

Decision No. 84409**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
DEL ESTE WATER COMPANY,
a corporation,
for an order authorizing it to
increase rates charged for water
service.

Application No. 55202
(Filed September 25, 1974;
amended February 27, 1975)

INTERIM OPINION

Del Este Water Company, a corporation, is engaged in the business of the supply and distribution of water for domestic and industrial purposes in the suburban Modesto area and in portions of the communities of Waterford, Empire, Salida, Turlock, Hillcrest, Hickman, and Grayson. By this application it seeks authority to increase its rates. By amendment to its application it requests emergency interim authority to increase its rates by approximately 26 percent.

Applicant asserts that the interim increases in rates will provide \$247,731 in additional gross revenues which amount is necessary for applicant to meet current long-term debt coverage, to restore normal payroll, to return to normal repair and maintenance practices, to restore dividend payments, and to recommence work in progress, as well as enable it to qualify for needed additional long-term debt.

The amended application sets forth the results of applicant's operations for the year 1974 together with adjustments to reflect anticipated results under present rates and under the proposed interim rates for a future rate year.

The Commission staff made an examination of applicant's 1974 books of account and has submitted a report of its findings and conclusions with respect to such examination. The report is received in evidence as Exhibit 1.

There are minor differences in the statements of the staff and applicant respecting the actual results of 1974 operations. The pro forma results for a future rate year under present rates anticipated by applicant and the staff differ substantially and therefore there are issues regarding the appropriate estimates of revenues and expenses that can be resolved only after public hearing. Exhibit 1 shows, however, that considering the staff's estimates of additional revenues and expenses there would be serious inroads upon applicant's earnings ability such that its interest coverage (after taxes) would fall from 1.43 to .89 so that its net operating income will not cover its interest costs.

The staff suggests that applicant is facing a financial emergency. It recommends that applicant be authorized to increase its rates 6.7 percent on an interim basis which would provide \$63,627 additional revenues. That recommended increase is approximately one-fourth of applicant's requested interim relief. The staff asserts that the increase of \$63,627 is necessary to raise the applicant's interest coverage to 1.7 times earnings and that this coverage ratio would allow the company to fully cover its operating expenses and fixed charges, strengthen its credit position, and provide a small cushion for unexpected costs which may arise during the interim period.

The differences in the projections by applicant and the staff constitute issues regarding reasonable and appropriate projections of revenues and expenses for a future rate year. We must resolve those issues against applicant pending public hearing and therefore at this time, for the purpose of evaluating the justification for emergency increases in rates pending public hearing, we adopt the staff's projections which are set forth below:

DEL ESTE WATER COMPANY

Income Statement
 Calendar Year 1974, Recorded, Adjusted, and Staff
Recommended Interest Coverage

	: Present Rates		: Staff Proposed Rates:
	: Recorded :	Pro Forma	: 1.7 Int. Coverage :
Operating Revenues	\$ 942,480	\$ 952,803	\$1,016,430
<u>Operating Expenses</u>			
Labor Expense	272,846	304,590	304,590
Purchased Power	115,624	125,562	125,562
Other Expenses	<u>255,926</u>	<u>255,926</u>	<u>255,926</u>
Total Operating Expense	644,406	686,078	686,078
Depreciation	106,366	106,366	106,366
Taxes	<u>89,483</u>	<u>91,723</u>	<u>93,054</u>
Operating Income	102,225	68,636	130,932
Other Income	551	-	-
<u>Other Deductions</u>			
Interest Expense	70,062	75,908	75,908
Amort. of Debt Expense	<u>950</u>	<u>950</u>	<u>950</u>
Total Interest Expense	71,012	76,858	76,858
Miscellaneous Deductions	<u>450</u>	<u>450</u>	<u>450</u>
Net Income (Loss)	\$ <u>31,314</u>	\$ (8,672)	\$ <u>53,624</u>
Interest Coverage	1.44	0.89	1.70
Average Rate Base	\$2,195,972	\$2,195,972	\$2,195,972
Rate of Return on Average Rate Base	4.66%	3.12%	5.96%

We find that:

1. Applicant's present rates will not return to it sufficient revenues for it to meet its financial obligations and that interim rate relief is necessary to maintain the efficiency, safety, and adequacy of water service in the area served by applicant.

2. Interim rate increases that will provide \$63,627 in additional gross revenue is the minimum that will permit applicant to continue operations on a reasonably sound financial basis.

3. The increased interim rates set forth in Appendix A, attached hereto, will provide applicant reasonable opportunity to recover \$63,627 additional revenues; the increases in rates and charges represented therein are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed therein, are for the future unjust and unreasonable.

4. At this time, and pending further proceedings in this application, applicant has not shown that increases in rates greater than those set forth in Appendix A are justified.

We conclude that pending further decision herein applicant should be authorized to establish as interim rates the increased rates set forth in Appendix A.

INTERIM ORDER

IT IS ORDERED that:

1. Del Este Water Company, a corporation, is authorized to file the revised interim rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be five days after the date of filing and the revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

A. 55202 b1

2. In all other respects the petition in the amendment to Application No. 55202 for interim rate relief pending public hearing is denied.

The effective date of this order is the date hereof.

Dated at Los Angeles, California, this 6th
day of MAY, 1975.

Vernon L. Sturgeon
President
William J. Quinn Jr.
Robert R. Ross
Robert R. Ross
Commissioners

APPENDIX A
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Schedule No. 1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

Per Meter
Per Month

Quantity Rates:

First	1,000 cu.ft., or less.....	\$ 3.05	(I)
Next	2,000 cu.ft., per 100 cu.ft.....	.271	
Next	7,000 cu.ft., per 100 cu.ft.....	.221	
Next	40,000 cu.ft., per 100 cu.ft.....	.151	
Next	950,000 cu.ft., per 100 cu.ft.....	.113	
Over	1,000,000 cu.ft., per 100 cu.ft.....	.101	(I)

Minimum Charge:

For	5/8 x 3/4-inch meter.....	\$ 3.05	(I)
For	3/4-inch meter.....	3.36	
For	1-inch meter.....	4.27	
For	1 1/2-inch meter.....	7.31	
For	2-inch meter.....	10.99	
For	3-inch meter.....	22.40	
For	4-inch meter.....	32.00	
For	6-inch meter.....	48.01	
For	8-inch meter.....	74.68	(I)

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

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Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to all water furnished on a flat rate basis.

TERRITORY

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

RATES

	<u>Per Service Con- nection per Month</u>
For a premises served by a:	
3/4-inch service connection.....	\$4.15 (I)
1-inch service connection.....	4.80 (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.

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:

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Schedule No. 2

FLAT RATE SERVICE

SPECIAL CONDITIONS--Contd.

- 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.

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Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

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

RATE

Per Month

For each inch of diameter of service connection.... \$1.44 (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.
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.

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Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS--Contd.

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 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 the utility, and applicant shall advise utility of the cost thereof if installed by applicant.

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Schedule No. 5

PUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

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

TERRITORY

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

RATES

	Per Hydrant Per Month	
Hydrants owned by the fire protection agency:		
Wharf type.....	\$1.28	(I)
Standard type.....	2.56	
Hydrants owned by the utility:		
Wharf type.....	1.81	
Standard type.....	3.09	(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.

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, ownership, type and size.

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Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

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.

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.