

Decision No. 40786

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of JAMES J. DOWNEY, doing business under the firm name and style of RUSSIAN RIVER TERRACE WATER COMPANY, for authority to adjust and simplify its rate structure.

Application No. 28174

Karl Brooks, for Applicant.

David C. Baker, D. K. Butler and W. L. Benepe, for Russian River Terrace Improvement Association, Inc.

O P I N I O N

James J. Downey, doing business as Russian River Terrace Water Company, is engaged in the distribution and sale of water for domestic and commercial purposes in subdivided territory located along the Russian River about one mile west of the town of Forestville, Sonoma County, and asks the Commission to increase the rates for the service rendered. Applicant alleges that the existing rates do not produce sufficient revenue to provide for costs of operation and that additional revenue is required to enable him to properly maintain the water system in order to furnish satisfactory service.

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

The water system serving a subdivision called Russian River Terrace was installed during the year 1912 by Mr. A. B. Swain. The Commission in its Decision No. 25629, dated February 14, 1933, granted him a certificate to extend service to three adjoining subdivisions called Forest Hills, Hollydale Park and

Hollydale Beach. The entire area comprises approximately 350 acres located along the south side of the Russian River and was developed originally for summer homes and weekend occupancy. However, due to the general housing shortage, many of the cabins and houses are now occupied permanently. At present the tracts are sparsely settled.

The water supply for the system is obtained from three springs and two wells. The springs are located at sufficient elevation to supply a large portion of the service area by gravity and they provide a source of clear water during flood periods on the Russian River. The two wells, located on the banks of the river, are the principal source of water supply for the system. The water is pumped from the wells into seven storage tanks located at various elevations and having a combined capacity of 83,000 gallons. It is distributed to the customers through 30,150 feet of mains, ranging from 3/4 to 4 inches in diameter. At present, water service is being rendered to 238 customers, of whom approximately 200 are metered. During 1946 there were 71 permanent customers, the balance being summer residents.

The present rate schedules were established by the Commission in its Decision No. 28471, issued December 27, 1935. The flat rates for summer residents provide for an annual charge of \$12.00, entitling the customer to six months' continuous service from May to October, inclusive; for service from November to April, inclusive, a monthly rate of \$1.50 is effective. The flat rate for permanent residents is \$1.50 per month for the entire year. The metered rates for summer residents provide for a minimum annual charge of \$12.00, entitling the customer to 500 cubic feet of water for each month from May to October, inclusive, and 100 cubic feet for each of the remaining months of the year. The metered rates for permanent residents provide for a minimum monthly charge of \$1.50, entitling the customers to 500 cubic feet of water. The rates for use of additional water are reduced through successive blocks to 20 cents per 100 cubic feet for all use over 2,000 cubic feet for all customer classifications.

Mr. Downey asks the Commission to establish a rate schedule for permanent customers that will authorize a minimum annual charge of \$21.00, entitling the customer to 400 cubic feet of water per month for each month of the year with rates for additional use reduced through three blocks to 18 cents per 100 cubic feet for all use over 2,500 cubic feet. A schedule designed for summer residents is requested which will authorize an annual minimum charge of \$15.00, entitling the customer to 300 cubic feet of water per month for any four consecutive months, and a monthly charge of \$1.00 for service rendered during any other month, with rates for use of additional water reduced through three blocks to 20 cents per 100 cubic feet for all use over 2,000 cubic feet. It is proposed to discontinue all service of water on a flat rate basis.

Mr. Downey testified that he acquired the system in March, 1946, and has operated it at a loss since that date. Although he tried to operate the property within the revenue available from the present rates by reducing expenditures for maintenance, this practice resulted in accumulating deferred maintenance and rendering inadequate service to some of the customers. He further testified that he has no funds for even minor replacements or major repairs, and that the existing metered schedules favor the summer customers since the minimum annual charges do not provide sufficient revenues to maintain the system in operation throughout the year, at the same time permitting sufficiently large quantities of water under the monthly allowance so that this class of customer finds it unnecessary to purchase additional water. Mr. Downey proposed the higher annual minimum charge for the summer residents with a reduced allowance of water in order to increase the revenue from this class of customers and obtain a more equitable contribution from them toward maintaining the system throughout the year to meet their convenience. However, he does not desire a schedule of rates that would introduce charges so high as to discourage the sale of property or the development of the area as a summer resort territory, but such rates are desired that will produce sufficient revenue to properly operate the system and enable him to finance badly needed improvements to better the service. The most important of these

betterments include the installation of duplicate pumps at each well to insure continuity of service when one pump goes out of service, and the enlargement of small size distribution and interconnecting mains in order to provide more satisfactory service.

Reports covering the fixed capital, operating revenues, and operating expenses for the year 1946 were presented by Mr. Downey, and by Mr. John D. Reader, one of the Commission's engineers. Mr. Downey's figures for fixed capital were based on the available book cost of the system while Mr. Reader's estimate was based on an inventory and appraisal of the physical properties on an historical cost basis as of June 17, 1947. The actual revenues for the year 1946 at present rates were shown by each witness and estimated for the same year on the basis of the proposed rates. For the year 1947, the revenues were estimated by Mr. Reader at both present and proposed rates. The recorded expenses for 1946 were shown by each witness and estimated by Mr. Reader for the year 1947.

A summary of the results of operation as determined by these two witnesses for the two-year period is set out as follows:

Item	Downey		Reader			
	1946		1946		1947	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Fixed Capital	\$25,393	\$25,393	\$24,901	\$24,901	\$24,901	\$24,901
Operating Revenue	3,274	4,991	3,274	4,800	3,564	5,000
Operating Expense	3,943	3,943	3,989	3,989	4,031	4,080
Depreciation	891	891	335	335	335	335
Total Operating Expense	4,834	4,834	4,324	4,324	4,366	4,415
Net Operating Revenue	(1,560)	157	(1,050)	476	(802)	585
Rate of Return	-	0.60%	-	1.91%	-	2.35%

(Red Figures)

In general the figures presented by the two witnesses were in substantial agreement. The main differences appeared in operating expenses and chiefly were due to the two methods of computing depreciation. Both witnesses used the sinking fund method, but Mr. Downey included the interest on the depreciation reserve requirement for the reason that the system is not actually earning this item.

The two reports also set forth the fixed capital, operating revenues and operating expenses for the period 1941 to 1945, inclusive, as recorded under the former ownership. This information is tabulated and compared with the 1946 operations as recorded in the utility's annual report to the Commission, as follows:

Item	1941	1942	1943	1944	1945	1946
Fixed Capital	\$23,610	\$23,610	\$23,610	\$23,610	\$23,610	\$23,610
Revenues	2,313	2,452	2,165	2,806	2,899	3,274
Expenses	<u>2,188</u>	<u>3,579</u>	<u>3,025</u>	<u>3,854</u>	<u>3,227</u>	<u>4,834</u>
Net Revenues	\$ 125	<u>\$(1,129)</u>	<u>\$(860)</u>	<u>\$(1,048)</u>	<u>\$(328)</u>	<u>\$(1,560)</u>
Number of Customers	190	183	190	208	208	220

(Red Figures)

The evidence shows that the low recorded cost of operating the system, prior to its acquisition by Mr. Downey, was due to its operation in connection with the development of the property under which arrangement no management charge was made and certain billing and accounting costs were charged to other business activities.

Some of the customers protested any increase in rates on the grounds that the service being rendered has not been worth the charges paid. These customers reside at elevated locations and their premises are served by small size mains, which condition results in interrupted or inadequate service during the hours of peak demand. Other customers signified their willingness to pay increased rates if the domestic service will be thereby improved and some fire protection service provided.

Mr. Downey admitted that the service supplied these customers has been inadequate, but stated that he contemplates improvements including the replacement of the small mains with larger pipe lines in order to provide satisfactory service to these residents. The record shows that there are no fire hydrants attached to the system and that no fire district is organized to provide fire protection to the territory served by applicant.

A number of the customers voiced objections to the quality of water delivered, stating that it has often been so dirty or muddy that it was not fit for human consumption and that at other times there was no water available at all. Statements were also made that frequently the system has been without local supervision and that pipe line breaks and complaints of poor service could not be reported. Mr. Downey stated that the neglected condition of the springs probably caused the muddy water condition and that pump break-downs caused interruptions in service. He contended that his proposed improvement program will correct all of the complaints of service and that a superintendent residing within the service area will be regularly employed. The customers also asked that a monthly charge be established for permanent residents as many of these users depend on a fixed monthly income and it would be more convenient to pay on a monthly basis. The request is reasonable and a monthly rate for permanent residents will be fixed in the following Order.

Representatives of the Russian River Terrace Improvement Association suggested increasing the present \$12.00 annual charge to \$13.00 and reducing the effective period of the rate from six to four months, instead of establishing applicant's requested rate of \$15.00 for four months' service on the grounds that applicant's suggested increase was too violent and would react unfavorably against the development of the territory served. In order to adopt the customers' suggestion, it will be necessary to increase the monthly charge for the remaining months of the year to offset the loss in revenue resulting from the reduction of the annual charge. As applicant testified that he did not desire a rate that would retard the development of this section, but one that would produce more revenue, the customers' suggested rate will be established for summer residents' use.

It is apparent that applicant is entitled to an increase in the rates. The rate schedules established in the following Order are similar in form to the schedules requested by applicant and will produce a return on the capital investment of approximately 2.35%.

Applicant will be expected to immediately make such improvements to the system that will insure adequate service and the delivery of a good quality of water to all of the customers.

Since the Order will provide for service on a metered basis, all present flat rate services will be discontinued.

O R D E R

Application as entitled above having been filed with the Public Utilities Commission of the State of California, 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 James J. Downey, doing business as Russian River Terrace Water Company, for water delivered to his customers in the subdivided tracts known as Russian River Terrace, Forest Hills, Hollydale Park and Hollydale Beach, Sonoma County, are unjust and unreasonable in so far as they differ from the rates herein established; that the rates herein established are just and reasonable rates to be charged for the service rendered; that the increase in rates authorized by this decision is hereby found to be justified; and, basing its Order upon the foregoing findings of fact and upon the further statements of fact contained in the Opinion which precedes this Order,

IT IS HEREBY ORDERED that James J. Downey, doing business as Russian River Terrace Water Company, be and he is hereby authorized to file in quadruplicate with the Public Utilities Commission of the State of California, in conformity with this Commission's General Order No. 96, within thirty (30) days from the date of this Order, the following schedules of rates to be charged for all water service rendered his customers on and after December 1, 1947, and that concurrently therewith, applicant may cancel all existing flat and metered rate schedules now on file.

Schedule No. 1

PERMANENT RESIDENTS
METER RATES

Applicability:

Applicable to all water service rendered on a metered basis to bona fide permanent residents.

Schedule No. 1 - Continued

PERMANENT RESIDENTS
METER RATES

Territory:

In the subdivided section comprising 350 acres more or less located on the south side of the Russian River, one mile west of Forestville, Sonoma County, consisting of the following named subdivisions: Russian River Terrace, Forest Hills, Hollydale Park and Hollydale Beach.

Rates:

Per Meter
Per Month

Quantity Rates:

First 400 cubic feet, or less	\$1.75
Next 500 cubic feet, per 100 cubic feet35
Next 1,000 cubic feet, per 100 cubic feet25
Over 2,000 cubic feet, per 100 cubic feet20

Minimum Charge:

For 5/8 x 3/4-inch meter	\$1.75
For 3/4-inch meter	2.25
For 1-inch meter	3.00
For 1 1/2-inch meter	5.00
For 2-inch meter	7.00

The Minimum Charge will entitle the consumer to the quantity of water which that monthly minimum charge will purchase at the Quantity Rates.

Schedule No. 2

SUMMER AND VACATION CUSTOMERS
METER RATES

Applicability:

Applicable to all water service rendered on a metered basis to non-permanent or summer residents.

Territory:

In the subdivided section comprising 350 acres more or less, located on the south side of the Russian River, one mile west of Forestville, Sonoma County, consisting of the following named subdivisions: Russian River Terrace, Forest Hills, Hollydale Park and Hollydale Beach.

Rates:

Annual Charge, payable in advance, entitling the consumer to a maximum of 300 cubic feet of water per month for a period of four (4) consecutive months, beginning with the month in which the first meter registration occurs, but not beyond end of calendar year \$13.00

Schedule No. 2 - Continued

SUMMER AND VACATION CUSTOMERS
METER RATES

Rates - Continued:

Minimum Monthly Charge:

For use during succeeding months, entitling the customer to 300 cubic feet of water per month \$1.50

For all water used in excess of 300 cubic feet per month, the following Quantity Rates shall apply:

First	300 cubic feet, included in Annual or Minimum Monthly Charge.	
Next	100 cubic feet, per 100 cubic feet	\$0.40
Next	600 cubic feet, per 100 cubic feet35
Next	1,000 cubic feet, per 100 cubic feet25
Over	2,000 cubic feet, per 100 cubic feet20

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

Dated at San Francisco, California, this 6th day of October, 1947.

Harold P. Hill
Justice J. Coe
Just. K. K. K.
A. J. J.
 Commissioners.