

Decision No. 51685**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 E. R. CAPSTAFF d.b.a. the Lake Brook)
 Park Water System for an Increase in)
 Rates for Water Service at Lake)
 Arrowhead, San Bernardino County.)

Application No. 35860

John C. Luthin, for applicant.
A. L. Harris, Jr., for a group of approximately
 500 property owners.
M. R. Starick, for a group of consumers, and
L. Rubinfire, Gladys E. Horback, Mrs. Aphons
Bucher, Grace Z. Schlinme, Mrs. Helen Carr,
Mrs. Kenneth Greelev, Walter Schlatter,
Lucile L. Morton, George Huxsol, Mrs. Peter
DeYoung, in propria personae, protestants.
E. Ronald Foster, for the Commission staff.

O P I N I O N

E. R. Capstaff, an individual, doing business as Lake Brook Park Water System, by the above-entitled application filed October 13, 1954, seeks authority to increase rates for water service in unincorporated territory in San Bernardino County, about three fourths of a mile southeast of Lake Arrowhead. The proposed increase would yield about \$5,500 additional annual revenue.

A public hearing in this matter was held before Examiner Stewart C. Warner on May 12, 1955, at Lake Arrowhead. About 50 consumers appeared to protest the granting of the application and numerous others protested by letter. Most of the protestants complained of poor service conditions, and indicated that the protests to the granting of the application would be modified if service conditions were improved.

General Information

Applicant has been furnishing water service in this area, which comprises approximately 160 acres and now includes nearly 300 consumers, since about 1923.

Capstaff was granted a certificate of public convenience and necessity by Decision No. 26515, dated November 13, 1933, in Application No. 18984. Said decision established rates and defined the service area. By subsequent decisions Capstaff was authorized to sell the utility facilities to Mountain Properties, Inc., in August 1935, and to buy them back in December 1936.

Operation of the Water System

Applicant obtains his water from three sources: (1) an infiltration gallery, drilled into a hillside, with a 4-inch perforated pipe to collect the water and deliver it to a concrete-lined and covered pit; (2) its principal source of supply, an 18-foot-deep dug well, concrete-lined and covered; and (3) an abandoned aqueduct used in the development of Lake Arrowhead.

Water from the first two sources is pumped to storage tanks by three displacement-type pumps with a combined capacity of 3,500 gallons per hour at the infiltration gallery, and a centrifugal pump rated at 500 gallons per hour at the dug well. Water from the aqueduct is delivered directly into the mains by gravity through two 2-inch pipelines.¹

From 12 steel storage tanks, which are located in groups at three different elevations, and which have a combined capacity of about 53,000 gallons, the water is distributed through approximately 40,000 feet of mains which vary from 1/2 to 2 1/2 inches in diameter. A small booster pump located in applicant's garage is utilized for the maintenance of operating pressures in the system.

¹ Water from the aqueduct is delivered also to Arrowhead Manor Water Company, an adjacent public utilities corporation owned by A. L. Capstaff, applicant's nephew, and operated and managed by applicant.

Description of Area

The service area and water system facilities are shown in detail on the map Exhibit No. 1, filed at the hearing. The service area is mountainous and heavily wooded, and consumers' cabins are located on ridges, on the sides of canyons, and along creeks and streams. There are a few commercial establishments, but most consumers are residential week-enders or vacationers. About 20 consumers are year-round residents. Of the total of 296 consumers, as of December 31, 1954, two were receiving service on a metered basis.

Service Complaints

Most service complaints pertained to lack of water and low pressure, although some complaints were entered regarding dirt, silt, foreign objects in the water and bad taste. Many consumers complained of frozen distribution mains during the wintertime, and frequent interruptions in water service. Some consumers complained that, frequently, their toilet facilities failed and automatic appliances ceased to operate because of low operating pressure. There were many complaints by consumers of their inability to contact applicant and report deficient service conditions, particularly over summer week-end periods. Other consumers complained that they had been unable to rent their mountain cabins because the renters found either poor water service or none at all and left the premises.

Applicant's Proposal to Improve Service Conditions

Applicant, through his consulting engineer, proposed to spend approximately \$16,800 in 1955 for the installation of two 100,000-gallon tanks, 3,600 feet of 3-inch pipe, and a booster pump. This proposal was modified at the hearing by the engineer to include the proposed installation of one 100,000-gallon tank, 1,100 feet of 3-inch pipe,² and a 2-stage turbine pump at a total cost of \$8,180.

² By letter, Capstaff requested permission to install 2½-inch pipe.

Applicant's engineer testified that the latter proposal would materially improve all service conditions complained of, particularly those of lack of water and low pressure. It appears, however, that many distribution mains should be relocated, lowered, renovated, and enlarged. Applicant named an additional amount of \$2,000 as the approximate estimated cost of relocating and lowering some of the existing mains in order to prevent their freezing.

Rates

Applicant's present rates were established by Decision No. 41949, dated August 10, 1948, in Application No. 29167. By that decision the annual flat rates were increased from \$12 to \$18.

Applicant now proposes to increase its annual flat rate from \$18 to \$34, and its annual meter rates commensurately. The following tabulation is a comparison of the present rates with those in the application, and the rates authorized to be filed by the order hereinafter:

Comparison of Present, Proposed, and Authorized Rates

	<u>Annual Flat Rates</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
For each single family residence	\$18.00	\$ -	\$ -
For each single family residential living quarters in a duplex, flat, or apartment building	18.00	-	-
For each single-family residence or for the first unit of multiple housing units		34.00	29.00
For each additional residence, living quarters, flat or apartment on the same premises		25.00	23.00

	<u>Annual Meter Rates</u>		
	<u>Per Meter per Year</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>

Quantity Rates:

First 4,500 cu.ft. or less	\$18.00	\$34.00	\$29.00
Next 1,500 cu.ft., per 100 cu.ft.	.30	.40	.35
Over 6,000 cu.ft., per 100 cu.ft.	.20	.30	.25

Although eight fire hydrants are connected to the water system, applicant receives no revenues from their use.

Earnings

The following tabulation is a summary of the earnings information compiled from Exhibit No. 2, a report submitted by applicant's consulting engineer, and Exhibit No. 3, a report on applicant's operations submitted by a Commission staff engineer. Only the data contained in said exhibits for the year 1954, adjusted, at present rates, and for the year 1955, on a pro forma basis, which includes proposed fixed capital improvements of \$16,800, are shown:

Summary of Earnings

Item	:Year 1954:		:Year 1955 Pro Forma*		
	: Adjusted :	: Present :	: Present Rates :		: Proposed Rates :
	: Exh. 3 :	: Exh. 2 :	: Exh. 3 :	: Exh. 2 :	: Exh. 3 :
Operating Revenues	\$ 5,362	\$ 5,335	\$ 5,452	\$ 9,898	\$10,059
Operating Expenses	5,535	5,635	5,560	5,635	5,560
Taxes	393	510	535	1,698	1,069
Depreciation	905	1,698	1,444	940	1,444
Subtotal	6,833	7,843	7,539	8,273	8,073
Net Revenues	(1,471)	(2,508)	(2,087)	1,625	1,986
Deprec. Rate Base	21,720	40,998	37,400	40,998	37,400
Rate of Return	-	-	-	3.96%	5.31%

(Red Figure)

* Includes proposed fixed capital improvements of \$16,800.

The record shows that applicant's books of account have been kept inadequately and improperly and that it was necessary, therefore, for the Commission staff to adjust the amounts for the year 1954 recorded in applicant's books to show only operating expenses considered by the staff to be reasonable and adequate for proper operation of the water system. The estimated normal operating expenses, taxes, depreciation, and rate bases submitted by the staff appear to be reasonable, and will be, and hereby are adopted for this proceeding except that additions to fixed capital will be included in the rate base in the amount of \$8,180, instead of \$16,800, to reflect applicant's revised proposal to improve service conditions as outlined hereinbefore, and an additional allowance to operating expenses for lowering of mains to prevent freezing will be included.

Conclusion

It is evident that applicant is in need of financial relief, that it cannot continue to sustain operating losses at the present rates, and that some increase in rates for water service is justified.

It appears that the operating and financial problems of this utility have been, are, and may continue to be, chronic. The record shows that applicant's water supplies are limited; his storage tanks have been of inadequate capacity; and his distribution pipelines have not only been subject to freezing conditions but are so constructed alongside of, under, on top of, and across county roads and property lines, and are of such inadequate dimensions and poor material, that, in order to assure a good standard of water service, their complete renovation would be required. After providing, in the rate base adopted herein, for the lowering of mains and in operating expense for the same item, a total of \$1,000 of maintenance expense amortized over a 4-year period, or \$250 per year, the computed rate of return on the adjusted depreciated rate base of \$29,040, at applicant's proposed annual rate of \$34, would be 7.1 per cent.

The proposed annual rate of \$34 represents an increase of \$16 per customer per year, or 89 per cent. This proposed increase is excessive. The order which follows will authorize the filing of a new schedule of rates which will increase the annual minimum charge from \$18 to \$29 for a single family residence and the first unit of multiple housing units, an increase of 61 per cent, and \$23 for each additional residence.

It is estimated that the rates authorized hereinafter will produce gross annual revenues totaling approximately \$8,630 an increase of about \$3,180 over the amounts expected to be received by applicant during the year 1955 at the present rates. Such gross annual revenues when related to the adjusted rate base of \$29,040 will provide a rate of return of 3.2 per cent. In view of the service failures which have been experienced by applicant's customers, no greater increase of revenues is justified at this time.

Applicant should keep the Commission advised of his progress in effecting the installation of the water service facilities proposed by his consulting engineer and the lowering of the mains to prevent freezing. Also, applicant will be required to report to the Commission each and every interruption to water service caused by failure of the water supply or distribution mains each month for the next two years.

Since the rate base and expenses adopted in this opinion include full allowance for applicant's estimate for capital improvements during 1955 and an allowance in operating expenses for lowering of the mains where required to prevent freezing, and since the rates authorized contemplate that such improvements will be accomplished and that adequate service will be provided, applicant is placed upon notice that the continued collection of the higher rates herein established is contingent upon the completion of the improvements as

hereinafter ordered. In the event the improvements are not installed during the time required, we will reopen this proceeding and re-examine the rate structure in the light of service conditions then prevailing, and make such further order with respect to rates as may appear to be proper.

O R D E R

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

IT IS HEREBY FOUND AS A FACT that the increase 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.a. That applicant be, and he is, authorized to file in quadruplicate with this Commission, after the effective date of this order, 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 September 1, 1955.
- b. That within thirty days after the effective date of this order, applicant shall file with this Commission four sets of up-to-date rules governing customer relations, together with four copies of a tariff service area map acceptable to the Commission, in conformity with the Commission's General Order No. 96. Such rules and tariff service area map shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.
- c. That applicant shall file with this Commission within forty days after the effective date of this order, four copies of a comprehensive map, drawn to an indicated scale not smaller than 100 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 the various properties of applicant.

2. That applicant shall base future accruals to the reserve for depreciation upon a spreading of the original cost of the plant, less estimated net salvage and depreciation reserve, over the estimated remaining life of the property; further, applicant shall review such accruals when major changes in plant composition occur and for each plant account at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.
- 3.a. That within ninety days after the effective date of this order, applicant shall complete the improvements to his water system referred to in the preceding opinion of this order, as follows:
 - (1) Install a 100,000-gallon storage tank, 1,100 feet of 3-inch pipe, and a 2-stage turbine pump.
 - (2) Relocate and lower water mains throughout the system wherever necessary to prevent freezing of water in the mains when such freezing would cause any interruptions of service.
- b. That on the fifteenth day of the month after the effective date of this order, and on the fifteenth day of each month thereafter until completed, applicant shall file with this Commission a written report stating in detail the progress made toward completing the installation of facilities and relocation and lowering of mains required by subparagraphs 3.a(1) and 3.a(2), above.
4. That on the fifth day of the month after the effective date of this order, and on the fifth day of each month thereafter for a period of twenty-four months, applicant shall file with this Commission a written report listing each interruption to water service to any customer which occurred during the previous month and which was caused by failure of the water supply, pumps, or distribution mains, stating in such reports the reason for each failure

and the steps taken and proposed to be taken to eliminate repetition of such service interruptions to customers.

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

Dated at San Francisco, California, this 12th day of July, 1955.

Justin D. Adams
 President

Robert L. Sutermeister

Michael D. Spooler

B. Hardy

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No: 1

ANNUAL GENERAL METERED SERVICEAPPLICABILITY

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

TERRITORY

The unincorporated area comprising Tracts Nos. 2026, 2172, 2191, 2293, 2322, 2411, 2344 and 2469, approximately 3/4 mile southeast of Lake Arrowhead, San Bernardino County.

RATES

Annual Quantity Rates:	Per Meter per Year
First 4,500 cu.ft. or less	\$29.00
Next 1,500 cu.ft., per 100 cu.ft.....	.35
Over 6,000 cu.ft., per 100 cu.ft.....	.25
Annual Minimum Charge:	
For 5/8 x 3/4-inch meter	\$29.00
For 3/4-inch meter	35.00
For 1-inch meter	45.00
For 1-1/2-inch meter	60.00
For 2-inch meter	80.00

The Annual Minimum Charge will entitle the customer 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 are due and payable in advance on the anniversary of the date upon which service was commenced.
2. Meters will be read quarterly after the date upon which service was commenced, and, within ten days thereafter, bills will be rendered for charges based upon water used in excess of the quantity allowed for the annual minimum charge.
3. Service will not be furnished or continued under this schedule when the annual charges at meter rates are estimated or found by utility to be less than under flat rates.

APPENDIX A
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Schedule No. 2

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished to residential customers on an annual flat rate basis.

TERRITORY

The unincorporated area comprising Tracts Nos. 2026, 2172, 2191, 2293, 2322, 2411, 2344 and 2469, approximately 3/4 mile southeast of Lake Arrowhead, San Bernardino County.

RATES

	<u>Per Service Connection per Year</u>
For one single family residence or residential unit	\$29.00
For each additional single family residence or residential unit served from the same service connection	23.00

SPECIAL CONDITIONS

1. The above annual residential flat rates are due and payable in advance on the anniversary of the date upon which service was commenced.
2. All service not covered by the above classifications will be furnished only on a metered basis.
3. Meters will be installed at option of utility or customer for above classifications, except that service will not be furnished or continued at meter rates at the request of customer when the annual charges at such rates are estimated or found by utility to be less than under flat rates. In the event a meter is installed at the request of customer, service thereunder will be rendered only on the basis of Schedule No. 1, Annual General Metered Service, and must be continued at meter rates for not less than 12 months before it may again be changed to flat rate service, except as otherwise provided for in this special condition.