LR/ds *

ORIGINAL

Decision No. 77150

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CRESTMORE VILLAGE WATER COMPANY, a California corporation Under Section 454 of the Public Utilities Code to Increase Its Rates For Its Palmdale Water System in Los Angeles County, California and For Its Bloomington Water System in San Bernardino County, California.	Application No. 51234 (Filed July 3, 1969)

Haight, Lyon and Smith, by George C. Lyon, for applicant.

Chester O. Newman and Alburt F. Braggins, for the Commission staff.

O P I N I O N

Crestmore Village Water Company (applicant) is a California corporation furnishing domestic water to approximately 269 consumers in San Bernardino County in unincorporated territory in the vicinity of the City of Bloomington.[1/] It seeks authority (1) to increase its rates for water service and (2) to increase the customer deposits.

A public hearing on the application was held in Los Angeles, California, before Examiner Rogers on January 12, 1970; evidence was presented and the matter was submitted subject to the filing of certain exhibits. The exhibits have been filed and the

1/ It also seeks authority to increase the rates and deposit in its Palmdale systems. Due to insufficient notice, the application has been reopened for further hearing in Palmdale.

matter is ready for decision. Prior to the hearing, notice thereof was mailed to each consumer. There were no protests.

All services are metered. The system is supplied with water from applicant's wells.

Customer Deposits

The applicant requires that each customer make a turn-on deposit of $5.00 to protect it against uncollectible bills. It requests that this deposit be increased to $7.50. The reasons advanced were that the proposed rates will result in average bills in excess of the existing amount of the deposits and that there is a large turnover of customers resulting in frequent recourse to the deposits for payment of bills. The staff recommended that this request be granted.

The present and proposed rates are as follows:

	Per Meter Present Rates	Per Month Proposed Rates
Quantity Rates:		
First 800 cubic feet or less	$2.00	$3.00
Next 200 cubic feet per Ccf	.20	--
Next 1,000 cubic feet per Ccf	.20	.25
Next 1,000 cubic feet per Ccf	.15	.20
Next 500 cubic feet per Ccf	.12	.20
All over 3,500 cubic feet per Ccf	.12	.15
Minimum Charges:		
For 5/8 x 3/4-inch meter	$2.00	$ 3.00
3/4-inch meter	2.50	*
1-inch meter	4.00	6.00
1-1/2-inch meter	6.00	15.00
2-inch meter	8.00	24.00

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

* Applicant's present tariff schedule provides for a 3/4-inch meter minimum charge but applicant inadvertently neglected to indicate a corresponding proposed minimum charge. Rates authorized herein will contain an appropriate charge therefor.

Rate schedules for metered service and flat rate service are on file with the Commission although the flat rate schedule is not being used and could be eliminated. Applicant is not asking to increase the flat rate. As proposed by applicant, the charge for the average monthly use of 1,550 cubic feet of water would increase from $3.50 to $4.38, an increase of 25.1 percent. The monthly minimum charge for a 5/8 x 3/4-inch meter is proposed to be increased 50 percent, from $2 to $3, and the minimum quantity increased from 800 cubic feet to 1,000 cubic feet. The quantity allowed in each block is also proposed to be changed. A comparison of charges for water service through a 5/8 x 3/4-inch meter at applicant's present and proposed meter rates in Bloomington and those of neighboring water utilities is presented in the following tabulation:

Comparison of Monthly Charges
5/8 x 3/4-inch Meter

Monthly Consumption Cu. Ft.	Applicant (Bloomington)		Inter-County Water Co.	San Gabriel Valley Wtr. Co. Fontana Division	Southern California Wtr. Co. Bloomington Tariff Area
	Present Rates	Proposed Rates			
700	$2.00	$3.00	$1.75	$3.45	$2.75
800	2.00	3.00	1.75	3.45	2.98
1,000	2.40	3.00	1.75	3.89	3.44
1,550 [1]	3.50	4.38	2.33	5.10	4.71
2,000	4.40	5.50	3.00	6.09	5.74
2,500	5.15	6.50	3.50	7.19	6.89
3,000	5.90	7.50	4.00	8.29	7.84

[1] Average monthly consumption by applicant's customers in the Bloomington system.

In calculating revenues for 1969, an average of 272 metered customers was used. The applicant stated that the actual average was 269 active services.

The results of operation in the Bloomington system for the year 1968 as recorded, and for the year 1969 at present and proposed rates as estimated by the applicant and the staff are as follows:

Item	1968 Recorded	1969 Estimated Present Rates Applicant	Present Rates Staff	Proposed Rates Applicant	Proposed Rates Staff
Operating Revenues	$11,265	$11,611	$11,610	$15,386	$15,390
Operating Revenue Deductions					
Source of Supply	4	4	-	4	-
Purchased Water	-	100	100	100	100
Purchased Power	1,438	1,440	1,320	1,440	1,320
Materials	1,076	500	250	500	250
Contract Work	193	1,050	1,050	1,050	1,050
Employee Labor	1,687	1,200	1,200	1,200	1,200
Office Expense	398	405	410	405	410
Insurance	115	86	90	86	90
Accounting, Legal	520	1,667	1,600	1,667	1,600
Uncollectibles	43	58	60	77	60
Vehicle	143	-	-	-	-
Total Oper. Exp.	5,617	6,510	6,080	6,529	6,080
Depreciation Exp.	1,597	1,535	1,450	1,535	1,450
Taxes, Ad Valorem	862	960	840	960	840
Taxes, Payroll	106	70	70	70	70
Taxes, Income	69	286	560	1,388 [1]	1,690
Total Deductions	8,251	9,361	9,000	10,482	10,130
Net Operating Inc.	3,014	2,250	2,610	4,905	5,260
Rate Bases	-	39,063	35,435	39,063	35,435
Rates of Return	-	-	7.4%	12.5%	14.8%

[1] Applicant made no allowance for investment tax credit or the 5 percent surcharge.

There is little difference in the estimate of revenues and the staff's rounded figures will be adopted. We find that these revenues will be $11,610 at present rates and $15,390 at the proposed rates.

The major differences in the estimates of operating expenses are in purchased power, materials and accounting and legal expense. The total difference amounts to $437, the applicant's estimates in each instance being the greater.

A staff engineer estimated a 40 percent loss of water due to old and obsolete mains and valves. He allowed 10 percent for water losses. The applicant's witness stated that within the next ten years approximately $121,383 of new equipment, including a new well, a new pump and approximately 24,000 feet of various sized mains will of necessity be installed, but requested that the actual cost of pumping all water be allowed at present, inasmuch as the applicant must continue to use existing equipment until it can be replaced. We find the applicant's estimate of the cost of purchased power for 1969 to be reasonable. It will be adopted.

The staff witness based his estimate of the materials and supplies on the ordinary amount, in his experience, required for a system of this size. Applicant's recorded figure for 1968 was $1,076 during which year a large amount of meter repair material was purchased. It estimated $500 as a reasonable sum to allow for 1969. In view of the decrepit condition of the system, applicant's estimate will be used. We find that $500 is a reasonable sum to allow for the cost of materials in 1969.

The staff witness spread the cost of this proceeding over a period of five years which is the Commission's usual practice. The applicant spread such costs over a period of four years. We find that the staff's estimate of $1,600 for 1969 for accounting and legal work is reasonable and it will be adopted for the purpose of this proceeding.

We find that the total operating expenses for 1969 will be as follows:

Purchased Water	$ 100
Purchased Power	1,440
Materials	500
Contract Work	1,050
Employee Labor	1,200
Office Expense	410
Insurance	90
Accounting, Legal	1,600
Uncollectibles	60
Total	$6,450

Rate Base

The applicant's estimated 1969 average rate base was $39,063. The average rate base estimated by the staff was $35,435. Both started with the end of the year 1968 utility plant of $63,158. The staff financial witness deducted $190 for fully depreciated tools and an additional $160 for lost tools. The applicant had no objection to this treatment. In addition to the financial adjustment, the staff engineer deducted $960 from the plant to compensate for an excessive original cost valuation of pumping equipment, and deducted an additional $330 for services he claimed were not in use. From the evidence at the hearing it appears that these services are in place and either have been used by former customers who have moved or are ready for use. They should be included in the utility plant. We find that the staff adjustments, except those relative to services, are reasonable and they will be adopted for this decision. We find that the utility plant for the beginning of the year 1969 was $61,848, and that the average net additions in 1969 totalled $70.00, making a total undepreciated average utility plant for 1969 of $61,918.

The staff's estimates of depreciation reserve and accrual are reasonable and will be adopted with the exception of the accrual for services as to which adjustment will be made to reflect the applicant's recorded figure for the beginning of the year 1969. As adjusted, the gross undepreciated services will be listed at $4,442 (see utility plant, supra). The depreciation reserve relative thereto will be increased to $1,051, and the annual accrual for 1969 will amount to $131. As adjusted, the average depreciation reserve for 1969 will be $27,004. We find that the average net utility plant for 1969 was $34,914. We further find that $650 is a reasonable sum to allow for working cash and $100 is a reasonable sum to allow for materials and supplies. The applicant and the staff each deducted approximately $170 for contributions. We find such sum is reasonable.

We find that the adjusted average rate base for 1969 is $35,500.

Depreciation Expense

We find that the depreciation expense for the year 1969 is $1,460.

Taxes

Non-income

The applicant's estimates of property taxes and non-income taxes are based on actual experience and appear reasonable. We find that for the year 1969 applicant's non-income taxes will be $1,030.

Income

We find that at present rates the income taxes will amount to $400 and at the proposed rates the income taxes will amount to $1,470.

Summaries of Earnings

Based on the foregoing, we find that for 1969 at present and proposed rates, the results of operations will be as stated below:

Item	Present Rates	Proposed Rates
Operating Revenues	$11,610	$15,390
Operating Expenses	6,450	6,450
Depreciation Expense	1,460	1,460
Non-income Taxes	1,030	1,030
Income Taxes[1]	400	1,470
Total Deductions	$ 9,340	$10,410
Net Operating Income	2,270	4,980
Rate Base	35,500	35,500
Rate of Return	6.4%	14.0%

[1] Includes 5% Federal Surcharge

Rate of Return and Financial Requirements

Applicant's Exhibit No. 1 indicates that a rate of return of 12.5 percent on its rate base is reasonable and necessary in order to enable it to make many capital improvements. It states that long term financing from the usual sources for a company its size is not available. It states its only source of funds are earnings, and short term loans on which it pays 9 percent interest. It believes it could obtain other financing from the bank if it could show better ability to pay.

The staff recommends a rate of return of 8 1/2 percent. This rate applied to the adjusted rate base of $35,500 would result in net operating revenues of approximately $3,020.

The present rates were authorized in 1949. There has been no increase in rates since said time.

Since 1967 there have been five billing and one service outage informal complaints filed with the Commission. All complaints have been closed. Company records show there were eight service outages between August 1968 and June 1969 due to leak repairs, cleaning the pressure tank, tying in new lines, pump motor burn-out, and construction damage. Service outages were the one common complaint expressed by the customers interviewed by the staff. There are not enough valves in the distribution system to isolate small portions for repairs without creating a system-wide outage.

Applicant requires funds with which to repair its system. If applicant is authorized a return of 9 percent it should be able to attract capital with which to do the necessary work.

The 9 percent rate of return also would provide applicant with $1,460 from depreciation accrual and $3,200 of net revenues for a total cash flow of $4,660 before interest which could be used to make the needed improvements or to service the capital required for such improvements.

<u>Findings and Conclusions</u>

The Commission finds that:

1. The applicant is in need of additional revenues but the rates it requests are excessive.

2. The adopted estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the year 1969 reasonably indicate the probable results of operation.

3. Applicant should repair the deficiencies in the system and commence the improvement work listed in its report (Exhibit No. 1).

4. A rate of return of 9 percent is reasonable to enable applicant to finance the improvements to its system.

5. An increase in customer credit establishment deposits to $7.50 is reasonable and should be authorized.

6. The increases in rates and charges herein authorized are reasonable and the present rates and charges insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

7. Applicant should cancel its flat rate schedule.

8. Applicant's operations under the rates authorized herein should make funds available from depreciation accruals and net revenues, to be used for system improvements in the amount of $4,480 based on the adjusted 1969 results of operation herein referred to. This annual sum should be used for system improvements or to service the additional capital required to make improvements.

The Commission concludes that applicant's request for a rate increase should be granted in part and that applicant should be required to take the actions set forth in the order which follows.

ORDER

IT IS ORDERED that:

1. After the effective date of this order, applicant Crestmore Village Water Company, is authorized to file the revised rate schedule attached to this order as Appendix A for service to its Bloomington tariff area. 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 schedule shall apply only to service rendered on and after the effective date thereof. This authority is subject to revocation and reversion to

rates effective at the time the application was filed unless, within ninety days after the effective date hereof applicant shall file a schedule of improvements to be made outlining the schedule and relative order of priority of work to be done to implement the improvements listed on page 26 of Exhibit No. 1 herein. Said schedule shall be adhered to after filing. On or before January 31 of each year, commencing with January 1971, applicant shall file a written progress report with this Commission outlining the work done in the prior calendar year on the improvements listed on page 26 of Exhibit No. 1. Failure to file such report or to proceed with the scheduled work may result in an order reducing the rates to those in effect when the application herein was filed. Said reduction may be ordered without further hearing.

2. Applicant shall cancel its flat rate tariff schedule No. BL-2 and is authorized to increase its customer credit deposit to $7.50 as a part of its Rule No. 7.

3. Applicant shall also:

a. Beginning with the year 1970, base the accruals to the depreciation reserve upon spreading the original cost of the plant, less estimated future net salvage and depreciation reserve, over the remaining life of the entire plant, and should use the composite depreciation rate of 2.4 percent. Applicant shall review the depreciation rates when major changes in plant composition occur, but at intervals of not more than five years. Results of these reviews shall be submitted to the Commission.

b. File up-to-date tariff rules, tariff service area map clearly showing service area boundaries, and copies of printed forms used in dealing with customers. Such filing shall comply with General Order No. 96-A.

c. Determine the extent and cause of low water service pressures in the northern area of the system, advise the Commission by letter of the findings, and, within ninety days, complete the necessary action to increase the pressure so as to meet the minimum requirement of General

Order No. 103. Applicant shall, within ten days thereafter, advise the Commission in writing when such action was finalized.

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

Dated at San Francisco, California, this 28th day of APRIL, 1970.

William Symons Jr.
President

Augustus

J. P. Vukasin Jr.

Thomas Moran

Vernon L. Sturgeon
Commissioners

A. 51234 ds

APPENDIX A

Schedule No. BL-1

Bloomington Tariff Area (T)

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Throughout the entire service area, which includes approximately 619 lots in Blocks 1, 2, 9, 10, 11, 12, 19, 20, 21, 22, 35, 36, 37, 38, 50, 51, 52, 53, 58, 59, 60, 61, 63, 64, 65 and 66 of the City of Crestmore, and Tract No. 3409, and vicinity, San Bernardino County, adjoining thereto. (T)

RATES

	Per Meter Per Month	
Quantity Rates:		
First 800 cu.ft. or less	$ 2.25	(I)
Next 1,200 cu.ft., per 100 cu.ft.	0.22	
Next 1,000 cu.ft., per 100 cu.ft.	0.16	
Over 3,000 cu.ft., per 100 cu.ft.	0.13	(I)
Minimum Charge:		
For 5/8 x 3/4-inch meter	$ 2.25	(I)
For 3/4-inch meter	3.00	
For 1-inch meter	5.00	
For 1½-inch meter	8.00	
For 2-inch meter	10.00	(I)

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