distance from applicant's Los Angeles office. Nevertheless, applicant's estimates for accounting, legal, regulatory and travel expense are so far above the average for similar utilities as to be entirely unreasonable. Also, some expenses actually incurred are due to inadequate prior practices. For example, if applicant had maintained its books properly in the past and had assigned and allocated expenses to the proper accounts, the filing and processing of the current rate application would have

been greatly simplified. The staff estimates of accounting, legal and regulatory expenses are based upon a normal small utility operation and it does not appear that the complexities of applicant's mode of operation would reasonably be quite double the normal expenses of this nature. We have so assumed in the amounts adopted in Table I.

Applicant's 1967 travel expense estimates include abnormal travel in connection with this proceeding. The 1966 travel expenses, rounded, are adopted as reasonable for an average year.

The staff properly excluded interest from operating expenses. For rate-making purposes, items such as interest, dividends and retained earnings represent the disposition of net revenue, and are provided for in the return allowed on the rate base found to be reasonable.

Applicant questioned the propriety of the staff's inclusion of interest on long-term debt to applicant's parent corporation as a deduction in computing income taxes, inasmuch as applicant prepares its tax returns on a cash rather than accrual basis and has failed to pay the interest in the past. There is no reason to assume, however, that the interest will not be paid in future years when applicant will have net revenues from which to make interest payments.

#### Rate Base

The major difference between the rate base estimated by applicant and that estimated by the staff results from the staff's exclusion of certain expenditures which applicant has included in its intangible plant. These expenditures result from applicant's failure to obtain a certificate of public convenience and necessity to construct the water system, from the resultant failure to keep its books and records in accordance with the Commission's prescribed

methods, and from the cost of trying to prove that it was not a public utility. For example, a detailed inventory and appraisal prepared by a consulting engineer would not have been required if applicant had set up and maintained plant accounts properly from its inception.

Another difference in rate base estimates stems from applicant's mistaken impression that the working cash claimed by a utility in its application, a copy of which applicant obtained at the Commission's office in Los Angeles, was determined in a proper manner. The staff's estimate of working cash reflects the fact that advance payments by customers in a flat-rate system provide much of the working cash needed under normal operations. The staff's rate base estimate is adopted with a minor addition to recognize the higher level of working cash required at the level of expenses adopted herein as compared with the staff's expense estimate.

#### Rate of Return

Applicant requests a water rate which, by its estimates, would produce a seven percent return on rate base. The Commission staff, in Exhibit No. 7, recommends a rate which, by the staff estimates, would produce a 7.1 percent return. The rate authorized by the order which follows is designed to produce a return of seven percent on the rate base adopted herein.

#### Utility Status

Decision No. 66175, dated October 22, 1963, in Case No. 7473, found that applicant was providing water service and did not come under any of the exclusions of the Public Utilities Code. The Commission thus concluded that applicant is a public utility within the meaning of Sections 216, 240 and 241 of the



Public Utilities Code. Decision No. 66395, dated December 3, 1963, denied applicant's petition for rehearing of Decision No. 66175.

In Exhibit No. 8, applicant again raises a question as to its utility status. This matter has long been settled, but further comment is warranted to correct applicant's misconception as to the time element. It was the actions of applicant and its parent corporation in constructing and operating a water system to serve the public in West Patton Village that made it a public utility. Applicant therefore was in fact a public utility virtually from its inception, not merely commencing with the recognition of its status in Decision No. 66175.

#### Findings and Conclusion

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 discussed herein, of operating revenues, expenses and rate base for the test year 1967 reasonably indicate the results of applicant's operations for the near future.

c. A rate of return of seven percent on applicant's rate base is reasonable.

d. The rate increase authorized herein is justified; the rate authorized herein is reasonable; and the present rate, insofar as it differs from that prescribed herein, is for the future unjust and unreasonable.

2.a. Applicant has not maintained its books of account in accordance with the established requirements of this Commission.

b. The December 31, 1966 balances for utility plant accounts, depreciation reserve and contributions in aid of

construction reconstructed by the Commission staff in Exhibit No. 7 reasonably reflect the balances which would have resulted had applicant commenced operation with Commission authorization and had it maintained its books properly.

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 Patton Village #2 Water Company 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 filing shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof.
2. Henceforth, applicant shall maintain its books of account in accordance with the prescribed Uniform System of Accounts for Class D Water Utilities, including segregation of financial data between water operations and sewer service, and by December 31, 1967, shall record in its books the adjusted balances for utility plant accounts, depreciation reserve and contributions in aid of

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construction, at December 31, 1966, as set forth on page 6 of staff Exhibit No. 7 in this proceeding.

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]

[Signature]  
Commissioners

APPENDIX A

SCHEDULE NO. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

West Patton Village, near Eerlong, Lassen County. (T)

RATE

Per Service Connection  
Per Month

For a single-family residential unit,  
including premises ..... \$9.55 (I)

SPECIAL CONDITION

The above flat rate applies to a service connection not larger than one inch in diameter.