

ORIGINAL

Decision No. 42537

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Richard S. Otto  
to abandon public utility water  
service operation

Application No. 28998

Gordon, Knapp and Hennessy, by Wyman C. Knapp,  
for applicant; Thomas H. Riley, for himself  
and for certain other water users and property  
owners.

OPINION ON FURTHER HEARING

By former orders, issued in 1947, the Commission found Richard S. Otto to be engaged in a public utility water service operation in connection with his real estate activities in Baywood Park Estates Subdivision, near Morro Bay, San Luis Obispo County, and directed him to file rates. (Beckner v. Otto, Case No. 4848, Decision Nos. 39863, 40818, 41073 and Supplemental Order Extending Time, (March 9, 1948).) The present application to withdraw from public utility service, based on non-compensatory operations and ill-health, was filed in January, 1948, and was denied following a hearing held on April 20th of that year. (Decision No. 41915; rehearing denied, Decision No. 42000.) Thereafter, Otto filed a petition to reopen the proceeding for receipt of further evidence concerning the state of his health and his proposal, set forth in the original application, to transfer title to the waterworks to a consumers' organization for a nominal sum. Further hearings were held at Los Angeles on November 29, 1948, and at San Luis Obispo on December 6, 1948, at which testimony was received from Otto's physician, from four consumers opposed to abandonment, and from Otto himself.

The evidence at the further hearing showed that losses from operation of the water system from January through October, 1948, were continuing at substantially the same rate as for the preceding year. During the 22-month period, monthly collections from some 40 patrons averaged about \$70 and monthly direct expenses about \$100. Rates, in effect since June 1, 1946, range from \$1.50 to \$3.50 per month, with a majority of users paying the lowest rate. Average charges during the period amounted to about \$1.80 per month. More than 40 residents secure water from their own wells and some obtain it from their neighbors. There does not appear to have been much activity in the subdivision during recent years; in fact, only about 100 homesites have been sold and built since 1922, with some 900 platted lots, chiefly 25 x 100 feet, remaining unsold. Most of the residents are persons in modest circumstances.

Otto has unconditionally offered to transfer his water system, for the nominal sum of \$1.00, to any association of consumers or to a public water district willing to take on the responsibility of supplying water in the tract. No such group has thus far come forward, although it seems that a substantial number of residents are willing to consider the proposal. It is perfectly clear to us that Otto cannot be expected to continue to absorb the steady losses which have accrued since the first sales of water in 1932. It is also manifest that an increase in rates sufficient to return direct costs plus something on the investment (about \$15,000) would not solve the problem, since there appears to be little prospect of a marked increase in patronage, and a substantial elevation of rates would in all likelihood force present consumers to seek their own source of supply.

Otto has estimated that, for about 40 consumers, it would be necessary to charge an average monthly rate in the neighborhood of \$6 or \$8. His estimate assumes the necessity of paying \$150 to \$200 per

month for someone to replace the present manager, a gentleman of advanced years who for some time has been performing the duties of bookkeeping and daily supervision for \$45 per month. While Otto's estimate appears to be high, there is no doubt but that some person would have to be found to take over the task of management if the operation were continued in its present status, since the present manager has indicated that he would not be available in that event, and the state of Otto's health, it was shown, would preclude him from assuming active charge of operations. In any case, compensatory rates under present conditions of patronage, with allowance for costs which might be expected to accrue for an operation of this size, would certainly have to be at substantially higher levels than at present and in all probability would fall in the neighborhood of \$5 or \$6 per month, or well over 100% above the present average charge. We do not believe that such a rate is feasible.

We have concluded, on further consideration, that those who may be interested in securing the benefits of this water system for themselves and for future users would be well advised to avail themselves of Otto's offer, and endeavor to form some kind of association under which the system might be owned and operated by themselves.

At the last hearing Otto offered to continue water service under existing conditions for a period of four months. We think that within a period of two months from the effective date of this order the water users should be able to form an appropriate organization by means of which they may accept title to the water system and thereafter operate it for their mutual benefit. Therefore, Otto will not now be authorized to discontinue his utility water service, but will be directed to advise the Commission further within 60 days whether such a consumers' organization has been formed to which he may then be authorized to convey title. Until that time, no final order will be made on Otto's application to abandon service.

O R D E R

Further hearing having been held in the above-entitled and numbered application, evidence having been received and considered together with the evidence heretofore adduced in said proceeding, the matter having been submitted, the Commission now being fully advised and deeming it appropriate to withhold a final decision in this proceeding for the time being,

IT IS HEREBY ORDERED that, if within sixty (60) days from the effective date of this order there shall be in existence a mutual association of water users or other entity ready, able and willing to accept title to and operate said water system, Richard S. Otto shall file an appropriate supplemental application herein for transfer of said water system to such association or other entity; or, should there be no such association or entity in existence by the expiration of said period of sixty (60) days, Richard S. Otto is directed to file with the Commission a verified statement to that effect.

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

Dated at San Francisco, California, this 23<sup>rd</sup> day of

February, 1949.

L. E. [Signature]  
Justice F. [Signature]  
[Signature]  
[Signature]  
[Signature]  
Commissioners.