

ORIGINAL

Decision No. 77509

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of ALISAL WATER CORPORATION, a)
corporation, for authority to)
increase rates for water service.)

Application No. 51341
(Filed August 27, 1969)

Graham & James, by Boris H. Lakusta, and
Alexander Grant & Company, by William
Miller, for Alisal Water Company, appli-
cant.
Thomas G. Dunne, for City of Salinas, pro-
testant.
J. E. Johnson, for the Commission staff.

O P I N I O N

Applicant Alisal Water Corporation seeks authority to in-
crease rates for water service.

Public hearing was held before Examiner Cline in Salinas on
April 28, 1970. 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
April 28, 1970.

Testimony on behalf of applicant was presented by its
manager, a former senior accountant for the firm which performs
accounting service for applicant, and a design engineer who is going
to make a comprehensive engineering survey of applicant's water
system. The Commission staff presentation was made by an accountant
and an engineer. The City Manager testified on behalf of the City
of Salinas, one of applicant's customers.

Service Area and Water System

Applicant presently furnishes water as a public utility
for domestic, commercial, industrial and municipal purposes. Its

service area is the easterly portion of the City of Salinas and certain adjacent territories in Monterey County.

Applicant obtains water from six wells located within the service area and having a total estimated capacity of 3,300 gallons per minute. The wells are equipped with deep-well turbine pumps driven by electric motors varying in size from 25 to 100 horsepower. In case of electric power failure emergency service can be provided by three gas engine standby units. Pumping operations and pressure variations are controlled by six hydropneumatic tanks with a total estimated capacity of 30,000 gallons.

The distribution system consists of approximately 142,000 feet of pipe ranging in size from 2 to 12 inches in diameter. Ninety-six percent of the pipe is asbestos cement and the remaining four percent is either steel or plastic. As of December 31, 1969 service was furnished to 2,631 customers, all at metered rates, and fire protection was provided by 169 hydrants.

Rates

Applicant now has schedules of rates as follows:

<u>Schedule No.</u>	<u>Description</u>	<u>Effective Date</u>
1	General Metered Service	6/1/67
4	Private Fire Protection Service	7/19/67
5	Public Fire Hydrant Service	9/16/62
6	Privately Owned Fire Hydrants	3/2/68
64-W	Irrigation Service	2/14/64

Applicant proposes to change Schedule No. 1, General Metered Service, from a minimum charge to a service charge type schedule with rates increased by approximately 36%. Schedule No. 4, Private Fire Protection Service, is proposed to be increased from \$1.25 to \$2 per inch of diameter of service connection which is an increase of approximately 60%. No changes are requested in the remaining schedules, but the staff recommends that Schedule No. 64-W rates,

Irrigation Service, also be increased by the same percentage of increase applied to the general metered rates in Schedule No. 1. The only irrigation service is that supplied under an agreement with Salinas Union High School to provide irrigation water for Alisal High School, authorized by Commission Resolution No. W-909 dated December 11, 1963. Under the agreement, the monthly charge for irrigation service is 40% of the cost of the general metered service with a minimum charge of \$75 per month. At present rates the irrigation service revenue amounts to \$900 per year.

The following tabulation shows a comparison of billings under applicant's present and proposed rates and under the rates of California Water Service Company's Salinas area tariffs. As stated above the average increase in general metered service rates proposed by applicant is 36%. Based on an average monthly consumption of 1,200 cubic feet the proposed rates result in a 31% increase.

TABLE I

Monthly Consumption Cu.Ft.	Rate Comparison			California Water Service Company Salinas District	
	Alisal Water Corp. Present Rates	Proposed Rates	Increase Percent		
0	\$ 2.30	\$ 2.50	9%	\$ 3.00 ^a	\$ 3.00 ^b
500	2.30	3.75	63	3.90	3.00
1,000	3.65	5.00	37	4.80	5.00
1,200 ^c	4.19	5.50	31	5.16	5.60
1,500	5.00	6.25	25	5.70	6.50
2,000	6.35	7.50	18	6.60	8.00
3,000	8.35	10.00	20	8.40	11.00
4,000	10.35	12.50	21	10.20	13.00
6,000	13.55	17.50	29	13.80	17.00

a. Salinas and vicinity, effective 10/21/68.

b. Crescent Park, North Salinas, effective 12/6/69.

c. Average domestic consumption for applicant.

The City Manager of Salinas testified that the service charges proposed by applicant compare favorably with those of California Water Service Company in the smallest meter sizes which

constitute by far the greatest number of meters in the area served by applicant. He did, however, express opposition to the proposed unit rate of 25¢ per HCF of water used because such rate does not compare favorably with the rates charged by California Water Service which are 18¢ per HCF for the first 30,000 cu.ft. of water and 14.5¢ per HCF for all water in excess of 30,000 cu.ft. He requested the Commission to consider some alternate combinations of charges and unit rates which would reduce the disparity between the proposed rates of applicant and the present rates of California Water Service.

The City Manager also pointed out that applicant at the present time under Schedule No. 5 charges the City of Salinas \$2.75 per month for service to each of the 167 city-owned fire hydrants located in applicant's service area, while California Water Service Company charges only \$2.00 per month for service to each of the city's hydrants located in its service area.

Exhibit C which is a part of Exhibit No. 6 herein compares the level of service measured by hydrant flow received from applicant and from California Water Service. The following table is prepared from information contained in Exhibit C to Exhibit No. 6:

TABLE II

<u>Hydrant Flow</u>	<u>Percentage of Total Fire Hydrants</u>	
	<u>Applicant</u>	<u>California Water Service</u>
Less than 250 GPM	10.0	0.4
250 to 499 GPM	27.0	2.5
500 to 749 GPM	24.0	6.5
750 to 999 GPM	19.0	11.0
1,000 GPM or Over	17.0	79.0
Not Included Above	<u>3.0</u>	<u>0.6</u>
All Fire Hydrants	100.0	100.0

From Exhibit No. 6 the City Manager concludes that the level of fire hydrant service which the City of Salinas receives from

applicant falls far short of that received from California Water Service. He therefore urges that this Commission reduce applicant's rate for public fire hydrant service through a standard hydrant with double outlet from \$2.75 to \$2.00 per hydrant.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's results of operation. The estimated results of operation for the test year under present water rates and those proposed by applicant are summarized in Table III below.

TABLE III
Estimated Results of Operation

<u>Item</u>	<u>Estimated</u>			
	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>1969</u>	<u>1970</u>	<u>1970</u>	<u>1970</u>
	<u>Applicant</u>	<u>Staff</u>	<u>Applicant</u>	<u>Staff</u>
<u>Operating Revenues</u>				
Metered Sales	\$156,420	\$160,300	\$213,420	\$217,000
Fire Protection	5,580	5,580	5,580	5,600
Total Operating Revenues	\$162,000	\$165,880	\$219,000	\$222,600
<u>Operating Revenue Deductions</u>				
<u>Operating Expenses</u>				
Payroll	\$ 75,295	\$ 68,080	\$ 81,295	\$ 68,080
Power	13,800	13,750	13,800	13,750
Contract Material	9,000	8,840	9,000	8,840
Utils. - Janitorial Service	2,600	2,700	2,600	2,700
Property, Liability and Compensation Insurance	4,400	5,100	5,000	5,100
Office Supplies & Billing Exp.	2,500	2,690	2,700	2,690
Postage	2,100	2,000	2,750	2,000
Accounting Fees	4,000	3,600	4,500	3,600
Transportation Expense	5,000	4,900	5,000	4,900
Employee Benefits	9,400	9,130	10,000	9,130
Regulatory Commission Exp.	900	700	2,000	700
Legal Fees	750	1,000	1,000	1,000
Directors' Fees	1,800	1,800	1,800	1,800
Engineering Fees	1,400	1,600	2,000	1,600
Miscellaneous Expense	3,000	2,300	2,300	2,300
Total Operating Expense	\$135,945	\$128,190	\$145,745	\$128,190
Depreciation Expense	\$ 21,000	\$ 24,500	\$ 24,700	\$ 24,500
Taxes Other Than Income	21,294	-	-	-
Property Taxes	-	13,500	14,000	13,500
Municipal License Tax	-	1,600	2,190	2,250
Payroll Taxes	-	4,380	5,200	4,380
Income Taxes	-	100	2,000	9,390
Total Deductions	\$178,239	\$172,270	\$193,835	\$182,210
Net Revenue	\$ (16,239)	\$ (6,390)	\$ 25,165	\$ 40,390
Average Depreciated Rate Base	\$451,800	\$473,470	\$473,470	\$473,470
Rate of Return	-	-	5.32%	8.53%

(Red Figure)

The staff's estimate of operating revenues at proposed rates will be adopted as reasonable in the proceeding because the staff has included an amount for the anticipated normal growth in the number of metered customers, whereas the applicant's estimate for metered sales does not include a provision for such growth.

The staff's and the applicant's estimates for the following items of expenses are very close to each other: power; contract material; utilities - janitorial service; property, liability and compensation insurance; office supplies and building expense; transportation expense; legal fees; directors' fees; miscellaneous expense; depreciation expense; and municipal license tax. Since no issue was raised by the parties with respect to any of the above items, and inasmuch as the staff estimate for operating revenues has been adopted, the staff's estimates for the above items of expense will be adopted as reasonable. The average depreciated rate base of \$473,470 will also be adopted as reasonable.

An additional \$6,000 will be added to the staff's estimate for payroll to provide for the additional employee who has been added to the applicant's staff. The staff's estimate was made after consideration of the payroll expense of other similar water utilities.

The applicant's estimate of \$2,750 for postage is based upon actual amounts expended for postage and will be adopted as reasonable. The witness for the applicant testified that accounting fees have been increased to cover the additional cost resulting from the imposition of the city utility tax. The estimate of \$4,500 for accounting fees will be adopted. The original estimate of applicant for employee benefits has been increased to \$10,000 because of a \$600 annual payment to a pensioner, and this estimate will be adopted.

Regulatory Commission expense of \$6,000 will be amortized over a period of five years to produce an estimate of \$1,200.

Applicant's testimony shows that a general engineering survey of the system is to be made and many of the existing mains will need to be lowered. The applicant's estimate of \$2,000 for engineering fees will be adopted. The property tax estimate of the staff is based on the actual amount of property taxes paid, whereas the applicant's estimate includes an additional \$500 based on the past trend of increasing property taxes. The staff estimate will be adopted.

Payroll taxes will be based on the estimate of \$74,080 for payroll. Income taxes will be computed on the net revenue before income taxes which results from the estimates which are adopted as reasonable.

The following table sets forth the estimated results of operation for the test year 1970 which are adopted as reasonable in this proceeding:

TABLE IV

Adopted Estimated Results of Operation
For the Test Year 1970
At Proposed Rates

<u>Item</u>	<u>Estimate</u>
<u>Operating Revenues</u>	
Metered Sales	\$217,000
Fire Protection	5,600
Total Operating Revenues	<u>\$222,600</u>
<u>Operating Revenue Deductions</u>	
Operating Expenses	
Payroll	\$ 74,080
Power	13,750
Contract Material	8,840
Utilities - Janitorial Service	2,700
Property, Liability & Compensation Ins.	5,100
Office Supplies & Billing Expense	2,690
Postage	2,750
Accounting Fees	4,500
Transportation Expense	4,900
Employee Benefits	10,000
Regulatory Commission Expense	1,200
Legal Fees	1,000
Directors' Fees	1,800
Engineering Fees	2,000
Miscellaneous Expense	2,300
Total Operating Expenses	<u>\$137,610</u>
Depreciation Expense	\$ 24,500
Property Taxes	13,500
Municipal License Tax	2,250
Payroll Taxes	4,760
Income Taxes	5,760
Total Deductions	<u>\$188,380</u>
Net Revenue	\$ 34,220
Average Depreciated Rate Base	\$473,470
Rate of Return	7.23%
<u>Rate of Return</u>	

The staff recommends a rate of return of 7.8 percent as a fair return for this utility to be applied to a rate base which is found to be reasonable. The 7.23 percent rate of return shown above will be adopted as reasonable in this proceeding.

Service

The staff made a field investigation of applicant's water system and operations during November, 1969. Staff Exhibit No. 7 states that the pumping plants and pertinent equipment appear to be very well maintained. Water pressure is generally maintained between 40 and 70 psi. Three of the six plants are equipped with natural gas engines to be used in the event of an electric power failure. The total water supply requirement to meet immediate demands of all customers during the time of maximum system usage is estimated to be 2,900 gpm. The utility has an estimated total pumping capacity of 3,300 gpm. This capacity will be improved by the construction of a new well and pump station now in progress. Water samples are collected regularly and the results indicate that the quality of water is satisfactory.

The distribution system, for the most part, appears to be properly designed and installed within the minimum standards set forth in General Order No. 103. There is approximately 2,000 feet of old 2-inch galvanized pipe that should be replaced and there are several lines that are deadended along the perimeters of areas now being served that cause low pressures during periods of maximum water demand. The management is aware of these deficiencies and has employed a consulting engineer to prepare a general master plan of water facilities and to make recommendations to accomplish needed improvements in the water system.

All customers contacted by the staff were satisfied with the quality of the water and the service except those customers on dead-end lines who experienced low pressures during periods of maximum consumption. No formal or informal complaints have been filed against this utility during the past six years.

Staff Recommendations

In Exhibit No. 7 the staff recommends that:

- a. The rates for metered irrigation water be increased by the same percentage of increase applied to the general metered rates in Schedule No. 1.
- b. The applicant adjust its plant account balances at September 30, 1969 in accordance with the staff adjustments shown in the tabulation on page 7 of Exhibit No. 7.
- c. The applicant adjust its advances for construction and earned surplus in accordance with the staff adjustments as shown on Table I of Exhibit No. 7, at page 14.
- d. Applicant comply with the provisions of the main extension rule with respect to adjusting past and future main extension advances to actual construction costs and report completion of such adjustments on past contracts to the Commission within 30 days thereafter.
- e. Applicant file with the Commission a copy of the consultant's report or master plan of system expansion and improvements within 30 days after applicant's receipt thereof.

A 36% increase in the rates for metered irrigation service would result in additional charges to the Alisal High School for water of \$324 per year. This customer has had no notice that its rates may be increased because no such proposal was included in the application.

A witness for the applicant testified in opposition to the staff recommendation that the applicant be required to adjust its advances for construction by the amount of \$7,369 to reflect actual construction cost and to show the \$7,369 on the asset side of the balance sheet as a deferred debit. This witness testified that the East Laurel Heights contract is the one principally involved in this recommendation. She stated that this contract ran into trouble because of climatic conditions and that the \$14,000 advance in aid of construction was the result of a reasonable compromise of a

prospective law suit. She urged that the applicant not be required to comply with the main extension rule with respect to this contract for extension as the chances for any recovery of the excess construction costs are not very favorable.

Applicant's attention is directed to Section X, Subsection A of General Order No. 96-A which specifies the procedure to be followed in connection with a request for authority to deviate from its filed main extension rule.

Findings and Conclusion

The Commission finds that:

1. The applicant is in need of the additional revenues which would be provided by the proposed rates set forth in the application.
2. The adopted estimates, previously summarized and discussed and set forth above in Table IV, of operating expenses and rate base for the test year 1970 reasonably represent the results of applicant's future operations.
3. A rate of return of 7.23 percent on the adopted rate base set forth in Table IV above is reasonable.
4. The increases in rates and charges authorized herein are justified and reasonable and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.
5. In the absence of an application for further rate relief and due notice to the Salinas Union High School the rates for metered irrigation water should not be increased.
6. Applicant should not be required to lower its rates and charges under Schedule No. 5 for public fire hydrant service.
7. The accounting revisions and corrections to adjust the plant account balances and advances for construction and earned

surplus recommended by the Commission staff in Exhibit No. 7 are reasonable.

8. The staff recommendation that applicant comply with the provisions of the main extension rule with respect to adjusting past and future main extension advances to actual construction costs and report completion of such adjustments on past contracts to the Commission within thirty days thereafter is reasonable.

9. The staff recommendation that applicant file with the Commission a copy of the consultant's report or master plan of system expansion and improvements within 30 days after applicant's receipt thereof is reasonable.

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, applicant Alisal Water Corporation is authorized to file the revised rate schedules attached to this order as Appendix A. The effective date of the revised schedules 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. On or before September 30, 1970, applicant shall make the following accounting changes and file in this proceeding written notice of its compliance with each item:

- a. Adjust its plant account balances at September 30, 1969 in accordance with the staff adjustments shown in the tabulation on page 7 of Exhibit No. 7 herein.

- b. Adjust its deferred debits, advances for construction and earned surplus in accordance with the staff adjustments shown on Table I, pages 13 and 14, of Exhibit No. 7 herein.

3. Applicant shall comply with the provisions of the main extension rule with respect to adjusting past and future main extension advances to actual construction costs and report completion of such adjustments on past contracts to the Commission on or before September 30, 1970.

4. Applicant shall file with the Commission a copy of the consultant's report or master plan of system expansion and improvements within thirty days after applicant's receipt thereof.

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

Dated at San Francisco, California, this 14th day of JULY, 1970.

Chairman

William J. ...
...
Vernon L. Stanger
Commissioners

Commissioner J. P. Velasquez, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner A. W. Gatov, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Alisal and vicinity, Salinas, Monterey County.

RATES

	Per Meter Per Month	
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 2.50	(I)
For 3/4-inch meter	3.50	I
For 1-inch meter	5.00	I
For 1 1/2-inch meter	9.00	I
For 2-inch meter	15.00	I
For 3-inch meter	25.00	I
For 4-inch meter	40.00	I
For 6-inch meter	85.00	(I)
For 8-inch meter	100.00	(N)
For 10-inch meter	125.00	(N)
Quantity Rate:		
For all water delivered, per 100 cu.ft.	\$ 0.25	(I)

The service charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Alisal and vicinity, Salinas, Monterey County.

(T)

RATE

For each inch of diameter of service connection	<u>Per Month</u> \$2.00	(I)
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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. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

3. 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 the applicant. Such payment shall not be subject to refund.

4. 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, (T)
are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters (T)
for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

5. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system. (T)