

Decision No. 44649**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 BURK ENTERPRISES INC.
 (Lebec Water Works)
 for Authority to Increase Water Rates.

Application No. 31391

Bernbaum and Freeman by Max Bernbaum
 and Ben Narvid, for applicant. Virgil Ellis
 and J. W. Meares, consumers, in propria
 persona, as protestants.

O P I N I O N

Burk Enterprises Inc., a California corporation, asks authority herein to establish a schedule of increased rates for its water system located in Lebec, Kern County.

A public hearing was held before Examiner Gillard at Lebec on July 18, 1950.

In July, 1947, Burk Enterprises, Inc., purchased a hotel, restaurant, service station, ranch, and a public utility water system from New Lebec Hotel Corporation. The sale of the water system was approved by this Commission on March 30, 1948 by Decision No. 41401.

The water supply for the system is obtained from one 12-inch well, from which a 25 hp motor and deep well turbine pump lift the water into a 10,000-gallon corrugated iron tank at ground level. From there, the water is boosted by means of a 15 hp motor and pump through 4,000 feet of 4-inch pipe to two 40,000-gallon steel tanks, one located above the hotel and the other near the Tejon Lodge Subdivision. Near this latter tank is located another of about 43,000 gallons which is

not being used at the present time. About five miles of pipe varying from 1 to 4 inches in diameter distributes the water to 71 consumers, 45 of whom are metered. Water is supplied to the hotel through a two-inch connection, and to the garage, restaurant and bar through another two-inch connection, neither of which are metered.

Applicant at present charges \$15 per year for 500 cubic feet per month and \$0.15 per 100 cubic feet in excess of 500 cubic feet per month. Unmetered service is supplied at the rate of \$15 per year. In 1949 these rates produced \$1,486 in cash revenue. Applicant also credited to revenue \$300 on account of water used by its hotel and other facilities for a total revenue of \$1,786 for the year. For the year 1949, applicant stated its expenses were \$6,685.

All of the above expenses except power and repairs were allocated to the water system from the total expenses of operating all the properties of applicant. The payroll item includes the full time salary of one maintenance man at \$200 per month, the balance of the item being allocated overhead salaries. The allocations to auto and truck, supplies, office rental, postage and mailing, and taxes appear reasonable. Power was a substantiated direct expense, but only \$221.32 of the item - repairs - was corroborated by applicant's auditor. Depreciation was computed at 10% using the straight-line method, based upon the purchase price of the system adjusted by a 1949 capital addition.

Based upon its reported revenues and expense, applicant seeks authority to increase its rates to \$60 per year, and \$0.60 per 100 cubic feet in excess of 500 cubic feet per month, for a 300% increase. It also proposes to eliminate its forestry rates, which provide reduced charges for quantity use, because the Division of Forestry is no longer a consumer of the system.

Commission staff engineer John D. Reader analyzed the operations of applicant and introduced into evidence as Exhibit No. 3 his report thereon. Relative to revenue the report shows that \$1,633 was billed for 1949, and that there was an undercharge of \$200 because the reduced forestry rate was improperly applied. Two thousand dollars was also included in revenue as the value of water supplied to the hotel and other businesses of applicant. This figure was based on the 1948 meter reading charged at the regular rate and the assumption that the same quantity of water was used in 1949. The sum of these figures gives a 1949 adjusted revenue of \$3,833.

The staff report relative to operating expenses, considered reasonable all items reported by applicant except salaries and depreciation. One full time maintenance man is considered an unreasonable estimate in view of the size of the system, and the allocated expense accordingly is reduced from \$200 to \$100 per month. Concerning depreciation, the report arrives at a 1936 historical cost, adjusted by retirements and additions to 1949, of \$17,233. The depreciated cost at the end of 1949, reflecting depreciation on the straight-line method of computation amounts to \$9,484, and a corresponding depreciation expense of \$650. The report also allows \$50 per year at present rates for uncollected bills, and \$100 for the same item at the proposed rates.

In addition to these items, evidence at the hearing, as hereinabove set forth, failed to substantiate all the charges allocated for repairs by applicant. For the purpose of this proceeding, the reasonable charge for this item is found to be \$221. The total normalized expenses for the year 1949 are found to be \$4,847.

Based upon the foregoing adjustments to revenue and expense, and using the staff engineer's depreciated rate bases, applicant's earnings under the present and proposed rates appear as follows:

Item	Year 1949 Adj.		Estimated Year 1950	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$ 3,333	\$14,600	\$ 3,900	\$14,940
Operating Expenses, excluding Income Taxes	4,847	4,900	5,000	5,050
Income Taxes	-	2,430	-	2,480
Total expenses	<u>4,847</u>	7,330	<u>5,000</u>	7,530
Net Revenue	(<u>1,014</u>)	7,270	(<u>1,100</u>)	7,410
Depreciated Rate Base	9,484	9,484	9,100	9,100
Rate of Return	-	76.7%	-	81.4%

(Red Figure)

The rates requested are unreasonably high and would result in excessive earnings. However, the present rates are resulting in a loss, and an increase is warranted. Under all the facts and estimates, it is believed that the rates set forth in Exhibit A attached hereto will be fair and equitable to both applicant and its consumers. It is estimated that these rates on an annual basis will produce \$6,500 in gross revenue and a net revenue of \$1,100.

Certain improvements contemplated by applicant will increase the rate base and operating expenses. A new 25 hp booster pump to replace the present one of 15 hp has been ordered. When it is installed, the second storage tank of 43,000-gallon capacity will be connected with the one presently in operation near the Tejon Lodge Subdivision. In addition to these changes, applicant will be required in the following order to install meters on the two connections to the hotel and other properties, so that the amount of water used by applicant may be determined accurately.

The order will provide for a flat rate of \$30 per year. It is strongly recommended that applicant meter all service connections so that all consumers will pay on the basis of actual consumption. Such

a step will greatly reduce the present ill will in the community, engendered by the feeling that the flat rate consumers use far more water and pay substantially less therefor, than the metered consumers.

Several consumers complained about the lack of adequate water to their residences, and one in particular receives practically no water during the hours of peak demand. Applicant admits this situation exists, and hopes to correct it by installing the new 25 hp booster pump and connecting up the 43,000-gallon standby tank. If these measures prove inadequate, applicant will be expected to take whatever further steps are necessary to provide proper service.

O R D E R

Burk Enterprises Inc., a corporation, having applied to the Commission for an order authorizing an increase in water rates and charges, a public hearing having been held, and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified; therefore,

IT IS HEREBY ORDERED that applicant is 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, a schedule of rates shown in Exhibit A attached hereto, and, on not less than five (5) days' notice to the Commission and the public, to make said rates effective for service rendered on and after October 1, 1950.

Schedule No. 1
ANNUAL FLAT RATE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

In the entire service area of the Lebec water system.

RATES

	<u>Per Year</u>
Annual charge payable in advance in two equal installments on January 1 and July 1 of each year.	
For 3/4-inch service connection.....	\$ 30.00
For 1-inch service connection.....	50.00 ✓

Schedule No. 2

ANNUAL METER RATES

APPLICABILITY

Applicable to all measured water service.

TERRITORY

In the entire service area of the Lebec water system.

RATES

	<u>Per Meter</u> <u>Per Year</u>
Minimum Charge:	
Annual minimum charge payable in advance in two equal installments on January 1 and July 1 of each year.	
For 5/8 x 3/4-inch meter	\$ 24.00
For 3/4-inch meter	30.00
For 1-inch meter	45.00
For 1 1/2-inch meter	75.00
For 2-inch meter	150.00

The Minimum Charge will entitle the consumer to the quantity of water each month which one-twelfth of that annual minimum charge will purchase at the following monthly Quantity Rates.

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 500 cu. ft.....	\$ 2.00
Next 1,500 cu. ft., per 100 cu. ft.....	.30
All over 2,000 cu. ft., per 100 cu. ft.....	.20

SPECIAL CONDITIONS

A meter may be installed on the service connection of any consumer at the option of the water company.

IT IS HEREBY FURTHER ORDERED that Burk Enterprises Inc. on or before November 1, 1950, install meters on the connections to its hotel and its restaurant, bar and garage.

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

Dated at San Francisco, California, this 15th day of

August, 1950

J. E. [unclear]
Justin J. Cassen
Robert Lowell
Harold Kulo
Herbert Pottel
Commissioners.