

Decision No. 41808

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 THE LUCERNE WATER COMPANY
 of Lucerne, Lake County, California
 to increase its rates.

Application No. 29048.

Paul B. and Sarah Strong, for applicants;
 Earl A. Hitchcock, Chairman, Property
 Owners Association of Lucerne; Ross Estes,
 Eugene H. Reed, T. E. B. Henry, Robert B.
 Ballard, L. T. Doney, and Mrs. L. A. Wood,
 interested parties, for themselves.

O P I N I O N

In this application Paul B. Strong and Sarah Strong, doing business as The Lucerne Water Company, ask that they be granted authority to increase rates and charges for water service rendered by them in the town of Lucerne and vicinity in Lake County. The application states that the net income from their operations for each of the last two years has not been sufficient to return 6% on the capital investment nor any salary for the office of maintenance and management. The application contains proposed rates which it is alleged will provide for all appropriate expenses and a proper return on the capital investment.

A public hearing was held on this application in Lucerne before Examiner Ross.

This water property was acquired by applicants by authority granted in Decision No. 27035 (Application No. 19387), dated November 13, 1945. The system originally was installed by the Clear Lake Beach Company about 1925 in connection with a real estate

development. The properties since have passed through a number of hands before acquisition by the present owners. The system now supplies water to 100 consumers under flat rates and to 67 consumers provided with meters and charged meter rates. A total of 33 fire hydrants are connected to the system. All water used is pumped from Clear Lake by means of two 50 hp motor and pump units, one of which is reserved for standby purposes. These pumps deliver water into two storage tanks aggregating 328,000 gallons located at a point approximately 200 feet above the pump level. The distribution system consists of about 42,000 feet of mains varying from one inch to six inches in diameter. The territory served comprises an area fronting on Clear Lake for about 1½ miles and extending easterly from the shore about one-half mile.

Relative to service, there were voiced a number of complaints on discoloration and the silt and sediment content of the water. Applicants acknowledge this condition and propose to install a filtering plant whereby the basis for such complaints should be eliminated. It was testified by applicants that upon test of their water on several occasions by the State Board of Health, in no instance was the water found to be injurious to health; however, applicants were reluctant to chlorinate the water as about half of the customers object to the taste, while the others want it chlorinated. They stated that when the State Board of Health ordered them to chlorinate, they would be pleased to do so. However, the use of raw lake water is a potential hazard to health and should be safeguarded by chlorination. The introduction of chlorine, properly regulated, should result in no noticeable or unsatisfactory after-taste. It is therefore strongly recommended in this connection that immediate steps be taken to install reliable

chlorinating apparatus, a necessary improvement of far more vital and primary importance to the public health and welfare than the proposed plant for removal of discoloration and suspended silt from the water.

The present rates have been in effect since the year 1926 and provide for flat rate charges of \$1.50 per month for domestic service connections and \$2.50 per month for service to restaurants, service stations, and for other non-domestic requirements. Applicants propose to increase such charges by \$1. The present meter rates provide monthly minimum charges depending upon size of meter varying from \$1.50 for a five-eighth-inch connection up through \$5 for a three-inch connection. Applicants propose that the existing minimum charges be uniformly increased 50 cents per month. The present quantity charge has as its initial block a rate of 25 cents per 100 cubic feet, scaling down through two intermediate blocks to ten cents per 100 cubic feet for all consumption over 5,000 cubic feet per month. A uniform increase in all blocks of five cents per 100 cubic feet is requested.

According to estimates for the year 1948 presented by a representative of the Commission's staff, the rate changes proposed by applicants would result in a gross revenue of \$6,485, representing an increase of \$1,820 over the gross revenue estimated for the same period upon the basis of the existing rates. Deducting appropriate operating expenses of \$4,755 including taxes for the estimated year 1948, a net operating revenue of \$1,730 is obtained. This net operating revenue, when related to the rate base as presented by the staff, of \$34,870, including materials and supplies and working cash, yields an estimated rate of return for this period of 4.96%. The return estimated for the comparable

period at existing rates is 0.42%. None of these figures reflect any revenue from the 33 fire hydrants which are owned and maintained by applicants, but from which no income is derived.

Applicants do not have on file any rate for fire hydrant rental and no compensation is being received at present from this valuable and essential service to the community. It was suggested to applicants that they arrive at an understanding with Upper Lake Fire District, which, it was indicated at the hearing, includes the area served by applicants. Any revenues which may be received as a result of such negotiations will, of course, enhance the revenue heretofore indicated.

Applicants testified that the cost of a filtration plant, stated in the application at approximately \$4,000, upon subsequent investigation, had been found inadequate and they urged an estimate of \$5,000 as more nearly in line with present costs. A detailed estimate was presented by the Commission's engineer, yielding \$5,900 as the cost of the proposed filtration unit, together with \$2,200 as retirements that would be associated with this change. The facilities required would comprise essentially an 84-inch filter, a 20,000-gallon steel tank, two 15 and two 1½ hp motor and pump units. The existing 50 hp motor and pump units would have to be retired for the reason that the pumping rate would be too fast for the proposed filter. The 50 hp units originally were installed in anticipation of load growth which never materialized. It was estimated that the savings in power costs resulting from substitution of the smaller 15 hp pumps in place of the existing 50 hp units would essentially equal the additional cost arising from the operation and maintenance of the proposed filtration unit and, accordingly, the net operating revenue estimated for the year 1948 would be the same with or without this improvement. Accordingly,

the rate of return on the rate base of about \$38,600, reflecting the new filter, would be 4.41% under the rates proposed by applicants as against 0.30% under present rates. Applicants contended that it would be impossible to install the filtering unit in time to be available during the summer of 1948; however, they felt that should an appropriate increase in rates be granted by the Commission, it would be possible to have the equipment available by the summer season of 1949.

The Commission's staff representative testified that according to the appraisal of this water property made by Commission engineers in 1935, the capital had been divided into three groups. One group was for the facilities serving the town, one for the golf course system, and another for the hotel fire system. Since that time the so-called golf course pipe lines have been used to serve a number of domestic customers, but the ratio of investment per customer so served is unreasonably high and the length and size of such mains never would have been appropriate for a normal domestic water system. The only water company property used to provide water service for the hotel is a 200,000-gallon concrete tank located directly above the hotel. Since mechanical means are provided to reserve half of this capacity for the exclusive use of the hotel fire system, only half of the cost of the tank is attributed to utility operations. Although none of the mains of the golf course system can be classed as non-operative, nonetheless it would appear that some adjustment should be made to their value for utility purposes in view of the small number of customers connected. It is felt that a reasonable investment in mains is \$17,400 in contrast to the \$22,245 contained in the appraisal. Likewise, it would appear that the amount of utility storage provided, in anticipation of real estate development which did not occur, is excessive for the extent

of service presently rendered, and accordingly, \$1,775 will be allowed for the utility storage facilities.

With the above adjustments to rate base, the following represents the results of operation under the various bases used heretofore:

Items	Year 1948.			
	Without		Including	
	Proposed Additions:		Proposed Additions:	
	At	At	At	At
	Present	Proposed	Present	Proposed
	Rates	Rates	Rates	Rates
Net Operating Revenue	\$ 145	\$ 1,730	\$ 115	\$ 1,700
Rate Base	28,250	28,250	31,918	31,918
	0.51%	6.12%	0.36%	5.33%

The forecast of heavy capital addition required by the proposed filtration plant might be urged as a justification for the rates proposed by applicants; however, these rates, which would increase gross revenue by \$1,820, appear to be excessive. The Order will provide for rates that will yield a gross revenue of about \$6,100, representing an increase of about \$1,400. The latter rates will yield about 4.8% on the rate base, not including the proposed additions, and will provide an economic incentive for applicants to install more meters on the system. The proposed additions are not being considered at this time for the reason that they will not be installed during the year 1948, which year was taken as the test period.

O R D E R

Application having been filed with the Public Utilities Commission, public hearing having been held thereon, the matter having been duly submitted and the Commission being now fully advised in the premises,

IT IS HEREBY FOUND AS A FACT that the rates as now charged by Paul B. Strong and Sarah Strong, doing business as The Lucerne Water Company, 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 services rendered, and based upon the foregoing,

IT IS HEREBY ORDERED that Paul B. Strong and Sarah Strong be and they are hereby authorized and directed to file within twenty (20) days from the effective date of this Order the following schedule of rates to be charged for all water service rendered on and after August 1, 1948:

Schedule No. 1

GENERAL FLAT RATES

APPLICABILITY

Applicable to all flat rate water service rendered to domestic or commercial consumers.

TERRITORY

In and in the vicinity of the unincorporated town of Lucerne, Lake County.

RATES

	<u>Per Customer Per Month</u>
For 3/4 inch domestic service	\$2.25
For 3/4 inch service to restaurants	3.00
For 3/4 inch service to service stations.	3.00

Schedule No. 2

GENERAL METER RATES

APPLICABILITY

Applicable to all measured water service.

TERRITORY

In and in the vicinity of the unincorporated town of Lucerne, Lake County.

RATES

Minimum Charges:

For 5/8 x 3/4 inch meters

3/4	"	"
1	"	"
1 1/2	"	"
2	"	"
3	"	"

Per Meter
Per Month

\$1.75
2.00
2.50
3.00
4.00
6.00

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

Quantity Rates:

0 to 600 cubic feet, per 100 cubic feet	0.30
600 to 1,500 " " " " " "	0.25
1,500 to 5,000 " " " " " "	0.20
All over 5,000 " " " " " "	0.15

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

Dated at San Francisco, California, this 7th day of July, 1948.

R. J. Anderson
James F. Carlson
Frank A. Howell
Harold P. Mills
Kenneth Pottier
Commissioners.