

ORIGINAL

Decision No. 40041

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation into the reasonableness of the rates, etc., of HIGHLAND MANOR WATER COMPANY, a corporation.

Case No. 4851

Oran W. Palmer, for Highland Manor Improvement Association.

L. D. Bachelder, for Defendant Company.

O P I N I O N

This proceeding was instituted by the Commission on its own motion into all phases of the operations of Highland Manor Water Company, a corporation, supplying public utility water service in and in the vicinity of Tract No. 1090, Kern County. The investigation was ordered as a result of a protest filed with this Commission by the Highland Manor Improvement Association, alleging that exorbitant and unnecessarily high meter rates are being charged by the company and, also, by reason of a petition signed by ninety-six customers asking the Commission to inquire into the reasonableness of all of this utility's rates. This petition, among other things, alleges that with the utility's present investment in water property and the reasonable cost of rendering the service, the rates are wholly unjustified and are far in excess of any comparable rates charged by other utilities anywhere in the general vicinity of this tract.

A public hearing in this proceeding was held in Bakersfield before Examiner Stava.

Tract 1090, called Highland Manor, has an area of 40 acres subdivided into 148 lots with an average size of 50 x 115 feet. The tract is located five miles north of the City of Bakersfield.

Highland Manor Water Company, a corporation, was organized for the purpose of supplying water service in the tract and was granted a certificate of public convenience and necessity by the Commission in its Decision No. 32789, issued February 6, 1940, and was authorized to charge a schedule of rates. This schedule provided for a minimum monthly charge of \$2.00, including irrigation of a lot with a frontage of 56 feet or less. An additional charge of 40 cents per month was applicable for cooling devices. The meter rates provided for a minimum monthly charge of \$2.00, allowing 1,000 cubic feet of water. The charge for excess use is reduced through two blocks to 10 cents per 100 cubic feet for quantities over 5,000 cubic feet. These meter rates were charged until September 1, 1946, when the company voluntarily reduced the quantity charges. The monthly minimum charge of \$2.00 remained but the water quantity was increased from 1,000 cubic feet to 1,500 cubic feet of water. The second block was reduced from 15 to 12½ cents. Water used over 5,000 cubic feet remained at 10 cents.

This system obtains its water from a 14-inch drilled well, 580 feet deep, pumping into a 12,500-gallon pressure tank. There are 7,090 feet of distribution mains, varying from six to two inches in diameter. Service connections consist of a one-inch pipe from the main to the curb line serving two consumers through ¾-inch individual pipes. There are 120 customers at present, 116 being served by meters. Another well, 562 feet deep, has been drilled and equipped to operate through a 12,500-gallon pressure tank to serve the adjoining Tract No. 1206 which is subdivided into 175 lots. Nine thousand eight hundred and forty feet of four and six-inch pipe already have been installed. This tract system cost \$23,725, but as there are no houses in this subdivision and no service being rendered therein, the operation of this property is not in issue in this proceeding.

The major complaint of the consumers is based upon the fact that this project was developed strictly as a residential area with large lots where lawns and gardens would create a fine home-like atmosphere. Flat rates were charged for

several years until August 1, 1946, when all services were metered, apparently without notice to some of the water users. The monthly bills immediately increased from the flat rate charge of \$2.00 per month to as high as \$9.50 on the meter rates. Many consumers testified that they could not afford to pay for water under such charges and, accordingly, were forced to let their lawns and gardens dry up.

The following tabulation was presented on behalf of the consumers, which they contended showed a considerable reduction in pumping costs since meters were installed which should be reflected in lower rates to the consumers:

<u>POWER COSTS</u>		
	<u>1945</u>	<u>1946</u>
May 27 to June 26 . . . . .	\$120.36	\$128.20
June 26 to July 26 . . . . .	102.80	137.40
July 26 to August 26 . . . . .	149.32	107.60
August 26 to September 26 . . . . .	113.50	90.60

The following list of monthly flat rates charged for a residence and one lot in nearby communities served by water systems operating under similar circumstances and conditions as the Highland Manor Water Company, for purposes of comparison, was submitted by the consumers:

Bakersfield (Public Utility)	\$2.29
Highland Park (Mutual)	2.00
Oildale (Mutual)	1.75
Highland Manor (Public Utility)	2.00

Many consumers protested the low pressures maintained on the system during the winter as well as the summer months. They contend that this condition largely was the result of the use of but a single service pipe to supply each two adjoining premises. However, the evidence indicates that the primary difficulty is the low minimum pressure of 30 pounds per square inch maintained at the pressure tank control.

Mr. L. D. Bachelder, president and general manager of the company, claimed that it was necessary to meter the system to stop the wasteful use of water resulting from the universal practice of consumers operating sprinklers for

hours at a time in the same location, the use of open hoses unattended and the unrestricted use of non-circulating water-cooling devices. Defendant stated that meters were installed prior to August 1 and readings were taken as a check on water consumption. After the bills were rendered under the meter rate schedule, the consumption of water immediately fell approximately fifty per cent.

Mr. Bachelder further testified that it was impossible to operate the system under flat rates and provide adequate service. For this reason he had made a voluntary reduction in the meter rates to reduce the cost of water to his consumers. Defendant stated that he must operate the company on a sound business basis but at the same time he has no desire to earn an unreasonable profit.

The annual reports filed with the Commission show the results of operation of the system since the company was granted a certificate, as follows:

	<u>1940</u>	<u>1941</u>	<u>1942</u>	<u>1943</u>	<u>1944</u>	<u>1945</u>	<u>1946</u>
	<u>10 Months</u>						<u>9 Months*</u>
Fixed Capital	\$13,619	\$13,619	\$18,241	\$16,194	\$16,194	\$17,292	\$19,005
Operating Revenue	665	2,272	2,827	3,092	3,478	3,298	3,184
Operating Expenses	\$ 1,169	\$ 1,442	\$ 1,727	\$ 3,245	\$ 3,510	\$ 3,557	\$ 2,888
Depreciation	—	245	333	393	504	603	—
Total Operating Expense	\$ 1,169	\$ 1,687	\$ 2,060	\$ 3,638	\$ 4,014	\$ 4,160	\$ 2,888
Net Operating Revenue	( <u>\$504</u> )	\$585	\$767	( <u>\$546</u> )	( <u>\$536</u> )	( <u>\$862</u> )	
Number of Customers		116	121	121	121	124	124

(Red Figures)

(\*) - 1946 information was taken from the company's books.

The losses sustained for the years following 1942 were caused by the arbitrary allocation to expenses of \$125 per month for manager's salary, increased in 1944 to \$165, purported to cover office accounting also. These charges alone weighted the annual maintenance and operation expenses by \$1,980 per annum.

Mr. V. R. Muth, one of the Commission's engineers, presented reports covering an investigation of operations and an appraisal of the water properties. The system serving Tract No. 1090 was appraised on the basis of

original cost at \$18,594, which compares with the company's book cost of \$19,005. The rate base for the immediate future was estimated to be \$19,044, which included \$250 for working cash and \$200 for materials and supplies. The revenues under the rates now charged were found to be \$4,560. The operating expenses under present company practices were \$3,996, including depreciation, giving a net return of 2.9%. However the record shows that the operating conditions on so small a system do not warrant the unreasonable and excessive management charges amounting to \$1.38 per month for each of the present 120 consumers. Such arbitrary salary allotment on an automatically-controlled and operated water plant is unfair. Supervision of this type of small water plant reasonably can call for only limited part-time management. An allowance of \$3,000 for management and all operating expenses must be considered as sufficient. Upon this basis, rate of net return is 8.2%. It appears that some relief is warranted to the users of the water service and the order will provide for a lowering of the existing rates.

Defendant testified that he intends to install an elevated storage tank of 500,000-gallon capacity in the future which should remedy poor service conditions. While such a tank should be installed without delay and will provide emergency stand-by storage as well, defendant should, in the meantime, take immediate steps to increase the minimum pressure control at the tank to 40 pounds per square inch.

#### ORDER

The Commission on its own motion having instituted an investigation into the rates and practices of Highland Manor Water Company, a corporation, 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 Highland Manor Water Company, a corporation, for water supplied to its customers in and in the vicinity of the unincorporated area known as Highland Manor, Kern County, 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 basing its order upon the foregoing findings of fact and upon further statements of fact contained in the Opinion which precedes this Order,

IT IS HEREBY ORDERED that Highland Manor Water Company, a corporation, be and it is hereby authorized and directed to file in quadruplicate, in conformity with this Commission's General Order No. 96, within thirty (30) days from the date of this Order, the following schedule of rates to be charged for all water service rendered its customers in and in the vicinity of the unincorporated area known as Highland Manor, Kern County, on and after the first day of April, 1947.

Schedule No. 1

GENERAL METERED SERVICE

Applicability:

Applicable to metered water service for domestic, commercial and other purposes.

Territory:

Within the entire service area covered by certificate of public convenience and necessity granted by the Commission in its Decision No. 32789, issued February 6, 1940, in and in the vicinity of Highland Manor, near the City of Bakersfield, Kern County.

Rates:

Per Meter  
Per Month

Minimum Monthly Charges:

For 5/8 x 3/4 inch meter . . . . .	\$1.50
For 3/4 inch meter . . . . .	2.50
For 1 inch meter . . . . .	3.00
For 1 1/2 inch meter . . . . .	4.00
For 2 inch meter . . . . .	5.00

Schedule No. 1 - Continued

GENERAL METERED SERVICE

Rates - Continued:

Per Meter  
Per Month

Each of the foregoing "Minimum Monthly Charges" will entitle the consumer to the quantity of water which that minimum monthly charge will purchase at the following "Monthly Quantity Rates":

Monthly Quantity Rates:

First 1,200 cubic feet . . . . .	\$1.50
Next 1,300 cubic feet, per 100 cubic feet . . . . .	.12 $\frac{1}{2}$
Next 2,500 cubic feet, per 100 cubic feet . . . . .	.11
Next 5,000 cubic feet, per 100 cubic feet . . . . .	.10
All over 10,000 cubic feet, per 100 cubic feet . . . . .	.09

The effective date of this Order shall be twenty (20) days from and after the date hereof.

Dated at San Francisco, California, this 4<sup>th</sup> day of March, 1947.

Harold P. Kula  
James F. Palmer  
Frank Powell  
R. T. Dunning  
Herbert P. Foster  
Commissioners.