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Decision 92-08-004 August 11, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Martin Water Works, Inc. for an increase in water rates for water services to \$1.00 per cubic foot, to offset operational costs relating to water purchases from their water supplier, Santa Clara Valley Water District, and expansion of their service territory as ordered by Commission Decision 86-08-042.

ORIGINAL

Application 91-11-009 (Filed November 18, 1991)

Bob Ukestad, for San Martin Water Works, Inc., applicant.
Jan Webb, for San Martin County Water District, protestant.
Jasit S. Sekon and Donald McCrea for the Commission Advisory and Compliance Division.

OPINION

West San Martin Water Works, Inc. (West San Martin) seeks authority to increase its rates to recover increased costs.

West San Martin filed two advice letters on June 19 and October 15, 1991 requesting offset rate increases. In the June 19, 1991 advice letter it requested an increase of the quantity rate from \$0.30 to \$1.00 per Ccf (one Ccf is equal to 100 cubic feet) in the Schedule No. 6R (Resale Service) tariff. It stated that it was selling water to San Martin Water Works (East San Martin) via this schedule since February 1986 and its costs had increased. In its October 15, 1991 advice letter, West San Martin requested recovery of its offsettable expenses for water testing, pumping tax, purchased power, and postal service and it requested recovery of these expenses from the West San Martin customers only.

The advice letters were converted into Application (A.) 91-11-009 on November 18, 1991.

A public participation hearing was held in the afternoon and evening of April 8, 1992 and an evidentiary hearing was held on April 9, 1992. The matter was submitted with the filing of the transcript on May 12, 1992.

West San Martin was granted a Certificate of Public Convenience and Necessity (CPCN) in May 1963 by Decision (D.) 63981. It presently serves approximately 160 service connections in the westerly portion of the unincorporated community of San Martin.

East San Martin was purchased by Earl Powell and his wife Louise from Harvey and Marjorie Bear, under authority granted by D.81618 dated July 24, 1973 in A.53881.

On July 2, 1985, we issued an Order Instituting Investigation and Order to Show Cause (I.85-07-002) wherein we directed the owners of record of East San Martin, Earl L. Powell and Louise Powell, to appear and show cause why East San Martin should not be found to be abandoned. The basis of the order was the affidavit of staff engineer Richard Tom attesting that extremely low water pressure, occasional outages, poor water quality, billing problems, and an absent owner situation had resulted in an intolerable deterioration of the system operated by East San Martin.

By D.85-08-020 in I.85-07-002, we authorized West San Martin to establish two rate schedules: Schedule No. 2TR, Special Temporary Flat Rate Service, and Schedule No. 6R, Resale Service. These rate schedules were authorized by the Commission so that separate books could be maintained for East San Martin. Subsequently, by D.85-08-045, we authorized West San Martin to permanently serve East San Martin's service area and allowed it to charge West San Martin's own filed rates to East San Martin's customers.

Separate books of account have continued to be maintained for West San Martin and East San Martin since the issuance of D.86-08-045. West San Martin assesses East San Martin its \$0.30 per Ccf resale rate for West San Martin water supplies used by East San Martin system. West San Martin assesses East San Martin its portion of direct expenses and allocates the general and administrative expenses 70% to West San Martin and 30% to East San Martin.

The Commission's Water Utility Branch (Water Branch) has reviewed the application and has prepared a report which was received in evidence as Exhibit 3.

Exhibit 3 discloses that the Water Branch has determined that since 1980 West San Martin has incurred the following increases in annual expenses:

Pump tax (167 acre-feet x \$117/acre-feet)	\$19,539
Water testing expense	960
Postal expense	282
Purchased power	<u>6,400</u>
Total	\$27,181

The quantity of 167 acre-feet used for computing the pump tax was obtained from the Santa Clara Valley Water District, the assessment authority. The purchased power cost shown is the product of an estimated 1991 power usage of 140,000 kilowatt-hours of power derived from West San Martin's submittals and the incremental average PG&E power cost between 1987 and 1992, which reflects the time period during which the East and West systems were operated as one.

Based on the above expenses, which the Branch concurs with West San Martin are offsettable, the Branch recommends that the rates for all the customers that West San Martin serves be increased as follows:

General Metered Service

	<u>Quantity Rates</u>	
	<u>Present</u>	<u>Proposed</u>
First 300 cu. ft., per 100 cu. ft.	\$1.00	\$1.36
Over 300 cu. ft., per 100 cu. ft.	1.25	1.61

Monthly Service Charge

Since the entire increase is related to the quantity charge, the Branch recommends that the monthly service charge not change.

Flat Rate Service

	<u>Per connection per month</u>	
	<u>Present</u>	<u>Proposed</u>
For each water service connection, including premises	\$12.00	\$15.00

The Branch computed the General Metered Service and Flat Rate Service increases by considering their costs and cost recoveries spread uniformly over the total number of customers.

For an average customer with a 5/8-inch by 3/4-inch meter and average consumption of 2,000 cu. ft. of water per month, the monthly bill will increase from \$30.25 to \$37.85 - a 25% rise if the above-described rate increase is adopted. The flat rate customer would also see his bill increase by 25% as shown above.

With respect to service, Exhibit 3 states:

"West San Martin appears to be properly maintaining its entire system; however there are portions of mains installed in the former East Martin service area which are approximately 100 years old. In Decision 85-08-020, there were complaints mentioned which related to low pressure problems along these old mains. The Branch recommends that West San Martin be ordered to submit a plan for replacing the undersized mains in the former East San Martin service territory over a ten year period. If the plan is satisfactory to the Branch, West San Martin should be ordered to make the improvements. West San Martin should be authorized to file an advice letter to begin recovering these costs once the related items of plant are placed into service."

Exhibit 3 also recommends that Schedule No. 6R, Resale Service, be canceled. However, the sponsor of the exhibit testified that should the Commission not cancel Schedule No. 6R, it be increased from \$0.30 to \$0.57 per Ccf.

Applicant supports the increase from \$0.30 to \$0.57 per Ccf.

Janet Webb, the chairperson of the San Martin County Water District (District), which was formed for the purpose of acquiring East San Martin, presented the following prepared statement on behalf of the District:

"The Board of the San Martin County Water District has begun Benefit Assessment Hearing Proceedings....

"The District plans to proceed with acquisition of the San Martin Water Works, Inc. or portion thereof within a very short period of time. We hope to conclude the process of acquisition within a few months following the conclusion of the Benefit Assessment Hearing. We understand that there are several ways that acquisition can be effected, including a CPUC hearing.

"This does not appear to be an opportune time for the proposed rate increase. We recognize the concern of West San Martin Water Works, Inc. to be fairly and fully compensated for management of the system and consequent expenses. The issue of compensating West San Martin Water Works, Inc. for increased operating expenses will be best addressed at the time of acquisition.

"I would like to propose that this rate increase be delayed until September of 1992. If this delay is not considered reasonable, then I would like to suggest that the increased rates be applied only to the West San Martin Water Works, Inc. system, or that implementation of the rate increase on the San Martin Water Works, Inc. system be delayed until September of 1992. If these alternatives are unacceptable, then I would request and recommend that the rate increase be denied."

We concur with the Water Branch's recommendation concerning the suggested increase in rates.

There are three areas which should be discussed, namely:

1. The request of the district to delay any increase until September, 1992;
2. The cancellation of Schedule No. 6R, Resale Service; and
3. The Water Branch's recommended improvements to the East San Martin system.

We do not believe it appropriate to delay any increase until September 1992. It is our responsibility to ascertain that utilities provide service to consumers at a reasonable rate and also to provide the utility with sufficient revenues to assure that it has the resources to provide its customers with reasonable service. Furthermore this is an application for additional revenues to offset increased costs that have occurred over the past ten years. A rate increase to offset increased expenses does not in any way increase rate base and therefore should have no effect whatsoever on the value of the East San Martin system as is feared by the District.

In view of the fact that there is a possibility of East San Martin being acquired by the District, it would not be appropriate at this time to adopt the recommendations of Branch concerning the cancellation of Schedule No. 6R. Should the District acquire East San Martin and then desire to acquire water from West San Martin, a resale rate would have to be in effect in order for West San Martin to enter into a sales agreement with the District. Furthermore, since the financial books of the two systems are kept separate, it is appropriate that West San Martin utilize the resale schedule to reimburse itself for the use of water by East San Martin. We will authorize the increase from \$0.30 to \$0.57 proposed by Water Branch and concurred in by applicant.

It also would not be appropriate, at this time, to order applicant to make the improvements recommended by Branch in view of the proposed acquisition of East San Martin by the District.

The administrative law judge's proposed decision was filed and mailed to parties on July 7, 1992. No comments on the proposed decision have been filed.

Findings of Fact

1. West San Martin has incurred increases in annual expenses as follows:

Pump tax (167 acre-feet x \$117/acre-feet)	\$19,539
Water testing expense	960
Postal expense	282
Purchased power	6,400
Total	\$27,181

2. The increases authorized in Appendix A are just and reasonable.

Conclusions of Law

1. The application should be granted to the extent set forth in the following order.

2. The effective date of this order should be the date hereof because there is an immediate need for additional revenues.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, West San Martin Water Works, Inc. is authorized to file the revised rate schedules attached to this order as Appendix A and to concurrently withdraw and cancel its present schedules for such service. Such filing shall comply with General order Series 96.

2. The effective date of the revised schedules authorized by Ordering Paragraph 1 shall be no earlier than 5 days after the date of filing. The revised schedules shall apply only to service rendered on and after their effective date.

3. This decision closes this proceeding.

This order is effective today.

Dated August 11, 1992, at San Francisco, California.

DANIEL Wm. FESSLER  
President  
PATRICIA M. ECKERT  
NORMAN D. SHUMWAY  
Commissioners

Commissioner John B. Ohanian,  
being necessarily absent, did  
not participate.

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY

  
- 8 - NEAL J. SCHULMAN, Executive Director

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## WEST SAN MARTIN WATER WORKS, INC.

## Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The community of San Martin, and vicinity, Santa Clara County.

RATES

## Quantity Rates:

First 300 cu.ft., per 100 cu.ft. ....	\$ 1.36	(I)
Over 300 cu.ft., per 100 cu.ft. ....	1.61	(I)

Per Meter  
Per Month

## Service Charge:

For 5/8 x 3/4-inch meter .....	6.00
For 3/4-inch meter .....	6.60
For 1-inch meter .....	9.00
For 1-1/2-inch meter .....	12.00
For 2-inch meter .....	16.00
For 3-inch meter .....	30.00
For 4-inch meter .....	41.00
For 6-inch meter .....	68.00
For 8-inch meter .....	100.00
For 10-inch meter .....	125.00

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

WEST SAN MARTIN WATER WORKS, INC.

Schedule No. 2TR

SPECIAL TEMPORARY FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service customers of San Martin Water Works.

TERRITORY

San Martin and vicinity, Santa Clara County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>	
For each water service connection, including premises .....	\$15.00	(I)

SPECIAL CONDITIONS

1. The above flat rate apply to a service connection not larger than one-inch in diameter.
2. If the utility elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

## WEST SAN MARTIN WATER WORKS, INC.

Schedule No. 6R

RESALE SERVICEAPPLICABILITY

Applicable to all water service to San Martin Water Works.

TERRITORY

The eastern portion of the community of San Martin, and vicinity, Santa Clara County.

RATES

## Quantity Rates:

Per 100 cu.ft. .... \$ 0.57 (I)

## Service Charge:

	<u>Per Meter</u> <u>Per Month</u>
For 5/8 x 3/4-inch meter .....	6.00
For 3/4-inch meter .....	6.60
For 1-inch meter .....	9.00
For 1-1/2-inch meter .....	12.00
For 2-inch meter .....	16.00
For 3-inch meter .....	30.00
For 4-inch meter .....	41.00
For 6-inch meter .....	68.00
For 8-inch meter .....	100.00
For 10-inch meter .....	125.00

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX A)