

**ORIGINAL**Decision No. 45336

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
BARTON F. MCGLOTHLEN and MARY JANE  
MCGLOTHLEN, his wife, for a certifi-  
cate of Public Convenience and  
Necessity and for authority to  
increase rates for water service  
in San Bernardino County

Application No. 29418  
(Amended)

Gordon and Knapp, by Wyman C. Knapp, for  
applicant; East Base Line Water Users, by  
John B. Surr, pretestants.

O P I N I O N

Barton F. McGlothlen and Mary Jane McGlothlen, doing business as Pioneer Gardens Water Company, filed the above-entitled application on June 9, 1948, seeking a certificate of public convenience and necessity to expand its water system, and seeking authority to increase its rates for water service in San Bernardino County, California.

Public hearings in this matter were held before Examiner Warner in San Bernardino, California, on October 5 and 14, 1949, and September 19, 20, and 26, 1950, and in Los Angeles, California, on October 6, 1950, on which latter date the matter was submitted upon the filing of briefs.

By an amended application filed September 26, 1949, applicant modified its proposed flat and meter rates and requested the establishment of a rate for water coolers. It also requested establishment of the proposed rates on an interim basis. At the hearing

on October 5, 1949, the request for the establishment of the water cooler rate was withdrawn.

By its Decision No. 43463 dated November 1, 1949, the Commission issued its interim opinion and order in the application as amended and authorized the establishment of interim rates.

On September 20, 1950, the application was amended again by the applicant to further increase the proposed flat rates as established by the said Decision No. 43463.

A map filed at the hearing on September 19, 1950, as Exhibit No. 6-A delineates in detail the area requested to be certificated, and a series of 19 plats filed at the same time as Exhibit No. 7 details applicant's facilities installed as of December 31, 1948.

By the Commission's Decision No. 44535 dated July 18, 1950, in Application No. 31559, Barton F. McGlothlen and Mary Jane McGlothlen, individuals, were authorized to transfer their properties to Pioneer Gardens Water Company, a corporation formed on June 27, 1950. Such transfer was effected as of August 1, 1950.

Applicant has been operating in unincorporated territory just east of the easterly limits of the City of San Bernardino, San Bernardino County, California. This territory is bounded on the north by an area just north of Pacific Street, on the south by Third Street, on the west by Waterman Avenue, and on the east by Victoria Avenue. This territory is irregularly shaped and these designations are the outermost limits thereof. Included within this territory were two water systems, not immediately adjacent to each other, the conduct, by applicant, of water service operations in which were authorized by the Commission's Decision No. 37348 dated September 26, 1944,

in Application No. 26206. In addition to the areas certificated by said decision, applicant has been conducting water service operations without a certificate in nine more or less isolated areas in the general vicinity, each lying within the above-described unincorporated territory. The record shows that one of the purposes of the application herein was to bring all of these areas under a single certificate and, also, to expand the certificated area substantially on the north to Highland Avenue which lies 1 mile north of Baseline Avenue, and to expand into certain uncertificated areas lying within the above-described unincorporated territory.

Applicant's water system comprises 14 operative wells scattered throughout the area. Their estimated combined maximum production is about 6,300 gallons per minute. There are three small elevated storage tanks and seven pressure tanks on the system. Numerous complaints were registered at the hearings by consumers regarding low pressure conditions, sand in the mains, unpleasant odors, and warm water. These conditions appear to be existent, generally, throughout all areas.

The record shows that the water system is not operated as an integrated unit. A so-called northern portion, lying above Baseline Avenue, is supplied principally from wells Nos. 4, 6, 8, and 16. Well No. 8 which produces warm water at temperatures between 75 and 82 degrees is utilized as a standby. The so-called southern portion of the system, lying below Baseline Avenue, is now supplied principally from well No. 7 which has an estimated capacity of 2,090 gallons per minute and which has installed in it a pump powered by a Buda gas engine. Water from this well appears to be quite potable and applicant's witness stated it was applicant's intention to make it

the principal source of supply for the entire system if and when full interconnecting facilities were installed.

Applicant's system, as of August 31, 1950, comprised some 1,391 flat rate and 25 meter rate consumers. The record shows that there were 1,380 flat rate customers and three meter customers at the end of the year 1949. The record also shows that applicant had received some 25 requests for installation of meters during 1950. Most customers are classified as residential. However, water service is also furnished to a few small commercial establishments, service stations, and grocery stores, and to a church and a school, all on domestic schedules. The terrain is generally flat with a gradual downward slope from north to south from the base of the mountains north of Highland Avenue. Water is utilized for domestic purposes, for gardens, for coolers, for swimming pools, and for the above-mentioned commercial purposes.

The water is tested for potability by a private chemical laboratory at intervals of about every two weeks, and by the San Bernardino Health Department about once every three or four months. The record shows that it has been reported by these agencies to be free from contamination.

With regard to the request for the extension of the certificated area, it is apparent that the water production facilities are more than ample for serving a much larger area and a greater number of customers than are at present being served. However, the record does not disclose any substantial number of applications for service outside the general boundaries of the present areas being served, and the prospects for substantial development and home construction and consequent increase in number of customers were not carefully

developed by the applicant. Further, the record shows that the operations of the system leave much to be desired in the maintenance of adequate operating pressures and in making the necessary additions to fixed capital in order to effect adequate standards of service. The record also shows that the managerial procedures are in dire need of improvement, particularly with respect to past accounting and bookkeeping practices and maintenance of proper basic records. Therefore, it is considered that the public convenience and necessity will best be served by restricting applicant to operations within the area delineated on the map marked Exhibit A attached to the order herein. When need for further expansion arises, and can be shown, the Commission may be petitioned for the granting of additional certificated area.

The following is a summary of the rates as established pursuant to Decision No. 37348 which became effective October 1, 1944, the rates established by the Commission's interim opinion and order in Decision No. 43463 which became effective December 1, 1949, and the rates applied for by applicant's second amended application filed September 20, 1950, and being considered herein.

PIONEER GARDENS WATER COMPANYFLAT RATES AND GENERAL METER SERVICE RATES

	Original Rates per Decision No. 37348 Effective <u>10-1-44</u> (A)	Interim Rates per Decision No. 43463 Effective <u>12-1-49</u> (B)	Proposed Rates per 2d Amended Application Filed <u>9-20-50</u> (C)
<u>Flat Rates</u>			
Single residence on one lot	\$ 1.50	\$ 2.00	\$ 2.25
Square feet of area included	10,000	6,500	6,500
For each add'l. res. on lot	\$ 1.00	\$ 1.00	\$ 1.00
For each add'l. 100 sq. ft. of irrigated area, for a period of not less than five months	0.15	-	-
For each add'l. 500 sq. ft. or fraction thereof of area of lot	-	0.10	0.10
Swimming pool	2.00 to 10.00 per mo.	-	-

General Service Meter Rates  
(Per Meter per Month)

<u>Monthly Minimum Charges</u>			
5/8 x 3/4-inch meter	\$ 1.25	\$ 1.75	\$ 2.00
3/4-inch meter	1.50	-	-
1-inch meter	2.50	3.00	3.00
1 1/2-inch meter	3.00	5.00	5.00
2-inch meter	5.00	7.50	7.50
3-inch meter	10.00	15.00	15.00
4-inch meter	15.00	25.00	25.00
<u>Monthly Quantity Rates</u>			
First 700 cu. ft., or less	\$ 1.25	\$ -	\$ -
Next 800 cu. ft., per 100 cu. ft.	.15	-	-
All over 1,500 cu. ft., per 100 cu. ft.	.10	-	-
First 1,000 cu. ft., or less	-	1.75	1.75
Next 1,000 cu. ft., per 100 cu. ft.	-	.12	.12
All over 2,000 cu. ft., per 100 cu. ft.	-	.10	.10

It will be noted from the above comparative rate summary that the effect of the interim order was to raise the basic flat rate

from \$1.50 per month to \$2 per month while reducing the amount of area included in the flat rate from 10,000 square feet to 6,500 square feet, and to raise the monthly minimum meter charge from \$1.25 per meter per month to \$1.75 per meter per month for a 5/8 by 3/4-inch meter, and to change the monthly quantity rates, also. Applicant's second amended application, it will be noted, requests only that the flat rate be raised from \$2 to \$2.25 per month except that the monthly minimum charge for 5/8 by 3/4-inch meter would be raised to \$2 per meter per month. No change was requested in the monthly minimum charges for larger sized meters or for the monthly quantity rates as established by the Commission's interim order.

Applicant alleges that the further increased rates are necessary in order to produce what applicant claims is a fair rate of return upon its rate base. Its witnesses at the hearing further alleged that the proposed improvements in service could not be effected without additional financing and that such financing, in turn, could not be effected without an adequate rate of return.

A detailed estimate of applicant's results of operations, which included the year 1949 recorded and the year 1950 estimated at present rates and at the amended proposed rates, was introduced at the hearing on September 20, 1950, by a witness for the applicant, as Exhibits Nos. 13 and 13-A. A report on the results of operation of applicant for the years 1949 and 1950 was submitted at the hearing on the same date by the Commission staff, as Exhibit No. 17. A summary of the earnings as contained in those exhibits for the year 1949 recorded and the year 1950 estimated follows.

PIONEER GARDENS WATER COMPANY  
SUMMARY OF EARNINGS  
YEAR 1949 RECORDED, AND YEAR 1950 ESTIMATED

Item	: Company Exhibits Nos. 13 & 13-A : : Year 1950 Estimated : : Year 1949 : Present : Amended : Year 1950 : : 1949 : Present : Proposed : Estimated : : Recorded : Rates : Rates : Interim Rates* :	: P.U.C. Staff : : Exhibit No. 17 : : Year 1950 : : Estimated : : Interim Rates* :
<u>Operating Revenues</u>		
Flat Rates	\$ 30,345	\$ 50,084
Meter Rates	666	1,400
Total Operating Revenues	31,011	51,484
<u>Operating Expenses</u>		
Source of Supply	167	96
Pumping	11,198	10,980
Transmission & Distribution	2,230	2,749
Commercial	4,397	5,408
General	9,122	13,260
Uncollectibles	-	250
Subtotal	27,114	32,743
Taxes	726	3,172
Depreciation	7,500	8,000
Total Operating Expenses	35,340	43,915
Net Operating Revenue	(4,329)	7,569
Rate Base (Undepreciated)	-	276,290#
Depreciation Reserve	-	51,600#
Rate Base (Depreciated)	-	224,690#
Rate of Return (on Depreciated Base)	-	3.37%

(Red Figure)

\* Per Decision No. 43463 dated November 1, 1949.

# As of December 31, 1950.

φ Average year 1950.

The record is full of controversies and various contentions with respect to all phases of applicant's operations including its service, accounting methods, records, and components of its estimated rates of return. It is evident from the record that the service cannot be improved without additional financing which is being



attempted. Should such financing be successful, applicant will spend in excess of \$60,000 to install facilities for increasing pressure and for eliminating sand and warm water from the mains. It is imperative that the service be improved.

Several witnesses appeared as protestants, claiming either to have knowledge of donations to capital or to have donated the capital themselves. A list of donated capital, as far as determinable from the lost or otherwise inadequate records of applicant, was introduced by a Commission staff witness as Exhibit No. 18, and Exhibit No. 19 also shows consumers' advances for construction in so far as they were determinable.

The record shows that applicant alleges that its general ledger and other books of accounts were lost in 1948 and that there were no records prior to 1949 upon which to base an accurate estimate for the year 1950, other than upon the operations for the year 1949 and the year 1950 to date, except for the annual reports filed with the Commission. Many operating expense items, as shown in applicant's Exhibit No. 13, appear to be excessive for a normal year, particularly with respect to painting of plant buildings and cutting of weeds, commercial expenses, and certain general expenses such as legal expenses and regulatory Commission expenses. There is no doubt that many economies in operation could be effected by the elimination of the operation, and consequent operating expense, of at least three-quarters of the wells. There is no doubt that when proper mains have been installed and interconnections between the various operating areas have been made, many wells can be either abandoned or placed in a standby status. This is not meant to imply that the pumping expense attributable to electric power and fuel for the Buda

gas engine at well No. 7 would be reduced by three-quarters, for the operations of certain wells, including well No. 7, would have to be stepped up.

It is important that we consider the estimate of operating revenues. During the summer of September, 1950, there were some 277 water coolers attached to the system. A few of these were recirculating and water was re-used, but most of the others were of a type which demanded a constant flow of water through them. The record shows that the soil in applicant's service area is sandy and that lawns were sprinkled and watered under the flat rate system day and night to overflowing during the hot summer months. Certainly, if applicant is looking for a source of additional revenue, the installation of meters is an obvious source of such revenue. It is estimated that the interim rates will produce total operating revenues of \$53,400. Total operating expenses are hereby determined to be \$40,000, taking into account the presently known federal income tax rates for the year 1951. When applied against a depreciated rate base of \$214,000, hereby adopted for the purpose of this order, the net revenue of \$13,400 will result in a rate of return of 6.26%. It is concluded, therefore, that the interim rates will produce a fair rate of return, and the order herein will make the interim order final with respect to rates.

Applicant's request that it be authorized to place on its books of account the results of the historical cost appraisal submitted at the hearing on September 19, 1950, by a Commission staff witness as Exhibit No. 8, as modified by the corrected pipe-line installation cost shown in Exhibits Nos. 9 and 9-A as introduced at the hearing of that same date by applicant's witness, appears to be reasonable. The journal entries to accomplish this result should provide for classifying as Donations in Aid of Construction and Consumers' Advances for Construction all of those items appearing on

the lists thereof filed at the hearing on September 26, 1950, as Exhibits Nos. 18 and 19, respectively, plus the historical cost of well No. 14 located on the so-called Yandell property in the amount of \$1,348 and the historical cost of well No. 16, the Cooley Well, in the amount of \$3,971 as shown on Page 5 of Exhibit No. 8.

The certificate of public convenience and necessity granted herein is subject to the following provision of law:

That the Commission shall have no power to authorize the capitalization of this certificate of public convenience and necessity or the right to own, operate or enjoy such certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right.

O R D E R

Barton F. McGlothlen and Mary Jane McGlothlen, doing business as Pioneer Gardens Water Company, having applied to the Commission for a certificate of public convenience and necessity extending their service area and for an order authorizing the establishment of flat and meter rates, public hearings having been held, an interim order having been issued as the Commission's Decision No. 43463 dated November 1, 1949, and the matter having been submitted on October 6, 1950, and now being ready for decision, and the Commission having authorized the applicants herein, by its Decision No. 44535 dated July 18, 1950, in Application No. 31559, to transfer their water system properties to Pioneer Gardens Water Company, a corporation formed on June 27, 1950, and such property transfer having been effected on August 1, 1950, in accordance with said Decision No. 44535,

IT IS HEREBY FOUND AS A FACT that public convenience and necessity require the operation of a public utility water system by Pioneer Gardens Water Company in the area delineated on the map

attached hereto and marked Exhibit A, and that the rates established by the Commission's interim order in its Decision No. 43463 dated November 1, 1949, are just and reasonable; therefore,

IT IS HEREBY ORDERED that:

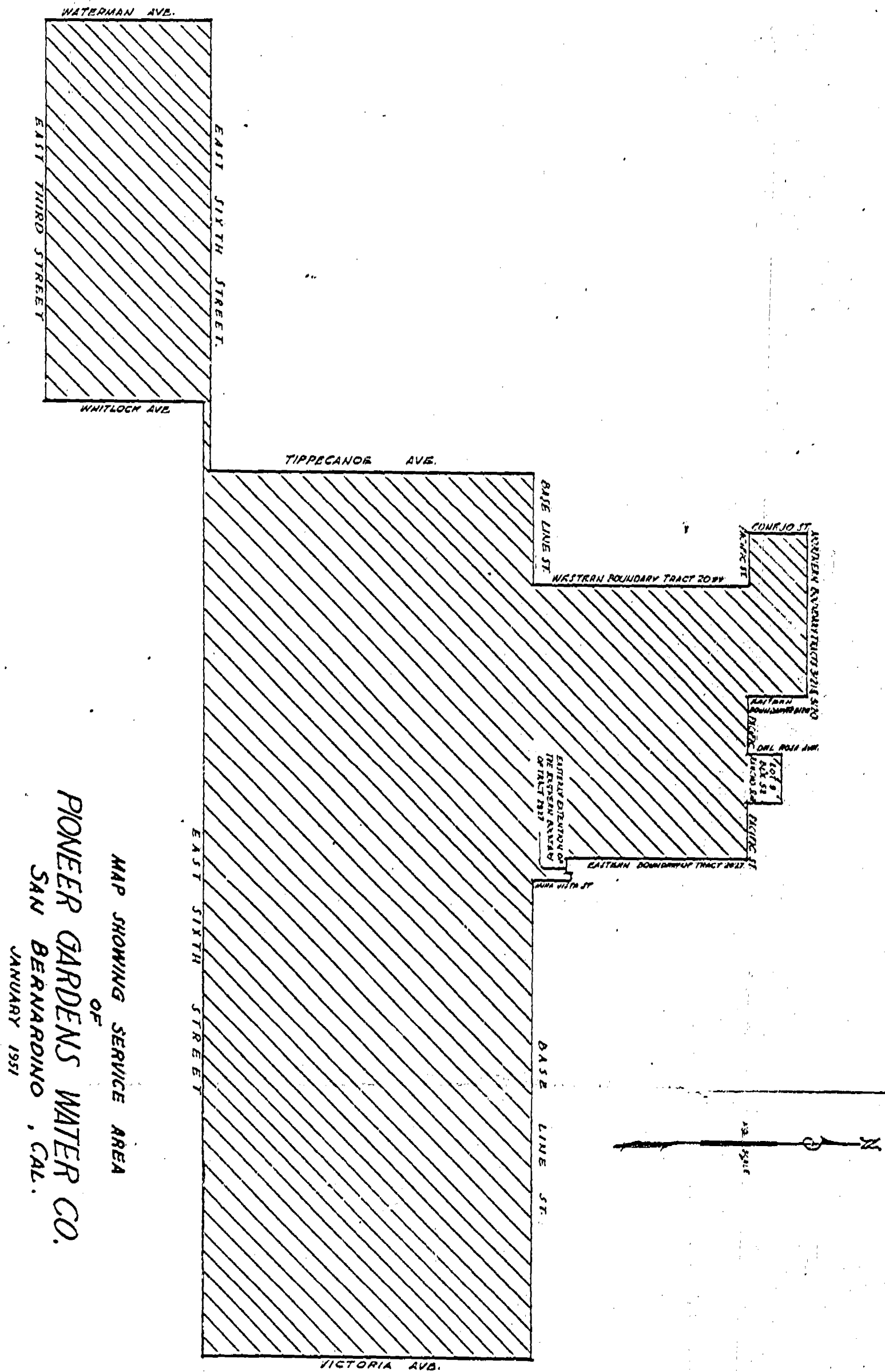
1. A certificate of public convenience and necessity be and it is granted to Pioneer Gardens Water Company to operate a public utility water system for the production, distribution, and sale of water within the territory hereinbefore described.
2. Applicant shall file, within forty (40) days after the effective date of this order, four copies of a comprehensive map, drawn to an indicated scale of not less than 600 feet to the inch, delineating by appropriate markings the various tracts of land and territory served and the location of the various properties of applicant.
3. Applicant shall file four copies of rules and regulations and tariff service area map acceptable to this Commission and in accordance with the requirements of General Order No. 96.
4. Applicant shall adjust its books so as to include in its fixed capital accounts the historical cost appraisal submitted at the hearing as Exhibit No. 8, as modified by Exhibit No. 9 and Exhibit No. 9-A, together with the further modification referred to in the preceding opinion, and shall file with the Commission a copy of each journal entry used to adjust its books in accordance with the authority herein granted.

IT IS HEREBY FURTHER ORDERED that the interim rates specified in the Commission's Decision No. 43463 dated November 1, 1949, shall be continued in effect as permanent rates.

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

Dated at San Francisco, California, this 6<sup>th</sup> day of February, 1951.

R. Z. Johnson  
Justice J. Cassel  
Harold H. Hill  
Marionette P. Potter  
John E. Mitchell  
 Commissioners.



MAP SHOWING SERVICE AREA  
 OF  
**PIONEER GARDENS WATER CO.**  
 SAN BERNARDINO, CAL.  
 JANUARY 1951