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Decision No. 89959 FEB 14 1979**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 authoriz-
ing it to increase rates charged
for water service.

Application No. 58184
(Filed June 28, 1978)

INTERIM OPINION

This application was originally filed on June 28, 1978. It requests a schedule of step rates designed to produce the requested rate of return annually for the period 1978 through 1980. The application requests a rate of return of approximately 11.49 percent over the 1978-1980 period.

On October 13, 1978, Del Este Water Company (Del Este), through its attorney, notified the administrative law judge assigned to this proceeding that it was ready to go to hearing on approximately 10 days' notice. The staff, however, informed the ALJ that it could not be ready until approximately April of 1979 at the earliest.

On December 14, 1978, Del Este filed a substantial amendment to its application requesting interim relief. The amendment points out that the staff report will not be ready until April of 1979, which will most likely mean a decision of final rate relief not until the last quarter of 1979.

The amendment further alleges that Del Este has experienced substantial increases in certain expenses since filing of the application, including an increase in payroll of \$60,000 over 1977, a \$20,000 increase in power costs, miscellaneous expense increases of \$75,000, and an increase in depreciation expense of \$25,000. The amendment states that as a result of the passage of Proposition 13, real property taxes for calendar 1979 will be approximately \$31,000 or 54 percent less than 1977. Additionally, as a result of the passage of the Federal Revenue Act of 1978, federal income taxes will be approximately \$58,000, roughly 45 percent of the amount of such taxes for 1977.

As a result of the increased expenses and decreases in taxes listed in the preceding paragraph, the amendment states that the net increase in expenses is approximately \$78,000.

Del Este applies for partial relief because our present policy does not allow a Class A water company, which includes the applicant, and advice letter offset rate increase filing for other than purchased water and power and real property taxes. Del Este estimates that its net income for 1978 at current rates will be approximately \$203,000 producing a rate of return on rate base of approximately 8.0 percent. However, Del Este further estimates that its net income for 1979 at current rates will be only \$134,000, producing a rate of return of approximately 5.2 percent.

Attached to the amendment to the application is Del Este's approved construction budget for the year 1979. It aggregates \$322,000. Del Este avers that these improvements are essential to maintain current service standards. In this connection the petition states:

"Applicant's approved construction budget for the year 1979 aggregates \$322,000. Included therein and set forth on Exhibit A hereto are improvements deemed essential by Applicant if it is to maintain its current standard of service to its customers. While Applicant has approximately \$100,000 available

to it from proceeds of long term financing heretofore completed, Applicant is obligated to make a payment of \$150,000 in March of 1979 on account of principal on its outstanding indebtedness. In addition, estimated refunds under outstanding extension agreements will aggregate approximately \$50,000 in 1979. Applicant believes that no long term debt financing will be available to it in 1979 because the effective interest rate will exceed 10%, and Applicant believes that long term lenders have been and are unwilling to lend funds in California to water utilities, including Applicant, at an effective interest rate in excess of 10%. With the prime rate currently at 11.5% for short term borrowing, the effective interest rate to Applicant for interim bank financing is excessive. In the absence of a rate increase early in 1979, only approximately \$80,000 will be available to Applicant for the purpose of financing its capital improvement program and those funds must be devoted to recurring operational items. No funds will be available for the other essential items set forth in Exhibit A. If the rate relief herein requested is not granted, Applicant believes that it will be forced to cut down on its maintenance and repair program and that it will be necessary to terminate certain employees currently engaged in Applicant's construction program."

Applicant requests an ex parte order permitting a partial rate increase effective March 1, 1979, subject to refund. While the original application requested total relief of \$375,000, the amendment requests, as interim relief, \$78,000 of additional revenue which it states is necessary to meet the increase in expenses referred to previously and to "maintain its financial integrity."

The partial rate increase would increase revenues by 5.7 percent, amounting to 21 percent of the total increase requested in the application.

According to the amendment, if the partial rate increase is effective for the full year 1979, Del Este's estimated rate of return would not exceed 8.9 percent. The rate of return authorized by the Commission in Del Este's most recent general rate increase proceeding, Decision No. 85335, Application No. 55202 (January 13, 1976; 79 CPUC 327), was 10.5 percent.

Del Este has mailed a notice pursuant to Section 454(a) of the Public Utilities Code stating in general the terms of the request for partial rate relief. No protests have been received.

The metered rates in Appendix A of this decision are based upon those proposed by the applicant for partial relief but have been rounded off for purposes of billing and tariff administration. The quantity rates have been rounded to even cents and the minimum charges rounded to the nearest ten cents for the small size meters and to the nearest dollar for the large size meters. The result of this rounding is to reduce the revenue to be produced by approximately \$660.

We believe that the partial relief, subject to refund, is necessary for the applicant to maintain financial integrity, to keep maintenance at current levels, and to proceed with essential capital improvements. The rates requested will produce a rate of return less than that authorized in Decision No. 85335.

This order provides for an interim increase, subject to refund. Accordingly, we need not address the issue of compliance with the President's Voluntary Wage and Price Standards at this time. However, Del Este must comply with the requirements of our Resolution No. M-4704 when this proceeding goes to hearing. Also, we note that the 5.7 percent rate increase authorized herein does not exceed the President's standards.

Findings and Conclusions

1. This application was filed on June 28, 1978.
2. The staff report in this matter will not be available until April of 1979 at the earliest.
3. The net increase in expenses described in the discussion section of this opinion, and the necessary funded capital improvements for 1979, without rate relief, will depress Del Este's rate of return on rate base to approximately 5.7 percent for the calendar year 1979. Such rate of return is not sufficient to maintain Del Este's financial integrity.
4. Del Este will not be able to maintain current maintenance standards or construct most of the capital improvements specified in Exhibit A to the amendment to the application without the interim relief requested in the amendment. The completion of these plant items on schedule is in the public interest.
5. The interim relief proposed by Del Este will result in a rate of return on rate base of approximately 8.9 percent, which is less than its authorized rate of return.
6. The rate schedules attached to the amendment to the application are designed to produce a rate of return of 8.9 percent and are reasonable as interim rates. Such rates should be placed into effect subject to refund, pending our final order in this matter.
7. Because of the financial condition of Del Este, this order should be effective the date of signature. ✓

INTERIM ORDER

IT IS ORDERED that after the effective date of this order, applicant Del Este 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 on or after March 1, 1979, on not less than five days' notice to affected ratepayers. The revised schedules shall apply only to service rendered on and after their effective date.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 14th day of FEBRUARY, 1979.

John E. Conroy
President
Vernon L. Sturgeon

Clair T. Desjardis

Commissioners

Commissioner Leonard M. Grimes, Jr., being necessarily absent, did not participate.

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

APPENDIX A
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Schedule No. 1

METERED SERVICE

APPLICABILITY

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 <u>Per Month</u>	
Quantity Rates:		
First 1,000 cu.ft. or less	\$ 3.35	
Next 9,000 cu.ft., per 100 cu.ft.290	(I)
Over 10,000 cu.ft., per 100 cu.ft.180	(I)
Minimum Charges:		
For 5/8 x 3/4-inch meter	\$ 3.35	
For 3/4-inch meter	4.40	(I)
For 1-inch meter	5.60	
For 1-1/2-inch meter	12.00	
For 2-inch meter	18.00	
For 3-inch meter	34.00	
For 4-inch meter	58.00	
For 6-inch meter	105.00	
For 8-inch meter	164.00	
For 10-inch meter	245.00	
For 12-inch meter	330.00	(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 Connection</u> <u>Per Month</u>	
For a premise served by an unmetered water connection	\$6.03	(1)

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:

- 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

	<u>Per Month</u>	
For each inch of diameter of service connection.....	\$2.00	(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.

(Continued)