

ORIGINAL

Decision No. 50974

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
BIG BEAR PINES WATER COMPANY, a)	
California corporation, under)	Application No. 34541
Section 728 of the Public Utilities)	
Code to increase its rates for water.)	

Moss, Lyon & Dunn, by George C. Lyon, for applicant.
Elizabeth De Wolf, William F. Webb, Mrs. Elaine
Falkenstein, Jack M. Kiger, Gus John Kuentz,
Mrs. Howard Kisling, I. E. Lawson, Mr. & Mrs. E. A.
Sundberg, Nellie Messick, W. B. Bradshaw, Paul T.
Miller, Irvin Cox, in propria personae and for
various property owner consumers, protestants.
Edward J. Soehnel, E. L. Harris and Mrs. Olive Fogle,
in propria personae and for numerous property owners
and consumers, interested parties.
James F. Wilson, Reginald H. Knaggs and A. L. Gielegem,
for the Commission staff.

O P I N I O N

Big Bear Pines Water Company, a corporation, by the above-entitled application filed July 14, 1953 seeks authority to increase rates for water service in unincorporated territory east of Big Bear Lake, San Bernardino County.

Public hearings in this matter were held before Commissioner Justus F. Craemer and Examiner Stewart C. Warner on October 21 and 22, 1954, at Big Bear Lake. Between 35 and 40 consumers were present at the hearings to protest the granting of the application and to complain of service conditions and some 21 witnesses were heard, of whom about 15 were protesting consumers. The Commission has also received and noted for the record numerous letters from dissatisfied consumers.

The principal complaints by consumers have related to general service conditions including discoloration, bad odor and

alleged general unpotability of water, low pressure in some areas, numerous interruptions to water service caused by leaks and breaks in pipelines, the deteriorated condition of distribution mains and the failure of the utility to develop the natural springs for its principal source of water supply and thus relieve pumping costs. There were also claims by consumers that property owners, through their ownership of stock in mutual water companies, predecessors of applicant, had made financial contributions by assessments and other means to the original construction of the water system. Most protestants to the proposed rate increase contended that the present minimum annual charge for water service was ample for their summer vacation and week-end usage.

Description of the Area

Applicant's service areas¹ are shown on the map Exhibit No. 2A filed at the hearing. They comprise Tracts Nos. 1754 and 1766 containing approximately 160 acres and 2,100 lots, the subdivisions known as Big Bear Park Annex, Big Bear Highlands, Big Bear Park No. 1, Tract No. 1855, Tract No. 2001, and Camp Fontenelle, and Big Bear Woodlands and Lakewood Park, comprising approximately 70 acres located approximately three quarters of a mile east of the

¹ Big Bear Pines Water Company was granted a certificate of public convenience and necessity to operate as a public utility water system, to construct and acquire a water system, and to issue stock by Decision No. 40730, dated September 23, 1947, in Application No. 28639. Its service area was extended by Decision No. 45972, dated July 24, 1951, in Application No. 32239 and First Amendment. It was granted authority to purchase the water system of Big Bear Woodlands and Lakewood Water Company by Decision No. 49064, dated September 15, 1953, in Application No. 34542 and First Amendment. Big Bear Woodlands and Lakewood Water Company was granted a certificate of public convenience and necessity to construct, maintain and operate a water system, and authority was granted to establish rates and sell shares of stock by Decision No. 40675, dated September 10, 1947, in Application No. 28310.

original Big Bear Pines Water Company's system. The total authorized service areas, as of December 31, 1953, covered approximately 600 acres in which there were in excess of 8,000 subdivided lots.

As of the date of the hearings there were 311 service connections, 8 of which were inactive. Applicant estimated that at the end of the year 1954 a total of 60 new consumers will have been added to the system during that year. All domestic consumers are served at an annual flat rate of \$18 per year, the rate established under mutual ownership in 1921, payable in advance; however, applicant intends to install one meter for the Big Bear Pines Club, a large commercial user. In its application, applicant proposes to increase the flat rate to \$36 per year payable in advance at the time of connection and thereafter on or before March 1 of each year.

The service areas are located in mountain territory inhabited by cabin owners who utilize said cabins primarily for week ends and vacations. The record shows that only about 25 per cent of the cabin owners are year-round residents. It is evident, as shown on Exhibit No. 2A, that the locations of consumers' premises are widely and generally scattered throughout the service areas.

History of the Water System

The record shows that, prior to 1947, the water system had been installed and constructed by various mutual water companies which had been formed by subdividers, realtors and other parties. The quality of the pipeline installations was poor, and the systems were grossly overbuilt; there now being about 25 miles of distribution pipelines to serve the 300 or more consumers. Mr. John L. Lyon acquired all of the stock of Big Bear Pines Water Company in 1952 and is the current president of the corporation. Mr. Lyon is also the president of Pacific Water Company and since acquiring Big Bear Pines

has utilized the personnel and equipment of Pacific Water Company in the operations of Big Bear Pines Water Company. The principal officers of applicant and Pacific Water Company are identical.

Description of the Water System

Applicant's water system includes seven wells of which only one is in use. This well, located in the Big Bear Woodlands area, as shown on the map Exhibit No. 2B, is 100 feet in depth. Its present pumping plant installation comprises a gasoline-driven, jet pump which discharges directly into the distribution system and also provides a maximum delivery of approximately 35 gallons per minute to a 58,000-gallon concrete storage reservoir (Lower) located south and substantially outside of the Big Bear Pines-Sugar Loaf portion of the service area. The well is nearly 600 feet below the Lower reservoir, as shown on the map Chart 1B in Exhibit No. 5. The well also is between 400 and 500 feet below the Big Bear Pines-Sugar Loaf service area. The source of water supply from applicant's well is supplemented by the natural flow from two springs located on the slope of Sugar Loaf Mountain. These springs, known as Culvert Spring and Ladder Spring, produce 7 to 10 gallons per minute at maximum flow which is transported through approximately 16,725 feet of 2-inch pipe-line to the so-called Upper reservoir, which has a capacity of 83,000 gallons. These springs are located farther south of and at higher elevations than the Upper reservoir, also as shown on Chart 1B. A 2-inch transmission line, approximately 4,075 feet in length, transports water from the Upper reservoir to the distribution system and the Lower reservoir. Water from the Upper reservoir has been and is now used to meet peak demands over holiday week ends.

In 1951, an independent report from a consulting engineer recommended to applicant that it explore and further develop the springs in order to produce a better quality of water and to reduce its pumping costs. For some reason applicant has not followed this recommendation, although some testing and probing of the springs was started but not completed.

Applicant's distribution pipeline system comprises 132,108 feet of 1½-, 2-, 2½-, 3-, and 4-inch steel tubing dipped and welded. Some of it has a remaining life of between one and five years, only, and has been in operation for between 25 and 30 years. It has burst repeatedly, particularly during the freezing winter months, causing applicant to incur high maintenance and repair costs. It also causes consumers to suffer poor service and frequent service interruptions. Rust in the pipelines, particularly in the vicinity of dead ends, accumulates and appears in consumers' household outlets and appliances. Some flushing of the distribution mains is accomplished through the 16 fire hydrants presently connected to the system. Due to the low consumer density the present flushing practices have not been wholly effective and the poor quality of water persists. The applicant makes no charge for fire hydrant rental and no rate is proposed for such future service.

Rates

In addition to proposing an increase in annual flat rates from \$18 to \$36, applicant proposes to increase the annual minimum meter charge from \$18 per meter to \$36 per meter and proposes a change in the monthly quantity entitlement from 300 cubic feet to be included in the annual minimum charge to 600 cubic feet to be included in such annual charge. Other changes are proposed in the monthly quantity blocks of the annual meter rates. The record

discloses no intention of applicant to install any meters other than the proposed meter at the Big Bear Pines Club hereinbefore noted.

Earnings

Exhibit No. 2, submitted by a witness for applicant, is a report on the results of applicant's operations for the year 1953 recorded, the year 1953 adjusted, and the year 1954 estimated at present and proposed rates. Exhibit No. 5, submitted by Commission's staff accounting and engineering witnesses, is also a report on company's results of operations covering the same periods with the addition of the year 1952 recorded. Each exhibit contains a summary of earnings, and such earnings information is summarized and compared in the following tabulation:

SUMMARY OF EARNINGS

Item	Year 1953		Year 1954 Estimated			
	Recorded	Adjusted	Present Rates		Proposed Rates	
	Per Co.	Per PUC	Per Co.	Per PUC	Per Co.	Per PUC
	Exh. 2	Exh. 5	Exh. 2	Exh. 5	Exh. 2	Exh. 5
Operating Rev.	\$5,059	\$4,815	\$ 5,760	\$ 5,319	\$ 11,160	\$10,300
Operating Exp.	6,040	4,220	5,719	4,335	5,719	4,335
Depreciation	1,986	1,312	5,083	1,945	5,083	1,945
Taxes	246	250	280	280	280	1,293
Uncollectibles	379	54	163	59	163	118
Total	8,651	5,836	11,245	6,619	11,245	7,691
Net Oper.Rev.	(3,592)	(1,021)	(5,485)	(1,300)	(85)	2,609
Rate Base (Depreciated)			146,918	44,342	146,918	44,342
Rate of Return	-	-	-	-	-	5.88%

(Loss)

The major discrepancies between applicant's estimates and those of the staff are in their estimates of operating expenses, depreciation, taxes, and average depreciated rate base for the year 1954.

The staff engineer based his estimate of operating expenses on his anticipation of the further development and utilization of the natural springs, and a reduction in the operation of the pump at the

well located in Big Bear Woodlands Lakewood Tract. The staff depreciation expense was based on an appraisal of applicant's properties contained in Exhibit No. 5, and it reflects a computation of the depreciation reserve requirement on the properties used and useful in the furnishing of water service to the present number of consumers, and a computation of the depreciation expense attributable thereto using the straight-line, remaining life method. The estimate of taxes submitted by the staff engineer included a provision for federal income tax expense which would be incurred by applicant were the rates proposed in the application authorized.

Applicant submitted an average depreciated rate base for the year 1954 estimated amounting to approximately \$147,000. This was based on recorded amounts of fixed capital on the books of the company. The staff engineer's appraisal produced \$154,000 of average depreciable fixed capital for the year 1953, against which he determined an average depreciation reserve requirement of \$48,000 for the same year. However, the staff engineer testified that, in his opinion, 20 per cent of the present investment in Account C-18, Distribution Mains, represented a reasonable amount of operative capital used and useful for the average year 1953. His average rate base determination for the year 1954 estimated at \$44,342 was based on that opinion.

Conclusion

From a review of the record it is evident that applicant's annual operating losses cannot and should not be sustained in the future. The record shows that applicant has reduced its total operating expenses and with additional consumers the operating revenues have increased under the present management. The record further shows that the present management has received no compensation for its services and none is included in the 1954 estimates of operating expenses.

It appears that the operating and financial problems of Big Bear Pines Water Company have been, are, and may continue for some time in the future to be chronic, due to the nature of its service areas, history, and water service facilities. It cannot be expected that applicant should be made whole, from an operating income and rate of return standpoint, at once. Neither can it be expected that service conditions can be perfected instantaneously, especially in view of applicant's meager earning power and sparsely developed service areas.

It is evident that applicant is entitled to some immediate financial relief and the order which follows, therefore, will authorize the filing of new schedules of rates which will increase the annual minimum charge from \$18 to \$24. Such rates are to be deemed experimental. It is estimated that these new rates will produce gross annual revenues totaling approximately \$7,000 based on the year 1954 estimated, or an increase of about \$1,700 over the amounts expected to be received by applicant during this same period at the present rates.

Since it may take some time to determine whether the natural springs can be developed and utilized fully, thereby reducing applicant's pumping expenses, it is imperative that applicant seek and establish better sources of water supply than that which the one operative well and the springs now provide. If it is possible to develop Culvert and Ladder Springs more fully, clearer, softer, and more potable water would be provided and the consumers are entitled to and should receive that type of domestic water. In this regard applicant's witness stated that applicant intended to obtain the advice of another consulting engineer.

With respect to the discoloration in water served and low pressures, applicant will be ordered hereinafter to submit a plan not only for the comprehensive and regular flushing of mains, but

also a plan for the necessary repair and replacement of mains in order to provide a satisfactory quality of water to all consumers at adequate operating pressures. The plan required to be submitted should set forth the estimated costs thereof.

Should it appear that the costs of obtaining better sources of water supply, eliminating the poor quality of water served, and increasing operating pressures, when effected, have reduced applicant's earnings unreasonably, a supplemental application requesting further financial relief may be filed. This matter may be reopened by a supplemental order, and further hearings may be held to determine the reasonableness of applicant's actual and estimated earnings at the rates authorized herein.

Based on the record before us the staff estimates of operating expenses (including the full utilization of the springs as sources of water supply), depreciation, taxes, uncollectibles, and average depreciated rate base (utilizing the approximate 20 per cent of depreciated book fixed capital figures as used and useful for the furnishing of water service to the present number of consumers) for the year 1954 appear to be reasonable and will be adopted for the purposes of this proceeding. It is estimated that the rates authorized hereinafter will produce revenues which, when related to the adjusted rate base of \$44,342, will provide a rate of return of 0.86 per cent. In view of the inadequacy of the service now being rendered by applicant, no greater increase of revenues is justified.

Due to applicant's widespread service areas and limited water supply, the staff engineer recommended that applicant be restricted to service within its service area only, and not expand or extend its water system outside its service area without further order of the Commission. This recommendation appears to be reasonable and will be ordered hereinafter.

Review
ORDER

Application as above entitled having been filed, public hearings having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that present rates in so far as they differ from those herein prescribed are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED as follows:

1. That applicant be, and it is, authorized to file in quadruplicate with this Commission, in conformity with the Commission's General Order No. 96, the schedules of rates shown in Appendix A attached hereto, and on not less than five days' notice to the Commission and to the public to make such rates effective for service rendered on and after March 1, 1955.
2. That within thirty days after the effective date of this order, applicant shall file with this Commission up-to-date rules and four copies of tariff service area maps in conformity with the provisions of the Commission's General Order No. 96. Such rules and tariff service area maps shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.
3. That within forty days after the effective date of this order, applicant shall file four copies of comprehensive maps drawn to indicated scales not smaller than 200 feet to the inch for each of the separate systems, delineating by appropriate markings the various tracts of land and territory served; the principal water production, storage and distribution facilities; and the location of various properties of applicant.
- 4.a. That applicant shall, within thirty days after the effective date hereof, advise the Commission in writing of its progress in and the estimated costs of developing sources of additional water supply.
- b. That applicant shall, within thirty days after the effective date hereof, submit in writing to the Commission a comprehensive and regular main-flushing plan which it intends to carry out in this service area, together with the estimated costs thereof.

- c. That applicant shall, within thirty days after the effective date hereof, submit in writing to the Commission a report outlining its estimate of the needs of the water system to provide adequate service, together with the estimated costs thereof.
- d. That if, upon compliance with the provisions of this paragraph 4, it appears that the new schedules of rates authorized herein will not produce a reasonable rate of return, applicant may by supplemental application request further financial relief and the matter may be reopened for further hearings.
5. That applicant shall not expand or extend its water system outside its presently authorized service area without further order of the Commission.
6. That applicant shall review annually the accruals to depreciation reserve which shall be determined for each primary plant account by dividing the original cost of plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the surviving plant of the account; and the results of the reviews shall be submitted to the Commission within four years.

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

Dated at San Bernardino, CA, California, this 10th day of January, 1955.

[Signature]
President

[Signature]

[Signature]

[Signature]

Commissioners

APPENDIX A
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Schedule No. 1

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water service rendered on an annual basis.

TERRITORY

The unincorporated areas located near Sugar Loaf Post Office and known as Big Bear Woodlands Tract, Big Bear Lakewood Tract, Big Bear Pines, Big Bear Pinewoods, Big Bear Park Annex, Big Bear Park, Big Bear Highlands and Camp Fontenelle, San Bernardino County.

RATES

Annual Quantity Rates:	<u>Per Meter</u> <u>Per Year</u>
First 6,000 cu.ft. or less	\$24.00
Next 12,000 cu.ft., per 100 cu.ft.35
Next 18,000 cu.ft., per 100 cu.ft.25
Over 36,000 cu.ft., per 100 cu.ft.15
 Annual Minimum Charge:	
For 5/8 x 3/4-inch meter	\$24.00
For 1-inch meter	48.00
For 1 1/2-inch meter	72.00
For 2-inch meter	96.00

The Annual Minimum Charge will entitle the consumer to an annual quantity of water which that minimum charge will purchase at the Annual Quantity Rates.

SPECIAL CONDITIONS

1. The above annual minimum charges apply to service during the 12-month period commencing March 1 and are due in advance.
2. For initial service the above annual minimum charge will be prorated.
3. Meters will be read in June, September, December, and on March 1 of each year. A customer having used a quantity of water in excess of that which the annual minimum charge will purchase will be billed for the excess usage in accordance with the annual meter rate.

Schedule No. 2

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service rendered to residential consumers on an annual flat rate basis.

TERRITORY

The unincorporated areas located near Sugar Loaf Post Office and known as Big Bear Woodlands Tract, Big Bear Lakewood Tract, Big Bear Pinos, Big Bear Pinewoods, Big Bear Park Annex, Big Bear Park, Big Bear Highlands and Camp Fontenelle, San Bernardino County.

RATE

	<u>Per Service Connection Per Year</u>
For each residence	\$24.00

SPECIAL CONDITIONS

1. The above annual residential flat rate applies to service during the 12-month period commencing March 1 and is due in advance.
2. For initial service the above annual charge will be prorated.
3. All service not covered by the above classification will be furnished only on a metered basis.
4. Meters may be installed at option of utility or customer in which event service thereafter will be rendered only on the basis of Schedule No. 1, Annual General Metered Service.