

ORIGINAL

Decision No. 73369

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of COUNTRY ESTATES)
WATER COMPANY, a California)
corporation, to increase rates.)

Application No. 49196
(Filed March 10, 1967; Amended
May 9, 1967)

Darling and Hugie, by Eldon R. Hugie, for applicant.
Deadrich, Bates & Lund, by Kenneth H. Bates, for
protestants.
John D. Reader, for the Commission staff.

O P I N I O N

Proceeding

This application was heard before Examiner Gillanders at Bakersfield on August 30, 1967. It was submitted on October 6, 1967, upon the receipt of late-filed Exhibit 4. Copies of the application and notice of hearing were served in accordance with the Commission's procedural rules.

Applicant presented no direct evidence, being willing to stand on its application and on the staff report (although not in complete agreement with the staff report).

A witness from the Commission's staff presented the results of the staff's independent study and investigation of applicant's operation.

In accordance with Commission instructions, applicant distributed to each customer a notice informing them of the proposed increase in rates and requesting customers, who wished to communicate with the Commission regarding the water service, to write letters to the Commission at its San Francisco office. Ten individual letters, a petition signed by 30 customers, and a petition signed

by 15 customers, protesting the increase and complaining of hard water and poor service were received. At the hearing, an attorney representing the majority of the customers presented evidence through 6 witnesses concerning hard water, poor service, low pressure, and lack of a telephone number to call regarding service complaints.

Service Area and System

Applicant was granted a certificate of public convenience and necessity by Decision No. 59423, dated December 21, 1959, in Application No. 41507 and the present rates became effective on May 19, 1961.

The service area is located 9 miles east of the City of Bakersfield. As of December 31, 1966, applicant was furnishing water service to 82 flat rate customers. Applicant is currently servicing three customers outside the service area, in an area adjacent to its filed service area along Weedpatch Highway.

The total outstanding stock of applicant as of December 31, 1966, consisted of 75 shares of no par value common stock. Of the total shares outstanding, 53 are held by Hugh Sill Trustee, a partnership; the remaining 22 shares are held by various individuals. The parent company, Sill Properties, Inc., was formed for the purposes of managing and operating agricultural lands, and for real estate investments and oil investments, each of the five Sill brothers owning an equal interest in the parent company. Sill Properties, Inc. is one of the partners of Hugh Sill Trustee.

The water supply is obtained from two deep wells and pumped without treatment through a hydropneumatic tank at each well site to the distribution system. The distribution system consists of 7,240 feet of asbestos-cement and steel pipe ranging in diameter from 2 inches to 6 inches. The present pumping capacity is adequate for the number of customers served.

Applicant has a water supply permit issued in 1957 by the California Department of Public Health. The results of bacteriological analyses of water samples have indicated that the water quality is satisfactory.

Applicant's Request and Rate Proposal

Applicant proposes that the present monthly basic flat rate charge of \$5 be increased to \$10 for an area less than 1/2 acre, and to \$15 for an area in excess of 1/2 acre. No increases are requested for general metered service and fire hydrant service.

Accounting Records and Procedures

The accounting records, in general, are maintained in accordance with the Uniform System of Accounts for Class "D" Water Utilities and are adequate. Plant additions subsequent to September 30, 1959 through December 31, 1966, were installed on a contractual basis and are fully supported by invoices.

Applicant is not billing its customers in accordance with its filed tariffs. It is presently billing all of its active customers on the basis of a uniform rate of \$7.50 per month regardless of lot size. Of the 82 presently active connections approximately 54 lots are slightly less than one-half acre in area with the remaining lots exceeding one-half acre in area.

Results of Operation

The following tabulation presents applicant's recorded results of operation, after staff accounting adjustments for the year 1966 along with a comparison of applicant's and staff's estimated results of operation for the year 1967, at present rates and at applicant's proposed rates. The staff estimate of revenues at the present rates is based on an application of the filed rates to lot areas, while applicant has applied for an average rate to all premises regardless of size.

RESULTS OF OPERATION

<u>Item</u>	<u>Recorded Year 1966*</u>	<u>Estimated Year 1967</u>			
		<u>Present Applicant</u>	<u>Rates Staff</u>	<u>Proposed Rates</u>	
				<u>Applicant</u>	<u>Staff</u>
<u>Operating Revenues</u>					
<u>Unmetered Sales</u>	\$ 7,324	\$ 7,400	\$ 7,580	\$14,200	\$11,520
Total	7,324	7,400	7,580	14,200	11,520
<u>Operating Revenue</u>					
<u>Deductions</u>					
<u>Operating Expenses</u>					
Power	3,132 ^a	3,500	3,500	3,500	3,500
O&M - Labor	180	-	200	-	200
O&M - Material	-	-	40	-	40
O&M - Contract	1,349 ^b	2,000	300	2,000	300
Management	2,000	-	1,100	-	1,100
Billing	-	2,100	170	2,100	170
Office Supplies	-	-	30	-	30
Insurance	165	-	170	-	170
Uncollectibles	-	-	50	-	50
Rate Case	-	-	50 ^c	-	50 ^c
General Expenses	102	200	90	200	90
Subtotal	6,928	7,800	5,700	7,800	5,700
Depreciation	1,619	1,800	1,740	1,800	1,740
Taxes Other Than Income	686	900	720	1,550	720
Income Taxes	100	-	100	-	500
Total Deductions	9,333	10,500	8,260	11,150	8,600
Net Operating Revenue	(2,009)	(3,100)	(680)	3,050	2,860
Rate Base		43,040	37,040	43,040	37,040
Rate of Return				7.1%	7.7%

(Red Figure)

* After staff accounting adjustments.

- a. Reduced in the amount of \$89 for power costs applicable to 1965.
- b. Reduced in the amount of \$470 for pump repair applicable to 1965.
- c. Staff prorated \$250 over a five-year period.

The staff's testimony with respect to the results of operation may be summarized as follows:

- a. Operating Revenues - The staff determined revenues on the area size basis for each customer at present and proposed rates. Basis of applicant's estimate at the proposed rates is unknown. There has been no increase in customers in 1966 and 1967. Applicant is not receiving any revenue for public fire hydrant service.

- b. Operating Expenses - The staff's estimate of operating expenses, other than depreciation and taxes, is approximately \$2,100 less than that of the applicant for the estimated year 1967. The staff's estimates are based on normal current operating costs for a utility of this size and type and reflect the operating conditions of this utility.
- c. Depreciation Expense - The staff used the composite depreciation rate of 3.3%, established in a 1965 depreciation review, in calculating the depreciation expense. The continued reasonableness of this rate was determined by computations using the adjusted depreciation reserve and slightly longer lives for wells and water mains.
- d. Taxes Other Than Income - Staff used the 1966-67 ad valorem tax base for its 1967 property tax estimate. Applicant improperly included income taxes in this category.

Rate of Return

The staff recommends that its proposed rate structure be adopted. Such rates when related to the staff's estimated 1967 rate base of \$37,040 would yield net operating revenues of \$2,750 and a rate of return of about 7.4%. These rates would result in an increase of gross operating revenues over revenues at present rates of \$3,790, an increase of 50%.

Since lots in the subdivision fall into three distinct area sizes, the staff recommends the following flat rate blocks:

19,000 sq.ft. or less
19,001 sq.ft. to 23,000 sq.ft.
Over 23,000 sq.ft.

There would be 25 customers in the first block, 32 customers in the second block, and 25 customers in the third block.

The staff also recommends that applicant be:

- a. Authorized to file a comparable schedule for metered service and to refile its schedule for public fire hydrant service to reflect current tariff practice.

- b. Ordered to record in its books of account the staff adjusted balances for plant accounts and depreciation reserve at December 31, 1966, as shown in Exhibit 1.
- c. Placed on notice that all services should be charged strictly according to the rates and rules in the filed tariffs.
- d. Ordered to file a revised tariff service area map to indicate the area actually being served.

Service Complaints

The record discloses that although the water is hard, and many customers install and operate water softeners, the hardness is within tolerable limits.

By letter dated September 15, 1967, applicant furnished a copy of an application for listing in the telephone directory and certain pressure readings taken by the Kern County Fire Department. This letter is received as Exhibit 5. Exhibit 5 shows that after noon on March 17, 1967 the residual pressure of the fire hydrants ranged from a low of 3 pounds to a high of 14 pounds.

Late-filed Exhibit 4 shows that pressures throughout the system, except for the last house on the system, average 50 pounds. The pressure of the last house drops below 20 pounds at various times throughout the day. Exhibit 4 gives no information as to peak seasonal loads.

Findings and Conclusions

The Commission finds that:

1. Applicant is in need of additional revenues.
2. The staff estimates, previously discussed herein, of operating revenues, operating expenses, rate base and rate of return for the test year 1967 reasonably represent the results of applicant's future operations.
3. A rate of return of 7.4 percent on staff's estimated rate base is not in excess of a reasonable return.

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

5. Applicant has not been complying with the standards of service set forth in General Order No. 103, Section II, 2 and 3.

The Commission concludes that the application should be granted and that applicant should be authorized and directed to take the various actions set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Country Estates 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. Applicant shall, by December 31, 1967, record in its books of account the staff adjusted balances for utility plant accounts and depreciation reserve, at December 31, 1966, as set forth in the tabulation entitled "Utility Plant and Depreciation Reserve" contained in Exhibit 1 in this proceeding.

3. Within forty-five days after the effective date of this order, applicant shall file a revised tariff service area map. 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.

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4. Within five days after the effective date of this order, applicant shall file proof that it has a twenty-four hour available telephone number through which it can and will receive communications from its customers.

5. Applicant must henceforth follow each and every provision of General Order No. 103.

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

Dated at San Francisco, California, this 21st day of NOVEMBER 1967.

[Signature]
President

[Signature]
William M. Bennett
[Signature]
Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.

Schedule No. 1

METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tracts Nos. 1951, 2196, 2552 and 2553 and vicinity, located approximately 9 miles east of Bakersfield, Kern County.

(T)

RATES

Per Meter
Per Month

Quantity Rates:

First 1,000 cu.ft. or less	\$ 5.50	(I)
Next 2,000 cu.ft., per 100 cu.ft.45	
Next 5,000 cu.ft., per 100 cu.ft.35	
Over 8,000 cu.ft., per 100 cu.ft.30	

Minimum Charge:

For 5/8 x 3/4-inch meter	\$ 5.50	(I)
For 3/4-inch meter	8.00	
For 1-inch meter	13.00	
For 1 1/2-inch meter	21.00	
For 2-inch meter	32.00	

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

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service. (T)

TERRITORY

Tracts Nos. 1951, 2196, 2552 and 2553 and vicinity, located approximately 9 miles east of Bakersfield, Kern County. (T)

RATES

Per Service Connection
Per Month

For a single-family residential unit, including premises having the following area:

15,000 sq.ft. or less	\$ 8.00	(I)
15,001 to 19,000 sq.ft.	9.50	
19,001 to 23,000 sq.ft.	11.00	
Over 23,000 sq.ft. for each additional 100 sq.ft., or fraction thereof05	(I)

SPECIAL CONDITIONS

1. The above residential flat rate charges apply to service connections not larger than one inch in diameter.
2. Meters may be installed at option of utility or customer for above classification in which event service thereafter will be furnished only on the basis of Schedule No. 1, Metered Service. (T)

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, organized fire districts and other political subdivisions of the State.

TERRITORY

Tracts Nos. 1951, 2196, 2552 and 2553 and vicinity, located (T)
approximately 9 miles east of Bakersfield, Kern County.

RATES

	<u>Per Month</u>
For each hydrant	\$ 1.50

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. 1, Metered Service.
2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.
3. Hydrants shall be connected to the utility's system upon receipt (T) of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size.
4. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.