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Decision No. 74713

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of CAMPTON HEIGHTS WATER SERVICE,  
a California corporation, under  
Section 454 of the Public Utilities  
Code for authority to increase  
their water rates. )

Application No. 49898  
(Filed December 26, 1967;  
Amended March 8, 1968)

Martin J. Rosen, for applicant.  
James S. Woodcock, in propria persona, protestant.  
John D. Reader, for the Commission staff.

O P I N I O N

Applicant Campton Heights Water Service, a California corporation, seeks authority to increase its rates for water service.

Public hearing was held before Examiner Gillanders in Fortuna on July 31, 1968. Copies of the application had been served and notice of hearing had been published and posted in accordance with this Commission's rules of procedure. The matter was submitted on August 9, 1968, upon receipt of applicant's late-filed Exhibit No. 4.

Testimony on behalf of applicant was presented by its vice-president and general manager and by its bookkeeper. The Commission staff presentation was made by an engineer and an accountant. Twenty-one customers were present during the hearing. Three customers testified regarding "black water" and poor service. One customer testified that in his main the water was clear and the pressure good. One customer testified he was not against the increase proposed. Protestant testified he thought the company was not being run efficiently when compared to the operations of the Fortuna City Water Department.

Service Area and Water System

Applicant serves about 720 residential, business and industrial customers in and near the unincorporated communities of Rohnerville and Campton Heights Subdivision. About 30 of these customers are presently served at flat rates. The certificated service area of about 1,400 acres is adjacent to the water system of the City of Fortuna, Humboldt County. About 13 customers are being served outside of the certificated area near the Rohnerville Airport. Applicant anticipates extending service to approximately 500 acres at and around the Rohnerville Airport.

Applicant pumps water from two wells, one owned by applicant and one loaned without charge by applicant's president. Each well is equipped with a master water meter to determine the quantity of water pumped. The well owned by applicant has a 315-foot, 12-inch diameter casing and a 250-gpm deep well turbine operated by an electric motor at ground level. The pump is operated intermittently as needed and discharges to a 250,000-gallon ground level reservoir at the well site. The loaned well has a 72-foot deep, eight-inch diameter casing. Applicant has equipped this well with a 75-gpm deep well submersible pump which continuously discharges through a transmission main to the 250,000-gallon reservoir or to a 48,000-gallon ground level storage tank at the reservoir site.

Water from the reservoir and storage tank can be boosted into two distribution systems. The larger distribution system is supplied through an electrically powered Borg-Warner adjustable speed drive, 50-horsepower centrifugal pump which can deliver 10 to 1,000 gallons of water per minute at about 50 psi. In the event of an electric power outage, the larger distribution system can be supplied by a 1,200-gpm auxiliary centrifugal pump operated by a

manually started gasoline engine. Because of differences in elevation, the larger distribution system is subdivided into two portions by a pressure reducing valve. The smaller distribution system serves the Humboldt County airport at Rohnerville, a State Division of Forestry fire station used to prepare fire retardant slurry for boron bombing planes, a radio station and about ten private residences. Water is supplied from the reservoir and storage tank through a 2,000-gallon hydropneumatic tank to the smaller distribution system by a 20-horsepower centrifugal pump set to operate between 120 and 140 psi pressure. Water delivered to the State Division of Forestry is limited to 80 gpm by a Clayton valve. At the pump house for the utility's well, a Wallace & Tiernan Co., Inc., hypochlorinator is used to provide calgon to control the iron and manganese and is also used to chlorinate the water. Adequate records of water treatment are not maintained. Water from the loaned well received no treatment except for coming into contact with water from applicant's well.

It appears that the mains, possibly including service lines, include about 95,000 to 100,000 feet of pipe ranging in diameter from one inch to eight inches. About 30,000 feet of the pipe is one inch, one and one-half and two inches in diameter. Most of the pipe is standard screw galvanized but cement-asbestos, plastic and double dipped steel pipe is also used. About 10,000 feet of the one-, one and one-half-, and two-inch diameter pipe are in sections of mains that are too long to comply with this Commission's minimum standards set forth in General Order No. 103.III.2. Most of these substandard mains were acquired when applicant purchased the Rohnerville Water Works.

Rates

Applicant bills its customers monthly and proposes that the present monthly minimum meter charge for a 5/8 x 3/4-inch meter of \$3.50 for the first 500 cubic feet of water be increased to \$4.50 and that the succeeding quantity blocks be increased by amounts varying from \$0.04 to \$0.10 per 100 cubic feet. Applicant also requests that the monthly flat rate for one single-family residence, exclusive of lawn or garden irrigation, be increased from \$4 to \$5 and, in addition, that irrigation of lawn and garden areas, not to exceed six months annually, be increased from \$2 to \$2.50. The staff estimates that the proposed rates would result in about a 27% increase in gross revenues and that the average monthly bill of \$5.21 for average usage of 927 cubic feet of water, would be increased to \$6.74. However, the basic flat rates would be increased by only 25%.

TABLE I  
COMPARISON OF MONTHLY RATES

Meter Rates

	<u>Per Connection Per Month</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
<b>Quantity Rates:</b>		
First 500 cu.ft. or less.....	\$ 3.50	\$ 4.50
Next 2,200 cu.ft., per 100 cu.ft. ....	.40	.50
Next 2,700 cu.ft., per 100 cu.ft. ....	.30	.39
Next 3,300 cu.ft., per 100 cu.ft. ....	.20	.26
Over 8,700 cu.ft., per 100 cu.ft. ....	.15	.19
<b>Minimum Charge:</b>		
For 5/8 x 3/4-inch meter .....	3.50	4.50
For 3/4-inch meter .....	4.70	6.00
For 1-inch meter .....	6.50	8.40
For 1-1/2-inch meter .....	8.00	10.00
For 2-inch meter .....	12.50	16.00
For 3-inch meter .....	25.00	32.00
For 4-inch meter .....	45.00	58.00

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

Flat Rates

For one single-family residence, exclusive of any lawn or garden irrigation .....	\$ 4.00	\$ 5.00
In addition, for irrigation of lawn and garden areas, not to exceed six months annually .....	2.00	2.50

Fire Hydrants

For each fire hydrant .....	\$ 2.00	\$ 2.00
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Results of Operation

A comparison of the staff's analysis of the operating results with applicant's recorded and estimated results for 1967 is summarized at present and proposed rates on Table II. In addition the staff has included estimated results of operation for 1968.

According to the staff the decline in the rate of return shown between the two test years is due primarily to relatively large plant additions and the resulting increase in depreciation expense without a comparable increase in customers or revenues. Therefore, this large decline is not indicative of the future trend in the rate of return.

The principal differences between the estimates presented by applicant and those presented by the Commission staff are as follows:

- (a) The staff estimate for source of supply expense for 1968 includes \$180 for the lease of the privately owned well equipped with applicant's pump. Applicant did not include this as an expense in 1967.
- (b) After reviewing these charges for prior years, salaries, labor and contract work have been included for 1968 at about the same level as these expenses were recorded in 1967. This allowance is believed to be reasonable for the size of the utility and the nature and quality of the service rendered.
- (c) The staff estimate of \$1,700 for office supplies and expense for 1968 reflects an adjustment for out-of-toll area calls not anticipated in 1968.
- (d) The staff estimate of \$1,200 for 1968 insurance expense reflects the elimination of insurance for two vehicles used 50% to 75% of the time for nonutility purposes and by eliminating insurance for nonutility properties.
- (e) The staff estimate of vehicle expense for 1968 is \$2,080. The staff arrived at its estimate by eliminating two vehicles, used 50% to 75% of the time for nonutility purposes, and by allowing mileage expense for nonutility vehicles.
- (f) The staff estimate of \$1,260 for office and storage space rental expense includes \$240 for space used for equipment and materials, storage and for repair.
- (g) Applicant is presently authorized (since 1963) to apply specific depreciation rates by accounts which resulted in a composite depreciation rate when related to the depreciable plant as of January 1, 1963 of 2.96%. A review of this utility's recent annual reports filed with this Commission indicates that applicant has been applying depreciation rates greater than those authorized by the Commission. Since this utility was authorized to apply the rates specified for five years a review of these depreciation rates is due in 1968. The staff developed new rates by accounts for this utility resulting in a composite rate of 3.4% based upon depreciable plant as of January 1, 1968. Utility depreciation expense chargeable to Account 503 is estimated at \$6,460 for 1968 based upon these rates.

TABLE II  
Campton Heights Water Service

RESULTS OF OPERATION

Item	Recorded Year 1967 Staff Adjusted*	Adjusted Year 1967				Estimated Year 1968		
		Present Rates		Proposed Rates		Present Rates Staff	Proposed Rates Staff	Recom- mended Rates
		Applicant	Staff	Applicant	Staff			
<b>Operating Revenues</b>								
Metered Sales	\$42,915	\$	\$42,800	\$	\$54,600	\$43,300	\$55,220	\$52,150
Flat Rate Sales	1,235		1,590		1,980	1,440	1,800	1,800
Public Fire Hydrants	-	-	80	-	80	80	80	80
Total	44,150	42,000	44,470	52,000	56,660	44,820	57,100	54,030
<b>Operating Expenses</b>								
Source of Supply Exp.	-		180		180	180	180	
Power	2,874 <sup>a</sup>		2,900		2,900	3,000	3,000	
Salaries - Maintenance	6,901		6,750		6,750	7,000	7,000	
- Office	4,675 <sup>b</sup>		4,600		4,600	4,700	4,700	
- Management	7,260 <sup>b</sup>		7,050		7,050	7,300	7,300	
Oper.& Maint. Materials	1,157		1,500		1,500	1,500	1,500	
Oper.& Maint. Constr. Work	1,709		1,700		1,700	1,700	1,700	
Office Supplies & Expense	1,927 <sup>c</sup>		1,700		1,700	1,700	1,700	
Insurance Expense	1,566 <sup>d</sup>		1,200		1,200	1,200	1,200	
Acctg. and Legal	195		300		300	300	300	
General Expense	349		400		400	400	400	
Vehicle Expense	2,675 <sup>e,f</sup>		2,080		2,080	2,080	2,080	
Rent, Office & Storage	1,020		1,260		1,260	1,260	1,260	
Subtotal	32,308	30,500	31,620	30,500	31,620	32,320	32,320	32,320
Depreciation Expense	8,444 <sup>g,h</sup>	6,800	5,570	6,800	5,570	6,460	6,460	6,460
Amortization - Plt. Acq.	(248)	-	(250)	-	(250)	(250)	(250)	(250)
Taxes Other Than Income	3,258 <sup>c</sup>	3,000	3,120	3,000	3,120	3,300	3,300	3,300
Income Taxes	107	210	100	3,220	3,130	100	2,690	1,850
Total Expense	43,869	40,510	40,160	43,520	43,190	41,930	44,520	43,680
Utility Operating Income	281	1,490	4,310	8,480	13,470	2,890	12,580	10,350
Rate Base	-	121,152	123,600	121,152	123,600	138,300	138,300	138,300
Rate of Return	-	1.2%	3.5%	7.0%	10.9%	2.1%	9.1%	7.5%
* Accounting Adjustments			(Red Figure)			(Continued)		

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TABLE II  
(Continued)

Campton Heights Water Service

RESULTS OF OPERATION

- a. Added December 1967 bills (\$291) to put on an accrual basis.
- b. Reclassified the salary (\$5,100) of Clara B. Kendall, Assistant Secretary-Treasurer.
- c. Adjusted for the net of various small amounts as follows:

Office Supplies and Expense	- added	- \$14
Property Taxes	- deducted	- \$31
- d. Eliminated insurance premiums, (\$125) on the 1965 Rambler.
- e. Eliminated the expenses (\$420) pertaining to the 1965 Rambler.
- f. Eliminated the expenses (\$217) pertaining to a 1964 Volkswagen and a 1965 Chevrolet Van which do not belong to the utility.
- g. Eliminated the 1967 depreciation on the 1965 Rambler (\$655).
- h. Reduced by \$564 to eliminate depreciation of contributed plant.

Rate of Return

The Commission staff recommends a rate of return of 7.5% as a fair return for this utility.

The following factors were considered and evaluated by the staff in arriving at its recommended rate of return:

- a. Cost of senior capital (long-term debt) is 6.5% on approximately 25% of applicant's permanent capitalization as of December 31, 1967.
- b. Applicant's record regarding adequate service to customers, accounting and other compliance with Commission requirements is good, its present rates have been in effect for approximately 10 years, and staff recommended rates producing the recommended rate of return do not appear excessive.
- c. Applicant does not appear to be faced, in the near future, with abnormal growth and consequent serious financing problems, and has had no serious difficulties with respect to financing refunds on advances for construction or replacement of contributed plant.
- d. Applicant's relatively small size.



Applicant bases its requested increase upon a rate of return of 7.0% on its 1967 rate base.

The staff's recommended rate of return of 7.5% can be provided by the staff recommended rates shown in Exhibit No. 3, in contrast to applicant's proposed rates, estimated by the staff to produce a rate of return of about 9.1% on a staff-determined rate base of \$138,300.

The staff recommended rate of return and flat and metered rates would increase gross revenues by approximately \$9,200 or 21% and would result in net revenues of \$10,350 on a 1968 test year basis which, after fixed charges on debt, would provide a return of approximately 7.76% on projected equity capital for 1968.

We will adopt the staff's recommendation of 7.5% on the staff-developed rate base.

#### Service

Applicant was authorized to deviate from its filed Main Extension Rule by Decision No. 68030, dated October 13, 1964, in Application No. 46866 and by Decision No. 53276, dated June 26, 1956, in Application No. 37377, for the purpose of accepting certain contributions. Applicant does not use written contracts for main extension agreements and without authorization has received other contributions for main extensions from at least a dozen individuals and governmental entities including the State Division of Forestry and the Humboldt County Department of Aviation. Unauthorized contributions for main extensions appear to have totalled more than \$10,000.

It appears from the record that dirty water appears only in certain portions of the system and that these portions of the system are those supplied by pipes made of material other than asbestos cement. The record does not reveal what, if anything, short of

replacing all nonasbestos cement pipe, could be done to alleviate the "black water" conditions.

Applicant has collected \$10 deposits for both metered and flat rate service. Applicant as of December 31, 1967 was holding \$2,805 of customer deposits.

The staff recommended that applicant be required to review its customer deposit accounts and return to customers any deposits in excess of those permitted by its filed tariff rules.

At the hearing, applicant's attorney moved to amend the application to provide for a \$10 deposit.

Applicant's late-filed Exhibit No. 4 shows that it has written off as uncollectible, over the past five years, a total of \$607.

It appears that applicant has experienced very little loss from uncollectible accounts and has in fact had available to it funds collected as deposits well in excess of amounts considered reasonable under its filed tariff. We will adopt the staff's recommendation regarding customer deposits.

#### 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 staff estimates previously discussed herein, of operating revenues, operating expenses and rate base for the test year 1968 reasonably represent the results of applicant's future operations.

c. A rate of return of 7.5 percent on the staff's estimated 1968 rate base is reasonable.

d. The increases in 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. Applicant has not applied the remaining life depreciation rates established by this Commission in 1963. Applicant was authorized to use these rates for up to five years, a review of the rates being due in 1968. Applicant has not prepared such a review and has based its rate increase request on depreciation rates which are greater than those authorized by the Commission. The depreciation rates developed by the staff in Table 2 of Exhibit 3 of this proceeding are reasonable and should be applied for 1968 and the immediate future.

3. Applicant has not kept current the system map prescribed by General Order No. 103.

4. The accounting procedures, revisions and corrections recommended by the Commission staff in Exhibit No. 3 are reasonable.

5. Applicant's motion to amend its application should be and is hereby denied.

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, Campton Heights Water Service, a California corporation, is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall be made in accordance with General Order No. 96-A. The tariffs shall be effective for service rendered on the fourth day after filing but not earlier than the effective date of this decision.

2. Applicant within sixty days after the effective date of this order shall file an up-to-date tariff map of the area being served.

3. Applicant within ninety days after the effective date of this order shall review its customer deposit account, return to customers any deposits in excess of those permitted by applicant's filed tariff rules and notify this Commission in writing that the foregoing has been done, the total amount refunded and the amount still in the customer deposit account.

4. Applicant shall apply the depreciation rates set forth in Table 2 of Exhibit No. 3 beginning with the year 1968. Until review indicates otherwise, applicant shall continue to use these rates. Applicant shall review its future depreciation rates at intervals of five years and whenever a major change in depreciable plant occurs. Any revised depreciation rates shall be determined by: (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the result 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 and upon recognition by the Commission that the rates are acceptable, applicant shall use such revised rates in recording future depreciation.

5. Applicant shall maintain an adequate work order system as required by the Uniform System of Accounts for Class D Water Systems.

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6. Applicant shall adjust its book of accounts as of December 31, 1967, to reflect the staff adjustment balances as shown in the tabulation, "Net Plant Investment, December 31, 1967" as detailed in paragraph 12 of Exhibit No. 3.

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

Dated at San Francisco, California, this 24<sup>th</sup>  
day of SEPTEMBER, 1968.

William J. Lyons  
President

John E. Kitchell

Stallman W. Bennett

Augustus

Fred P. Monissey  
Commissioner

Schedule No. 1

METERED SERVICE

(T)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Rohnerville, including Campton Heights Subdivision, and vicinity, Humboldt County. (T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 500 cu.ft. or less .....	\$ 4.10	(I)
Next 3,500 cu.ft., per 100 cu.ft. ....	.50	
Next 6,000 cu.ft., per 100 cu.ft. ....	.30	
Over 10,000 cu.ft., per 100 cu.ft. ....	.18	(I)
Minimum Charge:		
For 5/8 x 3/4-inch meter .....	\$ 4.10	(I)
For 3/4-inch meter .....	5.50	
For 1-inch meter .....	8.00	
For 1 1/2-inch meter .....	10.00	
For 2-inch meter .....	16.00	
For 3-inch meter .....	32.00	
For 4-inch meter .....	58.00	(I)

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

Rohnerville, including Campton Heights Subdivision, and vicinity, Humboldt County. (T)

RATES

	<u>Per Service Connection Per Month</u>	
For a single-family residence, exclusive of any lawn or garden irrigation .....	\$4.90	(I)
In addition, for irrigation of lawn and garden areas, not to exceed six months annually .....	2.50	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service.
3. All service not covered by the above classification will be furnished only on a metered basis.