

Decision No. 39421

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
ZAYANTE WATER COMPANY, a corporation,
for authority to adjust and simplify
its rate structure.

Application No. 27157

Bert B. Snyder, for Applicant.
Harry Lyon, for Zayante Improvement Association.

O P I N I O N

In this proceeding, Zayante Water Company, a corporation, engaged in distributing water for domestic and commercial purposes in an area located about ten miles northerly from the City of Santa Cruz, in Santa Cruz County, asks the Commission to authorize an adjustment and simplification of its rate structures.

Applicant asks the Commission to establish an annual flat rate charge of \$24.00 and an annual minimum meter charge of \$21.00. This latter charge includes the use of 500 cubic feet per month; for use in excess of this quantity, the charge is carried through two blocks to 20¢ per 100 cubic feet.

The Office of Price Administration was duly notified of the filing of the application.

A hearing in this matter was held before Examiner MacKall in Ben Lomond.

The Zayante Water Company serves a subdivision officially known as Zayante Lakes, a narrow strip of land approximately two miles long and one-quarter mile wide, lying along the bank of Zayante Creek.

The water supply is obtained from Zayante Creek by means of a sandbag dam diverting the water into a sump from which it is pumped directly into the transmission and distribution mains and into two storage tanks located upon the

westerly hillside above the creek. These tanks are each 10,000 gallons in capacity and were put in service in June, 1946. A concrete reservoir with a capacity of approximately 35,000 gallons formerly was used before failure through settlement fracture. At present it could store a few feet of water but is of no practical value to the system under present operating conditions other than the use of the land as a potential tank site.

The transmission system consists of 400 feet of four-inch and 950 feet of three-inch black pipe and the distribution system consists of approximately 21,500 feet of pipe varying from two and one-half inches to three-fourths of an inch in diameter. The service area is located principally on the west side of the canyon at elevations up to two hundred feet above the pumpsite. In 1945 the company served an average of 147 consumers, of which eleven were metered and 136 were served at flat rates.

The rates now being charged include a monthly flat rate of \$1.25 for permanent consumers; an annual flat rate of \$15; a monthly meter rate of \$1.25 for permanent consumers which allows 500 cubic feet per month, with excess charges carried through one block to 15¢ per 100 cubic feet; and, an annual meter rate of \$13.50 for summer homes which allows 500 cubic feet per month during the period June 1 to October 1, with excess charges carried through one block to 15¢ per 100 cubic feet, and 100 cubic feet per month during the period October 1 to June 1, with excess charges carried through two blocks to 15¢ per 100 cubic feet.

George W. Cooper, President of Zayante Water Company, testified that since the system was acquired in 1941, the operating revenues, expenses and losses each year to the end of 1945 have been as follows:

: Year :	: Gross Annual Revenues :	: Annual Expenses :	: Net Loss :
1941	\$1,880.13	\$2,435.96	\$555.83
1942	2,059.48	2,084.49	25.01
1943	2,009.25	2,130.66	121.41
1944	1,860.26	2,490.21	629.95
1945	2,179.80	2,839.45*	659.65*

(*) - Estimated for November and December.

Mr. Cooper claimed that on January 1, 1942, the fixed capital investment in this system amounted to \$13,028, that net additions and betterments prior to June 5, 1946, have increased the total investment to approximately \$16,000. He estimated that the total investment will reach \$19,000 within the next few years when the metering of the system will have been completed. The amount of \$435 was estimated by Mr. Cooper to be the average annual depreciation expense during the next few years, computed by the five per cent sinking fund method.

On the basis of the metering program contemplating the metering of one-third of the services immediately, Mr. Cooper estimated that the annual gross revenues under his proposed rate schedule would be approximately \$3,605 for an average of 150 customers. Based on estimated annual expenses of \$2,975, including taxes, and a rate base of \$16,000, the rate of return would be four per cent.

In a report presented by Mr. John D. Reader, one of the Commission's engineers, a comparison of the estimated earnings for the near future on the basis of present and proposed rates was as follows:

	Present Rates	Proposed Rates
Gross Revenue	\$2,509	\$3,744
Expenses (Including taxes and depreciation)	<u>2,383</u>	<u>2,671</u>
Net Operating Revenue	\$ 126	\$1,073
Rate Base	\$14,149	\$14,109
Rate of Return	0.89%	7.60%

The rate base set out in the report of the Commission's engineer, is made up of the historical cost of tangible and intangible capital, as of December 31, 1945, plus 50 per cent of the estimated cost of net improvements planned to be installed during 1946. The depreciation annuity computed by the five per cent sinking fund method, was \$316, and the depreciation reserve requirement as of December 31, 1945, was \$4,980. Although the rate base determined by the Commission's engineer includes only 50 per cent of the cost of the improvements

planned for 1946, the evidence shows that the major portion of these facilities, estimated to cost \$1,966, have now been installed and are in service and, further, that the total cost should be included in the rate base as the entire improvement program will have been completed before the summer season is over. The amount of \$440, the cost of the Peerless pump and motor formerly used to supply the system, was deducted from the rate base as another pumping unit has been installed. While Mr. Cooper testified that this equipment can be used as a standby unit, the evidence shows that it is so obsolete and in such condition as to be of no practical value for such purpose.

The estimated cost of the fractured concrete reservoir, totaling \$1,650, was included in the appraisal prepared by the Commission's engineer. As above indicated, the reservoir will be excluded from fixed capital, retaining only the reservoir site.

Several customers testified that for several years last past the water has been off frequently for several days at a time, service frequently interrupted, repairs delayed and, that in general, the water mains were too small to provide proper capacity to supply so many consumers where the steep hillsides resulted in heavy pressure differentials. Protest also was made against the frequent pump breakdowns and delays in making the necessary and proper repairs.

The company recently has installed a new pump and motor, which, with the installation of the two 10,000-gallon tanks, should improve some of the conditions demanded to be remedied. However, the extreme upper tier of lots on the western boundary of the service area still has inadequate pressure because of the unfortunately low elevation of the storage tanks which do not provide sufficient gravity pressure. Either a higher tank or a booster plant will have to be installed to correct this difficulty.

The two-inch main on Zayante Drive from the four-inch transmission line to the intersection of Redwood Avenue and Waver Way with Zayante Drive, should be replaced with a main not less than three inches inside diameter. From this intersection along Zayante Drive to the intersection of the one and one-half inch

mains near Lot No. 25, Block 4, a main not less than two inches inside diameter should be installed.

These improvements, excluding the higher tank or booster plant, should cost approximately \$2,800 if properly installed. The said higher tank or booster plant, while not ordered installed at this time, is recommended to the company for its consideration. However, in the event the other installations do not provide a satisfactory service in the higher zone, installation thereof may be so ordered.

Consideration of the evidence shows that the fixed capital investment which should be used for the purposes of this proceeding amounts to \$15,543 which includes \$2,800 for the installation of larger mains as indicated above. Using this base, the present rates yield a net return of 0.80 per cent and the proposed rates 6.80 per cent.

It is apparent that applicant is entitled to an increase in present charges. However, it is equally clear that the consumers are entitled to reasonable and adequate service which, at present, they do not receive. Unless satisfactory service is provided on this system, no increased rates can be justified. The rates hereinafter established therefor will be made effective only when the improvements as ordered are installed and in operation in a manner acceptable to and approved by this Commission.

In connection with the schedule of rates filed by applicant, it should be noted that many of the limitations and restrictions written into and made a part thereof more properly should be included in the rules and regulations.

ORDER

Application as entitled above having been filed with the Railroad Commission, a public hearing having been held thereon, the matter having been duly submitted and the Commission now being fully advised in the premises,

IT IS HEREBY FOUND AS A FACT that the rates now charged by Zayante Water Company, a corporation, for water delivered to its consumers in that part of Santa Cruz County commonly known as Zayante, Zayante Park and Zayante Lakes, are unjust and unreasonable in so far as they differ from the rates herein established, and that the rates herein established are just and reasonable rates to be charged for the service rendered; and

IT IS HEREBY ORDERED that Zayante Water Company make the improvements as outlined in the above Opinion and that the following schedule of rates will be made effective by further order of this Commission after these facilities are installed and in service in a manner satisfactory to the Commission:

Schedule No. 1

GENERAL METER RATES

Applicability:

Applicable to all domestic and commercial service rendered on a metered basis.

Territory:

Applicable to the entire area of service served by Zayante Water Company.

Rates:

Metered service will be delivered through a 5/8 x 3/4-inch meter only.

Annual Charge for calendar year; due January 1st and payable on or before April 1st of each year, in advance \$21.00

This Annual Charge will entitle the consumer to 500 cubic feet of water per month for each month of the calendar year; for water used in excess of the 500 cubic feet, the following Monthly Quantity Charges will apply:

Monthly Quantity Charges:

First 500 cubic feet, included in annual charge.
Next 3,000 cubic feet, per 100 cubic feet \$0.25
Over 3,500 cubic feet, per 100 cubic feet20

Schedule No. 2.

FLAT RATE SERVICE

Applicability:

Applicable to all domestic service rendered on a flat rate basis.

Territory:

Applicable to the entire area of service served by Zayante Water Company.

Rates:

Annual Charge for calendar year, due January 1st and payable on or before April 1st of each year, in advance \$24.00

Conditions:

1. Flat rate service will be rendered on an annual basis only.
2. The annual charge must be paid in full as noted above, partial or monthly payments cannot be made.

For all other purposes the effective date of this Order shall be twenty (20) days from and after the date hereof.

Dated at San Francisco, California, this 17th day of September, 1946.

Harold Hulse

Francis Lewis

Earl Powell

B. Z. Ingram
Commissioners.