

ORIGINAL

Decision No. 76702

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of ESCALON WATER AND LIGHT CO.
under Section 454 of the Public
Utilities Code for authority to
increase rates for water service.

Application No. 51245
(Filed July 15, 1969)

Paul A. Eckholm, for applicant.
J. E. Johnson, for the Commission staff.

O P I N I O N

Applicant Escalon Water and Light Co.^{1/} seeks authority to increase rates.

Public hearing was held before Examiner Catey in Escalon on December 8, 1969. Copies of the application had been served, notice of filing of the application published, and notice of hearing published and posted, in accordance with this Commission's rules of procedure. The matter was submitted on December 8, 1969.

Testimony on behalf of applicant was presented by its president, its general manager and its accountant. The Commission staff presentation was made through an accountant and an engineer.

^{1/} Applicant's original Articles of Incorporation, a copy of which was filed in Application No. 30524 and incorporated by reference herein, show applicant's name to be "Escalon Water and Light Company" rather than "Escalon Water and Light Co." Presumably applicant has amended its Articles of Incorporation, inasmuch as the 50-year corporate life originally provided expired August 22, 1961, but no copies of the revised document have been filed with the Commission.

Service Area and Water System

Applicant owns and operates the water system serving the City of Escalon and unincorporated areas of San Joaquin County adjacent to the city. The service area is relatively flat.

The water supply for this system is obtained from applicant's four wells. Well pumps driven by electric motors deliver the water to the distribution system. An elevated storage tank and two hydropneumatic tanks provide storage and maintain system pressure.

The distribution system includes about 7-1/2 miles of distribution mains, ranging in size up to 7-inch. There are about 60 metered services, primarily for customers in outlying areas and in new subdivisions, 700 flat rate services, and 60 public fire hydrants.

Service

Field investigations of applicant's operations, service and facilities were made by the Commission staff. A staff engineer testified that applicant generally is providing adequate service but that some customers complained of occasional low pressure during the summer. Staff Exhibit No. 2 states that no informal complaints relating to this utility have been registered with the Commission for at least four years. No customers appeared at the hearing to testify regarding service. Also, only one customer responded to the notice mailed to all customers and inviting comments on service and other problems.

Rates

Applicant's present tariffs include schedules for general metered service, general flat rate service, and public fire hydrant service. Those rates all were established in 1961.

Applicant proposes to increase all of its rates except the quantity meter rates for usage in excess of 700 cubic feet per month. The following Table I presents a comparison of applicant's present and proposed rates:

TABLE I

Comparison of Monthly Rates

<u>Item</u>	<u>Present</u>	<u>Proposed</u>
<u>General Metered Service</u>		
Minimum Charge*	\$2.10	\$3.15
Quantity Rate:		
First 700 cu.ft. or less	2.10	3.15
Next 2,300 cu.ft., per 100 cu.ft.	.25	.25
Next 7,000 cu.ft., per 100 cu.ft.	.18	.18
Over 10,000 cu.ft., per 100 cu.ft.	.14	.14
<u>General Flat Rate Service</u>		
Single-Family Residence	2.40	3.60
Additional Residence on Same Premises	1.50	2.25
Office, Church or Hall	1.80	2.70
Shop, Store or Market	3.00	4.50
Service Station or Garage	3.60	5.40
Restaurant or Tavern	6.00	9.00
Each 100 sq.ft. irrigated area, during May through October	.06	.09
<u>Public Fire Hydrant Service</u>		
Each Hydrant	1.50	2.25

* Minimum charge for 5/8 x 3/4-inch meter.
A graduated scale of increased charges
is provided for larger meters.

Revenue and customer data in Exhibit No. 2 indicate that the average monthly bill for metered service is \$5.17 under present rates and would be \$6.44 under applicant's proposed rates, an increase of 25 percent. The revenue and customer data indicate that the average monthly bill for flat rate service is \$3.44 under present rates and would be \$5.26 under the rates proposed by applicant, an increase of about 50 percent.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table II, from Exhibits B and E to the application and from the staff's Exhibit No. 2 are the estimated results of operation for the test year 1968, under present rates. The estimates, as set forth in the exhibits, are not quite comparable in that the staff summary under proposed rates is for the year 1969 whereas the staff's summary under present rates and applicant's summary under both present and proposed rates are for the year 1968. Also, applicant used wage rates paid in 1968 to its owner-operators in summarizing operations under present water rates, whereas it used its proposed future wage rates in summarizing operations under proposed water rates. The summaries for the 1968 test year under present water rates in the two exhibits are shown in modified form in Table II to make those estimates more readily comparable. Inasmuch as the present rates produce a reasonable return, there is no need to summarize operations under proposed rates.

TABLE II
Estimated Results of Operation Under Present Rates

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>
Operating Revenues	\$33,641	\$33,955
Deductions:		
Payroll	15,600	15,400
Operating and Maintenance Expenses	1,695	1,440
Vehicle Expense	1,622	1,000
Telephone Expense	210	-
Other Expenses Excluding Depr. and Taxes	6,517	6,625
Subtotal	<u>25,644</u>	<u>24,465</u>
Depreciation	1,591	1,826
Taxes Other Than on Income	3,492	2,834
Income Taxes	848	1,202
Total	<u>31,575</u>	<u>30,327</u>
Net Revenue	2,066	3,628
Rate Base	46,323	45,823
Rate of Return	4.5%	7.9%

Revenues

The staff investigation disclosed that applicant records revenues on a cash basis, rather than on a proper accrual basis. Correction for this accounting error is responsible for the difference between applicant's and the staff's revenue estimates in Table II.

Expenses

Although the payroll estimates in Table II differ by only \$200, the largest single issue in this proceeding is the appropriate payroll allowance for the owner-operators of the water system. Applicant contends that the salaries now drawn by the two owner-operators are too low and proposes to increase them by a total of about \$5,000 per year, an increase of some 32 percent. The staff contends, based upon studies of payrolls of other water utilities, that applicant's present wage scales are adequate. As can be seen in Table II, a 7.9 percent return on rate base is only about \$3,600 of net revenue. A \$5,000 wage increase would change the 7.9 percent indicated return to an operating loss. The wage issue thus transcends all others in this proceeding.

Applicant has done a commendable job of constructing additions and improvements to its water system and in rendering good service to the public. It has, however, made a serious and, from the standpoint of this proceeding, fatal mistake in not keeping adequate records. If applicant had maintained even rudimentary daily records of the time spent by the owners of the corporation in maintaining and operating the water system, this information and pertinent data regarding prevailing wage rates for the various skills involved might have supported some payroll

adjustment. Only a few minutes at the end of each day would have been required to record allocations of time. In the absence of some such presentation, the staff's estimate appears to be the best evidence of a reasonable payroll level for applicant's operations.

The principal difference between applicant's and the staff's estimates of operation and maintenance expense is due to applicant's erroneous recording of a capital item as an expense.

Applicant's vehicle expense was reduced in the staff estimates to account for personal use of applicant's truck. Applicant contends that any personal use of the truck is offset by business use of personal vehicles. Here again, applicant failed to keep records of mileage of business and personal use of vehicles. In the absence of such records, we will accept the staff's estimate of vehicle expense chargeable to the water operations.

Applicant's office is in its president's home. There is one telephone in the home serving all purposes. No additional allowance, therefore, was included by the staff for telephone service. It would have been more reasonable to prorate the telephone costs between business and personal use, but such a modification of the staff estimate would have only a nominal effect on rate of return.

The record does not show why the staff's estimate of depreciation expense exceeds applicant's. The difference, however, is not a controlling factor in this proceeding.

One of the major differences between applicant's and the staff's estimates of taxes other than on income is due to applicant's erroneous recording of employee withholding taxes as expenses to the utility. The difference between estimates of income taxes results from the net effect of the various differences in revenue and expense estimates hereinbefore discussed.

Rate Base

Applicant developed an end-of-year rate base whereas the staff properly used an average rate base. Applicant contends that the recorded plant accounts do not reflect all of the labor of applicant's owner-operators. This may well be the case because, as a staff engineer testified, applicant's rate base per customer is the lowest of all Class D Water Utilities in the State. However, the absence of any substantiating records or even detailed estimates of unrecorded costs precludes an upward adjustment of rate base in this proceeding.

Rate of Return

Exhibit E to the application shows that applicant expected to earn over 18 percent on rate base under the water rates proposed in the application. In Exhibit No. 1, applicant concedes that a 50 percent rate increase may be excessive and suggests a 20 percent increase, which, by its estimates, would produce a 9.7 percent return on rate base. No justification was presented for that high a return.

A staff accountant testified that the 7.9 percent return on rate base indicated under present water rates by the staff's estimates is at the high end of a range of reasonableness indicated by recent decisions involving other small water utilities. The staff recommends that the application be denied. Based upon the evidence available in the record, we concur in the staff's recommendation.

Findings and Conclusion

The Commission finds that applicant has not shown that its present rates and charges are unreasonable nor that they will

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produce an unreasonably low rate of return. The Commission concludes that, based upon the record in this proceeding, the application must be denied.

O R D E R

IT IS ORDERED that this application is denied.

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

Dated at San Francisco, California, this 27th day of JANUARY, 1970.

William Squares A.
President

[Signature]

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James L. Stearns
Commissioners