

**ORIGINAL**Decision No. 82974

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of PATTERSON CITY WATER COMPANY,  
a California corporation, under  
Section 454 of the Public Utilities  
Code, for Authority to Increase  
Rates for Water Service.

Application No. 54220  
(Filed August 3, 1973;  
amended August 8, 1973  
and November 28, 1973)

William C. Miller and Gilbert M. Neill, for  
Patterson City Water Company, applicant.  
John E. Brown and K. K. Chew, for the  
Commission staff.

O P I N I O N

Applicant provides water service in and near the city of Patterson in the county of Stanislaus. Its present rates, as set forth in the table below, were established in 1970 by Decision No. 76979 in Application No. 51448:

## Schedule No. 1

GENERAL METERED SERVICERATES

## Quantity Rates:

Per Meter  
Per Month

First 20,000 cu.ft., per 100 cu.ft. ....	\$ .22
Over 20,000 cu.ft., per 100 cu.ft. ....	.12

## Service Charge:

For 5/8 x 3/4-inch meter .....	\$ 1.65
For 3/4-inch meter .....	2.00
For 1-inch meter .....	2.50
For 1 1/2-inch meter .....	4.00
For 2-inch meter .....	6.00
For 3-inch meter .....	11.00
For 4-inch meter .....	15.00
For 6-inch meter .....	34.00
For 8-inch meter .....	50.00

By the original application of August 3, 1973, applicant sought a 26-percent increase in revenues allegedly to cover increased costs, the expense of repairs intended to maintain its system in good operating condition, and to produce a rate of return of 7.65 percent. By amendment, it sought further increases to produce a rate of return of 8.9 percent through 1976, which was alleged to be the minimum necessary to allow borrowing to meet urgent public needs. The increase sought in the amendment ranged from 36 to nearly 40 percent over existing rates.

The Commission staff took exception to the amount of increase and public hearing was held in Patterson on February 7, 1974 before Examiner Gilman.

At the hearing the applicant's president and manager testified as to the history, operations, and finances of the company, and its relationship with the community. His testimony was supplemented by that of the company's consulting engineer and accountant, who introduced a financial statement.

The staff introduced an exhibit covering its estimate of results of operations and recommendations. The exhibit was sponsored by representatives of the Utilities Division and Finance and Accounts Division. The staff recommended that applicant should receive no more than an approximate 20 percent rate increase. This would produce net operating revenues of \$16,450 from an estimated gross revenue of approximately \$110,500.

No members of the public protested the increase.

### The System

The original parts of this system were installed in 1919 with various additions having been made over the years to accommodate the city of Patterson's comparatively modest growth. Now growth is accelerating. For example, the company has recently completed laying mains to serve a new subdivision northeast of the business district and is preparing to serve a new trailer park development east of the town. Service to the latter will eventually require more capacity than is provided by a 4-inch main which serves the area east of the railroad tracks. The company started, but has been financially unable to complete, an 8-inch main to serve this area.

The system still relies in part on older structures, which need replacement from time to time. These older portions of the system generate more maintenance problems than would be encountered on a newer system. There is a program to replace all 2-inch mains which are generally undersized by today's standards. The city is expected to formulate a new policy concerning fire protection and hydrants with which the company intends to cooperate.

### Rate Base

The following table summarizes the applicant's and the staff's estimates for test year rate base:

Item	1974		Applicant
	Estimated		Exceeds
	Applicant	Staff	Staff
Average Utility Plant	\$466,060	\$448,110	\$17,950
Materials and Supplies	6,000	6,000	-
Working Cash	8,500	8,500	-
Subtotal	480,560	462,610	17,950
Less:			
Depreciation Reserve	162,576	162,560	16
Advances for Construction	96,830	96,270	560
Contributions in Aid of Construction	16,138	19,790	(3,652)
Deferred Investment Tax Credit	5,588	-	5,588
Subtotal	281,132	278,620	2,512
Average Depreciated Rate Base	199,428	183,990	15,438

(Red Figure)

There is insufficient evidence in the record to support a finding that applicant's rate base is more than \$183,990.

#### Operating Expense Trends

The following tabulation sets forth the utility's net increase in adjusted operating expenses for the calendar years 1971, 1972, and 1973:

Item	Operating Revenue Deductions		
	1971	1972	1973
Current Year	\$71,183	\$79,529	\$86,034
Prior Year	-	71,183	79,529
Net Increase in Operating Exp.	-	8,346	6,505
<u>Explanation for Increasing Operating Expenses</u>			
	<u>Amount of Increase</u>		
Payroll	\$2,133	\$1,585	
Pump Repair	-	1,792	
Purchased Power	1,552	403	
Machine Rental	1,458	133	
Rate Case - Current Application	50	1,491	
Depreciation Expense	1,947	80	
Payroll Taxes	466	603	
Other	740	418	
Net Increase in Operating Expenses	\$8,346	\$6,505	

Costs incurred for the current rate application should be accumulated, amortized over a three-year period.

The increase in payroll expenses can primarily be attributed to general wage increases in the 1972 and 1973 calendar years. Increased payroll taxes for the 1973 calendar year are due to an increase in the experience rate, which is used to compute state unemployment insurance and an increase in social security taxes.

A pump located at South 5th Street was overhauled in late 1972. Since the invoice for the overhaul was not received until 1973, it was recorded as a 1973 operating expense. For ratemaking purposes, this \$1,792 should be spread over a period of years so that operating expenses will reflect normal operating conditions.

The increases in cost for purchased power in 1972 and 1973 are primarily attributable to the addition of the new Ward Avenue well, which was placed into service in July of 1972, an increase in electric rates, and an increase in the quantity of water pumped.

In 1972 the utility entered into a lease agreement with an option to purchase an NCR bookkeeping machine. This machine presently is used in the utility's billing operation which was formerly performed manually.

The 1973 expenses with the adjustments discussed above provide a reasonable basis for estimating 1974 test year expenses.

Test Year Operating Expenses

Applicant estimates operating expenses of \$85,734; the staff estimates them to be \$76,600. One of the differences appears to be that applicant double counted payroll taxes: once in the maintenance category and once as taxes other than income.

The staff disputed applicant's contention that it would hire an extra man during the test year. It contended that the need for an extra worker was speculative and that much of the work would be attributable to capital projects. The amount at issue is approximately \$6,000.

Applicant showed that extra labor is needed for noncapital operations. Nevertheless, it has taken no objective steps toward obtaining another employee. We will adopt the staff's position.

Subsequent to the preparation of the staff estimates, Pacific Gas and Electric Company has filed additional fuel cost adjustments including an electric rate increase effective April 7, 1974. Applying these fuel cost adjustments to the staff estimated kilowatt-hours of electric energy results in an electric power for pumping expense of \$9,560 for the test year 1974. This amount will be adopted.

Debt

On November 11, 1971 applicant executed a long-term note to Wells Fargo Bank in the amount of \$41,305 with interest at 1/2 percent over prime. As of December 31, 1973, the unpaid balance amounted to \$29,810.

### Rate of Return

The company's owner has made a practice of obtaining credit for the utility from the same bank he uses to finance his personal and family undertakings. He insists that the rate and terms be the same as afforded himself. To the extent that further debt financing is required for any of applicant's projects, it is anticipated that this same practice would be followed.

Applicant's cost of recurring debt at the date of hearing was approximately 10 percent. (It is almost certainly higher today since it is a floating rate at the current prime rate plus  $\frac{1}{2}$  percent.) Applicant's debt-equity ratio is approximately 75 percent. The staff recommended a rate of return of 8.9 percent and contended that the average test-year rate base should be \$183,990.

Applicant has sought a rate of return which would average 8.9 percent through 1976. More precisely it predicts that because of increased costs a 1974 rate of return of 10.9 percent will decline to 8.7 percent in 1975 and 7.3 percent in 1976.

An allowance for rate of return attrition would be in line with the precedent established in San Gabriel Valley Water Co. (El Monte), Decision No. 80315 in Application No. 53003, California Water Service, Decision No. 81856, Application No. 53561, and Southern California Water Co. (San Bernardino), Decision No. 82257 in Application No. 53663. However, the record in those cases was sufficient to support findings concerning the probability and amount of attrition. Here the exhibits and testimony would not support such findings. We will establish rates to produce a reasonable rate of return in the test year only.

### Results of Operations

The table below shows the staff's and the applicant's prediction of the result if the proposed increase were granted in full or if the present rates were retained, before adjustment for electric rate increases.

Item	1974 Estimated			
	Present Rates		Proposed Rates	
	Applicant:	Staff	Applicant:	Staff
Operating Revenues	\$ 92,772	\$ 91,970	\$128,528	\$127,320
<u>Deductions</u>				
Operating Expenses	85,734	76,600	85,734	76,600
Depreciation	8,650	8,390	8,650	8,390
Taxes Other Than Income	10,226	8,441	10,226	8,441
Income Taxes	200	200	2,194	5,497
Total Deductions	104,810	93,631	106,804	98,928
Net Operating Revenue	(12,038)	(1,661)	21,724	28,392
Average Depreciated Rate Base	199,428	183,990	199,428	183,990
Rate of Return			10.89%	15.43%

(Red Figure)

Findings

1. The staff's estimates for 1974 test year results of operations are reliable and should be adopted, with adjustment for the electric rate increases.
2. An overall rate of return of 8.9 percent is fair and reasonable, and that such rate of return will produce a rate of return of 8.5 percent on equity.
3. Applicant's average 1974 rate base will not exceed \$183,990.
4. The increased rates authorized herein will produce gross operating revenues of \$111,600.
5. The rates set forth in Appendix A are just and reasonable and applicant's present rates are unjust and unreasonable.

O R D E R

IT IS ORDERED that Patterson City Water Company is authorized to file in accordance with General Order No. 96-A the rate schedules set forth in Appendix A. The effective date of



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the rates shall be five days after filing, and the schedules shall apply only to service performed on or after the effective date of the rates.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 5<sup>th</sup>  
day of JUNE, 1974.

James L. Stinson  
President  
William J. Brown  
William J. Brown  
William J. Brown  
Commissioners

## APPENDIX A

## Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Patterson and vicinity, Stanislaus County.

(T)

RATES

## Service Charge:

	Per Meter Per Month	
For 5/8 x 3/4-inch meter .....	\$ 2.00	(I)
For 3/4-inch meter .....	2.50	
For 1-inch meter .....	3.00	
For 1 1/2-inch meter .....	5.00	
For 2-inch meter .....	7.00	
For 3-inch meter .....	13.00	
For 4-inch meter .....	18.00	
For 6-inch meter .....	41.00	
For 8-inch meter .....	60.00	

## Quantity Rates:

First 20,000 cu.ft., per 100 cu.ft. ....	\$ .27	(I)
Over 20,000 cu.ft., per 100 cu.ft. ....	.145	(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 Rates, for water used during the month.

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