

**ORIGINAL**

Decision No. 75336

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
LAS LOMAS WATER CO., a California  
corporation, under Section 454 of  
the Public Utilities Code, for  
Authority to increase Rates for Water  
Service.

Application No. 50446  
(Filed July 31, 1968)

O P I N I O N

Introduction

Las Lomas Water Co., a California corporation, requests authority to increase rates for water service supplied to 324 customers in unincorporated territory near Watsonville, Monterey County.

Ownership and Affiliated Interests

The president of this utility, Mr. Clayton B. Neill, is also president of Rancho Del Monte Water Company and Bolsa Knolls Water Company, Inc. He operates Neill Engineering, Inc., a consulting engineering business, applicant and the above-named utilities, and Cal.-Oaks Water Company from the same office, using some common personnel. He has now established a group of employees to operate the four water systems. He also owns Village Hardware through which the utilities obtain materials. Stockholders of this utility also own all of the stock of Cal.-Oaks Water Company, Rancho Del Monte Water Company and Bolsa Knolls Water Company, Inc.

Applicant filed an application (A-45954) in 1963 requesting increased rates. At that time both the charges to operations and to plant originated with the affiliated engineering office. Applicant

refused to permit the staff to see the supporting records for these charges. As a result, that proceeding was dismissed without prejudice. Since the prior rate proceeding, applicant has changed its manner of operation in that utility services are now performed by employees shared jointly by applicant and three other affiliated water utilities. Transactions with nonutility affiliates have been minimal over the past few years and, therefore, do not constitute a major problem at this time.

General

Applicant's present rates were authorized by Decision No. 60241, dated June 2, 1960 in Application No. 41872. The staff estimates that applicant's proposed rates would result in an increase of about 23%. The application indicates that applicant believes the proposed rates would increase revenues by approximately 21%.

At the request of the Commission, applicant mailed a notice to each customer on or about August 16, 1968, informing them that an application for a rate increase had been filed. The notice contained a comparison of the present rates with those proposed by applicant. Customers were invited to call to the Commission's attention any problems concerning water service, billing procedure or other factors pertaining to a reasonable charge for water service. A petition was received signed by 102 customers generally objecting to the magnitude of the proposed rate increase.

The staff made field investigations of applicant's operation in September, 1968. Plant facilities were inspected, pressures checked, customers interviewed, and applicant's records examined. The pressures range generally from 70 to 90 psi.

Results of the staff's investigation are included in a report dated January 29, 1969. The report includes operating and financial data as well as a rate schedule designed to produce a 7% rate of return on the staff's rate base of \$35,920. The required increase in gross operating revenues over revenues of present rates, according to the staff, should be \$3,590, an increase of 20.3%. The staff's report is hereby included in this record as Exhibit 1.

#### System Facilities

The description of applicant's facilities as presented on page 2 of the application appears to be complete and, therefore, need not be repeated herein.

#### Water Supply Permit

Las Lomas Water Co. obtained a water supply permit from the Department of Public Health in November 1961. The results of bacteriological analyses of water samples have indicated that the water quality is satisfactory.

#### Service

Exhibit 1 reveals that there have been three informal complaints made since January 1, 1965, regarding billing, which were satisfactorily resolved.

#### Applicant's Request and Rate Proposal

Applicant requests a change of meter rate schedule from a minimum charge rate schedule to a service charge rate schedule. The petition signers indicated a lack of understanding of the new service charge schedule, and confusion on the amount of rate increase. A water use table indicates that about 62% of the customers use less than 1,000 cubic feet of water per month. Under the proposed service charge schedule, there would be a 65% increase in rates for customers who use

700 cubic feet of water. The staff believes that the minimum charge rate schedule should be retained to avoid customer confusion and to spread the rate increase equally over the water consumption blocks. The staff recommended rates reflect the retention of the minimum charge type of rate schedule and the lowering of the first block from 700 cubic feet to 500 cubic feet.

The following tabulation compares monthly charges by applicant at present and proposed rates, for various consumptions through a 5/8 x 3/4-inch meter, with charges in the gravity zone of Cal.-American Water Company in Monterey, the City of Watsonville water rates and those recommended by the staff.

Rate Comparison - General Metered Service

: Monthly Consumption : : Cu.Ft. :	: Calif.- American Wtr. Co. :	: City of Watsonville :	: Las Lomas Wtr. Co. :			: Staff :	
			: Present Rates :	: Proposed Rates <sup>a</sup> :	: Incr. % :	: Recom. Rate :	: Incr. % :
400	\$ 2.50	\$ 4.00	\$ 2.80	\$ 3.84	37%	\$ 3.20	14.3%
500	2.90	4.00	2.80	4.10	46	3.20	14.3
700	3.70	4.00	2.80	4.62	65	4.04	44.3
1,000*	4.90	5.29	3.91	5.40	38	5.30	35.5
1,500	6.90	7.44	5.76	6.70	16	7.40	28.5
2,000	8.90	9.59	7.61	8.00	5	9.50	24.8
3,000	12.10	13.89	11.31	10.60	(6)	13.70	21.1

a. Service charge rate schedule.

\* Approximate average usage.

( ) Red figure.

Results of Operation Analyses

The following tabulation presents applicant's recorded results of operation, after staff accounting adjustments for the year 1967, along with a comparison of applicant's and staff's estimates of the results of operation for the estimated year 1968 at present and proposed rates.

## Results of Operation

Item	Estimated Year 1968					
	Recorded// 1967	Present Rates Appl.	Proposed Rates Staff	Proposed Rates Appl.	Recom. Staff	Recom. Rates
<u>Operating Revenues</u>						
Metered Revenue	\$15,086 <sup>a</sup>	\$16,900	\$17,540	\$20,500	\$21,610	\$21,130
Public Fire Protection	42	-	40	-	40	40
Other Water Revenue	42 <sup>a</sup>	-	80	-	80	80
Total Oper. Rev.	15,170	16,900	17,660	20,500	21,730	21,250
<u>Operating Revenue Deductions</u>						
<u>Operating Expenses</u>						
<u>Direct Charges</u>						
Power	1,749	1,861	1,670	1,861	1,670	1,670
O&M - Employee Labor	2,060	3,193	4,280	3,193	4,280	4,280
O&M - Contract	1,077	804	760	804	760	760
Office Supplies	423	460	460	460	460	460
Legal & Other	38	40	40	40	40	40
Director's Fee	250	250	250	250	250	250
Uncollectable Accounts	91	91	90	91	90	90
Collection Fees	394	394	390	394	390	390
General Expenses	23	-	30	-	30	30
Rate Case	-	-	200	-	200	200
Subtotal	6,105	7,093	8,170	7,093	8,170	8,170
<u>Allocated Charges</u>						
O&M - Materials	26	112	110	112	110	110
Management Salaries	2,220	2,399	2,250	2,399	2,250	2,250
Office Salaries	2,437	2,725	2,350	2,725	2,350	2,350
Telephone	97	160	120	160	120	120
Office Supplies & Expenses	59	60	90	60	90	90
Insurance	280	304	340	304	340	340
Transportation Expense	425	675	520	675	520	520
Rent	256	367	440	367	440	440
General Expense	73 <sup>b</sup>	105	80	105	80	80
Subtotal	5,873	6,907	6,300	6,907	6,300	6,300
Total Operating Expenses	11,978	14,000	14,470	14,000	14,470	14,470
Depreciation - Company	1,766	1,800	1,800	1,900	1,800	1,800
- Common	103 <sup>c</sup>	-	270	-	270	270
Property Taxes	753 <sup>d</sup>	780	780	780	780	780
Payroll Taxes	271	420	500	420	500	500
State Franchise Tax (7%)	100	100	100	-	270	240
Fed. Inc. Taxes (Inc. 10% Surcharge)	60	-	-	1,003	770	660
Total Operating Rev. Ded.	15,031	17,100	17,920	18,103	18,860	18,720
Net Operating Rev.	139	(200)	(260)	2,397	2,870	2,530
Rate Base	-	34,469	35,920	34,469	35,920	35,920
Rate of Return	-	loss	loss	6.95%	8.0%	7.0%

## (Red Figure)

- Transferred reconnect charges (\$42) from Metered Revenue to Other Water Revenue.
  - Deducted Monterey Peninsula Country Club dues in the amount of \$28.
  - Added Las Lomas' share (\$103) of depreciation expense on common plant.
  - Deducted the ad valorem tax (\$7) on the Barry Road lot which is not owned or used by the applicant.
- # After staff adjustments.

The principal differences between the staff's and applicant's estimates appearing in the items of operating revenues, operating expenses, and taxes are explained in detail in Exhibit I and need not be repeated here.

Recommended Rate of Return

The staff recommends a rate of return of 7% as a fair return for this utility. In doing so, the staff considered the advances from stockholders (\$18,000 as of June 30, 1968) to be entirely equity capital, so that, in effect, the applicant's rate base is equity financed. No interest has been paid on these advances.

This rate of return applied to the staff's estimated 1968 rate base of \$35,920 would produce net operating revenues of \$2,530. The required increase in gross operating revenues over revenues at present rates would be \$3,590, an increase of 20.3%. Total revenues required to produce this rate of return would be \$21,250.

The Commission finds that the estimates of operating revenues, expenses, including taxes and depreciation, the rate bases and rates of return submitted by the staff for the test year 1968 are reasonable for the purpose of prescribing rates herein.

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.

The application, accordingly, should and will be granted to the extent provided in the ensuing order.

A public hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant 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 schedules shall apply only to service rendered on and after the effective date thereof.

2. Applicant shall record in its books of account the staff adjusted balances for utility plant accounts, advances for construction, contributions in aid of construction and depreciation reserve, at December 31, 1967, as set forth in the tabulation entitled, "Utility Plant, Reserve for Depreciation and Net Plant", contained in Exhibit 1 in this proceeding.

3. For the year 1968, applicant shall apply an annual depreciation rate of 2.7%. Until review indicates otherwise, applicant shall continue to use this rate. Applicant shall review the depreciation rate 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

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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.

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

Dated at Los Angeles, California, this 18<sup>th</sup> day of FEBRUARY, 1969.

William J. Lyons, Jr.  
President  
Augusta  
Ed P. Monissey  
W. H. Moran  
Commissioners

Commissioner Thomas Moran, being necessarily absent, did not participate in the disposition of this proceeding.



APPENDIX A

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Las Lomas Subdivision and vicinity, near Watsonville,  
Monterey County.

(T)

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 500 cu.ft. or less .....	\$ 3.20	(I)
Next 2,500 cu.ft., per 100 cu.ft. ....	.42	
Over 3,000 cu.ft., per 100 cu.ft. ....	.29	
Minimum Charge:		
For 5/8 x 3/4-inch meter .....	\$ 3.20	
For 3/4-inch meter .....	4.85	
For 1-inch meter .....	7.40	
For 1 1/2-inch meter .....	11.00	
For 2-inch meter .....	19.00	
For 3-inch meter .....	36.00	
For 4-inch meter .....	63.00	(I)

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