

ORIGINAL

Decision No. 83239

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of RIVERSIDE WATER WORKS, a
corporation, for authority to
increase the rates charged for
furnishing water as a public
utility, under Section 454 of
the Public Utilities Code.

Application No. 54332
(Filed September 18, 1974)

Michael J. Stecher, Attorney at Law, for
applicant.
John E. Brown, for the Commission staff.

O P I N I O N

Riverside Water Works, a corporation, presently providing a public utility water service in an area one mile west of Ferndale in Humboldt County, requests authority to increase rates.

A public hearing was held before Examiner Daly on June 13, 1974 at Eureka at which time and place the matter was submitted. An appropriate notice was served upon all customers and upon certain county and state officials.

Applicant and its predecessor have been providing service in the area for many years. Applicant was incorporated in 1971 and by Decision No. 79326 was authorized to acquire from the Bank of America National Trust and Savings Association, as successor trustee under the Last Will and Testament of Joseph A. Shaw, all of the rights, title, and interest of the water system. The Bank of America continues to manage applicant as an asset of the estate.

Service Area and Water System

The system serves 86 active service connections, all of which are metered. Approximately 22 of the service connections are used for watering dairy cattle, 4 of which account for approximately 40 percent of the water used.

Applicant's primary sources of water are an artesian well and a developed spring, which are located in the hills south of the area. Water from the well spills directly into a concrete reservoir and water from the spring runs through a pipe by gravity to the-reservoir. The storage capacity is close to 40,000 gallons, which about equals one day's average consumption during peak usage in the late summer.

Water is distributed by gravity through 31,500 feet of mains including steel pipe, asbestos-cement pipe, and plastic pipe ranging in size from 1 inch to 4 inches in diameter. Additional water is purchased from Francis Land and Water Co. (an affiliate of Citizens Utilities) through a metered 2-inch connection.

Rates

Applicant's present rates were established by Decision No. 63828 dated June 15, 1962 in Application No. 43991. It now proposes to increase its rates to a level which it estimates will generate gross revenues of \$15,247 for 1974 and thereby increase its rate of return from a present loss to 12.89 percent.

Applicant's present and proposed rate schedules are:

A. 54332 cmm

		<u>Per Meter Per Month</u>		<u>Percent</u>
		<u>Present</u>	<u>Proposed</u>	<u>Increase</u>
Quantity Rates:				
First	3,000 gallons or less	\$1.70	\$12.00	606
Next	3,000 gallons, per 1,000 gallons....	.48	-	-
Next	4,000 gallons, per 1,000 gallons....	.48	1.50	212
Next	10,000 gallons, per 1,000 gallons....	.34	1.00	194
Next	20,000 gallons, per 1,000 gallons....	.24	.75	212
Over	40,000 gallons, per 1,000 gallons....	.14	.75	436
Minimum Charge:				
For	5/8 x 3/4-inch meter	\$1.70	\$12.00	
For	3/4-inch meter	3.00	15.00	
For	1-inch meter	5.00	17.00	
For	1 1/2-inch meter	9.50	20.00	
For	2-inch meter	13.00	24.00	

A comparison with Loleta Water Works and Field's Landing Water System, two nearby, similar, privately owned water systems serving 186 and 322 customers, respectively, is as follows:

<u>Consumption</u> <u>Block</u> <u>1,000 Gal.</u> <u>Per Month</u>	<u>Loleta</u> <u>Water</u> <u>Works</u> <u>Rates</u>	<u>Field's</u> <u>Landing</u> <u>Water</u> <u>System</u> <u>Rates</u>	<u>Riverside</u> <u>Water</u> <u>Works</u> <u>Present</u> <u>Rates</u>	<u>Riverside</u> <u>Water</u> <u>Works</u> <u>Proposed</u> <u>Rates</u>
3 or less	\$ 6.20	\$ 4.15	\$ 1.70	\$12.00
3 to 6	8.75	5.95	2.66	-
6 to 10	12.15	8.35	4.58	16.50
10 to 20	19.80	13.75	6.76	23.00
20 to 40	34.25	21.57	10.38	34.00
40 to 50	51.20	32.03	14.38	49.00
Over 50	83.30	51.55	20.68	82.75

An assistant vice president of the Bank of America testified that applicant is in dire need of money to make necessary repairs to the system and to compensate its three employees, including himself as manager, a bookkeeper, and a maintenance man. He further testified that the bank as trustee of the Shaw estate considers the water system as a liability which it would be willing to give away to anyone who would assume the obligation of providing service. According to the witness, Citizens Utilities declined an offer to purchase the system in 1969 because it determined that it would be impossible to earn a reasonable rate of return on the investment that would be required merely to provide a safe adequate supply to the customers using the service at that time (Exhibit 1).

Only two users of the service, husband and wife, appeared in opposition to the proposed increase. Both testified that at times the water is dirty and that during the peak summer months there are occasions when water is not available.

To meet these complaints applicant proposes to: 1. improve the spring source and reservoir at an estimated cost of \$5,000; 2. install a chlorinator at an estimated cost of \$2,000; and 3. construct a pipeline connection to Francis Land and Water Co. (FL&W) in Ferndale at an estimated cost of \$16,000.^{1/}

The staff agrees that the chlorinator should be installed and that the source and reservoir improvements should be made, but recommends against the pipeline connection at this time for the following reasons: (Exhibit 5)

^{1/} During the course of hearing, applicant revised these estimates to \$6,000, \$2,400, and \$19,600, respectively.

- "a. The proposed source and reservoir improvements will reduce water loss at the source. The additional water made available at the source should make Riverside Water Works nearly self-sufficient.
- "b. Water required to meet peak demands and emergencies is now obtained through a 2-inch pipeline connection to F.L.&W. While this source may not in itself provide enough water to maintain adequate pressure during peak demand, it should be recognized that the peak demand is caused by a relatively few agricultural consumers; these agricultural consumers could reduce the peak demand by providing their own terminal storage. It should also be noted that the potential supply available through this connection could be more than tripled by replacing about 600 feet of 1-inch pipe on the F.L.&W. Co. side of the meter with 2-inch pipe.
- "c. There is a possibility that F.L.&W will construct a pipeline along Centerville Road to serve the Naval facility located about five miles west of Ferndale. The pipeline would cross Riverside's transmission main. Should this pipeline become a reality, Riverside could contract with F.L.&W. for a connection at a substantially lesser cost than the \$16,000 which is estimated for the proposed connection."

An engineer appearing on behalf of applicant testified that although he had no knowledge as to how much additional water would be provided by improving the source he would recommend construction of the extension with FL&W.

It is possible that the proposed improvements of the source would reduce, if not eliminate, the loss of water resulting from leakage, and could possibly meet all system requirements. The amount of water purchased from FL&W was \$84 in 1972, \$157 in 1973, and represents less than 4 percent of the total annual quantity of water sold by applicant. The Commission is of the opinion that it would be advisable to see how the proposed source improvements affect the supply before making any large expenditure for an additional extension with FL&W.

Results of Operation

Applicant and the staff analyzed and estimated applicant's operational results for the test year 1974. The staff made its study under present water rates and those proposed by applicant. Applicant made no estimate under present rates and made its estimates based on its proposed rates. For comparison the following tabulation shows the results of operation, modified as discussed hereinafter, at present rates, at those proposed by applicant, and at those authorized herein:

Estimated Results of Operation, Test Year 1974

<u>Item</u>	<u>Staff</u>	<u>Applicant</u>	<u>Modified</u>
<u>At Present Rates</u>			
Operating Revenues	\$4,570	-	-
<u>Deductions</u>			
Operating Expense	5,500	-	-
Depreciation Expense	640	-	-
Taxes Other Than Income	540	-	-
Income Tax	200	-	-
Total Deductions	\$6,880	-	-
Net Revenue	(2,310)	-	-
Average Depreciated Rate Base	-	-	-
Rate of Return	-	-	-

(Red Figure)

Estimated Results of Operation, Test Year 1974

<u>Item</u>	<u>Staff</u>	<u>Applicant</u>	<u>Modified</u>
<u>At Rates Proposed</u>			
Operating Revenues	\$19,690	\$15,247	-
<u>Deductions</u>			
Operating Expense	5,500	7,975	-
Depreciation Expense	640	1,550	-
Taxes Other Than Income	540	812	-
Income Taxes	<u>3,680</u>	<u>1,186</u>	-
Total Deductions	\$10,360	\$11,523	-
Net Revenue	9,330	3,724	-
Average Depreciated Rate Base	24,320	28,880	-
Rate of Return	38.36%	12.89%	-
<u>At Rates Authorized</u>			
Operating Revenue	-	-	\$10,500
<u>Deductions</u>			
Operating Expense	-	-	6,244
Depreciation Expense	-	-	640
Taxes Other Than Income	-	-	540
Income Taxes	-	-	<u>893</u>
Total Deductions			\$ 8,317
Net Revenue	-	-	2,183
Average Depreciated Rate Base	-	-	24,320
Rate of Return	-	-	9%

The primary difference between applicant and the staff on estimated revenue is applicant's assumption that water consumption will be reduced as a direct result of higher rates. However, the proposed minimum allowance is greater than present usage of most customers and there is no reason to believe that the amount of water consumed would vary.

During the course of hearing applicant revised its original estimate of operating expenses for 1974. The following tabulation is a summary of expenses, as recorded for 1972 and 1973, and as estimated for 1974:

<u>Item</u>	<u>1972 Recorded</u>	<u>1973 Recorded</u>	<u>1974 Estimated</u>	
			<u>Applicant</u>	<u>Staff</u>
Purchased Water	\$ 84	\$ 157	\$ 300	\$ 100
Employee Labor	1,217	1,503	1,653	1,700
Materials	118	421	462	500
Office Salaries	355	353	500	400
Management	-	-	1,200	1,200
Office Supplies & Expense	29	-	250	100
Insurance	478	278	378	500
Accounting, Legal & Other Services	74	380	400	400
General Expense	114	-	801	600
Vehicle Expense	<u>-</u>	<u>-</u>	<u>300</u>	<u>-</u>
Total Operating Expenses	\$2,469	\$3,092	\$6,244	\$5,500

Although there are slight variations between applicant's and staff's estimates for 1974 the staff concedes that applicant's revised figures are reasonable. The staff made no allowance for vehicle expense because there was no past record for such expense, but agrees that the maintenance man who uses his own car should be compensated on a mileage basis. Applicant's estimates for these items are adopted.

At the time of the last rate case, applicant was authorized to use a 3.0 percent depreciation rate. When the rate was reviewed in 1967 the Commission approved a rate of 2.2 percent. In 1971 applicant increased the rate to 3.5 percent without Commission review and approval. The staff, therefore used the rate of 2.2 percent for the purpose of its study and after making certain adjustments and

excluding the \$16,000 for the connection with FL&W arrived at an average depreciated rate base of \$24,320. The staff's rate base estimate is adopted.

Applicant contends that because of its unusual financial situation a rate of return of 16 percent be authorized until such time as all necessary improvements have been completed and then reduced. The Commission disagrees and accepts the 9 percent rate of return as recommended by the staff.

Findings

After consideration the Commission finds that:

1. Applicant is in need of additional revenues but the proposed rates set forth in the application are excessive.
2. The adopted estimates as summarized and set forth herein, of operating revenues, operating expenses, and rate base for the test year 1974 reasonably represent the results of applicant's future operation.
3. A rate of return of 9 percent on applicant's rate base 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 accounting procedures, revisions and corrections, and recommendations by the staff in Exhibit 5 are reasonable.

The Commission concludes that the application should be granted to the extent hereinafter set forth.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Riverside Water Works is authorized to file the revised rate schedule attached to this order as Appendix A. 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.

2. Applicant shall:

- a. Improve the spring source of supply, which should be done under the direction of a qualified registered engineer.
- b. Install the chlorinator as proposed.
- c. Initiate a program to replace the remaining old steel portions of the transmission and distribution mains from Riverside source to Port Kenyon Road, with 4-inch pipe. File a plan and schedule within one hundred twenty days after the effective date of this decision.
- d. File an updated area map showing all present transmission and distribution mains by location, length, diameter, type, and date of installation, and deleting reference to mains no longer in service.
- e. Correct utility accounts to reflect corrections to water plant in service accounts as indicated by staff in Exhibit 5. Also correct accounts to retire plant which is no longer in service.
- f. Make a depreciation study using the straight-line remaining life method to determine a new depreciation accrual rate after the proposed 1974 plant additions have been submitted to this Commission for approval. The study should be made after company books are corrected as recommended.

- g. Keep a written record of service complaints, including findings of applicant and how complaint was resolved.
- h. Encourage dairy consumers to install individual reservoirs for dairy cattle watering so that peak hour demand can be reduced.
- i. Report to the Commission every ninety days until completion of the status of compliance with the requirements of subparagraphs a, b, and d herein.

3. Applicant's request for an interim increase in rates is denied.

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

Dated at San Francisco, California, this 6th day of AUGUST, 1974.

Thomas L. Stegman
President
William J. ...
...
...
Commissioners

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

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

Port Kenyon, and vicinity, located approximately 2 miles north of Ferndale, Humboldt County.

RATES

		Per Meter	
		<u>Per Month</u>	
Quantity Rates:			
First	3,000 gallons or less	\$ 4.00	(I)
Next	7,000 gallons, per 1,000 gallons	1.15	
Next	10,000 gallons, per 1,000 gallons80	
Over	20,000 gallons, per 1,000 gallons45	
Minimum Charge:			
For	5/8 x 3/4-inch meter	4.00	
For	3/4-inch meter	6.00	
For	1-inch meter	10.00	
For	1 1/2-inch meter	20.00	
For	2-inch meter	32.00	(I)

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