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ORIGINAL

Decision No. 89859 JAN 16 1979

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

Application No. 57841  
(Filed January 30, 1978)

William Miller and J. B. Patterson, for  
applicant.  
E. L. Cooke, for the Commission staff.

O P I N I O N.

This application seeks a rate increase for water utility service in Patterson City Water Company's (applicant) service area which is located in the city of Patterson in Stanislaus County. The company has 1,249 services, all of which are metered. It alleges that the increases are due in part to offset increases in payroll and related costs, material costs, and power costs. It is alleged that applicant's distribution system is old and extensive repairs and maintenance are required in order to properly serve the customers of the system. It is also asserted that the cost of such repairs and maintenance are steadily increasing.

The proposed rates were designed to produce a rate of return of approximately 10.4 percent. It is alleged that this rate of return is the minimum necessary to enable applicant to maintain its credit standing and attract new capital at a reasonable cost.

The original cost of utility plant as of August 31, 1977, was \$511,674. Applicant uses the straight-line remaining life method at a rate of .2.1 percent for computing depreciation for ratemaking purposes.

The hearing was conducted by Administrative Law Judge Gilman on September 8, 1978, in Patterson. At the hearing there was no formal participation by any consumers, although several members of the audience asked questions about the company and Commission ratemaking procedure which were answered. The company's representative testified explaining the unaudited financial statements and the exhibits attached to the application, which were received by reference. He adopted the staff's estimates and results of operations which were supported by testimony from the staff appearance. The staff appearance also submitted a letter of opinion from the Commission's Finance Division recommending a 10.40 rate of return which would include an allowance of a rate of 11.06 percent for common equity. This opinion noted that the estimated capital structure for 1978 would be approximately 62.5 percent common equity and 37.5 percent debt in the form of intermediate-term loans. This ratio excludes the long-term debt incurred by the company under the Safe Drinking Water Bond Act.<sup>1/</sup>

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<sup>1/</sup> Approval for this financing and of a rate surcharge to provide only that amount of revenue needed to service the debt to the Department of Finance was provided in Decision No. 89055 in Application No. 57464. Because that surcharge, which is refundable if it should produce excess revenues, is intended to exactly offset the cost of the loan, and since no depreciation is to be allowed on the additional plant, the impact of these transactions is considered only to the extent that there may be an impact on property taxes or on maintenance.

Discussion

Since there is no dispute over rate of return, and since the company at hearing adopted the staff's results of operations, there is no need for an extended discussion. Table I is the staff-sponsored Summary of Earnings for recorded 1977 and estimated 1978, comparing applicant's original Summary of Earnings with that proposed by the staff:

TABLE I

: Year :	Year 1978 Estimated						: Applicant:	: 1978 :
	: Applicant :		: Staff :		: Applicant:			
: 1977 :	Present	Proposed	Present	Proposed	Exceeds	Staff	Adopted	
: Recorded:	Rates	Rates	Rates	Rates	Rates	Staff	Adopted	
Oper. Rev.	\$135,435	\$151,115	\$196,500	\$158,520	\$206,040	\$ 7,405	\$176,780	
SDWBA Rev.	-	-	-	8,280	8,280	(8,280)	8,280	
Total	135,435	151,115	196,500	150,240	197,760	875	168,500	
<u>Deductions</u>								
Oper. Exps.	112,234	131,000	131,000	121,400	121,400	9,600	121,400	
Depreciation	9,610	11,945	11,945	11,300	11,300	645	11,300	
Taxes Other Than Income	12,168	12,821	12,821	8,700	8,700	4,121	8,700	
Subtotal	134,012	155,766	155,766	141,400	141,400	14,366	141,400	
Taxes on Inc.	212	200	11,232	200	10,750	-	2,430	
Total Oper. Exps.	134,224	155,966	166,998	141,600	152,150	14,366	143,830	
Net Oper. Rev.	1,211	(4,851)	29,502	8,640	45,610	(13,491)	24,670	
Dep. Rate Base	226,395	284,774	284,774	237,410	237,410	47,364	237,410	
Rate of Return	0.5%	-	10.4%	3.6%	19.2%	-	10.4%	
Avg. No. of Customers		1,254		1,254				

(Red Figure)

# At present rates.

Applicant had originally used a test year average depreciated rate base of \$284,774. The staff reduced this to \$237,410. The principal amount of this adjustment is for the purpose of eliminating plant financed by the Safe Drinking Water Bond Act from applicant's rate base.

The major differences between applicant's and staff's estimates of operating costs are in purchased power and payroll expense categories. The staff calculated its power requirement based on its estimate of water sales. The power estimate was allocated to the pumps based on applicant's 1977 power bills and then rebilled at the present effective PG&E schedule taking into account recent reductions in electric charges.

The staff made a field investigation of applicant's system during May of 1978. It concluded that the service was generally satisfactory. It noted, however, that low pressure is experienced in some portions of the system. The staff's analysis indicates that this was due in part to old, undersized, and leaky pipes in the system. The installation of plant financed under the Safe Drinking Water Bond Act is intended to correct this problem. Applicant has acquired additional land on which to install an additional pressure tank. The staff recommended that both of these remedial steps be taken as soon as possible to improve water pressure.

The company failed to provide notice of filing the application as required by Section 454(a) of the Public Utilities Code. However, it did furnish each customer with a bill insert notice of the hearing itself. We believe that there has been substantial compliance with that statute and that the Commission pursuant to Article XII, Section 6 of the California Constitution, has the power to fix rates despite the failure to comply strictly with Section 454(a), so long as the underlying legislative purpose is accomplished. None of the customers objected to the lack of notice of the filing of the application.

Findings

1. The Commission finds that the staff's estimates of operating revenues, expenses, including taxes and depreciation, the rate base, and the rate of return for the test year 1978 are reasonable.

2. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

3. The total amount of the increase in annual revenue authorized by this decision is \$18,300; the rate of return on rate base is 10.40 percent; the return on common equity is 11.06 percent.

4. Applicant has complied with the intent of Section 454(a), Public Utilities Code, by giving customers notice of hearing but did not give the statutory notice of filing the rate increase application.

We conclude that the rate increase should be granted in part and denied in part.

O R D E R

IT IS ORDERED that after the effective date of this order, Patterson City Water Company is authorized to file the revised 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. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

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

Dated at San Francisco, California, this 16<sup>th</sup> day of JANUARY, 1979.

Robert B. Friedman  
President  
Charles D. Lovell  
Lawrence J. Decker

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Commissioners

APPENDIX A  
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The City of Patterson, and vicinity, Stanislaus County.

RATES

Quantity Rates:	Per Meter Per Month	Surcharge Per 100 cu.ft.
First 300 cu.ft., per 100 cu.ft. ....	\$ 0.35 (I)	\$0.028
Next 19,700 cu.ft., per 100 cu.ft. ....	.43	.028
Over 20,000 cu.ft., per 100 cu.ft. ....	.38 (I)	.028
 Service Charge:		
For 5/8 x 3/4-inch meter .....	2.55	(I)
For 3/4-inch meter .....	3.10	
For 1-inch meter .....	3.80	(I)
For 1 1/2-inch meter .....	6.00	
For 2-inch meter .....	8.00	
For 3-inch meter .....	15.00	
For 4-inch meter .....	20.00	
For 6-inch meter .....	48.00	
For 8-inch meter .....	70.00	

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the quantity charge computed at the Quantity Rates. (C)

The purpose of the Surcharge is to generate sufficient revenue to repay the annual debt of the Safe Drinking Water Bond Act loan. It shall be separately identified on the monthly bill.



Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The City of Patterson and vicinity, Stanislaus County.

RATE

Per Month

For each wharfhead hydrant ..... \$1.80

(1)

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes to contractors, tankers, settling dust, or any individual requesting water, water will be furnished at the plant meter located on North 5th Street in the City of Patterson, County of Stanislaus. Charges for this service shall be made at the Quantity Rates under Schedule No. 1, General Metered Service.

2. The cost of installation and maintenance of hydrants will be borne by the utility.

3. Relocation of any hydrant, shall be at the expense of the party requesting relocation.

4. The utility will supply only such water at such pressure as may be available from time to time as the result of its normal operation of the system.

Schedule No. 5-A

PUBLIC FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

The City of Patterson and vicinity, Stanislaus County.

RATES

<u>Standard Hydrant</u>	<u>Per Hydrant Per Month</u>	
Single Outlet	\$4.50	(I)
Double Outlet	5.00	
Triple Outlet	5.60	(I)

SPECIAL CONDITIONS

1. The cost of installation and maintenance of hydrants will be borne by the utility. The public authority will pay for the relocation of any hydrants owned by the utility.
2. The above rates include use of water for fire protection and for no other purpose. For water delivered through fire hydrants for any other purpose, charges will be made, therefore, at monthly quantity rates, Schedule No. 1, General Metered Service.
3. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.
4. Fire hydrants will be attached to the utility's distribution mains only as authorized by the proper public authority. Such authorization must designate the size and type of hydrants and specifically state the location at which each is to be installed.

## Schedule No. 5 F-S

NON-METERED FIRE SPRINKLER SERVICEAPPLICABILITY

Applicable only for water service to privately owned non-metered fire sprinkler systems where water is to be used only in case of fire.

TERRITORY

The City of Patterson and vicinity, Stanislaus County.

RATES

<u>Size of Service</u>	<u>Monthly Charge</u>	
2 inch	\$ 4.50	(1)
4 inch	6.75	
6 inch	10.00	
8 inch	15.50	(1)

SPECIAL CONDITIONS

1. The minimum diameter for fire sprinkler service will be 2 inches and the maximum diameter will not be more than the diameter of the main to which the service is attached.
2. The customer will pay, without refund, the entire cost of installation of the fire sprinkler service. The above will be construed to include the necessary fittings, valves, pipe, vault, if necessary, and detector check valve or similar device to indicate the use of water. Also, if a distribution main of adequate size to serve the private fire sprinkler system in addition to all other service does not exist adjacent to the premises to be served, a service main from the nearest existing main of adequate capacity shall be installed at the cost of the applicant.
3. The customer's installation beyond the company's detector check valve or similar device must be such as to effectively separate the fire sprinkler system from that of the customer's regular water service. There shall be no

(Continued)

Schedule No. 5 F-S

NON-METERED FIRE SPRINKLER SERVICE

SPECIAL CONDITIONS--Contd.

cross connections made unless specific approval by the company is granted, and then any such cross connection shall be made only under the supervision of the company. Any such unauthorized cross connection may be the grounds for the immediate disconnection of the sprinkler service without liability to the company.

4. Any unauthorized use of water, other than for fire extinguishing purposes, may be the grounds for the immediate disconnection of the sprinkler service without liability to the company.

APPENDIX B

NOTICE

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

Application No. 57841

The Commission held hearings in this matter on September 8, 1978, in Patterson. The Commission staff submitted evidence indicating that the originally proposed increase was excessive. In response the company agreed to reduce the amount of increase requested. As reduced, the rates would generate an additional \$18,300 in gross revenue, 12.2 percent more than estimated under present rates for 1978. The applicant's service was also considered.

The company gave notice of the hearing but failed to give notice of the filing of the application in the manner required by law. If you did not know of the hearing because of this failure and believe that another hearing is required, you may write to:

California Public Utilities Commission  
State Building, Room 5171  
350 McAllister Street  
San Francisco, CA 94102

Attention: Administrative Law Judge John C. Gilman  
giving the reasons. You may also address any inquiries concerning  
the application to that address.