

Decision No. 74094

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
DIAMOND INTERNATIONAL CORPORATION )  
under Section 454 of the Public )  
Utilities Code for authority to )  
increase rates for water service. )

Application No. 49783  
(Filed November 8, 1967)

O P I N I O N

The applicant operates a water system serving approximately 130 flat rate and 10 metered service customers in the community of Stirling City, Butte County. By this application it seeks to increase its rates. A report by an engineer of the Commission's Utilities Division, Hydraulic Branch, and a Financial Examiner of the Commission's Finance and Accounts Division will be included in the record as Exhibit No. 1. Exhibit No. 1 is based on a review of the application, a field study and a meeting attended by staff engineers, company officials and customers.

Applicant, Diamond International Corporation, a Delaware corporation, owns the land on which over 4 miles of flume is located. No water system plant costs now appear on the books of this corporation. Diamond International Corporation also conducts logging operations, selling logs to a subsidiary, Diamond National Corporation (also a Delaware corporation), other subsidiary and possibly some nonsubsidiary companies. Diamond National Corporation operates a saw mill at Stirling City, is the largest water customer and its employees perform maintenance and operating functions for this water utility.

The rates now in effect are very low. The residential flat rate for housing units having hot water facilities is \$1.25 per month (all present customers); for those without such facilities 75 cents per month. These rates were filed with a letter in 1919. Applicant proposes to increase its flat rate to \$6.10 per month.

Applicant claims no rate base. Its sought rate increase is expected to provide out-of-pocket costs only, without any depreciation charge or rate of return on investment. The applicant's officials believe that most, if not all, of its plant was fully depreciated long ago.

The customers appear to realize that the present rates are too low. However, if "city" (i.e. proposed) rates are assessed they want city service. Complaints included dirty water after rains, wastage on saw mill property and also by flat rate customers, fluctuating chlorine dosages and some small mains which are too close to the surface and interfere with road maintenance. Some customers who wrote in objected to such a high percentage of increase at one time.

The system consists of a 4-1/2-mile flume of wooden and earth construction from the West Branch of the Feather River to a reservoir about one mile from and higher in elevation than Stirling City. From this reservoir one pipeline goes to the mill and another to the town. The capacity of the reservoir is about 3,000,000 gallons.

The staff rate proposal was to change the monthly flat rate to an annual rate of \$48. The staff would allow 10,000 square feet of lot for the \$48 as against 7,500 square feet allowed by applicant. The staff's recommended meter minimum charge is \$3.40 per month which would entitle the customer to 1,700 cubic feet of water.

Because of the substantial difference between the staff's proposals and those of applicant, two copies of what is now Exhibit No. 1 were served on applicant by letter dated February 2, 1968. Applicant was reminded that it was entitled to a hearing if it wanted one. Applicant replied on February 13 that it would "accept their recommendations" but reserved the right to urge its own proposal if a hearing were ordered at the request of someone else. A summary of applicant's and staff's results of operations follows:

Results of Operation

Item	Year 1966		Estimated Year 1967				
	Appl. cant	Staff Adjusted	Present Rates Applicant	Proposed Rates Staff	Proposed Rates Applicant	Staff Reccom. Rates	Staff Reccom. Rates
<u>Operating Revenues</u>							
Residential & Business	\$ 1,795	\$ 1,986 <sup>a</sup>	\$ 1,800	\$ 2,050	\$ 10,400	\$ 10,800	\$ 7,500
From Affiliated Operations	1,500	1,500	1,500	1,500	1,600	2,500	2,500
Total Revenues	3,295	3,486	3,300	3,550	12,000	13,300	10,000
<u>Operating Rev. Deductions</u>							
Source of Supply Exp.	966	171 <sup>c</sup>	700	700	700	700	700
Purchased Power	145	145 <sup>b</sup>	250	250	250	250	250
Maintenance Labor	5,641	4,457 <sup>b</sup>	5,250	2,000	5,250	2,000	2,000
Maintenance Materials	2,017	2,130	1,200	500	1,200	500	500
Contracted Services	256	256	300	300	300	300	300
Office Salaries	967	967	1,000	1,000	1,000	1,000	1,000
Management Salaries	520	520	600	600	600	600	600
Office Supplies & Exp.	100	100	150	150	150	150	150
Vehicle Expense	283	283	290	290	290	290	290
Property Taxes	345	345	400	400	400	400	400
Payroll Taxes	759	759 <sup>d</sup>	600	600	600	600	600
Uncollectibles	-	23 <sup>d</sup>	-	40	-	40	40
Rate Case	-	-	-	100	-	100	100
Add'l Flame Repl.	-	-	2,750	-	2,750	-	-
Total Oper. Rev. Deductions	11,999	10,156	13,490	6,930	13,490	6,930	6,930
Depreciation	-	-	-	2,500	-	2,500	2,500
Income Tax	-	-	-	-	-	1,800	-
Net Income	(8,704)	(6,670)	(10,190)	(5,880)	(1,490)	2,070	570

(Red Figure)

\* After staff accounting adjustments as follows:

- Operating revenues increased by \$191 to reflect erroneous omission of billing to new and terminated customers.
- Eliminated cost of \$1,184 for nonutility operations erroneously charged for water utility operations.
- Eliminated cost of meters (\$682) erroneously charged to operating expenses.
- Unrecorded uncollectible amounts.

The Commission is in agreement with the language quoted below from the Commission staff report (Exhibit No. 1, page 7):

"The staff has excluded major replacement expenditures on flumes from the preceding results of operation tabulation because such items should be capitalized. The staff agrees with applicant to the extent that relatively old plant should be deemed fully depreciated until applicant submits a study acceptable to the Commission establishing original plant cost estimates and a depreciation reserve. Major flume replacements since the year 1960, a new well and new meters, as well as planned additions during 1967 should be normally treated as plant requiring depreciation. It is the staff's estimate that the foregoing items amount to approximately \$70,000 and that, for purposes of this proceeding, a reasonable average annual depreciation accrual is \$2,500, including an allowance for depreciation of the piped distribution system."

The Commission finds that:

1. The estimates of operating revenues and expenses, including taxes, as submitted by the staff for the years 1966 and 1967 reasonably represent the results of applicant's operations for the purposes of this proceeding.
2. 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 herein prescribed, are for the future unjust and unreasonable.

The Commission concludes that the application should be granted to the extent provided by the following order.

O R D E R

IT IS ORDERED that:

1. After the effective date hereof, the utility may file the tariff sheets attached hereto as Appendix A. Such filing shall be made in accordance with General Order No. 96-A. Such filing shall be made on or after the effective date of this order and on not less than four days' notice to the Commission and the public.

2. Applicant shall, as a condition precedent to filing an application for further increase in rates, prepare a study developing the original cost and related depreciation reserve requirement of plant used and useful at that time, to be submitted to the Commission for staff review and Commission approval for use for accounting purposes provided, however, that applicant is permitted to continue its present practice of not accounting for plant costs and depreciation thereon as required by the prescribed Uniform System of Accounts so long as it does not seek a return on whatever rate base may now or in the future be found to exist.

3. Within ninety days after the effective date of this order, applicant shall file a report in writing setting forth its plans to replace the fence around the reservoir and repair or replace the chlorinator located near the reservoir, and shall file written reports each ninety days thereafter until these facilities are completed.

4. If applicant elects to develop the original cost and related depreciation reserve, applicant shall apply a depreciation rate of 3.0 percent to the original cost of depreciable plant. Until review indicates otherwise, applicant shall continue to use this rate. The utility shall review its depreciation rates at intervals of not longer than five years and whenever a major change in depreciable plant occurs. Any revised depreciation rate shall be determined by (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the remainder by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

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5. 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 this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 14<sup>th</sup>  
day of MAY 1968.

[Signature]  
President

[Signature]

[Signature]

[Signature]

[Signature]  
Commissioners

APPENDIX A  
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Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Stirling City and vicinity, Butte County.

RATES

Quantity Rates:

	<u>Per Meter Per Month</u>
First 1,700 cu.ft. or less .....	\$ 3.40
Next 8,300 cu.ft., per 100 cu.ft. ....	.17
Next 20,000 cu.ft., per 100 cu.ft. ....	.14
Over 30,000 cu.ft., per 100 cu.ft. ....	.09

Minimum Charge:

For 5/8 x 3/4-inch meter .....	\$ 3.40
For 3/4-inch meter .....	5.00
For 1-inch meter .....	8.00
For 1 1/2-inch meter .....	12.00
For 2-inch meter .....	20.00
For 3-inch meter .....	30.00
For 4-inch meter .....	60.00

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

Schedule No. 2RA

(C)

ANNUAL RESIDENTIAL FLAT RATE SERVICE

(C)

APPLICABILITY

Applicable to all flat rate residential water service furnished on an annual basis. (C)  
(C)

TERRITORY

Stirling City and vicinity, Butte County.

RATES

	<u>Per Service Connection</u> <u>Per Year</u>	
For a single-family residential unit including premises not exceeding 10,000 sq.ft. in area .....	\$48.00	(C) (C) (I)
a. For each additional single-family residential unit on the same premises and served from the same service connection .....	40.00	(I)
b. For each 100 sq.ft. of premises in excess of 10,000 sq.ft. ....	.24	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter. (N)

2. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum meter charge for the same period shall be made on or before that day.

(Continued)



Schedule No. 2RA

ANNUAL RESIDENTIAL FLAT RATE SERVICE

SPECIAL CONDITIONS—Contd.

3. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance. If permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated flat rate charges in advance at intervals of less than one year (monthly, bimonthly or quarterly) in accordance with the utility's established billing periods.

(N)

4. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred sixty-fifth ( $1/365$ ) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.

(IX)