

ORIGINAL

Decision No. 45252

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

R. B. MOORE, EARL BARNARD, F. E. CARPENTER,
 L. E. MANOR, RAY J. SWARTS, FRANK LALANNE,
 JOE M. LEWIS, R. G. WELLS, CHAS. E. CROOKS,
 RAYMOND J. CROSS, J. C. YOUNG, PAUL S. BELDEN,
 THELMA L. MIDDLESWARTH, MARY INSLEY, W. L.
 ESSEX, EMILY E. COLE, E. MURATI, JOSEPH
 KLEINHAMPLE, ELI J. STEWART, PETER A. PANETTA,
 JOHN HENDRY, M. C. HORNING, M. H. ANGLIN, A. H.
 KRAUSE, ROBERT E. CARNEY, RUTH E. WOLCOTT,
 GEORGE N. BASTION, NICK B. DELLA, JOHN J.
 WAGNER, JOY RICHARDSON, STELLA P. HARRIS,
 ROY PRATT, JAMES E. LANDERS, C. F. McELWANEY,
 J. E. LENXWILER, VERNA GUINN, H. D. BAGGS,
 W. B. BAGGS, JOFFRE C. NEWMAN, ANNA M. GENTRY,
 HENRY F. JONES, J. R. WEEKS, F. E. FAIRCHILD,
 AND C. T. BAILEY,

Case No. 5224

Complainants.

vs.

PINE FLAT WATER COMPANY

Defendant.

Maddox and Abercrombie by E. H. Kloster for complainants;
R. B. Moore, complainant in propria persona; R. M. Boeke
and H. H. Morse for defendant.

O P I N I O N

R. B. Moore and some 43 other persons on August 2, 1950, filed this formal complaint against the Pine Flat Water Company, a corporation, which supplies water to the residents of Myers Land Company's Pine Flat Subdivision and certain adjoining lands. The subdivision is part of a summer resort area in the Sequoia National Forest and is located two miles southeast of California Hot Springs in Tulare County. The complainants alleged that the water rates are excessively high, the supply of reasonably pure water is not sufficient, water from one spring has been diverted for use outside

Pine Flat Subdivision, and fire hydrants, reservoirs and standby well have not been installed.

Complainants requested that the present rates of \$1.90 per month for permanent residents and \$21 per year for seasonal use through 3/4-inch service be reduced to \$1 per month for all users during residency; that two concrete reservoirs of 500-barrel capacity each be built and that 25 fire hydrants be installed. They also requested that all water rates be suspended until the reservoirs are built, fire hydrants installed, and water well is drilled and in production. If this work is not completed within six months they asked that defendant's certificate of public convenience and necessity be revoked. Complainants further requested that existing meter rates be abolished, and that use of water by parties outside of the subdivision be denied except upon written consent of three-fourths of the water users.

On August 24, 1950 the defendant, Pine Flat Water Company, filed its answer to the above complaint; it denied that the water rates are excessively high and alleged that as a matter of fact they are too low and requested that they be revised upwards. It further alleged that the rates were established on the basis that there would be 106 consumers, but due to conditions beyond its control there are only 80 consumers. It denied that there is not sufficient supply of pure water at all times as there is a daily production of 26,000 gallons or 325 gallons per day per consumer. It denied that any water from any spring of the Pine Flat Water Company had been diverted for use outside of the Pine Flat Subdivision. It admitted that fire hydrants and water meters have not been installed, that only one reservoir has been added to the system and that no water well for standby has been drilled or put in operation.

The answer further alleges that the Commission's Decision No. 42920, dated May 24, 1949, in Application No. 29957, granted a certificate of public convenience and necessity to the Pine Flat Water Company and permitted it to issue and sell 555 shares of stock at \$10 per share to finance the installation of certain mains and services, as well as two 500-barrel tanks and 25 hydrants. Defendant claims that only 228 shares were sold prior to the expiration date and that the original order did not grant permission to finance drilling of a standby well. The \$2,280 realized from the sale of stock was not sufficient to make all of the improvements enumerated and to date only sufficient capital has been available to install one small reservoir of 150-barrel capacity and to add certain distribution lines, services and a few meters.

A public hearing was held in this proceeding in El Capinero Lodge at Pine Flat before Examiner Edwards on October 31, 1950. Eight witnesses were called to testify on behalf of the complainants and three on behalf of the defendant.

For their first witness the complainants called H. H. Morse, President and Manager of the Pine Flat Water Company, as an adverse witness. His testimony did not bear out the allegation that the rates were too high. He furnished a statement of the cost of operating this water system during its first 16 months as a certificated public utility. This statement, introduced as Exhibit No. 1 in this proceeding, revealed the following revenues

and expenses in the period from June, 1949 to October, 1950, inclusive:

Operating Revenue	\$2,520.85
Operating Expenses:	
Source of Water Supply	390.00
Transmission and Distribution	430.83
Repairs	1,135.08
Billing and Collection	33.33
General Expense	105.17
Undistributed Labor	100.00
Taxes	13.40
Total Operating Expenses	<u>2,207.81</u>
Net Operating Revenue	313.04

The above expense figures do not contain any allowances for depreciation or for the manager's salary, but do provide an allowance of \$75 per month for a local maintenance man on a part-time basis.

The monthly cost of maintenance labor was the main expense item attacked by complainants. The principal complainant, R. B. Moore, testified that this item should not exceed \$15 per month. A former caretaker of this system during the period 1926-1935 testified that an average of one day per month was then sufficient to maintain the system, provided there were no repairs, but admitted that under present conditions as much as \$50 per month would not be an unreasonable figure for the salary of a part-time maintenance man. The present maintenance man testified that it takes 8 to 10 days' time per month to properly inspect, repair, and maintain the system. The president of the water company testified that this service was worth \$100 per month on a part-time basis, and that if a local part-time man could not be found it would be necessary to pay up to \$250 per month for a full-time employee to manage, operate, and maintain the system.

If the former caretaker's figure of \$50 per month is assumed as a proper allowance the above net revenue would be increased \$25 per month. But if a modest salary of \$30 per month is allowed for the manager's time and work, and depreciation

computed at \$12.60 per month on a 5% sinking fund basis, the net increase in expense is \$17.60 per month, or \$261.60 for the 16-month period. This would leave an adjusted net revenue for return of \$31.44 or only \$23.60 on an annual basis. On the rate base of \$16,372 used in the former proceeding, the return is only 0.14%. This principal witness of complainants' also took exception to the use of a historical cost rate base, contending that this property was largely donated to the present company. Exhibit No. 1 indicates that the present company has invested \$2,837.24 in the system since the last proceeding to the end of October, 1950. If only a net investment rate base is used, the return is still less than 1%.

Another consumer was strongly opposed to any rate schedule which would charge the residents only during the months of occupancy of their premises as opposed to an annual minimum. Approximately 15% of the residents reside there the year around, and to base the annual expenses upon the active consumer months would greatly increase the monthly rate per month and thus penalize the year around users. This witness pointed out that while the water production cost is practically nothing, the maintenance costs go on the year around, whether or not the customer uses the water.

The present rate level was criticized by another consumer on the ground that it was predicated on the assumption that the cost of storage tanks and fire hydrants would be added to the capital figures, and since the company never raised sufficient capital to install these improvements, the rates should be lowered. However, the rates established at present do not yield an excessive rate of return upon the operative capital already invested. The Commission engineer's report presented as Exhibit No. 14 in the former proceeding, indicated a return of but 2.2% at the present rate levels.

With regard to the diversion of water to outside parties the manager of the water company testified that the spring on the Pine Flat Ranch, named Cold Water Spring, is located on private property and has not been transferred to the water company. However, for many years the surplus water from this source has been made available to the Pine Flat Subdivision system and it now supplies nearly one-half of the total production. No documentary evidence was introduced to the effect that the water company has any right to the water from Cold Water Spring. However, there has been certain use of these waters during the past.

Some consumers testified to low pressure and water shortage, at times, during the past summer and expressed their belief that these were due to a considerable portion of the water from Cold Water Spring being diverted by means of a 2-inch pipe for a private enterprise being operated by the manager of the water company. The manager answered this complaint by stating that only 100 to 150 gallons a day are being used for his domestic purposes and the remainder, or 12,000 gallons per day, is going into the water system.

As a result of these many factors, it was evident at the hearing that customer relations were somewhat strained, a large part being due to the fact that the customers were not fully acquainted with the problems involved in forming a utility company and operating it under the laws of the state. It is felt that one benefit resulting from this proceeding is a better understanding by consumers and officials of the company of the various problems involving this water system. The utility was not able to sell sufficient stock or borrow money to finance the needed improvements. Many local consumers did not buy stock as anticipated to help the company's program. It was pointed out at the hearing that the

consumers could acquire control of the company by buying sufficient shares of stock and electing officers of their own choice.

The small reservoir which the company was able to install this past year at one proposed location improved service to certain cabins on high ground. The record shows that at least one more reservoir should be installed to fully remedy existing inadequate pressure and volume conditions. It appears that either a supplemental supply of water should be developed by drilling a well, or meters should be installed to prevent careless use and unnecessary wastage of the available water. The present level of rates does not provide a sufficient return to attract a loan from a bank to finance improvements. The company needs financial help, which could come from sales of stock to its customers, if the supply, storage, and distribution of water are to be improved. Were we to decrease rates as requested by the formal complaint, the evidence shows that revenues would drop so low that maintenance would be impaired and financing of needed improvements could not be supported. Under the circumstances the present solution appears to be to hold the rates at their existing level. Should additional experience prove revenues to be too low or too high, procedural steps may be taken to adjust the level of the rates at a later date. The spread of rates between the seasonal rate of \$21 per year and the year-around rate of \$22.60 is not sufficient to warrant changing at this time; moreover, when a standby pump and well are installed, an even greater spread may be warranted.

The record shows that it costs more per customer to serve water in a sparsely built-up area, where there is a very small number of customers per mile of main; that the Pine Flat Water Company has such a small number of consumers that the unit per consumer costs for maintenance and operation labor are very high; and that unless the company can find some local person who

is willing practically to donate his time by working at sub-standard wages, the system cannot be a particularly economic one.

It is concluded that both the complainants' request for lower rates and defendant's request for higher rates should be denied by dismissing the case. However, in so doing, the following recommendations are made to the company:

1. The company's books and records of accounts should be kept in strict accordance with the Commission's "Uniform Classification of Accounts for Water Corporations." All proper management and operating expenses should be shown in reports and every endeavor made to segregate capital and operating expenses accurately. During the time when repairs and operations are at a minimum, the attendant's time should be devoted to making new improvements, and to such extent a portion of his salary may properly be charged against capital.
2. The company should continue its endeavor to obtain additional capital and proceed to make improvements as soon as finances warrant.
3. To equalize, more nearly, the charges for water service according to usage, the company should install meters on services to all premises where water is used excessively.
4. The company should take steps to acquire from the owners of Cold Water Spring the legal right to the use of an adequate flow of the water of said spring. The manager should install a meter on the line serving his private enterprise outside of the subdivision in order to determine the exact quantity of water being diverted from Cold Water Spring for such private purposes.
5. The utility should prepare a map showing all operative system lands, rights of way, easements and water facilities and hold it available for consumer inspection.

In times of drought or water shortage, all consumers should cooperate in conserving water. Because of the apparent misunderstanding of the consumers as to water supply and facilities, the order will require that a copy of the quitclaim deed through which the water system was obtained, and description of the property owned by the water company, be filed with the Commission.

O R D E R

Public hearing having been held on the above-entitled case, the matter having been submitted and the Commission having been fully advised; therefore,

IT IS ORDERED that defendant, within sixty (60) days after the effective date hereof, shall file a copy of the executed quitclaim deed through which the water system was obtained, and attach thereto a descriptive listing of the properties and source of water supply being devoted to public utility service.

IT IS FURTHER ORDERED that Case No. 5224 is hereby dismissed.

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

Dated at San Francisco, California, this 16th day of January, 1951.

R. E. Anderson
Justin F. Calleser
Harold Hule
Rescott Pottier

 Commissioners.