

ORIGINAL

Decision No. 76887

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of
DUNSMUIR WATER CORPORATION under
Section 454 of the Public Utilities
Code for Authority to Increase Rates
for Water Service. }

Application No. 51050
(Filed May 2, 1969)

Rives, Bonyhadi & Hall, by George D. Rives, for
applicant.

Clint N. Bryan, for Dunsmuir Veteran & Retired
Railway Employees Club, interested party.

John D. Reader, for the Commission staff.

O P I N I O N

Applicant Dunsmuir Water Corporation seeks authority
to increase rates.

Public hearing was held before Examiner Catey in
Dunsmuir on October 28, 1969 and in Fort Jones on October 29, 1969.
Copies of the application had been served and notice of hearing
published and posted, in accordance with this Commission's rules
of procedure. Applicant failed to publish the notice of filing
of the application required by Rule 24 of the rules of procedure.
Inasmuch as the hearing was adequately noticed and no parties
requested a continuance, we will waive the requirement of publica-
tion of notice of filing. The matter was submitted on October 29,
1969.

Testimony on behalf of applicant was presented by its
vice-president and by a vice-president and an engineer from

General Waterworks Corporation. The latter corporation is the parent company of Boise Water Corporation which, in turn, owns all of applicant's capital stock. The Commission staff presentation was made through an accountant and an engineer.

Service Areas and Water Systems

Applicant owns and operates the water systems serving the City of Dunsmuir and the Town of Fort Jones, Siskiyou County. The two systems are not physically connected, inasmuch as the two communities are separated by a distance of almost sixty miles.

For the Dunsmuir system, applicant obtains water from three springs and two tunnels. The water flows by gravity through a transmission main to the distribution system and storage reservoir. Two booster pumps are used to supply the northern portion of the system. The distribution system includes about 17 miles of mains, ranging in size up to 14-inch. There are about 1,040 metered services and 110 fire hydrants.

For the Fort Jones system, applicant obtains water from a well. The water is pumped into the distribution system and storage reservoir. The distribution system includes about 3-1/2 miles of mains, ranging in size up to 8-inch. There are about 190 metered services and 30 fire hydrants.

Service

Field investigations of applicant's operations, service, and facilities in both the Dunsmuir District and the Fort Jones District were made by the Commission staff. A staff engineer testified that applicant is providing good service with adequate water pressure and that the plant is well maintained and operated.

Staff Exhibit No. 13 states that no informal complaints from customers in either district have been registered with the Commission during the past three years. No customers appeared at the hearings to testify regarding service.

Rates

Applicant's present tariffs include separate rate schedules for each operating district. Each district has schedules for general metered service and public fire hydrant service. In addition, there is a schedule for private fire protection service in the Dunsmuir District and a schedule for tank truck water service in the Fort Jones District. The basic rates in all of the schedules were established in 1964. Special conditions were added to the Dunsmuir District schedules in 1966 to provide for a two-percent surcharge within the Dunsmuir city limits to offset a new fee for a business license, in which the license fee was based upon gross revenues.

Applicant proposes to increase all of its rates. The following Table I presents a comparison of applicant's present and proposed rates and those authorized herein:

TABLE I
Comparison of Monthly Rates

<u>Item</u>	<u>Dunsmuir#</u>		<u>Fort Jones</u>		
	<u>Present</u>	<u>Proposed & Authorized</u>	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
<u>General Metered Service</u>					
Minimum Charge*	\$ 2.35	\$ 2.77	\$2.55	\$3.15	\$ 2.85
Quantity Rate:					
First 600 c.f. or less	2.35	2.77	2.55	3.15	2.85
Next 400 c.f., per 100 c.f.	.39	.46	.43	.53	.48
Next 1,000 c.f., per 100 c.f.	.33	.39	.25	.31	.28
Next 1,000 c.f., per 100 c.f.	.33	.39	.17	.21	.19
Next 1,000 c.f., per 100 c.f.	.24	.28	.17	.21	.19
Next 2,000 c.f., per 100 c.f.	.24	.28	.14	.17	.16
Next 4,000 c.f., per 100 c.f.	.18	.21	.14	.17	.16
Next 2,000 c.f., per 100 c.f.	.18	.21	.08	.10	.09
Over 12,000 c.f., per 100 c.f.	.11	.13	.08	.10	.09
<u>Private Fire Protection Service</u> ⁺					
3-inch service	2.65	3.12	-	-	-
10-inch service	25.00	29.44	-	-	-
<u>Public Fire Hydrant Service</u>					
Each Hydrant	2.45	2.88	1.50	1.85	1.70
<u>Tank Truck Service</u>					
Per 100 c.f.	-	-	0.09	0.11	0.10

Plus a 2% surcharge for residents within city limits.

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

+ Charge for smallest and largest listed sizes of service. A graduated scale of intermediate charges is provided for intermediate sizes of service.

Staff Exhibit No. 13 states that a typical residential customer in the Dunsmuir District has an average monthly water consumption of 1,200 cubic feet. The monthly bill for that quantity of water, under present rates, is \$4.57 outside the city limits and \$4.66 inside the city limits. The corresponding charges under applicant's proposed rates authorized herein would be \$5.39 and \$5.50, an increase of about 18 percent.

The staff exhibit states that a typical residential customer in the Fort Jones District has an average monthly water consumption of 1,300 cubic feet. The monthly bill for that quantity of water, under present rates, is \$5.02. The corresponding charge under applicant's proposed rates would be \$6.20, an increase of about 24 percent. The corresponding charge under the rates authorized herein is \$5.61, an increase of about 12 percent.

The staff recommends that the number of blocks in the present rate schedules be reduced to simplify the rate structure. This would be desirable, but the record does not include any customer usage data, by quantity blocks, with which to implement the staff recommendation.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Tables II and III from applicant's Exhibit No. 5 and the staff's Exhibit No. 13 are the estimated results of operation for the test year 1969, under present rates and under those proposed by applicant. The estimates, as set forth in the two exhibits, are not quite in the same form or detail, so they are shown in modified form in Tables II and III to make them more readily comparable. For comparison, these tables also show the corresponding results of operation modified as discussed hereinafter, and under the rates authorized herein.

TABLE II
ESTIMATED RESULTS OF OPERATION
DUNSMUIR DISTRICT
(Test Year 1969)

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Modified</u>
<u>At Present Rates</u>			
Operating Revenues	\$ 69,117	\$ 67,680	\$ 67,680
Deductions:			
Maint. & Oper. Payroll	13,286	12,900	16,060
Management & Administration	3,450	2,860	3,330
Rate Case Expense	440	310	1,190
Other Expenses Excl. Uncollectibles and Income Taxes	36,328	33,450	33,450
Subtotal	53,504	49,520	54,030
Uncollectibles	340	200	200
Income Taxes	5,237	4,940	4,530
Total	59,081	54,660	58,760
Net Revenue	10,036	13,020	8,920
Rate Base	242,498	243,100	243,100
Rate of Return	4.1%	5.4%	3.7%
<u>At Rates Proposed By Applicant and Authorized Herein</u>			
Operating Revenues	\$ 81,399	\$ 79,700	\$ 79,700
Deductions:			
Excl. Uncollectibles & Inc. Taxes	53,504	49,520	54,030
Unexplained Add'l Expense	61	-	-
Uncollectibles	340	240	240
Income Taxes	9,309	10,410	8,920
Total	63,214	60,170	63,190
Net Revenue	18,185	19,530	16,510
Rate Base	242,498	243,100	243,100
Rate of Return	7.5%	8.0%	6.8%

TABLE III
ESTIMATED RESULTS OF OPERATION
FORT JONES DISTRICT
(Test Year 1969)

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Modified</u>
<u>At Present Rates</u>			
Operating Revenues	\$12,383	\$12,530	\$12,530
Deductions:			
Management & Administration	330	540	630
Rate Case Expense	260	90	340
Other Expenses Excl. Uncollectibles and Income Taxes	10,841	9,310	9,310
Subtotal	11,431	9,940	10,280
Uncollectibles	60	40	40
Income Taxes	286	680	730
Total	11,777	10,660	11,050
Net Revenue	606	1,870	1,480
Rate Base	34,039	33,800	33,800
Rate of Return	1.8%	5.5%	4.4%
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	\$15,316	\$15,500	\$15,500
Deductions:			
Excl. Uncollectibles & Inc. Taxes	11,431	9,940	10,280
Unexplained Add'l. Expense	13	-	-
Uncollectibles	60	50	50
Income Taxes	1,259	1,860	2,080
Total	12,763	11,850	12,410
Net Revenue	2,553	3,650	3,090
Rate Base	34,039	33,800	33,800
Rate of Return	7.5%	10.8%	9.1%
<u>At Rates Authorized Herein</u>			
Operating Revenues	-	-	14,000
Deductions:			
Excl. Uncollectibles & Inc. Taxes	-	-	10,280
Uncollectibles	-	-	50
Income Taxes	-	-	1,310
Total	-	-	11,640
Net Revenue	-	-	2,360
Rate Base	-	-	33,800
Rate of Return	-	-	7.0%

From Table II it can be determined that the increase in operating revenues in the Dunsmuir District will be 18 percent under applicant's proposed rates. From Table III it can be determined that the increase in operating revenues in the Fort Jones District would be 24 percent under applicant's proposed rates and will be 12 percent under the rates authorized herein.

Applicant reviewed the staff's Exhibit No. 13 and concluded that most of the differences between estimates of applicant and staff are well within the margin of tolerance for estimating. Applicant therefore accepted the staff study with the following exceptions hereinafter discussed:

1. Maintenance & Operations Payroll (Dunsmuir only)
2. Management & Administration
3. Rate Case Expense
4. Income Taxes

Dunsmuir Payroll

In July of 1968, one of the two Dunsmuir District operating employees retired. Applicant entered into an agreement with a local plumber to assist when needed and to be on call when the single local operating employee was off duty. Applicant hoped that, with the very small customer growth, this arrangement would be satisfactory. The payroll estimates of both applicant and staff in Exhibits Nos. 5 and 13 were based upon that assumption.

Applicant has found that the part-time help for its permanent employee is not sufficient to keep up with necessary maintenance of the system. Applicant now intends to discontinue early in 1970 the present arrangement for part-time help and to add another permanent employee. This is expected to increase annual operating expenses by \$4,050. The resumption of the two-man operation which

existed prior to August 1968 appears to be in the public interest but part of the increased cost actually is chargeable to prior years' operations. Applicant has had to defer maintenance which should have been accomplished during the 17-month period from August 1, 1968 to December 31, 1969. We will assume that this deferred maintenance work can be spread over a five-year period in the future, making the net expense increase applicable to each year's current operations \$3,160 rather than \$4,050. The staff's Dunsmuir payroll estimate is increased by \$3,160 in Table II. The order which follows requires applicant to notify this Commission of the date of employment of the additional man.

Management & Administration

During a portion of 1968 and 1969, one of applicant's affiliates inadvertently failed to allocate to applicant an appropriate portion of its management and administration payroll. This resulted in an understatement of applicant's recorded expenses in the amount of \$560 for 1969. The staff estimates were based upon this erroneous recorded amount. The staff estimates of this group of expenses are increased by \$470 in Table II for the Dunsmuir District and by \$90 in Table III for the Fort Jones District.

The staff divided its estimate of applicant's total management and administration expenses between Dunsmuir and Fort Jones on the basis of a four-factor formula. That formula appears reasonable and is applied in Tables II and III. Applicant's two-factor formula allocates too much to Dunsmuir and too little to Fort Jones.

Rate Case Expense

Applicant's estimate of average annual rate case expense in Exhibit No. 5 was based upon the assumption that the application could be acted upon ex parte, and that five years would elapse before the next rate proceeding. The staff estimate includes the two days of hearing at Dunsmuir and Fort Jones but allows for only about ten man-days in preparing the application and preparing testimony for the hearing, and allows nothing for an attorney's fee. The staff also assumed a five-year period between rate proceedings.

In Exhibit No. 11 and the testimony relating thereto, applicant shows that its actual costs exceed its original estimates for rate case expense. The staff estimate of ten man-days appears to be an unreasonably low total for two separate operating districts. The staff required a total of about eight times that number of man-days for its work. Even allowing for the greater familiarity that applicant's witnesses would have with applicant's own records, the time could hardly be reduced to ten man-days. A five-year spread of applicant's actual expenses less \$850 of out-of-state travel expense is adopted in Tables II and III.

Income Taxes

The various differences between applicant's, the staff's and the adopted estimates of revenues and expenses affect the corresponding estimates of income taxes. The income taxes adopted in Tables II and III reflect the revenues and expenses adopted in that table.

There are other issues involving income taxes that affect the various estimates. These are:

1. Applicable federal tax rate
2. Allocation of surtax exemption
3. Applicability of liberalized depreciation
4. Applicable surcharge to federal taxes
5. Applicability of investment tax credit

Applicant used the 28-percent federal tax rate which it must pay on taxable income up to \$25,000 and the 48-percent surtax rate which it must pay on taxable income over \$25,000. The staff used 22-percent and 48-percent rates, respectively, for normal tax and surtax. The record shows that applicant must pay the extra 6-percent rate to qualify for a separate surtax exemption, due to its affiliation with other corporations. The record also shows that this results in a lower tax liability for applicant than would any other option. The 28-percent rate for the first \$25,000 of taxable income and 48-percent rate above \$25,000 of taxable income are adopted in Tables II and III.

There are some advantages and some disadvantages to applicant's affiliation with other corporations. One benefit is mentioned in Exhibit No. 13, where the staff points out that applicant's total administrative and general expenses per customer are considerably lower than those of other comparable utilities. The 6-percent penalty to qualify for a separate \$25,000 surtax exemption is one of the disadvantages. It would not be proper to accept the advantages and reject the disadvantages in setting rates.

The staff allocated the \$25,000 surtax exemption between the Dunsmuir and Fort Jones Districts on the same four-factor basis used for administrative expenses. Ordinarily, this exemption is allocated in proportion to net plant or rate base. There appears to be no reason to deviate from the usual basis in this proceeding. The income taxes adopted in Tables II and III reflect allocation of the surtax exemption in proportion to rate base.

The staff calculated income taxes on the basis of use of liberalized depreciation for 1969 tax returns with flow-through to net income for rate-making purposes. Applicant now uses, and states it plans to use in the future, straight-line depreciation for tax purposes. The very limited prospects for growth and the extremely small tax saving for this company do not warrant the change to liberalized depreciation either for tax purposes or for rate fixing.

The 10-percent surcharge formerly in effect for federal income taxes has been reduced to 5 percent and is scheduled to expire June 30, 1970. The investment tax credit has been revoked. These two changes brought about by the recently enacted "1969 Tax Reform and Reduction Act", of which we take official notice, are reflected in the income taxes adopted in Tables II and III. If the resulting 2-1/2-percent tax surcharge for 1970 is increased to 5 percent for 1970 by subsequent legislation extending the surcharge for the full year, or is reduced to zero percent for the calendar year 1971 as now scheduled, the effect on applicant's rate of return will not be significant.

Rate of Return

Based upon the capitalization of General Waterworks Corporation, the parent of applicant's parent Boise Water Corporation, a financial witness for applicant concluded that a fair rate of return for applicant would be 9 percent. He pointed out, however, that applicant requests only a 7-1/2-percent return at this time.

In Exhibit No. 13, the staff recommends a rate of return of 7 percent. This is slightly lower than granted recently for other small utilities but the staff points out that applicant's 100-percent equity financing has deprived applicant of tax savings which would have resulted from a normal proportion of debt financing. Also,

applicant's limited prospects for growth preclude the need for future construction funds other than those generated by applicant's normal operations.

For the Dunsmuir District, the rate of return no longer is an issue. With the reversion to two-man operation, the rate of return will be less than 7 percent. For the Fort Jones District, the difference in applicant's overall earnings is not materially affected by 1/2 percent difference in return for that small district. However, considering the tax effects of applicant's capital structure, we concur with the staff's recommendation of a 7-percent return for the Fort Jones District.

Findings and Conclusions

The Commission finds that:

- 1.a. Applicant is in need of additional revenues.
 - b. The adopted estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the test year 1969 reasonably indicate the results of applicant's operations for the near future.
 - c. A rate of return of 6.8 percent on applicant's Dunsmuir District rate base is not in excess of a reasonable rate of return.
 - d. A rate of return of 7.0 percent on applicant's Fort Jones District rate base is reasonable.
 - e. 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 hiring of a second full-time operation and maintenance man, as planned by applicant, is reasonable and in the public interest.
- The Commission concludes that applicant's proposed rates should be granted for the Dunsmuir District and granted in part for the Fort Jones District.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant Dunsmuir Water Corporation is authorized to file the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing.

2. Within ten days after applicant has hired its proposed additional full-time employee for the Dunsmuir District, applicant shall file in this proceeding written notification of the date such employee commences work and the monthly compensation to be paid.

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

Dated at San Francisco, California, this 10th
day of MARCH, 1970.

William Lyons Jr.
President

Augusta
Robertson

John F. ...
Commissioners

Schedule No. DU-1

(T)

Dunsmuir Tariff AreaGENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Dunsmuir and vicinity, Siskiyou County.

RATES

Quantity Rates:

Per Meter
Per Month

First	600 cu.ft. or less	\$ 2.77	(I)
Next	400 cu.ft., per 100 cu.ft. ....	.46
Next	2,000 cu.ft., per 100 cu.ft. ....	.39
Next	3,000 cu.ft., per 100 cu.ft. ....	.28
Next	6,000 cu.ft., per 100 cu.ft. ....	.21
Over	12,000 cu.ft., per 100 cu.ft. ....	.13

Minimum Charge:

For	5/8 x 3/4-inch meter	2.77	(I)
For	3/4-inch meter	3.90	
For	1-inch meter	6.20	
For	1 1/2-inch meter	11.80	
For	2-inch meter	16.50	
For	3-inch meter	28.00	
For	4-inch meter	38.00	
For	6-inch meter	60.00	
For	8-inch meter	82.00	

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

SPECIAL CONDITION

All billing under this schedule to customers in the City of Dunsmuir is subject to a surcharge of 2.0%.

Schedule No. DU-4

(T)

Dunsmuir Tariff AreaPRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Dunsmuir and vicinity, Siskiyou County.

RATES

	<u>Per Month</u>	
For 3-inch service, or smaller	\$ 3.12	(T)
For 4-inch service	4.71	|
For 6-inch service	11.78	|
For 8-inch service	18.84	|
For 10-inch service	29.44	(T)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by applicant. Such payment shall not be subject to refund.

3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the

(Continued)

Schedule No. DU-4

Dunsmuir Tariff Area

PRIVATE FIRE PROTECTION SERVICE
(Continued)

SPECIAL CONDITIONS (Contd.)

standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

4. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

5. All billing under this schedule to customers in the City of Dunsmuir is subject to a surcharge of 2.0%.

Schedule No. DU-5

(T)

Dunsmuir Tariff Area

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized fire districts and other political subdivisions of the State.

TERRITORY

Dunsmuir and vicinity, Siskiyou County.

RATE

Per Month

For each hydrant \$ 2.88 (I)

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges shall be made at the quantity rates under Schedule No. DU-1, General Metered Service.
2. The cost of installation and maintenance of hydrants shall be borne by the utility.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.
4. Fire hydrants shall be attached to the utility's distribution mains upon receipt of proper authorization from the appropriate public authority. Such authorization shall designate the specific location at which each is to be installed.
5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.
6. All billing under this schedule to customers in the City of Dunsmuir is subject to a surcharge of 2.0%.

Schedule No. FJ-1

(T)

Fort Jones Tariff Area

(T)

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Fort Jones and vicinity, Siskiyou County.

RATES

Quantity Rates:

	Per Meter Per Month
First 600 cu.ft. or less	\$ 2.85
Next 400 cu.ft., per 100 cu.ft. ....	.48
Next 1,000 cu.ft., per 100 cu.ft. ....	.28
Next 2,000 cu.ft., per 100 cu.ft. ....	.19
Next 6,000 cu.ft., per 100 cu.ft. ....	.16
Over 10,000 cu.ft., per 100 cu.ft. ....	.09

(I)

Minimum Charge:

For 5/8 x 3/4-inch meter	2.85
For 3/4-inch meter	3.10
For 1-inch meter	3.35
For 1 1/2-inch meter	3.95
For 2-inch meter	5.80
For 3-inch meter	7.70

(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. FJ-5

(T)

Fort Jones Tariff Area

(T)

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized fire districts and other political subdivisions of the State.

TERRITORY

Fort Jones and vicinity, Siskiyou County.

RATE

Per Month

For each hydrant \$ 1.70 (I)

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges shall be made at the quantity rates under Schedule No. FJ-1, General Metered Service.
2. The cost of installation and maintenance of hydrants shall be borne by the utility.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.
4. Fire hydrants shall be attached to the utility's distribution mains upon receipt of proper authorization from the appropriate public authority. Such authorization shall designate the specific location at which each is to be installed.
5. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.

Schedule No. FJ-9ML

(T)

Fort Jones Tariff Area

(T)

TANK TRUCK WATER SERVICE

APPLICABILITY

Applicable to all measured water service furnished for road sprinkling by delivery to tank trucks.

TERRITORY

Fort Jones and vicinity, Siskiyou County.

RATE

Per Month

For all water delivered, per 100 cu.ft. \$.10 (I)

SPECIAL CONDITION

Service under this schedule shall be limited to sprinkling of roads and streets by the appropriate public authorities.