STATE OF CONNECTICUT

PUBLIC UTILITIES COMMISSION

STATE OFFICE BUILDING · HARTFORD, CONNECTICUT 06115

DOCKET NO. 10660

Original

APPLICATION OF THE FARMINGTON WATER COMPANY
TO INCREASE ITS RATES TO ALL ITS CUSTOMERS

FINDING AND ORDER

By a proposed schedule of rates and charges filed with the Commission on February 14, 1968, The Farmington Water Company seeks increased revenues amounting to $15,000 per year. The company proposes that said increased rates and charges would apply to all bills and meter and hydrant rentals and for sprinkler systems commencing April 1, 1968 and for water consumed by its customers in April, May and June 1968, and each calendar quarter thereafter.

By letter dated February 15, 1968, the Commission suspended the proposed increase in charges pending an investigation pursuant to Section 16-19 of the General Statutes of Connecticut.

For the purpose of assisting the Commission in its investigation into the reasonableness and the need for said higher rates and charges the matter was assigned for a public hearing to be held at the office of the Commission on March 12, 1968. Notice of the pendency of the petition and of the time and place of the hearing to be held thereon was given to the company, to the Town of Farmington, and to such other persons as in the opinion of the Commission appeared to have an interest in the matter, all of which more fully appears on the Commission's order of notice and the return of its Secretary thereon, on file. Public notice was also given by advertisement in The Hartford Times.

At the hearing the company appeared by counsel. There were no other appearances and no opposition to the petition was presented at the hearing.

According to the company's annual report on file with the Commission, the company supplied water to approximately 625 customers. The water supply system of the company consists of the Wadsworth Reservoir having a storage capacity of seventy-three million gallons. The water supply is augmented by water purchased from The Metropolitan Water District and water purchased from The Plainville Water Company. The distribution system consists of about 11.5 miles of various size mains running from 2-inch to 10-inch in diameter.

The company supplies water to its customers on a meter rate basis with the exception of public and private fire protection service and one (1) barn and a garden tap which are billed on a flat rate. The company's customers supplied from the leased Wells Acres tract are also billed on a flat rate basis.

## APPLICANT'S EVIDENCE

According to the company's proposal it would increase the meter rates to general customers by approximately 37% on an overall basis; private fire hydrant charges would be increased by 60%; sprinkler system charges for the first 500 heads would be increased by 60% and all over 500 heads would be increased by 67%; public fire hydrant charges would be increased by about 34%. The company proposes to increase the flat charge to its two unmetered customers from $4 to $15 per quarter and would subsequently install meters on these two services. The company however does not intend to increase the $15 per quarter rates for the unmetered customers in the Wells Acres tract.

The present meter rate of the company consists of a quarterly meter charge ranging from 60¢ for a five-eighths inch meter to $6.30 for a three inch meter; in addition, the meter rate provides for a charge for water including a minimum charge of $3.40 for 600 cubic feet or less per quarter with subsequent steps ranging from 34¢ per hundred cubic feet to 20¢ per hundred cubic feet. The proposed meter rate of the company would consist of a meter charge ranging from $4 per quarter for a five-eighths inch meter to $9.70 for a three-inch meter. In additional, the rate would include a proposed charge for water ranging from 38¢ per hundred cubic feet per quarter to 25¢ per hundred cubic feet per quarter and would eliminate the minimum charge.

The petitioner's last request for an increase in rates was nine years ago. Since then the Company claims that it has expended approximately $144,000 for the installation of mains, meters and hydrants. The petitioner's experience for the test year 1967 indicated that its earnings during the test period were equivalent to a return of 2.57%. The company further claims that with the increased cost of labor and materials, earnings have deteriorated to the point where its ability to borrow additional funds is impaired.

The Company asserts that with the current inflation in the cost of labor and materials, its present schedule of rates will not afford adequate revenue to provide it with a reasonable return on property which it has dedicated to public service. The Company's pro forma statement of income indicates that under the proposed rates the Company will have utility operating income of $7,208 and a rate of return of 6.00%.

## COMMISSION ANALYSIS AND EVALUATION OF EVIDENCE

### RATE BASE

The percent return on a rate base is one criterion used by the Commission in determining the proper rates that should be charged by a public service company. Included as a component of such rate base is the "original cost" of property dedicated to public service.

In its Docket #10316 dated October 9, 1964, the Commission promulgated its "Uniform System of Accounts" for use by the applicant and other Class "B" water companies. In its accompanying letter of transmittal dated January 18, 1965, the Commission pointed out that an original cost and reclassification study would be required of all companies and expressed the hope that "it will be possible to undertake the required study and carry it through to completion in a period of not more than two years from the effective date of this system of accounts". During the course of the hearings held in connection with these proceedings the Company was advised that it would be necessary for it to complete and submit the prescribed original cost study in order to provide the Commission with an accurate basis for testing the adequacy of existing rates and determining to what extent, if any, such rates are inadequate for the future.

On the basis of the original cost study, not submitted until June 26, 1968, which we are accepting for the purpose of arriving at a rate base, we find that the company has overstated both its investment in plant and accumulated depreciation reserve by $3,741 and $3,283 respectively.

In addition to the above, the Company failed to reflect as a reduction from its claimed rate base $2,689 representing customers advances for construction. We have deducted this amount from the Company's claimed rate base on the basis that it would be inequitable to require a customer to advance capital and then pay a return on the cost of utility property financed by that capital.

We show in Table I below the Company's rate base as adjusted by the Commission. This calculation totaling $116,965 is hereby adopted by the Commission as reasonable for purposes of this proceeding.

TABLE I

| | | |
|---|---|---|
| Utility Plant in Service | | $328,176 |
| Less: | Reserve for Depreciation | 130,923 |
| Net Utility Plant | | $197,253 |
| Less: | Contributions in Aid of Construction | 32,322 |
| | | $164,931 |
| Less: | Customers Advances for Construction | 52,047 |
| | | $112,884 |
| Add: | Working Capital | 4,081 |
| Rate Base | | $116,965 |

REVENUES

Public and private fire protection service revenues under present rates represent about 13½% of the company's total revenues. Under the proposed rates, public fire and private fire protection revenues would represent approximately 14.7% of the company's total revenues. In its amended rate schedule the Company proposes to establish a meter rate consisting of a meter charge plus a charge for water. The rate, however, does not include in the meter charge a minimum quantity of water. This is a departure from accepted rate making practices and is not in the public interest.

In the company's revenue calculations under existing rates in the test year, it has included the revenues received from a new industrial customer for only a four month period. Inasmuch as this was during the period when the plant was starting operations the sale of water to this customer during this period was only 79,600 cubic feet. Based on our examination of billings for subsequent periods it would appear thatda more normal usage by this customer would be approximately 200,000 cubic feet per quarter. On this basis, the estimated net additional revenue to be received from this customer for a full year after giving effect to the amount actually billed would be approximately $1500.

In addition, our analysis indicates that the company is not billing some of its customers for private fire protection service. The records show that there are nine (9) sprinkler systems, but the company is billing for only five (5).

It would therefore appear that in correcting this billing and annualizing for the fire service now being provided to the new industrial customer and for the three (3) additional private hydrants recently installed for an apartment complex, additional revenues of about $250 would be received.

Further, the company installed seven (7) additional public fire hydrants in December 1967, and has included in the test year only $35. In annualizing the revenues to be received from these additional hydrants and after giving effect to the one month's revenue the company has claimed, the net additional revenues to be received from public fire service would be $385.

Accordingly, our analysis discloses that the company has understated its anticipated revenues under the present rates in the pro forma year by approximately $2100.

EXPENSES

In our analysis of the income statement submitted by the Company, we find that the expenses claimed, with the following exceptions, are acceptable for determining the Company's revenue requirements at this time.

The Company claims an increase of approximately $2,200 over actual 1967 for the cost of purchased water in a pro forma period. The Commission reviewed the actual billings for purchased water in the first six months of 1967 and 1968 and found that in each period, the cost amounted to approximately $2,800. Further, there is no evidence substantiating the company claim that it has to purchase more water than was required in the test year. We are, therefore, disallowing the $2,200 claimed as an added cost of purchased water for pro forma purposes.

The Company has included $3,000 in its pro forma income statement representing estimated costs to comply with a previous Commission directive to establish office facilities for the handling of customer billing, and information and service calls. We are allowing this amount for rate making purposes at this time with the express proviso that the Company make immediate arrangements for such facilities.

We have also reflected the appropriate adjustments in the State Gross Earnings and Federal Income Taxes made necessary by the changes referred to above.

We show in Table II below the Pro Forma Income Statement as presented by the Company, the adjustments made by the Commission, and the pro forma as modified by the Commission.

TABLE II (Page 7)

TABLE II

| | Company Pro Forma | Commission Adjustments | Commission Pro Forma |
|---|---|---|---|
| Operating Revenues | $57,458 | $2,100 | $59,558 |
| Operating Revenue Deductions: | | | |
| Operating Expenses | $32,650 | (2,200) | $30,450 |
| Depreciation | 5,700 | | 5,700 |
| Taxes (including F.I.T.) | 11,900 | 1,305 | 13,205 |
| Total Operating Revenue Deductions | $50,250 | (895) | $49,355 |
| Utility Operating Income | 7,208 | 2,995 | 10,203 |
| Interest Expense | 800 | | 800 |
| Net Income | $6,408 | 2,995 | 9,403 |
| Dividends | 3,600 | | 3,600 |
| Balance to Surplus | $2,808 | $2,995 | $5,803 |

Our analysis demonstrates that the Company's present level of rates and charges which results in a rate of return of 2.57% is inadequate. Our analysis also discloses that the return the Company will receive under the proposed rates after payment of its operating expenses, including depreciation and taxes, would be more than just and reasonable, and will provide an operating income in excess of that which is necessary to enable the Company to maintain its financial stability, to provide adequate service, and afford it a reasonable return.

## FINDINGS OF FACT

The petitioner's present rate of return is not just, reasonable and adequate to fulfill properly its statutory duties to the public.

The revenues as filed in the Amended Schedule of Rates would be more than just, reasonable and adequate.

Additional revenues in the amount of $10,774 per annum over the annual revenues received by the Company under its present rates will provide the Company sufficient revenue to afford it a reasonable return after payment of all operating expenses and charges, including depreciation and the recent 10% increase in federal income taxes. In addition, it will permit the payment of fixed charges on its debt and the continuation of the present dividends on its outstanding common stock, and have remaining a reasonable amount to be carried to retained earnings.

We show in Table III below the revenues and expenses found reasonable by the Commission.

TABLE III

| | |
|---|---|
| Actual Revenues | $42,434 |
| Commission Adjustment | 2,100 |
| Allowed Revenue Increase | 10,774 |
| Total Operating Revenues | $55,308 |
| Operating Revenue Deductions: | |
| Operating Expenses | $30,450 |
| Depreciation | 5,700 |
| Taxes (including F.I.T.) | 12,138 |
| Total Operating Revenue Deductions | $48,288 |
| Utility Operating Income | $ 7,020 |
| Interest Expense | 800 |
| Net Income | $ 6,220 |
| Common Dividends | 3,600 |
| Balance to Surplus | $ 2,620 |

The Company has been delinquent in the past in fulfilling its duties as a purblic service corporation in that it did not make a timely filing of the "original cost" study as required in our Docket No. 10316 dated October 9, 1964. In fact, the required study was not filed until June 26, 1968, several months after the

commencement of these proceedings. Further, it did not carry out another directive of this Commission to establish an office for the handling of customer billing, information and service calls in order to render proper service to its rate payers. We remind the applicant that certain severe penalties for non-compliance with orders of this Commission are provided by Statute and that in the future this Commission will invoke these penalties. The Statute reads as follows:

> Sec. 16-41. General penalty. Each corporation, its officers, agent and employees, shall obey, observe and comply with each order made by the Commission by virtue of this title so long as the same remains in force. Any such corporation, or any officer, agent or employee thereof, who fails to obey or comply with any such order, or any provision of this title for which no other penalty is prescribed, shall be fined not more than five thousand dollars for each offense. Each distinct violation of any such order or of any provision of this title shall be a separate offense and, in case of a continued violation, each day thereof shall be deemed a separate offense. (1949 Rev., S.5431.)

## DECISION

Based upon the foregoing, the Amended Schedule of Rates filed with this Commission is denied. Additional revenues of $10,774. are approved by the Commission upon which the Company is to set its rates, subject to the following Order.

## ORDER

1. The Company is directed to file an Amended Schedule of Rates designed to produce additional revenues of $10,774. The meter rate shall include in the minimum charge a specified quantity of water.

2. The Company must establish office facilities within thirty (30) days in order to retain the $3,000 allowed for this purpose.

3. The effective date of this new rate, after a new Amended Schedule is filed and approved by this Commission, shall be for services rendered on and after August 1, 1968, except public fire protection which shall become effective upon the beginning of the next fiscal year of the Town. Said approval will be held in abeyance until the applicant proves to this Commission that it has secured proper office facilities, failing in which, this Finding and Order will be amended, the $3,000 disallowed, and new rates designed to produce new additional revenues of $7,774 instituted.

We hereby direct that notice of the foregoing be given by the secretary of this Commission by forwarding true and correct copies of this document to parties in interest, and due return make.

Dated at Hartford, Connecticut, this 25th day of July, 1968.

)

) PUBLIC UTILITIES COMMISSION