

ORIGINAL

Decision No. 74035

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of }
SAN BERNARDINO WATER UTILITIES COR- }
PORATION, a California corporation, }
for authorization to increase its }
rates charged for general metered }
water service. }

Application No. 49466
(Filed June 13, 1967)

Helen L. Howard, Don W. Coughlin,
and John A. Cunningham;
for applicant.
John D. Reader and Sidney A. Scott,
for the Commission staff.

O P I N I O N

Applicant, San Bernardino Water Utilities Corporation, seeks herein authority to increase its rates for general metered water service by approximately 35 percent. Applicant serves nearly 1,000 customers in and near the unincorporated communities of Verdemon and Muscoy, San Bernardino County.

After due notice, which in this instance included individual notification to the customers, public hearings were held before Examiner Main at San Bernardino on November 14 and 15, 1967. Fewer than ten customers attended the hearing; however, one of the customers present sought a continuance of the hearing for the purpose of retaining counsel to represent applicant's customers in this proceeding.

The Commission staff made an independent study of applicant's operational results; the customer seeking the continuance was not authorized to represent other customers; the need for timely processing of the instant application was evident. In such

circumstances, a continuance did not appear warranted and was not granted. During the hearing the customers were provided with an opportunity to appear and be heard. In addition, they were apprised that a representative group of customers, if they see the need, might submit a petition to the Commission setting forth clearly any matters to which the Commission's attention should be directed.

The matter was submitted at the conclusion of the second day of hearing with provision for filing Exhibit 4 on or before November 28, 1967, which has been received. The petition mentioned above was not received from the customers, and the matter is now ready for decision.

Ownership and Associated Interests

Applicant is a California corporation whose stock is owned by Henry H. Wheeler, Jr. and Lilac Builders, Inc. Wheeler is also a stockholder and director of Park Water Company and has a substantial stockholding in Vandenberg Utilities Company, which are public utility water corporations.

Donald W. Coughlin is applicant's president and general manager. He is also president of Coughlin Company, a pipeline contractor, and of Waterco Supply Company, a water system materials supplier. Applicant and the latter two companies share the same offices and share office and field personnel. Over the years the Coughlin Company has contracted for the construction of applicant's additions to, or replacements of, utility plant and for its major repair work. Because of the decline in the operations of the Coughlin Company, its services may not remain available and, in that event, applicant may undertake its construction work with its own crews.

The Commission staff has carefully examined the charges for the work done by the Coughlin Company for applicant. Such work has been billed on a cost-plus basis. The staff accounting witness found the charges to be reasonable and therefore made no adjustments to them in the development of the staff exhibit on operational results of applicant.

Service Area and Water System

The territory served by applicant includes a major service area encompassing roughly 7,000 acres in and near the communities of Muscoy and Verdemon. In addition, it includes Tract No. 3948, a 230-lot subdivision located within the city of San Bernardino about one mile south of the major service area.

In the major service area the water supply is obtained from two wells and is delivered into a 550,000-gallon concrete reservoir. From the reservoir, water is routed through a pressure control structure and into a 350,000-gallon steel tank in a lower pressure zone. A pressure zone located above the 550,000-gallon reservoir is serviced by two booster pumps drawing from the reservoir and discharging through a 5,250-gallon hydropneumatic tank into the distribution system.

For Tract No. 3948 the water supply is obtained from one well and delivered into a 169,000-gallon steel tank. From the tank two booster pumps deliver water into a 10,000-gallon hydropneumatic tank and into the distribution system. Emergency service can be provided Tract 3948 by Muscoy Mutual Water Company No. 1, located immediately to the north, through an existing interconnection.

As of December 31, 1966, the two separate systems included approximately 76,250 feet of transmission and distribution mains ranging from one to 20 inches in diameter and served 993 customers.

The field investigation of this utility was made by the staff in July, 1967. Facilities were inspected, pressures checked, customers interviewed, and records examined. Water pressures appear to be maintained substantially within the requirements of General Order No. 103 and water quality is satisfactory.

Rates

Applicant's tariffs provide rates for general metered service and for public fire hydrant service. The present rates were authorized by Decision No. 57492 dated October 21, 1958 in Application No. 38728 and became effective December 1, 1958. By the instant application, applicant requests an increase in the rates for general metered service.

The following Table I sets forth the present rates, the rates proposed by applicant and the rates authorized herein for general metered service. In addition, this table compares monthly charges by applicant at present rates and rates authorized herein, for various consumptions through a 5/8 by 3/4-inch meter, with charges by an adjacent mutual and by the City of San Bernardino.

TABLE I
General Metered Service
A - Comparison of Rates

| <u>Quantity Rates</u> | <u>Per Meter Per Month</u> | | |
|--|----------------------------|-----------------------|-------------------------|
| | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Authorized Rates</u> |
| First 800 cubic feet or less | \$2.40 | \$3.20 | \$3.00 |
| Next 1,200 cubic feet, per 100 cubic feet | .26 | .35 | - |
| Next 2,000 cubic feet, per 100 cubic feet | .22 | .30 | - |
| Next 3,200 cubic feet, per 100 cubic feet | - | - | .31 |
| Next 46,000 cubic feet, per 100 cubic feet | .18 | .25 | .20 |
| Over 50,000 cubic feet, per 100 cubic feet | .07 | .10 | .10 |

B - Comparison of Monthly Charges

| <u>Monthly Consumption</u> | <u>City of</u> | <u>Applicant</u> |
|----------------------------|--------------------------------------|-------------------------|
| <u>Cu. Ft.</u> | <u>Muscoy Mutual Water Co. No. 1</u> | <u>San Bernardino</u> |
| | <u>Present Rates</u> | <u>Authorized Rates</u> |
| 1,000 | \$ 3.50 | \$ 2.00 |
| 2,000 | 7.50 | 3.60 |
| 2,300 | 8.30 | 4.08 |
| 3,000 | 11.50 | 5.20 |
| 4,000 | 15.50 | 6.80 |
| 5,000 | 19.50 | 8.40 |
| | | \$ 2.92 |
| | | 5.52 |
| | | 6.18 |
| | | 7.72 |
| | | 9.92 |
| | | 11.72 |
| | | \$3.62 |
| | | 6.72 |
| | | 7.65 |
| | | 9.82 |
| | | 12.92 |
| | | 14.92 |

From Table I it may be seen that under the rate structure authorized herein the number of rate blocks in the schedule for general metered service has been reduced by combining the present second and third blocks. This simplification of the schedule gives effect to a staff recommendation, which applicant supports.

Although by this application applicant does not seek to change its present tariff applicable to fire hydrant service, the evidence discloses that applicant's Schedule No. 5, Public Fire Hydrant Service, does not reflect revised contractual arrangements or understandings between applicant and the fire protection district. In addition, it appears that applicant offers fire hydrant service outside the boundaries of the fire protection district. Through appropriate filings, which comply with General Order No. 96-A, applicant should bring its tariffs, practices and understandings with the fire protection authorities into agreement.

Results of Operation - Test Year 1967

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table II below, from Exhibits 2 and 5, are the estimated results of operation for the test year 1967 under present rates and those proposed by applicant. For comparison, this table also shows the corresponding results of operation when modified as discussed hereinafter.

TABLE II

ESTIMATED RESULTS OF OPERATION, TEST YEAR 1967

| <u>Item</u> | <u>Exhibit 2* Applicant</u> | <u>Exhibit 5 Staff</u> | <u>Modified</u> |
|---------------------------------------|---------------------------------|----------------------------|-----------------|
| <u>At Present Rates</u> | | | |
| Operating Revenues | \$ 72,800 | \$ 73,950 | \$ 74,000 |
| <u>Deductions</u> | | | |
| Operating Expenses: | | | |
| Source of Supply Exp. | 800 | 890 | 900 |
| Pumping Exp. | 10,200 | 10,010 | 10,000 |
| Water Treatment Exp. | 430 | 510 | 500 |
| Transm. & Distrib. Exp. | 7,100 | 7,590 | 7,600 |
| Customer Accounts Exp. | 9,270 | 9,030 | 9,000 |
| Administrative & Gen'l. Exp. | 16,580 | 14,530 | 14,600 |
| Subtotal | <u>44,380</u> | <u>42,560</u> | <u>42,600</u> |
| Depreciation | 13,980 | 13,900 | 13,700 |
| Taxes Other Than on Income | 9,100 | 8,520 | 8,500 |
| Subtotal | <u>67,460</u> | <u>64,980</u> | <u>64,800</u> |
| Income Taxes | 1,190 | 1,470 | 1,700 |
| Total Deductions | <u>68,650</u> | <u>66,450</u> | <u>66,500</u> |
| Net Revenue | 4,150 | 7,500 | 7,500 |
| Rate Base | 322,300 | 300,400 | 292,500 |
| Rate of Return | 1.3% | 2.5% | 2.6% |
| <u>At Rates Proposed by Applicant</u> | | | |
| Operating Revenues | 98,020 | 99,730 | 99,700 |
| <u>Deductions</u> | | | |
| Excl. Income Taxes | 67,600 | 65,110 | 64,900 |
| Income Taxes | 8,180 | 10,020 | 10,300 |
| Total | <u>75,780</u> | <u>75,130</u> | <u>75,200</u> |
| Net Revenue | 22,240 | 24,600 | 24,500 |
| Rate Base | 322,300 | 300,400 | 292,500 |
| Rate of Return | 6.9% | 8.2% | 8.4% |

*As revised to reflect the computation of State
-Corporation Franchise Tax at the new rate of 7%.

The principal difference between the revenue estimates of the applicant and those of the Commission staff results from the staff's higher estimate of water use by one industrial customer whose usage has fluctuated widely in past years. During 1966 this customer used in excess of 8 million cubic feet, which represented over 24 percent of all water sold. Applicant's estimate of revenue from this customer is based on a nine-year trend of water use from which a consumption of 5.1 million cubic feet for 1967 was determined. The staff's estimate, reflecting a consumption of 7.1 million cubic feet, is based on the pattern of water usage by this customer during the 9½-year period ending June 30, 1967 and on the customer's own estimates of water that will be used during the last half of 1967 and during the year 1968. Actual water use by this customer during the first ten months of 1967 reached the staff estimate for the entire year of 7.1 million cubic feet.

The staff's estimate of revenue from fire hydrant service is lower than that of applicant and partly offsets the difference in estimated revenue from the industrial customer. The staff's estimate of revenues from this service reflects amounts that would be collected under applicant's present understanding with the fire protection authorities, whereas applicant's estimate is based upon the authorized tariff, although only one-half of the charges set forth therein are being collected. The staff's revenue estimates, rounded, are adopted in Table II.

Applicant's estimate of operating expenses exceeds that of the staff by \$1,820. This difference results primarily from a staff adjustment which redistributes and decreases the expensed payroll included in applicant's estimate. The decrease amounts to \$1600.

Because of the decline in operations of Coughlin Company, applicant's share of the overall payroll of applicant, Coughlin Company and Waterco Supply Company, has been increased and reflected by applicant into its estimates of operating expenses. The staff's estimates of operating expenses were developed after evaluating applicant's expense estimates, recorded expenses, and operating characteristics in conjunction with expense levels experienced by other Class C water utilities. The staff operating expense estimates, rounded, are adopted in Table II.

Deductions from operating revenues exclude interest. Although applicant so excludes interest, the exclusion engendered reservations on applicant's part. It is affirmed, therefore, that items such as interest and dividends represent the disposition of net revenue and are provided for in the return on rate base found to be reasonable.

Applicant and the staff have estimated substantially the same level of depreciation expense. The depreciation expense adopted in Table II has been modified, consistent with a change in rate base discussed hereinafter.

The staff's estimate of taxes other than on income reflect an allocation of payroll taxes to Waterco Supply Company and also reflect the actual 1967-68 ad valorem tax rate and assessments. The staff estimate, rounded, is adopted in Table II.

Applicant's estimates of income taxes do not include the use of the investment tax credit. Otherwise the differences between applicant and staff in their tax estimates result from the lower net taxable incomes produced by applicant's estimates.

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It is noted that depreciation for income tax purposes is \$2,560 lower than the depreciation expenses shown in Table II. This results from the Internal Revenue Service not allowing applicant to take, as a deduction, depreciation on the increase in net utility plant recorded by applicant after the 1958 rate proceeding (Decision No. 57492 dated October 21, 1958 in Application No. 38728) in which the Commission staff presented an original cost appraisal and depreciation reserve requirement study. Applicant has not elected to take accelerated depreciation for income tax purposes.

The estimates of income taxes adopted in Table II have been developed in a manner consistent with the adopted operational results.

The principal differences in rate base are (1) inclusion by applicant and exclusion by the staff of \$11,500 representing the cost to applicant of claimed water rights in Tract 3948 and (2) plant additions.

Applicant contends that the claimed water rights enable it to extract water from the aforesaid tract and preclude the overlying land owners from so doing. The staff questions the validity of such rights and cites Decision No. 59997 dated April 26, 1960 in Application No. 41513 to support the exclusion of the cost of the claimed rights from rate base. From that decision we quote:

" . . . Applicant has also purchased water rights underlying all properties in Tract No. 3948 for the sum of \$11,500. Said latter purchases were made from Highway Construction Company of which H. H. Wheeler, president of Park Water Company, a public utility water company under the jurisdiction of this Commission, is president, and V. E. Motz, former secretary of Park Water Company, is secretary. In this connection it should be observed that

unadjudicated water rights such as were obtained by applicant are not usually considered by this Commission to be a proper part of the rate base upon which a utility is entitled to earn a return. The record shows that H. H. Wheeler, Jr., is a director of applicant and owns all of the applicant's common stock."

We are not persuaded that the results of the transaction in which the claimed water rights were acquired by applicant are representative of arms-length dealings. Further, it appears that it would have been prudent for the utility to have required that any right needed to extract water from Tract No. 3948 be furnished together with necessary utility easements without cost to applicant as a prerequisite to extending its service to the tract.

The evidence concerning the nature of these claimed rights and the chain of title to them is inadequate. If the claimed rights were riparian or overlying rights, we should add that the Commission held in 66 Cal. PUC 10, at 14 (Re East Pasadena Water Co. Decision No. 71024 dated July 26, 1966 in Application No. 47056) that such rights would have been "part and parcel" of the land and the attempt to reserve them may not have been legally successful.

For the above reasons applicant has failed, in our view, to sustain the burden of proof that the \$11,500 represents a reasonable and prudent expenditure by applicant which should be included in rate base.

Plant additions have been segregated between normal and "nongrowth" additions. The staff estimate of normal additions, which includes an adjustment in lieu of additional advances for construction appears more accurate than that of applicant in view of recent minimal subdivision activity. As to plant additions or

replacements not related to customer growth, the evidence indicates that such additions at the level estimated by applicant more appropriately should be included in test year 1968 estimated.

After deduction of nongrowth additions, the staff estimate of rate base, rounded, is adopted in Table II.

Results of Operations - Test Year 1968

A comparison of rates of return for year 1966 adjusted, as developed by applicant in Exhibit 2 and the staff in Exhibit 5, with those in Table II for test year 1967, shows an attrition in rate of return ranging from 0.4 to 0.7 percent. Because of such attrition and inasmuch as rates are set prospectively, not retroactively, operating results for test year 1968 have been developed by projecting the adopted 1967 revenue, expense and rate base items individually for the purpose of testing reasonableness of the rates to be authorized. These projections are set forth in Table III below and reflect the trends of individual items indicated by the staff's estimates for 1966 and 1967, which are compatible with the operational results adopted in Table II.

TABLE III

ESTIMATED RESULTS OF OPERATIONS,
TEST YEAR 1968 AT RATES AUTHORIZED HEREIN

| | |
|------------------------------------|---------------|
| Operating Revenues | \$ 94,000 |
| <u>Deductions</u> | |
| Operation and Maintenance Expense | 28,900 |
| Administrative and General Expense | 14,700 |
| Depreciation | 14,400 |
| Taxes Other Than on Income | 9,200 |
| Income Taxes | 6,300 |
| Total | <u>73,500</u> |
| Net Revenue | 20,500 |
| Rate Base | 301,600 |
| Rate of Return | 6.8% |

Operating revenues at present rates and at rates proposed by applicant projected into 1968 are \$74,600 and \$100,480, respectively. Applicant's requested rates would therefore result in an increase of 35 percent in operating revenues, whereas the rates authorized herein will produce an increase of 26 percent.

Rate of Return

Applicant designed its proposed rates basically to yield a 7 percent rate of return, consistent with its estimate of operational results for test year 1967; however, applicant sought, at the hearing, consideration of a higher rate of return based primarily upon the fact that in applicant's 1958 rate proceeding, supra, a rate of return of 7.3 percent on an adopted rate base of \$181,000 was authorized. The Commission staff recommends a rate of return of 7.0 percent as a reasonable return for this utility.

A 7 percent rate of return is in the range of rates of return recently authorized for utilities of applicant's present size. A somewhat lower rate of return appears indicated, however, in light of applicant's subnormal depreciation deduction for income tax purposes. If depreciation for income tax purposes were at the same level as for expense, the operating revenues set forth in Table III would result in a 7.0 percent rate of return on the rate

base therein. We consider a 6.8 percent rate of return as a fair and reasonable return for this utility and it is adopted herein.

Applicant's operational results for years 1966 adjusted, 1967 estimated, and 1968 estimated reflect depressed building and land development activity. For this reason and because of the uncertainties inherent in future estimates, it is considered too speculative to assume at this time an attrition in rate of return after 1968. In this regard if proposed new subdivision development materializes, any presently indicated attrition may be offset in whole or in part. Or perhaps for that matter the downward trend might be reversed, in view of the potential through such development of a large percentage increase in the number of customers served.

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 projected estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the test year 1968 indicate the results of applicant's operations for the near future.

c. A rate of return of 6.8 percent on applicant's rate base for 1968 is reasonable.

d. 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 herein, are for the future unjust and unreasonable.

2. The straight-line remaining life depreciation rates set forth in Exhibit 2 are reasonable for applicant's plant.

3. Applicant's authorized tariff schedule for public fire hydrant service does not properly reflect either applicant's present practices or its present understandings with the fire protection authorities.

The Commission concludes that the application should be granted to the extent set forth in the order which follows and that applicant should be required to take the actions set forth therein.

O R D E R

IT IS ORDERED that:

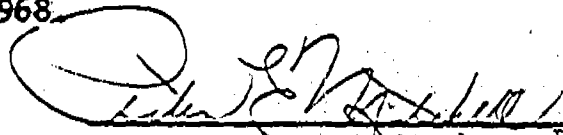
1. After the effective date of this order, applicant, San Bernardino Water Utilities Corporation, is authorized to file the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date thereof. Concurrently, applicant shall cancel its presently effective tariff sheet No. 44-W.

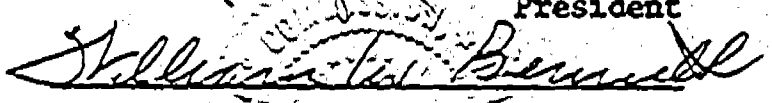
2. For the year 1968 applicant shall apply the straight-line remaining life depreciation rates set forth in Table 5-A of Exhibit 2 and shall continue to use these rates until review indicates otherwise. Applicant shall continue to review its future depreciation rates by the straight-line remaining life method at intervals of five years, and whenever major change in the depreciable plant occurs, and shall submit these reviews to the Commission.

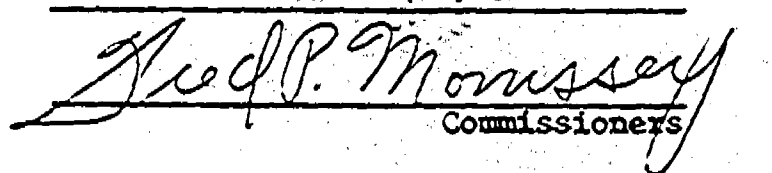
3. Within ninety days after the effective date of this order, applicant shall file revised or original tariff sheets concerning fire hydrant service, which provide tariff provisions acceptable to the Commission and consistent with applicant's present practices and understandings with fire protection authorities. Such filing shall comply with General Order No. 96-A.

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

Dated at San Francisco, California, this 30th day of APRIL, 1968.



President




Commissioners

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

APPENDIX A

Schedule No. 1

(T)

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Verdemont and vicinity, immediately northwest of the City of San Bernardino, San Bernardino County.

(T)

(T)

RATES

Per Meter
Per Month

Quantity Rates:

| | | | |
|-------|------------------------------------|---------|-----|
| First | 800 cu.ft. or less | \$ 3.00 | (I) |
| Next | 3,200 cu.ft., per 100 cu.ft. | .31 | |
| Next | 46,000 cu.ft., per 100 cu.ft. | .20 | |
| Over | 50,000 cu.ft., per 100 cu.ft. | .10 | |

Minimum Charge:

| | | | |
|-----|----------------------------|---------|-----|
| For | 5/8 x 3/4-inch meter | \$ 3.00 | |
| For | 3/4-inch meter | 4.00 | |
| For | 1-inch meter | 6.50 | |
| For | 1 1/2-inch meter | 13.00 | |
| For | 2-inch meter | 23.00 | |
| For | 3-inch meter | 34.00 | |
| For | 4-inch meter | 45.00 | |
| For | 6-inch meter | 65.00 | |
| For | 8-inch meter | 90.00 | (I) |

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