

ORIGINAL

Decision No. 77939

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)

DEL ESTE WATER COMPANY,
a corporation,

Application No. 51811
(Filed April 6, 1970)

for an order authorizing it to
increase rates charged for water
service.

J. Thomas Rosch, for Del Este Water
Company, applicant.
Andrew R. Campbell, for City of
Modesto, protestant.
J. E. Johnson and K. K. Chew, for
the Commission staff.

O P I N I O N

Del Este Water Company seeks authority to increase rates for water service in the suburbs of the City of Modesto, and in or near the neighboring communities of Waterford, Empire, Salida, Turlock, Hillcrest, Hickman and Grayson.

Public hearing was held before Examiner Coffey in Modesto on July 27, 1970. Copies of the application were served and notices of hearing were mailed to customers in accordance with this Commission's Rules of Procedure. The matter was submitted on September 10, 1970, with the receipt of late-filed exhibits and the transcript.

Applicant's request was supported by testimony and five exhibits presented by its manager, secretary-treasurer, and a professional engineer and a certified public accountant employed by a consulting engineering firm. A financial examiner and two engineers presented testimony and two exhibits on the results of

the investigation by the staff of this Commission of applicant's operations and earnings. Two customers protested the proposed rate increase and one customer complained about the metering of her service. ^{1/}

Metered, flat rate, private fire protection and public fire hydrant service by applicant is presently provided in accordance with 15 rate schedules due to various tariffs being currently in effect for the service areas of several small water utilities acquired by applicant. It is proposed that the existing multiplicity of rates be consolidated into one rate schedule for each type of service which will be applied uniformly throughout applicant's service area.

The present and proposed rate schedules are presented in detail in the application, in Exhibit No. 1, and in Exhibit No. 3. Exhibit No. 7 sets forth an agreement between applicant and the City of Modesto which clarifies Special Condition 2 of the proposed public fire hydrant service tariff by providing that only the cost of painting and weeding near fire hydrants will be borne by the fire protection agency.

The following tabulation compares the present, proposed and authorized general flat rate:

<u>Item</u>	<u>Flat Rate Service</u>						<u>Pro-</u>	<u>Author-</u>		
	<u>Per Service Connection Per Month</u>								<u>posed</u>	<u>ized</u>
	<u>Present Rates</u>									
Schedule No.	2	2-A	2-B	2-C	6					
3/4-inch service connection	\$3.10	\$5.50*	\$3.25	\$2.80	\$2.40	\$3.90	\$3.80			
1-inch service connection	4.00	5.50	3.25	4.00	2.40	5.00	4.50			

* Presently no customers

^{1/} By late-filed Exhibit No. 4, applicant indicates that the metering complaint has been satisfactorily resolved.

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Applicant proposes to offer only metered service to residential customers who acquire in the future a service connection larger than 3/4-inch size.

The following tabulation compares the monthly metered water service charges to existing customers at present, proposed and authorized rates:

<u>Item</u>	<u>Metered Service</u>			<u>Proposed Rates</u>	<u>Authorized Rates</u>
	<u>Present Rates</u>				
Schedule No.	1	1-C	7	1	1
Usage Ccf/Mo.					
0 - 10	\$ 2.45	\$ 2.50	\$ 2.00	\$ 2.90	\$ 2.80
15	3.53	3.10	2.75	4.17	4.04
20	4.60	3.70	3.50	5.43	5.28
25	5.68	4.30	4.25	6.70	6.52
30	6.75	4.90	5.00	7.96	7.76
35	7.63	5.50	5.75	8.99	8.77
40	8.50	6.10	6.50	10.02	9.78
45	9.38	6.70	7.10	11.05	10.79
50	10.25	7.30	7.70	12.08	11.80
60	12.00	8.30	8.90	14.14	13.82
70	13.75	9.30	10.10	16.20	15.84
80	15.50	10.30	11.30	18.26	17.86
90	17.25	11.30	12.50	20.32	19.88
100	19.00	12.30	13.70	22.38	21.27

Results of Operation

The following tabulation compares the results of operation as estimated by applicant and the staff for the test year 1970 with the adopted results of operation at rates authorized herein:

Results of OperationTest Year 1970

<u>Item</u>	<u>Present Rates</u>		<u>Proposed Rates</u>		<u>Adopted Rates</u>
	<u>Applicant</u>	<u>Staff</u>	<u>Applicant</u>	<u>Staff</u>	
Operating Revenues	\$ 673,800	\$ 673,800	\$ 831,200	\$ 831,200	\$ 796,700
<u>Operating Exp.</u>					
Oper. & Maint.	392,500	391,400	393,600	391,400	391,400
Depreciation	98,500	89,300 ^{2/}	98,500	89,300 ^{2/}	87,900
Taxes Other Than Income	61,500	64,600	61,500	64,600	64,600
Taxes on Income	29,200	32,400	101,500	113,700	96,900
Total	581,700	577,700	655,100	659,000	640,800
Net Revenue	92,100	96,100	176,100	172,200	155,900
Depr. Rate Base	1,853,200	1,788,700	1,853,200	1,788,700	1,847,100
Rate of Return	4.97%	5.37%	9.5%	9.63%	8.44%

The staff, after study, accepted applicant's estimates of revenues as sufficiently accurate for the intent of this proceeding. Most of the differences between the operation and maintenance expenses result from the staff having access to the recorded figures for the entire year of 1969 whereas applicant's report was prepared in 1969. We find applicant's estimates of operating revenues and the staff's estimates of operation and maintenance expenses reasonable.

Differences between applicant and the staff relate to the following:

1. The net additions to plant which should be included in rate base in the test year 1970.
2. The average service lives of two classes of property used in the determination of straight-line remaining life depreciation rates.

^{2/} Review of the depreciation issue disclosed that staff estimates inadvertently include depreciation on nondepreciable plant.

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3. The amount of the allowance for working cash which should be included in arriving at the rate base.
4. The return which should be allowed for common equity.

Based on average net additions per year of \$145,300^{3/} during the 4-year period 1966-1969, the staff estimated that \$150,000 of net plant additions would be installed in 1970. Applicant included about \$200,000 of net plant additions in its estimate of average plant in 1970. Considering that additional financing has recently become available in amounts sufficient for the proposed budget and that 50.3% of the budget had actually been spent at the time of the hearing in this matter, we find reasonable applicant's estimate of average plant in 1970, \$3,438,236.

The depreciation schedule approved by the Commission in 1964 provides for a composite accrual rate of 3.3% on the gross depreciable plant. The staff now recommends a composite rate of 2.63%. Applicant's determination of remaining life depreciation rates results in a composite rate of 3.17%. The rate difference results largely from the increase by the staff of the average service life of transmission and distribution mains from 35 to 40 years and the use by the staff of 25 years instead of applicant's 15 years for the average service life of recent leasehold improvements.

No substantial corroborating evidence was produced by either party to support their conflicting opinions regarding the average service life of mains. Applicant failed to demonstrate that the lease for the office building owned by the holder of all of applicant's stock would reasonably be limited to the 15-year

^{3/} Including \$86,000 of improvements in 1969 to a leasehold which the staff considered to be nonrecurring.

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term of the lease, or that the applicant's parent would not benefit from the leasehold improvements if the lease were terminated, or that the improvements are without salvage value. Considering the acceptance herein of applicant's construction budget, applicant's opportunity in the near future to submit further reviews of depreciation rates together with supporting detail, we find the depreciation rates recommended by the staff reasonable.

The staff included in its rate base an allowance of \$9,000 for working cash, \$16,000 less than the applicant's \$25,000 working cash allowance. Applicant objected to the consideration of ad valorem tax accruals as being available to meet working cash requirements. Since applicant begins on July 1 its accrual of ad valorem taxes payable in the following December and April, completing the accrual in June, we find reasonable applicant's working cash allowance of \$25,000.

Reflecting the foregoing findings, a rate base of \$1,847,100 is reasonable.

The staff recommends that applicant be allowed to earn a rate of return of 8.3 to 8.6% on rate base and applicant requests a rate of return of 9.50%. The difference stems in the main from the staff recommendation of a rate of return on common equity of 9.0% to 9.5% and the request of applicant for rates which would provide 10.4%.

The applicant in its closing statement set forth the following factors to which it felt the staff had not given adequate consideration in arriving at the recommended range:

1. The parent of applicant is required to guarantee repayment of notes, thus resulting in greater risk to stockholders.

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2. Applicant has now obtained commitments for an additional \$110,000 in long-term debt.
3. The staff has not taken into account the matter of attrition and its effect on rate of return in the future.

Banks often require that notes be guaranteed in instances of closely held companies. In fact, it would be unusual if a bank did not require such a guarantee. This theoretically increases the risk of the common shareholders, but this increased risk is so small that it is not worthy of separate consideration. Moreover, these notes will be soon converted into long-term debt in the ordinary course of business. Furthermore, with applicant's conservative capital structure, all of the debt is very well protected.

The addition of \$110,000 in long-term debt has very little effect on the cost of debt of this company. The effective interest rate, excluding the additional long-term debt, was 7.25%; inclusion of the \$110,000 long-term debt would increase the effective interest rate to 7.58%. The staff did not take into consideration the effect of attrition on rate of return. The burden of making such a showing is on the applicant and not on the staff. This burden is not met simply by showing an overall downward trend in rate of return by using figures which are not properly normalized. Applicant recently converted 6% preferred stock into common stock on which it now requests a 10.4% return. If this conversion had not occurred, the upper end of the staff recommended rate of return range of 8.3% - 8.6% would have provided applicant with a return of 10% on common equity instead of 9.5%.

We find a rate of return of 8.44% on rate base and 9.25% return on common equity to be reasonable.

Service

A field investigation of applicant's operations and facilities was made by the staff during May, 1970. The facilities and equipment appeared to the staff to be in good condition and adequately maintained. The staff noted that there are no meters to measure water production on several of the wells.

A review of customer complaints in applicant's files from December 31, 1966 to April, 1970, revealed a total of 601 items, the majority of the complaints relating to pressure and sand in the water. Applicant has a policy of taking prompt action to resolve all complaints. There have been six informal complaints to the Commission since 1965, all of which have been resolved.

Staff Recommendations

The staff made the following recommendations:

1. That applicant take early action to measure the production of all wells not equipped with meters, in accordance with General Order No. 103, II.4.a.

2. That applicant use the individual plant account depreciation rates shown in Table III-A of Exhibit No. 3. These rates should be used until a review indicates they should be revised. Applicant should review the depreciation rates when major changes in plant composition occur, and for each plant account at intervals of not more than five years. Results of these reviews should be submitted to the Commission.

Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues but proposed rates set forth in the application are excessive.

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2. The adopted estimates, previously discussed herein, of operating revenues, operating expense and rate base for the test year 1970, reasonably indicate the results of applicant's operations in the near future.

3. A rate of return of 8.44 percent on the adopted rate base for the year 1970 is reasonable.

4. 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.

5. The recommendations of the staff as herein set forth are 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 Del Este Water Company is authorized to file the revised rate schedules attached to this order as Appendix A, and concurrently to withdraw and cancel presently effective Schedules Nos. 1, 1-A, 1-B, 1-C, 2, 2-A, 2-B, 2-C, 4, 4-A, 5, 5-A, 6, and 7. 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. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. For the year 1970, applicant shall apply the depreciation rates set forth in Table III-A of Exhibit No. 3 herein. Until review indicates otherwise, applicant shall continue to use these

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rates. Applicant shall review its depreciation rates 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 the result by the estimated remaining life of plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

3. Within ninety days after the effective date of this order, applicant shall submit, in writing, its program of equipping wells with meters.

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

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

Chairman
William J. ...

...

Vernon L. Sturgeon
Commissioner

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

Schedule No. 1

METERED SERVICE

(C)

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest and vicinity, Stanislaus County.

(C)

(C)

RATES

Quantity Rates:		<u>Per Meter</u> <u>Per Month</u>
First	1,000 cu.ft. or less	\$ 2.80
Next	2,000 cu.ft., per 100 cu.ft.248
Next	7,000 cu.ft., per 100 cu.ft.202
Next	40,000 cu.ft., per 100 cu.ft.139
Next	950,000 cu.ft., per 100 cu.ft.104
Over	1,000,000 cu.ft., per 100 cu.ft.093

(I)

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 2.80
For	3/4-inch meter	3.15
For	1-inch meter	4.00
For	1 1/2-inch meter	6.85
For	2-inch meter	10.30
For	3-inch meter	21.00
For	4-inch meter	30.00
For	6-inch meter	45.00
For	8-inch meter	70.00

(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. 2

FLAT RATE SERVICE

(C)

APPLICABILITY

Applicable to all water service furnished on a flat rate basis.

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest and vicinity, Stanislaus County.

(C)

(C)

RATES

	<u>Per Service Connection Per Month</u>	
For a premises served by a:		
3/4-inch service connection	\$ 3.80	(I)
1-inch service connection	4.50	(I)

SPECIAL CONDITIONS

1. Meters may be installed at the option of the utility or the customer, in which event service thereafter will be furnished only under Schedule No. 1, Metered Service. A customer's request for metered service must be made in writing.

(C)

(C)

2. Customers requesting service of the following types will not be served under this schedule, but will be served under Schedule No. 1, Metered Service.

(N)

- a. Residential service connections larger than 3/4" diameter or any 3/4" residential service that, in the utility's judgment, may consume excessive water because of lot size, special equipment or unusual use.
- b. Service connections to commercial or business establishments.
- c. Service connections for agricultural purposes.
- d. Service connections to premises containing multiple dwellings or dwellings and occupied trailer houses.

(N)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

(C)

APPLICABILITY

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

(C)
(C)

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest and vicinity, Stanislaus County.

(C)
(C)

RATE

Per Month

For each inch of diameter of service connection \$ 1.35

(I)

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.

(N)
|
(N)

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, 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

(Continued)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE
(Continued)

SPECIAL CONDITIONS (Contd.)

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.

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.

6. The cost of the vault, check valves and appurtenances thereto shall be paid by applicant. Such payment shall not be subject to refund. Upon installation such facilities shall become the property of utility, and applicant shall advise utility of the cost thereof if installed by applicant.

(N)
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(N)

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

Portions of Modesto and Turlock, and Empire, Salida, Waterford, Hickman, Grayson, and Hillcrest and vicinity, Stanislaus County. (C)

RATES

	<u>Per Hydrant Per Month</u>	
Hydrants owned by the fire protection agency:		
Wharf type	\$ 1.20	(I)
Standard type	2.40	
Hydrants owned by the utility:		
Wharf type	1.70	
Standard type	2.90	(I)

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall be charged for at the quantity rates in Schedule No. 1, Metered Service. (T)

2. The cost of relocation of any hydrant shall be paid by the party requesting relocation.

3. Hydrants shall be connected to the utility's system upon receipt of written request from a public authority. The written request shall designate the specific location of each hydrant and, where appropriate, the ownership, type and size. (T)

(Continued)

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE
(Continued)

SPECIAL CONDITIONS (Contd.)

4. 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)
|
(T)

5. The cost of maintenance of all hydrants will be borne by the utility except that painting of and weeding adjacent to hydrants will be borne by the fire protection agency.

(N)
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(N)