

459

Decision No. 43201**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of the Arrowhead Utility Company
to obtain a revised schedule of
rates and a revised set of rules
and regulations.

Application No. 29814

Arnold M. Cannan, for applicant;
Abram L. Myers, for Arrowhead Woods
Property Owners' Association.

POTTER, COMMISSIONER:

O P I N I O N

Arrowhead Utility Company, a corporation, owns and operates a water system serving domestic and commercial customers in Arrowhead Woods surrounding Lake Arrowhead, San Bernardino County, California, and filed the above-entitled application on November 4, 1948 asking authority to establish an increased schedule of rates and a revised set of rules and regulations.

A public hearing was held before Commissioner Potter and Examiner Warner at Lake Arrowhead on June 16, 1949.

History, Service Area and Description of System.

Applicant was incorporated in 1923 to acquire the water distribution system and water rights of Arrowhead Mutual Service Corporation, and to continue to operate the water system and serve approximately 5,000 acres, in which are located some 2,386 residential lots surrounding Lake Arrowhead. Between 1923 and 1946 the stock of the water company was owned by the Arrowhead Lake Corporation, together with Lake Arrowhead and lands surrounding the lake. On February 15, 1946, Los Angeles Turf Club, Inc. acquired the stock of both the Arrowhead

Lake Corporation and Arrowhead Utility Company and now owns the water system, the lake, the unsubdivided lands and the unsold lots within the subdivided portion of the tract known as Arrowhead Woods Tract.

Water is obtained from Lake Arrowhead, a 47,000 acre-foot-capacity artificial lake, and is pumped from two pumping stations known as South Shore Pumping Plant and North Shore Pumping Plant, respectively. The South Shore Pumping Plant contains two sets of pumps of two units each, one set being used for standby. This plant serves the south shore area from a 100,000-gallon concrete reservoir and a 500,000-gallon steel tank, supplemented by three additional booster pump tanks having capacities of 10,500, 5,000 and 4,000 gallons. The North Shore Pumping Plant is supplied from a tunnel which is owned by the Turf Club, and which extends from the lake approximately one mile to an adjacent valley. Two sets of pumps draw water from separate points in this tunnel and discharge into a 100,000-gallon concrete reservoir and a 150,000-gallon tank to serve the north shore area. The maximum lift on the south shore is about 700 feet and on the north shore some 256 feet, from the lake level, and about 462 feet from the tunnel.

Of the 2,386 residential lots in Arrowhead Woods Tract, about 900 have been developed and 867 customers are being served with water, all of which are metered. There are 125 fire hydrants connected to the distribution mains.

Since this is a highly developed resort area, the consumption of water is of a seasonal nature. Also, somewhat sparse development and severe winter conditions present operating and maintenance problems. However, no particular service complaints were registered at the hearing. Water obtained from the lake is said to be of good quality, in ample supply, and at good pressure. The physical condition of the system facilities; i.e., pumps, tanks, transmission and distribution mains, and services is good, and the system, generally, is of high standard.

Applicant enjoys an arrangement with the Arrowhead Division (the land-owning and operating division) of the parent company, the Los Angeles Turf Club, Inc. for the use of certain equipment owned by the Turf Club. This arrangement includes the use of a caterpillar tractor, Hough payloaders, a truck, a pavement breaker, hand tools, office equipment and machines, and other items not included in the fixed capital of the utility. Also, since the applicant has no employees of its own, work performed for it by employees of the Turf Club is charged to the utility.

Rates and Earnings

Present rates have been in effect since 1924 with no change. They include a monthly minimum charge of \$1.50 per meter per month, which includes the first 500 cubic feet, with the next 500 cubic feet at 20 cents per 100 cubic feet, and all over 1,000 cubic feet at 15 cents per 100 cubic feet. The fire protection rate of \$1.50 per hydrant per month has never been enforced, since, through the furnishing of free fire hydrant service to the Arrowhead Lake Fire District, no property tax is charged to the utility by the district.

Proposed rates include a bi-monthly minimum charge of \$6 per meter for the first 1,000 cubic feet, with the next 1,000 cubic feet at 40 cents per 100 cubic feet, and all over 2,000 cubic feet at 30 cents per 100 cubic feet. Applicant requested that this rate be placed on an annual basis.

Mr. Myers, appearing for the Arrowhead Property Owners' Association, while not protesting the reasonableness of the proposed rate, asked that the annual guarantee feature of \$36 per year be modified. He also questioned the correctness of the amounts shown on the company's books for fixed capital in service.

Mr. Barr, auditor of the applicant company, in his testimony and in support of the proposed annual charge, showed that during 1948, 67.7% of the water distributed was consumed during the four summer

4

months of June through September, but that during the same summer months, only 36.6% of the total operating expenses excluding depreciation were incurred; the heavy expense charge during the winter months being accounted for by the heavy snow conditions of the 1948 winter. In illustrating the seasonal nature of the utility's operations, Mr. Barr further showed that whereas in August, 1948, there were 847 consumers billed, in January, 1948 there were but 685 consumers billed, and, of the latter, there were only 369 consumers who actually used water during the month of January, 1948.

With respect to the correctness of the entries in the company's fixed capital accounts, a Commission witness introduced a report which indicated that the company in 1948 had found it necessary to make a physical inventory of all the property in place as to location and age, and an appraisal thereof, due to the fact that all supporting documents for capital investment were burned after the acquisition of the Lake Arrowhead properties by the Los Angeles Turf Club, Inc. This inventory and appraisal was reconciled with annual reports which had been filed with the Commission by the applicant prior to stock acquisition by the Turf Club. The reconciliation of fixed capital in service as shown by the books with that of the appraisal resulted in an overall difference of only some \$51.60.

This same report showed that a detailed audit of several construction jobs was made from the books of Los Angeles Turf Club, Inc. for the purpose of checking all items of labor, material, etc. and their costs, in order to reconcile them with the statements attached to the billing to the utility. In all instances the audit showed that the actual cost to the Turf Club, only, was passed on to the utility with no overheads or indirects attached. All maintenance, repairs and operating expenses likewise were shown to be paid by the Turf Club and billed to the utility at cost.

Another Commission witness introduced a report which shows the following summary of earnings for the year 1948, and the estimated year 1949 at present and proposed rates. A pro forma statement of earnings for the year 1948, giving effect to proposed water rates, and including certain expenses not actually charged, was introduced by applicant's witness. It is also shown for comparison:

SUMMARY OF EARNINGS
5% Sinking Fund Method
Years 1948-1949

Item	Co.Ex.No.2	Co.Ex.No.6	P.U.C. Staff Exhibit		
	Year 1948 Recorded	Pro Forma Statement Year 1948 Adjusted*	Year 1948 Adjusted Present Rates	Estimated Yr. 1949 Present Proposed Rates Rates	
Operating Revenues	\$22,131	\$ 47,630	\$ 22,131	\$ 22,000	\$ 47,165
Operating Expenses	17,668	27,489	25,579 ^o	26,000 ^o	26,000 ^o
Taxes	162	2,533	162	161	3,125
Depreciation	9,383	3,379 [#]	3,136 [#]	3,211 [#]	3,211 [#]
Total Oper. Exp.	<u>27,213</u>	33,401	<u>28,877</u>	<u>29,372</u>	32,336
Net Operating Revenue	(<u>2,082</u>)	14,378	(<u>6,746</u>)	(<u>7,372</u>)	14,829
Rate Base		326,157	299,278	304,465	304,065
Rate of Return		4.41%	(<u>2.25</u>)%	(<u>2.42</u>)%	4.88%

(Red Figure)

*Adjusted to reflect proposed rates, additional repairs, indirect expense, administrative and accounting expenses, and 5% sinking fund depreciation not recorded on company's books. Also includes non-operating revenue of \$149.20.

^oIncludes an estimate of \$8,120 for indirect expense, and administrative and accounting expenses ordinarily incurred by the L.A. Turf Club, Inc. and charged on its own books, which are considered properly chargeable to Arrowhead Utility Co. operations.

[#]5% Sinking Fund Annuity.

With respect to the 1949 estimate of operating expenses submitted by the Commission's staff, the evidence shows that during 1948 no charge was made by the Turf Club for management, accounting, and billing expenses performed by it for the utility, and the amount of \$500 a month for these services has been included in the staff estimate. Likewise, an amount of \$2,120 for indirect expenses, such as supplies, small tools, gasoline, maintenance and repairs to vehicles and other equipment, direct supervision of labor, inventory handling and carrying

costs, local operating and maintenance costs, licenses, for which no charge was made by the Turf Club, has been included in the staff estimate. We believe these are reasonable charges, and the staff estimate of expenses will be accepted.

The record also shows that there are 65 meters larger than $5/8 \times 3/4$ inch in size that vary from one inch to six inches, and that the existing rate schedule does not provide for additional charges for these meters. Had an appropriate monthly charge been made for these meters, the annual revenue would have been increased \$2,912. However, applicant contends that many of these meters are not necessary to furnish the service required, and if an increased charge is made, the consumers will ask to have them replaced with smaller-sized meters, which would result an increase of only \$374 in annual revenue.

The record further shows that the system has been constructed to serve a large sparsely settled area, and it is capable of providing service to a large number of additional users, and that the cost of maintenance and operation exceeds the cost of similarly operated systems. Under the circumstances, it appears that the rate requested is unduly high but a somewhat lower rate should be established which will provide reasonable charges for the service rendered to the present consumers. The rate schedule in the following order is designed to produce an annual revenue of \$44,500 and provide a return of approximately 4.2% on the used and useful investment in the system.

Applicant asks that it be authorized to bill its customers on a bi-monthly basis which will reduce the cost of meter reading and billing and also will result in a convenience to the customer. The rate schedule set forth in the following order will provide for bi-monthly billing.

Owing to the seasonal demand for service by a considerable number of its consumers, applicant asks that the Commission establish a rate schedule that will guarantee an annual revenue from the users since

it is compelled to maintain and operate the system for the full 12 months of the year and to stand by and be ready to provide service upon demand at all times during the year, although the seasonal peak covers only approximately a four-month period. Applicant claims that payment of charges on a continuous permanent consumer basis will provide more revenue and at the same time will spread the charges more equitably among the consumers. The community served is predominately summer resort in character but demand is continuous throughout the year by reason of its proximity to Los Angeles and other densely populated areas. Applicant's request for payment of charges on an annual basis is reasonable. The schedule of rates established herein will provide for such payment.

The following form of order is recommended:

O R D E R

Arrowhead Utility Company, a corporation, having applied to this Commission for an order authorizing an increase in rates for water delivered to its consumers, and authorizing bi-monthly billing on an annual basis, a public hearing having been held thereon, and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates authorized herein are justified and that a schedule of rates providing for bi-monthly billing on an annual basis should be established; therefore,

IT IS HEREBY ORDERED that Arrowhead Utility Company, a corporation, is hereby authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with the Commission's General Order No. 96, the schedule of rates shown in Exhibit A attached hereto, and, after not less than five (5) days' notice to the Commission and to the public, to make said rates effective for service rendered on and after the 15th day of September, 1949.

IT IS HEREBY FURTHER ORDERED as follows:

1. That applicant, on or before the 15th day of September, 1949, shall file with this Commission four sets of revised rules and regulations as contained in Exhibit G attached to the application herein and hereby made a part hereof by reference, except that the amount of the deposit specified in Rule and Regulation No. 6(A) shall be changed from \$6 to \$5, to conform to the minimum bi-monthly charge authorized herein; each set of which rules and regulations shall also contain a suitable map or sketch, drawn to an indicated scale upon a sheet 8½ x 11 inches in size, delineating thereupon in distinctive markings the boundaries of its present service area and the location thereof with reference to the immediate surrounding territory; provided, however, that such map or sketch shall not thereby be considered by this Commission or any other public body as a final or conclusive determination or establishment of the dedicated area of service or any portion thereof.
2. That applicant, within forty (40) days after the effective date of this order, shall file with this Commission four copies of a comprehensive map, drawn to an indicated scale of not less than 600 feet to the inch, upon which shall be delineated by appropriate markings the territory presently served. This map should be reasonably accurate, show the source and date thereof, and include sufficient data to determine clearly and definitely the location of the property comprising the entire utility area of service; provided, however, that such filing shall not be construed as a final or conclusive determination or establishment of the dedicated area of service or any portion thereof.

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

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Public Utilities Commission of the State of California.

Dated at San Francisco, California, this 9th day of August, 1949.

R. Z. [Signature]

[Signature]

[Signature]
Commissioners.

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

In and in the vicinity of the subdivided territory known as Arrowhead Woods Tract, surrounding Lake Arrowhead, San Bernardino County.

RATES

Quantity Rates:	<u>Per Meter Per Bi-Monthly Period</u>
First 800 cubic feet, or less	\$ 5.00
Next 1,200 cubic feet, per 100 cubic feet40
Over 2,000 cubic feet, per 100 cubic feet30
Minimum Charge	
For 5/8 x 3/4-inch meter	5.00
For 3/4-inch meter	7.00
For 1-inch meter	10.00
For 1 1/2-inch meter	17.00
For 2-inch meter	25.00
For 3-inch meter	42.00
For 4-inch meter	65.00
For 6-inch meter	125.00

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

SPECIAL CONDITIONS:

Bills will be rendered bi-monthly and service furnished only on a continuous basis, with a minimum service period of twelve consecutive months.