

Decision No. 86005

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SALINAS UTILITY SERVICES, a )  
California corporation, for )  
authority to increase its rates )  
charged for sewer service. )

Application No. 53991  
(Filed April 23, 1973)

Clayson, Stark, Rothrock & Mann, by George G. Grover, Attorney at Law, for Salinas Utility Services, applicant.  
John H. Utne, for himself; and Mary Lou Yuckert and Walter F. Strauss, for Toro Park Estates Home Association; protestants.  
James T. Quinn, John E. Brown, and John Gibbons, for the Commission staff.

O P I N I O N

Salinas Utility Services is a corporation engaged in supplying sewer service as a public utility within the State of California. Its principal office is located at 1443 Valinda Avenue, Valinda, California.

According to the application sewer service is furnished to approximately 500 residential customers (not including vacancies). Applicant's service area is located in Monterey County near the city of Salinas.

Applicant seeks an order of the Commission authorizing it to increase its present charge for sewer service from \$5.00 to \$7.25 per month. The overall increase in annual gross revenues would be approximately 45 percent and would amount to \$13,326. Applicant has also requested authority to require a deposit from each customer in an amount equal to two months' charges, to establish a \$430 inclusion or connection fee for new customers. to establish a penalty charge for nonpayment of bills in the amount of 6 percent

after 15 days, and to establish a rule providing for disconnection of water service for nonpayment of sewer and water bills (Mission Hills Water Company, an affiliate of applicant, serves this area). The water company's reconnection fee would also be applicable.

According to applicant, present sewer service charges are not sufficient to meet expenses of operation, exclusive of charges for depreciation and without regard to return on capital invested in plant, equipment, and other property devoted to public use. This application is an emergency application designed to enable applicant to meet expenses of operation exclusive of depreciation. At a later date the application may be amended to request an increase in rates in order to enable applicant more fully to meet expenses, including depreciation charges, and to earn a reasonable return on its investment devoted to public use.

Public hearing was held on December 27 and 28, 1973, and applicant presented proof that notice of the hearing was published, mailed, and posted in accordance with the Commission's Rules of Practice and Procedure. The evidence at the hearing was presented by witnesses for the applicant and the Commission staff. When the hearing adjourned, additional days of hearing were to be scheduled. It is now apparent, however, that all evidence necessary to decide the case has been presented and the matter is, therefore, considered submitted and ready for decision.

Applicant, along with other privately owned California sewer system utilities, was placed under the effective jurisdiction of the Commission July 1, 1972 by amendment of Sections 216, 230.5, 230.6, and 1001 of the Public Utilities Code. Prior to that time applicant was subject only to the regulations of local governing bodies. Applicant is managed in common with three other sewer utilities and one water company. The headquarters for all of these utilities is at Valinda, Los Angeles County. The other sewer utilities are

Ontario Utility Services (Ontario), Lompoc Utility Services (Lompoc), and Ventura Utility Services (Ventura). The water company is Mission Hills Water Company (Mission Hills). Mission Hills has two water systems, one located near Salinas and the other near Lompoc, which latter system includes a small system at Santa Ynez.

The existing corporate structure has been in effect since April 9, 1971. Prior to that time Salinas, Ontario, and Lompoc were operating districts of Western Pacific Sanitation, a Nevada corporation, and its successor Western Pacific Services. A single set of books was kept for Western Pacific Sanitation and Western Pacific Services until April 1971. Ontario, Salinas, and Lompoc are affiliated through ownership of their stock by Western Pacific Services. The record indicates that although accounting entries have been made, there has been no formal transfer of real or personal property from Western Pacific Services to the above entities. Western Pacific Services, Ventura, a separate corporation, and Mission Hills are controlled by Anton C. Garnier, the son of the late Camille A. Garnier who founded the operations. Western Pacific Services was suspended as a corporation in 1973.

On December 15, 1964, Western Pacific Sanitation, together with its subsidiaries as of that time, sold \$2,000,000 of collateral trust notes, 5-1/2 percent series due in 1984 to the Mutual Life Insurance Company of New York (MONY). The staff has not been able to ascertain whether the \$2,000,000 was invested in water or sewer properties or whether it was used for other purposes. As of October 12, 1973, Western Pacific's outstanding indebtedness to MONY amounted to \$1,750,000, of which \$200,000 was overdue, thus placing the loan in default. Interest in arrears as of October 12, 1973 amounted to \$433,125. Penalties on the outstanding arrearages of principal and interest are accruing at 6 percent a year. In addition, as of October 12, 1973 MONY had supplied \$224,989.81 to pay property taxes for Salinas, Ontario, and Lompoc.

The staff was informed by an officer of the applicant that all of the properties now being operated by Salinas, Ontario, and Lompoc are subject to the indenture. In addition, all of the outstanding stock of the subsidiaries is said to be held in trust for MONY.

This application was limited in scope and the staff examination was limited to the verification of revenues and expenses since the applicant is not seeking any return on investment and has only asked for an increase in sewer service rates sufficient to cover its out-of-pocket expenses.

The following tabulation shows estimated revenues and expenses for the estimated test year 1973:

#### SALINAS UTILITY SERVICES

##### Summary of Revenue and Expenses Test Year 1973 Estimated

Item	Applicant		Staff		Applicant: Exceeds Staff
	Present Rates	Co. Prop.: Rates	Present Rates	Co. Prop.: Rates	
Operating Revenues	\$29,610	\$42,936	\$33,480	\$48,550	\$(3,870)
<u>Operating Expenses</u>					
Oper. & Maint.	19,437	19,437	20,800	20,900	(1,363)
Admin. & Gen.	9,407	9,407	5,200	5,200	4,207
Taxes Other Than Income	7,345	7,345	7,450	7,750	(105)
Allocated Expense	6,308	6,308	5,600	5,600	708
Income Taxes	200	200	200	200	-
Total Expenses	42,697	42,697	39,250	39,650	3,447
Net Operating Revenue Before Depreciation	(13,087)	239	(5,770)	8,900	7,317
Avg. No. of Customers	494	494	558	558	-

(Red Figure)

Discussion

All parties are agreed that applicant is operating at a loss and must raise its rates sufficiently to recover out-of-pocket expenses. The staff accountant recommended that the requested rate increase be granted.

In Decision No. 83478 dated September 24, 1974 in Application No. 53990 of the affiliate Lompoc Utility Services, this Commission authorized Lompoc to collect a \$430 inclusion fee per connection, to be used for treatment plant additions and betterments. It appears reasonable and appropriate to grant applicant's request for \$430 inclusion fee here also, with the same conditions and limitation as ordered for Lompoc.

Applicant's requests concerning disconnection for nonpayment of bills and deposits are a piecemeal approach to customer relations. The Commission staff has developed a comprehensive standard set of rules for sewer utilities comparable to those on file by water utilities. Applicant's customers and the public would be better served by the standard set of rules which include provisions for handling delinquent accounts.

Findings

1. Applicant operated at a net out-of-pocket operating loss of \$3,039 for the fiscal year ended September 30, 1973 on its sewer operations. If interest costs of \$2,768 are included, the loss would increase to \$5,807.

2. The estimate of operating expenses and operating revenues for the test year 1973 provided by the staff is reasonable and will be adopted.

3. The rate increase proposed in the application of \$2.25 per connection per month (from \$5.00 to \$7.25) is reasonable. It will provide a rate increase of approximately 45 percent and a gross revenue increase of \$14,175 a year based on an average of 525 connections.

4. The request for authority to charge each new customer a \$430 inclusion fee is granted.

5. No payment of refunds should be made from inclusion fees, except as heretofore provided by contract.

6. Inclusion fees should be impounded in a separate interest-bearing account in a California bank or insured savings and loan association. These fees, and interest accrued thereon, should be expended only for treatment plant additions and betterments and only after specific authorization has been obtained by means of a letter signed by the Executive Director of the Commission.

7. Applicant should file a schedule of its authorized inclusion fees and a set of standard rules as part of its filed tariffs.

8. The request to include a provision in applicant's tariff which would authorize discontinuance of water service from Mission Hills Water Company if the customer failed for two consecutive months to make monthly payments for sewer service is denied.

9. The request to require a deposit of two months' charges prior to receiving service and to establish a 6 percent penalty for nonpayment of bills is denied.

The Commission concludes that the application should be granted as set forth in the order which follows, and that the effective date of the order should be the date on which it is signed because there is an immediate need for rate relief.

O R D E R

IT IS ORDERED that after the effective date of this order, applicant is authorized to file the revised tariff sheet set forth in 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 hereof.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 29th  
day of JUNE, 1976.

William Synovius, Jr. President  
Vernon L. Steegen  
Leonard Ross  
Robert Bateman Commissioners

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

APPENDIX A

Schedule No. 1

GENERAL RESIDENTIAL SERVICE

APPLICABILITY

Applicable to General Residential Sewer Service.

TERRITORY

Toro Park Subdivision, Serra Village Subdivision, and Creekside Subdivision, and vicinity, about 5 miles west of Salinas, Monterey County.

RATES

Single Family Residence .....	\$7.25 per month	(I)
Multiple Residential .....	\$7.25 per month per residential dwelling unit	(I)