

ORIGINAL

Decision No. 49652

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 BEN LOMOND REDWOOD PARK WATER COMPANY, )  
 for an Order Authorizing It to ) Application No. 34720  
 Increase Rates for Service and to )  
 Revise Its Regulation Governing the )  
 Extension of Water Mains. )

For applicant: Eugene J. Adams, attorney.  
 For interested parties: Alice Earl Wilder and  
H. D. Coon, in propria personae.  
 For Commission staff: John D. Reader.

OPINION AND ORDER

In this application, filed September 12, 1953, Robert E. A. Michelsen, legal guardian of the person and estate of E. G. Thompson (Ben Lomond Redwood Park Water Company), seeks an order of this Commission authorizing increases in rates and charges for water service rendered in an unincorporated area near Ben Lomond, Santa Cruz County, and the establishment of a revised extension rule.

Public hearing in this matter was held before Examiner Emerson on January 28, 1954 at Ben Lomond. At said hearing seven witnesses were heard and two exhibits received in evidence. Four letters from consumers, who were unable to be present, were made a part of the record in the proceeding.

Applicant's Position and Request

This system has been plagued with numerous, continuing and worsening service deficiencies over a considerable period of time. Guardian for applicant fully recognizes such conditions and acknowledges the utility's obligation to attempt to make improvements therein. The estate of applicant, however, is devoid of funds with which to make even the most minor capital improvements and the

earnings of the system are barely sufficient to meet the direct out-of-pocket operating expenses, let alone provide for taxes, depreciation expense and a fair return on the value of the properties devoted to public service. Faced with such a situation, guardian for applicant seeks a substantial increase in gross revenues with the avowed intention of devoting all of the earnings resulting therefrom to improvement of service to consumers and rehabilitation of the system. Further, guardian for applicant has pledged that any salary to which he may be entitled, as operator of the system, will likewise be devoted to providing better service.

Basically, guardian for applicant seeks increased revenues with which to make capital additions and betterments to the system. No other source of funds, either through loans or the extension of credit, appear to be available until the system may show earnings sufficient to warrant the Superior Court to allow the assumption of debt by the estate of applicant.

A comparison of present and requested rates is shown in the following tabulation. At the requested rates, guardian for applicant anticipates a gross revenue increase, from the system's present 114 active service connections, of \$1,092 on an annual basis.

Rate Comparison

<u>Type of Service</u>	<u>Charge</u>	
	<u>Present Rate</u>	<u>Requested Rate</u>
<b>Annual Flat Rate</b>		
Year-round service	\$20.00	\$30.00
Eight months' service	16.00	25.00
Additional month, over 8	2.00	3.00
<b>Metered Service</b>		
Annual minimum	\$15.00	\$27.00
First 300 cu.ft. per month	In Minimum	In Minimum
Next 500 cu.ft., per 100 cu.ft., per month	0.25	0.35
Next 1,200 cu.ft., per 100 cu.ft., per month	.20	.30
Next 3,000 cu.ft., per 100 cu.ft., per month	.15	.25
Over 5,000 cu.ft., per 100 cu.ft., per month	.10	.20

Nature of Evidence

With respect to results of operations in recent years and as projected for the year 1954 an engineering consultant for applicant and an engineer of the Commission's staff presented analyses of the utility's records, physical properties and financial transactions and position. Books of account for years prior to 1953 are lacking and even for 1953 are not wholly complete. As a result, reconstruction of past experience and current operations was undertaken, by both engineers, by reference to annual reports filed with this Commission and to historical cost appraisals, made in connection with prior proceedings and contained in the Commission's files. The respective conclusions of these engineers are summarized as follows:

Results of Operations

Item	Applicant		Commission Staff	
	Present Rate	Requested Rate	Present Rate	Requested Rate
<u>Year 1953</u>				
Operating Revenues	\$ 2,258	\$ 3,400	\$ 2,400	\$ -
Operating Expenses				
Before Taxes and Depr.	2,573	2,573	2,215	-
Taxes	130	144	135	-
Depreciation	508	508	350	-
Total Operating Exps.	<u>3,211</u>	<u>3,225</u>	<u>2,700</u>	-
Net Revenue	(953)	175	(300)	-
Rate Base (Depr.)	10,237	10,237	6,597	-
Rate of Return	loss	1.7%	loss	-
<u>Year 1954</u>				
Operating Revenues	\$ 2,308	\$ 3,400	\$ 2,420	\$ 3,550
Operating Expenses				
Before Taxes and Depr.	2,535	2,535	2,270	2,270
Taxes	121	158	175	311
Depreciation	569	569	452	452
Total Operating Exps.	<u>3,225</u>	<u>3,262</u>	<u>2,897</u>	<u>3,033</u>
Net Revenue	(917)	138	(677)	517
Rate Base (Depr.)	11,600	11,600	9,545	9,545
Rate of Return	loss	1.2%	loss	5.4%

(Red Figure)

The difference in revenues, apparent in the above tabulation, arises primarily from applicant's engineer having accounted

for a total of 114 active consumers whereas the staff engineer assumed a total of 121 consumers. The other basic difference results from the treatment accorded depreciation expense and reserve.

With respect to depreciation accounting, applicant's engineer used the book reserve, ostensibly accumulated on a 5 per cent sinking fund basis until December 31, 1952, and converted to a straight-line remaining life basis for 1953 and 1954. The staff engineer, on the other hand, concluded that accruals on the 5 per cent sinking fund basis had been incorrectly computed by applicant in prior years and therefore determined a corrected theoretical reserve, computed to December 31, 1953, from which date the straight-line remaining life method was applied for the succeeding period. As a result, the depreciated rate base developed by the staff engineer for year-end 1954 is \$2,055 lower than applicant's engineer's average-year 1954 rate base. While such differences may have theoretical significance in this proceeding, it should be noted that, under the staff-calculated results, the practical matter is that to raise the indicated rate of return by 1 per cent requires a difference of only \$83 in annual net revenue and that estimates of the total expenses of operations can seldom, if ever, be made to such a degree of precision.

Of greater significance in this proceeding is the very real and practical problem of undertaking system improvements. Guardian for applicant, his engineering consultant, the staff engineer, and consumer witnesses alike agree that the provision of increased water storage, to assist in alleviating shortages during peak periods, is of first concern. Next in order of importance is the replacement of undersized and deteriorated water lines. Third in importance is the obtaining of additional water at the source of supply.

It is clearly apparent from the record in this proceeding that the long-developing ills of this system cannot be cured overnight and that a gradual and orderly step-by-step plan of rehabilitation must be followed. The engineers are in agreement that a new storage tank is required at about the 690-foot elevation point on the system and have estimated that the complete installation cost thereof will be of the order of \$2,500 to \$3,000. Such project, in our opinion, should take first priority of action even though improvement of service to consumers at higher elevations may not be accomplished directly therefrom. If at all possible, such tank should be operative before the summer season of 1954. In addition, about 500 feet of undersized mains should be replaced annually and the capital costs connected therewith are estimated at \$750 per year. Such main replacement should first be done at the higher elevations so that those consumers whose service is not improved by the new tank may next be accorded relief. There is no question that all of the recommendations set forth in Section A and B of Chapter 12 of Exhibit No. 2 in this proceeding should be accomplished in the shortest time practicable.

Present consumers earnestly request this Commission to prohibit the serving of new and additional consumers until such time as the current needs of those already connected to the system are met. In view of all of the evidence in this proceeding we conclude that such a restriction is essential and the order herein will so provide to the extent considered practicable.

#### Consumer Interests

On this utility system the interests of consumers are presently so intimately interwoven with those of the utility operator as to be almost inseparable therefrom. If funds for improvement are not forthcoming further deterioration is certain to result and both the utility and the consumers may find themselves in a much

worsened condition. It is fundamental that no utility may be forced to operate at a loss. Neither may it be required to make capital additions beyond its ability to pay for or to finance them. The situation confronting utility and consumer alike is one requiring thorough understanding of their mutual as well as their respective problems and a mutually cooperative effort to meet both. Should this water system not be systematically rebuilt consumers may eventually find themselves completely without water and the utility find itself with neither system nor patrons. The only present source of funds to correct the situation lies in revenues obtained from the users of the system. It behooves all concerned to permit no wastage or extravagant usage of water, irrespective of the price paid therefor, and to permit no tampering with valves or other facilities of the system.

Recriminations respecting faulty past actions, past operations or past bad faith will not alter the present plain facts that the utility is in a financial situation and that consumers are in a service situation that, we are convinced, are practically equally precarious. In the plainest of language we point out that at the present time consumers of this system will best help themselves by helping the utility. We are convinced that the sincerity of the present operator in attacking the problems of this utility will produce worthwhile results within a reasonable period of time.

#### Conclusions

We conclude that this utility has clearly demonstrated its need for and entitlement to not less than the increased revenues which it seeks. For the purposes of this proceeding we find the following to be a reasonable representation of the projected

results of operation of this system during the year 1954 under the rates requested by applicant:

Operating Revenues	\$3,450
Operating Expenses	
Before Taxes and Depreciation	2,500
Taxes	300
Depreciation (Str.L.-Rem.Life)	450
Total Operating Expenses	<u>3,250</u>
Net Revenue	200
Rate Base	
Fixed Capital (Average)	14,300
Depreciation Reserve	<u>4,800</u>
Depreciated Rate Base	9,500
Rate of Return	2.1%

It is clear that the utility will not earn a full return but will halt its losses under the requested rates. Guardian for applicant testified that it was his intent to defer the seeking of a full return until the service rendered might warrant such a return. We find such position to be in the present best interest of utility and consumers alike.

The rates hereinafter authorized will be substantially those requested by applicant. However, in recognition of the fact that the entire system must be maintained in operation throughout the year and that it can neither be expanded nor contracted to meet or offset the seasonal demands of consumers, the seasonal rate will be applied to a 6-month period rather than the present 8-month period.

In view of the fact that extension of facilities to areas not now served will be restricted, action respecting the requested revision of the utility's main extension rule will be deferred until such time as it may be of practical significance.

Applicant's flat rate billing is once yearly in advance of service. Bills for the year 1954, under present rates, have already been rendered and are now past due. We find, however, that the rate relief to be accorded applicant is of such urgency

as to require and warrant that the rates authorized herein be fully effective for the full year 1954. We shall authorize rebilling of services, therefore, so that the new rates will be effective as of January 1, 1954.

It is hereby further found that the increases in rates and charges authorized herein are justified and that present rates and charges, in so far as they differ from those hereinafter authorized, are unjust and unreasonable.

Based upon the evidence of record and findings relative thereto,

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96, the schedules of rates attached to this order as Appendix A and, after one day's notice to this Commission and to the public to make said rates effective for all service rendered on and after January 1, 1954. Applicant is further authorized to make an appropriate rebilling of consumers for services to be rendered during the year 1954.
2. Applicant shall immediately undertake the installation of a water storage tank at about the elevation of 690 feet, together with appurtenant fixtures and larger sized mains, in accordance with the discussion thereof in the foregoing opinion.
3. Applicant shall not furnish water to any new or additional subdivisions within or adjacent to the existing service area, or to any individual consumers which require extension of existing main facilities to areas not now served, except upon a showing, satisfactory to the Commission, that applicant has procured or there are available to applicant, sufficient quantities of water and adequate-sized mains for rendition of adequate service to existing consumers as well as to such new or additional consumers, and until the Commission, upon such showing shall have appropriately modified this order.



- 4. Within ninety days after the effective date of this order, applicant shall file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96, copies of a tariff service area map and of rules reflecting present-day practices and relationships with its consumers.

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

Dated at San Francisco, California, this 9<sup>th</sup> day of February, 1954.

R. Z. [Signature]  
President

Joseph J. [Signature]

Benjamin [Signature]

John E. [Signature]

Gene [Signature]  
Commissioners

APPENDIX A  
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated communities of Ben Lomond Redwood Park, Rowardennan Redwood Park and Lomond Terrace, and vicinity, south of the community of Ben Lomond, Santa Cruz County.

RATES

Monthly Quantity Rates:

	<u>Per Meter per Month</u>
First 300 cu.ft. or less, included in minimum charge.	
Next 500 cu.ft., per 100 cu.ft. . . . .	\$0.35
Next 1,200 cu.ft., per 100 cu.ft. . . . .	.30
Next 3,000 cu.ft., per 100 cu.ft. . . . .	.25
Over 5,000 cu.ft., per 100 cu.ft. . . . .	.20

Annual Minimum Charge:

	<u>Per Meter per Year</u>
For 5/8 x 3/4-inch meter . . . . .	\$27.00

The Annual Minimum Charge will entitle the consumer to 300 cubic feet of water per month on a noncumulative monthly consumption basis.

SPECIAL CONDITIONS

1. The above annual minimum charge applies to service during the calendar year commencing January 1 and is due in advance.
2. Charges for water used in excess of 300 cubic feet per month will be billed monthly.
3. In the event service under this schedule is requested by a residential customer, a meter will be installed and said customer will be required to deposit \$25 with the utility at the time the meter is set. Such deposit will be refunded as a \$5 annual credit on future water bills until refunded. Upon establishment of metered service to a commercial customer, such customer will be required to make a like deposit subject to the same provisions for refunding.

Schedule No. 2

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished to residential consumers on an annual or seasonal basis.

TERRITORY

The unincorporated communities of Ben Lomond Redwood Park, Rowardennan Redwood Park and Lomond Terrace, and vicinity, south of the community of Ben Lomond, Santa Cruz County.

RATES

	<u>For Each Service Connection per Calendar Year</u>
Annual Service:	
Permanent or seasonal residents who request service for the entire calendar year . . . . .	\$30.00
Seasonal Service:	
Seasonal residents who request service for any six consecutive months or less during the calendar year	25.00
	<u>Per Month</u>
For residents taking service on a seasonal basis who request service for consecutive months additional to the six-month period covered by the above seasonal service charge, per calendar month of such additional service . . . . .	\$3.00

SPECIAL CONDITIONS

1. The above flat rate charges apply to service during the calendar year commencing January 1 and are due in advance.
2. All service not covered by the above classifications will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer for above classifications. In the event a meter is installed at request of customer, said customer will be required to deposit \$25 with the utility at the time the meter is set. Such deposit will be refunded as a \$5 annual credit on future water bills until refunded. If a meter is installed at utility's option, no deposit will be required. Upon installation of any meter, service thereafter will be rendered only on the basis of Schedule No. 1, General Metered Service.