

ORIGINAL

Decision No. 90368 JUN 5 1979

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of GIBBS RANCH WATER CO., a)
corporation, for authorization)
to increase rates charged for)
furnishing water service.)

Application No. 58055
(Filed May 5, 1978)

James R. Hardin, Attorney at Law, for applicant.
Charles H. Walter, for himself; and Roy A. Renner,
and Larry Steuben, for Racetrack Home Owners'
Association; protestants.
Jeanne M. Bauby, Attorney at Law, for California
Farm Bureau Federation, interested party.
Herbert R. McDonald, for the Commission staff.

O P I N I O N

Applicant Gibbs Ranch Water Co. seeks authority to increase its water rates by \$32,090 (63 percent) annually on the basis of test year 1978. Applicant's rates were last adjusted by Decision No. 84504 dated June 3, 1975 in Application No. 54905. That decision also required applicant to make certain improvements, after which its rates could be further adjusted. After compliance with Decision No. 84504 applicant was authorized by Decision No. 85301 dated January 6, 1976 to further adjust its rates.

Applicant is a corporation wholly owned by Harrison L. Gibbs, the developer of Rancho Sonora Estates and other nearby developments which comprise the service area. Mr. Gibbs also owns and operates a sewer utility serving the same general area.

Applicant receives most of its water from the Pacific Gas and Electric Company's (PG&E) Tuolumne water system. This water originates in the South Fork of the Stanislaus River and is diverted through approximately 31 miles of canals, flumes, pipes, and ditches to the applicant's intake works. Applicant has a contract to purchase 15 miner's inches of water a day from PG&E which is equal to approximately 242,350 gallons a day. Applicant has a 5,660,000-gallon earth reservoir to store the water received from PG&E. From the earth reservoir water is piped to a 530,000-gallon earth-filled gunite-lined reservoir adjacent to applicant's filter plant. The water is then filtered and chlorinated and pumped into two steel storage reservoirs having a total capacity of 130,000 gallons. Another steel reservoir with a capacity of 420,000 gallons is presently under construction to serve the system. In addition to the water from PG&E, applicant owns two wells to serve the system. One well has a capacity of 100 gallons a minute; the other has a capacity of approximately 15 gallons a minute. The system is constructed to meet the requirements of the Commission's General Order No. 103 and meets the required standards of the State Department of Health.

Notice of the hearing was published and all customers were notified by first class mail on January 19, 1979 that the hearing on the application was to be heard January 31, 1979. Public hearing was held at Sonora before Administrative Law Judge Banks on January 31, 1979 at which time the matter was submitted.

Testimony was presented on behalf of applicant by its sole shareholder, Mr. Harrison Gibbs, and its accountant, Mr. Blank. The Commission staff presentation was made by Mr. Herbert McDonald, an associate utility engineer from the Hydraulic Branch.

Mr. Gibbs' testimony was that an increase is necessary to offset increased costs and extensive plant additions. He stated that applicant is requesting a service type rate plus a usage charge so that persons using less water would pay a lesser rate than those using large amounts of water. He also stated that the Safe Drinking Water Act of 1974 has required installation of a new plant filter which will need more monitoring than in the past and that such monitoring will increase costs substantially.

The Commission received 17 letters from applicant's customers protesting the application. The substance of the letters was that: (1) the proposed increase is too large as well as inflationary, (2) no increase is justified, (3) rates were increased by 14.4 percent in 1975 and 39 percent in 1976, (4) applicant's rates are presently the highest in Tuolumne County, (5) persons with fixed incomes are being discriminated against by such increases, (6) Mr. Gibbs' other business operations are being partly financed by the applicant's corporation, and (7) the quality of water received, particularly during the summer months, does not warrant an increase.

Approximately, 60 members of the public attended the hearing including members of a homeowners organization called Race-track Home Owners' Association (Association).

During cross-examination by Association, Mr. Blank explained that money received by the utility from a developer as advances for construction is a deduction from the value of the investment in plant that the Commission uses in establishing rate base. Mr. Blank also explained that interest charges on borrowed capital paid to an affiliated company are part of the cost of operations which are considered, as are all operating expenses, in determining rate of return.

During cross-examination of staff witness McDonald, the Association produced a document comparing applicant's proposed rates with those prevailing in areas within Tuolumne County. Mr. McDonald was asked whether the lower rates in surrounding communities as shown in the document suggested there might be operating economies or efficiencies which are not being realized by the applicant. Mr. McDonald explained that in the preparation of its Exhibit 1, the staff considered all possible economies and efficiencies as well as comparing the operations and operating expenses with other utilities where such data are available. With respect to the comparison of rates with other systems in the adjacent area and those proposed by the applicant, Mr. McDonald explained that at least two of the systems were well systems which do not require filters. On the PG&E system, he explained that on July 26, 1978, PG&E filed an advice letter requesting an increase in its water rates and alleged that it is experiencing a negative rate return of 5.83 percent while losing \$482,000 annually on its Tuolumne water operation. Finally, he stated that many of the companies listed on the Association's document were mutuals where specific operating data were not available on a ratemaking basis for the staff to evaluate.

Rates

Applicant proposes to change its present monthly rates to a service charge type rate which the staff supports. The staff did not propose any rates. The present and proposed rates are as follows:

Quantity Rates:	Per Meter Per Month	
	<u>Present Rate</u>	<u>Proposed Rate</u>
First 800 cu.ft. or less	\$8.14	
Next 2,200 cu.ft. per 100 cu.ft.	0.54	
Next 7,000 cu.ft. per 100 cu.ft.	0.43	
Over 10,000 cu.ft. per 100 cu.ft.	0.32	
First 300 cu.ft. per 100 cu.ft.		\$0.72
Over 300 cu.ft. per 100 cu.ft.		0.90
	<u>Monthly Minimum Charge</u>	<u>Monthly Service Charge</u>
For 5/8 x 3/4-inch meter	\$ 8.14	\$ 8.00
For 3/4-inch meter	10.50	8.80
For 1-inch meter	15.00	12.00
For 1-1/2-inch meter	25.83	16.00
For 2-inch meter	37.50	22.00

It is clear from the above that the present rate design favors the large user of water. We will, therefore, adopt applicant's proposal for a service charge type of rate.

Results of Operations

The following table compares the summary of earnings of applicant and staff for test year 1978 at present and proposed rates, together with the results adopted herein.

Gibbs Ranch Water Co.
Summary of Earnings

Item	Year 1977 Applicant Recorded At Present Rates	Year 1978				Adorted
		Applicant Estimated		Staff Estimated		
		Present Rates	Proposed Rates	Present Rates	Proposed Rates	
Operating Revenue	\$ 50,060	\$ 50,580	\$ 82,670	\$ 52,330	\$ 85,220	\$ 76,420
<u>Deductions</u>						
Operating Expense	27,450	31,780	31,780	31,440	31,440	31,440
Taxes Other Than Income	3,080	6,540	6,540	2,640	2,640	2,640
Depreciation	12,020	10,210	10,210	10,620	10,620	10,620
Tax on Income(a)	450	200	7,170	200	7,600	5,360
Total Oper. Expense	43,000	48,730	55,700	44,900	52,300	50,060
Net Operating Income	7,060	1,850	26,970	7,430	32,920	26,360
Depreciated Rate Base	250,750	272,350	272,350	274,640	274,640	274,640
Rate of Return	2.8%	0.7%	9.9%	2.7%	12.0%	9.60%
Avg. No. of Customers	266	288	288	298	298	298

- (a) Because of the small amount of income, applicant did not use investment tax credit or accelerated depreciation in calculating tax on income. He used straight line depreciation. The adopted figures do not use investment tax credit because of the nominal amount of anticipated additions to plant.

Operating Revenues

Exhibit 1 states that the staff reviewed applicant's estimates of water consumption and revenue and made independent estimates of those quantities. The staff, in its revenue estimates, accepted as reasonable the water use consumption figure of 196.2 Ccf per customer as supplied by the applicant. The difference in the two estimates is that applicant, in projecting the water use table to test year 1978, used 288 customers whereas, because of the area's rapid growth, the staff used 298 customers. We will accept the staff's estimate as reasonable.

Operating Expenses

Applicant's estimates of operating expenses exceeded staff's estimates by only \$340. The staff estimated that the extra water required would come from applicant's two wells and would, therefore, require less purchased water but would necessitate increased power costs. On operation and maintenance materials applicant used an 8-1/4 percent inflation rate whereas the staff used a 7 percent rate.

We believe staff estimates of operation and maintenance expenses are reasonable and will be adopted.

Taxes Other Than Income

Applicant projected higher ad valorem taxes than did the staff. The staff estimate was based on the estimated reduction of taxes effective July 1, 1978 with the passage of Proposition 13 (Article XIII-A of the California Constitution) whereas applicant's estimate did not. Since the staff estimate takes into consideration the reduction of taxes attributable to Proposition 13, it is more accurate and will be adopted.

Utility Plant and Rate Base

Below is a tabulation of applicant and staff estimates of total utility plant and rate base.

Total Utility Plant and Average Rate Base

<u>Item</u>	1978 Estimated		Applicant Exceeds Staff
	<u>Applicant</u>	<u>Staff</u>	
Beg.-of-year Utility Plant In Service	\$337,535	\$337,535	\$ -
Nonrecurring Additions to be Installed During 1978 as Estimated	<u>37,716</u>	<u>43,000</u>	<u>(5,284)</u>
Adjusted Balance, Beg.-of-year	375,251	380,535	(5,284)
Plant Additions	<u>25,000</u>	<u>19,716</u>	<u>5,284</u>
End-of-year Utility Plant Total	400,251	400,251	-
Average Utility Plant Total	387,751	390,393	(2,642)
Materials and Supplies	1,000	1,000	-
Working Cash Allowance	<u>3,500</u>	<u>3,300</u>	<u>200</u>
Subtotal	392,251	394,693	(2,442)
<u>Deductions</u>			
Average Reserve for Depreciation	61,250	61,402	(152)
Average Advance for Construction	55,300	55,300	-
Average Contribution in Aid of Construction	3,350	3,350	-
Deferred Investment Tax Credit	<u>-</u>	<u>-</u>	<u>-</u>
Total Deductions	119,900	120,052	(152)
Average Depreciated Rate Base	272,351	274,641	(2,290)

(Red Figure)

The staff rate base figures differed from applicant's primarily because of recorded information available to the staff that was not available at the time the application was filed. For example, for the cost of the 420,000-gallon steel reservoir presently under construction, the staff used the contract price while applicant used the estimated cost. Similarly, the staff used the latest recorded information for estimating advances for construction and contribution in aid of construction.

We will adopt as reasonable the staff rate base estimates because they are more reflective of prevailing conditions.

Rate of Return

Applicant is seeking authorization to increase its rates to produce a return on adopted rate base of 10.0 percent. Applicant states that it considers 10.0 percent to be fair and reasonable in view of recent Commission decisions for companies of comparable size.

Staff Exhibit 1 states that the Commission's Finance Division reviewed the application and analyzed the financial position and results of operation as set forth in applicant's annual reports filed with the Commission. It stated that under present rates applicant would realize a rate of return of 2.7 percent based on staff's 1978 estimated rate base and that it was recommending a 9.80 percent rate of return, although, considering applicant's capital requirements and other factors, a rate of return in the range of 9.60 to 10.0 percent is reasonable.

The Finance Division also states that applicant's investment in utility plant has been financed, in part, with advances and contribution in aid of construction and with equity capital. Further, since 1976 payables to related companies bearing interest have been a major source of funds, totaling \$196,811 at the end of 1977. For ratemaking purposes, the Finance Division thinks that such payables should be considered common equity since these monies are advanced by companies controlled by applicant's sole shareholder.

In Decision No. 84504 dated June 3, 1975, the Commission authorized applicant an 8.5 percent rate of return. Although some increase in rate of return appears to be reasonable, we are of the opinion that an increase from the 8.5 percent authorized by Decision No. 84504 to the 10.0 percent requested herein is not warranted at this time. Nor do we believe that the Finance Division recommendation of 9.80 percent is warranted at this time. We will adopt as reasonable a 9.6 percent rate of return which we believe will balance the interests of the consumers with the benefits accruing to the applicant.

Service

Staff Exhibit 1 states that in July 1978, 16 customers were interviewed and pressures taken at residences. Of the customers interviewed, four complained of the taste of the water but the two staff engineers were unable to detect any objectionable taste. The pressure test results showed that pressures were within the requirements of General Order No. 103.

The staff concluded that the utility plant is properly designed, maintained, and operated and that service is good. It made no recommendation with regard to service or improvements.

Findings of Fact

1. Applicant is seeking authorization to increase its rates by \$32,090 (63 percent) annually on the basis of test year 1978.

2. Applicant's present rates were established by Decision No. 84504 dated June 3, 1975 and adjusted by Decision No. 85301 dated January 6, 1976.

3. The adopted estimates previously discussed herein of operating revenues, expenses, and rate base for test year 1978 reasonably indicate the results of operation for the near future.

4. Applicant is in need of additional revenue, but the proposed rates set forth in the application are excessive.

5. The adopted estimates for ad valorem taxes included in "Taxes Other Than Income" include the estimated effects of Article XIII-A of the California Constitution.

6. The proposed rate of return on rate base of 10.0 percent is excessive.

7. A rate of return of 9.6 percent on adopted rate base is reasonable.

8. The increases in rates and charges of approximately \$24,090 authorized by this decision are justified and reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

Conclusion of Law

The application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant 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.

2. Within forty-five days after the effective date of this order, applicant shall file a revised tariff service area map, appropriate general rules, and sample copies of printed forms that are normally used in connection with customers' services. Such filing shall comply with General Order No. 96-A. The effective date of the revised tariff sheets shall be five days after the date of filing.

3. Applicant shall prepare and keep current the system map required by paragraph I.10.a of General Order No. 103. Within ninety days after the effective date of this order, applicant shall file with the Commission two copies of this map.

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

Dated at San Francisco, California, this 5th day of JUNE, 1979.

John E. Byrne
President
Vernon L. Sturgeon
Richard D. Hoak
Clair J. Deibel
Leonard W. Smith
Commissioners

APPENDIX A

Schedule No. 1 (c)

METERED SERVICE (c)

APPLICABILITY

Applicable to all metered water service. (c)

TERRITORY

Rancho Sonora Estates and vicinity, located about one mile west of Sonora, Tuolumne County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	(c)
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 7.00	(I)
For 3/4-inch meter	8.00	
For 1-inch meter	10.50	
For 1 1/2-inch meter	14.75	
For 2-inch meter	19.00	(I)
Quantity Rate:		
First 300 cu.ft., per 100 cu.ft.	\$ 0.61	(I)
Over 300 cu.ft., per 100 cu.ft.	0.81	(I)

The Service Charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rate, for water used during the month.

(c)