

Decision No. 51019**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of the LUCERNE WATER)
CO., to increase the minimum)
monthly rates.)

Application No. 35743

Paul B. Strong, for applicants.
Kermit W. Lucas, for Lucerne Recreation
 District, protestant.
Frank E. Johnston, for Lucerne Hotel,
 interested party.
John Donovan and E. Ronald Foster, for
 the Commission staff.

O P I N I O N

By the above-entitled application, filed August 27, 1954, Paul B. Strong and Sarah R. Strong (Lucerne Water Company) seek an order of this Commission authorizing increased water rates for service rendered in the community of Lucerne, Lake County, and authority to issue a note secured by a deed of trust.

A public hearing in the matter was held before Examiner F. Everett Emerson on December 3, 1954 at Lucerne. Approximately 70 of applicants' customers were in attendance.

Position and Request of Applicants

Applicants aver that due to the ill health of Mr. Strong and the resulting inability to reside in Lucerne and care for the needs of the water system, they have for the past three years placed the water operation in the charge of a local manager. In August 1954 the local manager served notice upon applicants that he would resign unless his salary were increased from \$150 per month to \$350 per month. Applicants have not been able to obtain other responsible managerial help and finally reached an agreement whereby the present manager would continue operating the system at a salary of \$300 per month. Because of such situation and

because of other increased costs of operation applicants seek authority to increase water rates.

The system serves approximately 225 customers and applicants' rate proposal is to obtain an additional \$1 per month from each of them.

Applicants have financed their purchase of the system and certain major plant additions by means of three long-term notes. Two of the notes were issued without the authority of this Commission and are therefore void. Nevertheless, applicants have a debt for which payment has been demanded by the holder of the notes. Applicants, after negotiations with the holder of the notes, seek to combine the indebtedness into one new note for \$11,878.50 at 6 per cent interest.

Applicants' System

The source of water for this system is Clear Lake, from which water is drawn, by means of a centrifugal lift pump, through an 8-inch suction line extending about 500 feet into the lake. The water is then treated, chlorinated, passed through rapid sand filters and boosted by large pumps into two reservoirs. The system contains about 40,000 feet of mains, varying in size from 1½ inches to 6 inches in nominal diameter, and serves approximately 56 flat-rate customers and 165 meter-rate customers.

Position of Protestant

The Lucerne Recreation District, on behalf of water users, opposes any increase in rates on the following grounds:

1. The new rates proposed would be unreasonably higher than the rates charged in neighboring communities by other water suppliers.
2. The proposed increase would further penalize present consumers for poor management of the system.

3. The quality of water is so poor that business establishments suffer loss of patronage and residential customers are at times unable to use the water. The value of the service does not justify increased rates.
4. The proposed increase is believed to have been sought only as retaliation for failure of the users to "buy out" the Strongs' system, since growth in number of consumers served should have offset any increases in expenses.

This same protestant had previously sought relief from service deficiencies by means of this Commission's "informal complaint" procedure and the entire file on such subject (File No. I.C. 67514) is a part of this record by reference.

Evidence Respecting Service

The evidence indicates that the system is suffering from neglect by the owners and from lack of local attention to the physical plant. Instances of low pressure, insufficient water, dirty water and wasting of water due to leaky mains are numerous. One reservoir cannot be used, on order of the Health Department, until its roof is replaced. Both reservoirs have leaks or leaking valves, waste water and provide, in their present condition, less than adequate storage. Such conditions were unknown to Mr. Strong, according to his testimony, because he had not been on the properties for several years and had no personal knowledge of the defects. The Commission staff investigation disclosed the same and additional deficiencies and an excessive electric power bill resulting from the pumping of water to be wasted.

The record is clear that these deficiencies have existed over a period of years. Applicants' local manager attributes the lack of attention to the needs of the system to lack of funds with which to correct the defects. He reported in September 1953, however, that repairs to both reservoirs were then being undertaken at a cost of about \$1,000. The evidence shows that no such work has been done.

No testimony respecting service deficiencies was controverted by applicants.

Results of Operations

Certain limited evidence respecting the results of operations was presented by applicants. Mr. Strong testified, however, that he is not familiar with the expenditures, never sees the system's bills, is unaware of such purchases as meters and pipe, and has no detailed familiarity with the books and accounts. He claims to be operating at a loss.

The Commission staff, as is usual in these matters, undertook a complete investigation of applicants' operations. The financial results of operations, as determined during the course of the investigation, are summarized as follows:

Results of Operations

Item	Year 1953		Year 1954	
	Present Rates	Present Rates	Present Rates	Proposed Rates
Operating Revenues				
Flat Rates	\$ 1,720	\$ 1,662	\$ 2,249	
Meter Rates	6,222	6,462	8,292	
Hydrants	150	150	150	
Total Revenues	8,092	8,274	10,691	
Operating Expenses				
Before Taxes and Depr.	5,852	6,027	6,027	
Taxes	533	533	917	
Depreciation	1,221	1,245	1,245	
Total Oper. Exps.	7,606	7,805	8,189	
Net Revenue	486	469	2,502	
Rate Base (Depreciated)	26,307	25,722	25,722	
Rate of Return	1.8%	1.8%	9.7%	

Such results of operations were determined prior to the setting of the manager's new salary. Giving full-year effect to such salary would increase the tabulated expenses by about \$425 and would thereby indicate that the rate of return in 1954 under existing rates would approximate 0.5 per cent and under applicants' proposed increased rates would approximate 8½ per cent.

It is apparent that applicants are earning little or no return under existing rates and present methods of operation. However, all operating expenses are being met and applicants have available about \$1,300 per year, in the form of depreciation charges, for reinvestment in plant facilities. Such sum, if properly applied, should assist in alleviating the many service deficiencies by providing a constant source of funds for replacement of worn-out facilities.

Conclusions

Applicants in seeking and being granted the privilege of operating as a public utility thereby covenanted with the State that they would perform their duties as a utility. One of these duties, a most fundamental one, is the furnishing of reasonable and adequate service to the public at reasonable rates without discrimination. As just compensation for the performance of such duty, the utility is entitled to an opportunity to earn a reasonable return upon the property lawfully devoted to the public in the furnishing of such service.

Applicants are in need of and will be accorded rate relief. However, applicants will be required to correct the existing system deficiencies and to render that reasonable and adequate service which is the public's due.

The rates to be authorized herein are predicated upon the faithful performance of the ordered improvements and the rendition of reasonable and adequate utility service. Such rates should produce gross annual revenues of approximately \$10,380, an increase of about \$2,100 or 25 per cent over revenues presently obtainable. Applicants are placed upon notice, however, that less than satisfactory performance may bring about a reopening of this proceeding with a view toward rescinding a part or all of the increases granted. On the evidence in this proceeding we find the

following to be a reasonable estimate of the results of operations of this system, under the authorized rates and with the ordered improvements completed, for the normal year 1955.

Results of Operations, 1955
At Authorized Water Rates.

<u>Item</u>	
Operating Revenues	\$10,380
Operating Expenses	
Before Taxes and Depreciation	6,350
Taxes	350
Depreciation	1,325
Total Operating Expenses	<u>8,525</u>
Net Revenue	1,855
Rate Base (Depreciated)	28,000
Rate of Return	6.6%

We find the above-indicated rate of return and rate base to be reasonable for purposes of this proceeding.

Applicants' system contains many "dead ends", yet has no provisions for flushing of the mains. Many of the instances of periods of muddy or dirty water may be attributed to such situation. Applicants will be required to institute a regular flushing program for the alleviation of these conditions and, further, to investigate and report upon the efficacy of its existing filter plant.

We find the present fire hydrant charge of 40 cents per hydrant per month to be unduly low. Such charge will be increased. However, the new rate will be made effective July 1, 1955, the date by which adequate reservoir capacity may be assured.

Applicants supply a standby reserve of water storage for the sole use of a fire sprinkler system of a large hotel and for such special service have billed the hotel the sum of \$25 per month over a period of years. Such charge is not now included in applicants' tariffs. Neither applicants nor the hotel management seem certain as to ownership of the facilities nor as to what, if any, contractual relationships exist. Such details seem to have been obscured or lost in the passage of time. However, the parties

should reduce their present understanding to writing and, after completing negotiations relative thereto, applicants should seek the approval of this Commission of the terms and conditions of the resulting contract.

We find that applicants' request to consolidate their indebtedness into one note in the sum of \$11,878.50 secured by a deed of trust should be granted and that the money, property or labor to be procured or paid for through the issue of such note is reasonably required by applicants for the purposes specified herein and that such purposes are not, in whole or in part, chargeable to operating expenses or to income.

With respect to depreciation expense charges, applicants should use the methods of depreciation accrual and the composite rate shown in Table 7-A of Exhibit No. 4 in this proceeding until such time as major changes in plant composition occur or a future review indicates that such accrual rate is inappropriate.

O R D E R

Faul B. Strong and Sarah R. Strong (Lucerne Water Company) having applied to this Commission for an order authorizing increases in rates and charges for water service and for authority to issue a note secured by a deed of trust, public hearing thereon 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 and charges, in so far as they differ from those prescribed herein, are for the future unjust and unreasonable; therefore,

IT IS HEREBY ORDERED as follows:

1. Applicants are authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in accordance with the

provisions of General Order No. 96, the schedules of rates and charges set forth in Appendix A and B attached hereto and, on not less than five days' notice to the public and to this Commission, to make the rates set forth in said Appendix A effective for service rendered on and after March 1, 1955 and to make the rates set forth in said Appendix B effective for service rendered on and after July 1, 1955.

2. Applicants shall, within thirty days after the effective date of this order, file with this Commission four copies of an up-to-date tariff - service area map in conformity with the provisions of the Commission's General Order No. 96.
3. Applicants shall, within forty days after the effective date of this order, file four copies of a comprehensive map drawn to an indicated scale not smaller than 300 feet to the inch, 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 applicants.
4. Applicants are authorized to issue a note in the amount of \$11,878.50 to Mabel Guerraz Ogier, payable in an amount of \$100 per month or more and including interest at 6 per cent per annum, for the purpose of consolidating existing indebtedness to such person, such note to be secured by a deed of trust substantially in the form of that set forth in Exhibit No. 3 in this proceeding. Further, within thirty days after execution of said note and deed of trust, applicants shall file certified copies thereof with this Commission.
5. On or before March 31, 1955, applicants shall have repaired and placed in normal operation the 85,000-gallon tank known as "North Reservoir".
6. On or before April 30, 1955, applicants shall have repaired and placed in normal operation the 200,000-gallon reservoir known as "East Reservoir".
7. Applicants shall have installed and in normal operation prior to July 1, 1955 adequate flushing valves on mains at the following locations:
 - a. Intersection of Country Club Drive and Lakeview Terrace
 - b. Intersection of Fulton Road and Argyle Road
 - c. At the ends of mains (2) on Roland Drive east of Highland
 - d. At the end of main on Berwick Road
 - e. At the end of main on Lakeshore Boulevard south of Lakeview Terrace

- f. Intersection of Country Club Drive and Third Street
- g. End of main on Grove Street north of Walnut
- h. End of 2-inch main east of Highway at south end of system

Further, applicants shall set up and follow a regular flushing program using these valves and existing fire hydrants for the periodic flushing of mains at intervals not exceeding ninety days.

- 8. Applicants shall, prior to August 1, 1955, tie in the existing dead-end mains in the rear property between Tenth and Eleventh Streets by installing 2-inch pipe to connect such dead ends.
- 9. Within fifteen days after completion of the repairs and installations ordered by paragraphs 5, 6, 7, and 8, above, applicants shall report to this Commission, in writing, the dates on which said items are in proper state of repairs or are installed.
- 10. Applicants hereafter shall give not less than twenty-four hours' advance notice to affected customers whenever foreseen, scheduled, or other nonemergency interruptions in water service may occur.
- 11. Applicants shall prepare and follow a yearly budget for main-replacement and repair programs and shall file copies of such budgets for the calendar years 1955 and 1956 with this Commission on or before April 1 of each of said years.
- 12. Applicants shall investigate the adequacy of the system's filter plant and shall submit a written report relative thereto to this Commission on or before June 1, 1955.
- 13. Applicants shall determine the annual expense of depreciation by multiplying the depreciable fixed capital by the rate of 3.07 per cent and shall review said rate when substantial changes in depreciable fixed capital occur or at

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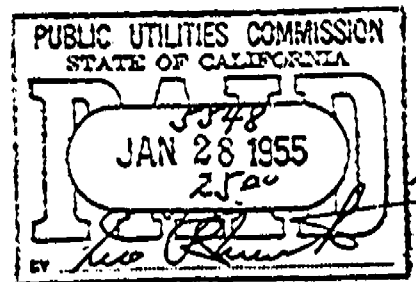
intervals of not more than five years. Results of these reviews shall be submitted to the Commission.

The authority herein granted to issue a note will become effective when applicants have paid the minimum fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$25.00. In other respects, the effective date of this order shall be twenty days after the date hereof.

Dated at Los Angeles, California, this 25th day of January, 1955.

Robert E. Mitchell
President
Justin S. Calmes
Paul L. Lutzinger
William J. Doherty

Commissioners



APPENDIX A
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Schedule No. 1

ANNUAL GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service furnished to permanent residents on an annual basis.

TERRITORY

The unincorporated community of Lucerne and vicinity, Lake County.

RATES

Monthly Quantity Rates:	Per Meter per Month
First 400 cu.ft. or less	\$3.00
Next 600 cu.ft., per 100 cu.ft.....	.40
Next 4,000 cu.ft., per 100 cu.ft.....	.35
Over 5,000 cu.ft., per 100 cu.ft.....	.25

Annual Minimum Charge:	Per Meter per Year
For 5/8 x 3/4-inch meter	\$ 36.00
For 3/4-inch meter	48.00
For 1-inch meter	72.00
For 1-1/2-inch meter	120.00
For 2-inch meter	192.00
For 3-inch meter	300.00

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

SPECIAL CONDITIONS

1: The above annual minimum charges apply to service during the 12-month period commencing January 1, and are due in advance. A customer who has established his permanency by having taken service for the preceding 12 months may elect to pay the annual minimum charge on a monthly basis equal to one twelfth of the annual minimum charge.

2: When the annual minimum charge is paid in advance, charges for water used in excess of the monthly allowance under the annual minimum charge may be billed monthly, bimonthly, or quarterly at the option of the utility on a noncumulative, monthly consumption basis.

Schedule No. 2

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished to permanent residents on an annual basis.

TERRITORY

The unincorporated community of Lucerne and vicinity, Lake County.

RATES

	<u>Per 3/4-Inch Service Connection Per Year</u>
For each single-family residence on a single lot	\$42.00

SPECIAL CONDITIONS

1. The above annual flat rate applies to service during the 12-month period commencing January 1, and is due in advance. A customer who has established his permanency by having taken service for the preceding 12 months may elect to pay the annual flat rate charge on a monthly basis equal to one twelfth of the annual flat rate.

2. All service not covered by the above classification will be furnished only on a metered basis.

3. 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, or Schedule No. 3, Seasonal Metered Service.

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Schedule No. 3

SEASONAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service furnished to seasonal customers.

TERRITORY

The unincorporated community of Lucerne and vicinity, Lake County.

RATES

Monthly Quantity Rates:		Per Meter per Month
First 400 cu.ft. or less		\$3.00
Next 600 cu.ft., per 100 cu.ft.....		.40
Next 4,000 cu.ft., per 100 cu.ft.....		.35
Over 5,000 cu.ft., per 100 cu.ft.....		.25

Seasonal Minimum Charge:	Per Meter per Season	Quantity Allowed per Month For Minimum Charge
For the six-month period, April to September, inclusive.		
For 5/8 x 3/4-inch meter	\$ 21.00	400 cu.ft.
For 3/4-inch meter	30.00	650 cu.ft.
For 1-inch meter	45.00	1,170 cu.ft.
For 1-1/2-inch meter	75.00	2,300 cu.ft.
For 2-inch meter	120.00	4,000 cu.ft.
For 3-inch meter	180.00	7,200 cu.ft.

SPECIAL CONDITIONS

1. The seasonal minimum charge is due in advance and will entitle the customer to the quantity of water each month that corresponds to the seasonal minimum charge as shown above.
2. The charge for water used in excess of the quantity allowed each month for the seasonal minimum charge may be billed monthly, bimonthly or quarterly at the option of the utility on a noncumulative, monthly consumption basis.
3. Customers who have paid the seasonal minimum charge may obtain service during any other months of the same calendar year at the monthly quantity rates upon written notice to the utility stating the months in which such service is desired.

Schedule No. 4

SEASONAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service furnished to seasonal customers.

TERRITORY

The unincorporated community of Lucerne and vicinity, Lake County.

RATES

Seasonal Charge:

Per 3/4-Inch
Service Connection

For seasonal flat rate service to each single-family residence on a single lot, for the six-month period, April to September, inclusive	\$24.00
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Monthly Charge:

For each additional month of the same calendar year	3.50
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SPECIAL CONDITIONS

1. All charges for flat rate service furnished under this schedule are due in advance.
2. All service not covered by the above classification, or rendered on the basis of Schedule No. 2, Residential Flat Rate Service, will be furnished only on a metered basis.
3. Meters may be installed at option of utility or customer for above classification in which event service thereafter will be rendered only on the basis of Schedule No. 1, Annual General Metered Service or Schedule No. 3, Seasonal Metered Service.
4. Customers who have paid the seasonal charge may obtain service during any other months of the same calendar year at the monthly charge upon written notice to the utility stating the months in which such service is desired.

Schedule No. 6

LIMITED FIRE SPRINKLER AND FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to fire sprinkler and fire hydrant service to Lucerne Hotel.

TERRITORY

The unincorporated community of Lucerne and vicinity, Lake County.

RATE

Per Month

Flat Rate Charge \$25.00

SPECIAL CONDITIONS

1. The above flat rate charge includes the use of water only in case of fire or for periodic tests or inspections.
2. The utility will supply only such water at such pressures as may be available from time to time as the result of its normal operation of the system. Such normal operation by the utility will provide for withdrawing only such supply as may be available in approximately the upper one half of the East Reservoir.

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all public fire hydrant service.

TERRITORY

The unincorporated community of Lucerne and vicinity, Lake County.

RATE

	<u>Per Month</u>
For each fire hydrant	\$1.00

SPECIAL CONDITIONS

1. Hydrants will be furnished, installed and maintained at the expense of the fire district or other public agency applying for fire hydrant service.
2. Water use is limited to that required for fire fighting purposes and as may be used during scheduled fire drills, except that the utility may use the fire hydrants for the periodic flushing of its water mains.
3. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.