

ORIGINALDecision No. 51686

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA:

In the Matter of the Application of)
 the ARROWHEAD MANOR WATER COMPANY a)
 corporation, for an increase in rates) Application No. 35930
 for water service at Lake Arrowhead)
 in San Bernardino County.)

John C. Luthin, for applicant.
A. L. Harris, Jr., for the owners of about
 3,000 lots, and William L. Baker, Oscar Jim
 Quinn, Mattie A. Solomon, Dave A. Pekus, Jr.,
 Mrs. Helen Carr, Mrs. Genevieve E. Adkins,
 Ned K. Myers, Capt. Kenneth W. Smith, USAF,
 in propria personae, protestants.
E. Ronald Foster, for the Commission staff.

O P I N I O N

Arrowhead Manor Water Company, a corporation, by the above-entitled application, filed November 3, 1954, seeks authority to increase rates for water service in unincorporated territory about one mile south of Lake Arrowhead, San Bernardino County. The gross annual increase sought would amount to about \$2,200.

A public hearing in this matter was held before Examiner Stewart C. Warner on May 13, 1955, at Lake Arrowhead. About 23 consumers appeared in protest to the application and numerous letters were received by the Commission from consumers, also in protest. Most of the protests were based on service complaints.

General Information

Applicant was granted a certificate of public convenience and necessity, rates were established, and authority was granted to issue stock, by Decision No. 39396, dated September 10, 1946, in Application No. 27132. The company is owned by Albert L. Capstaff, president, and other officers are James H. Brown, attorney, vice president, and Richard L. Davis. E. R. Capstaff, who manages and

operates applicant's water system, also does business as Lake Brook Park Water System, an adjoining public utility.

Service Area, Sources of Water Supply,
and Description of Water System

As of December 31, 1954, water service was being furnished to 106 consumers, two of whom were receiving service on a metered basis. The service area comprises about 245 acres of mountain resort territory. Within such territory about 3,000 lots have been subdivided. Exhibit No. 3 is a map of the service area showing principal water system installations.

Applicant obtains its water from two sources, one of which is a brick-lined infiltration gallery constructed by tunneling into a hillside, and the other is through a pipe from the Lake Brook Park Water System, which obtains the water from an abandoned aqueduct used in the development of Lake Arrowhead. No charge is made to applicant for water furnished to it by Lake Brook Park Water System.

At the infiltration gallery site, water is collected in two 10,000-gallon storage tanks and pumped through a 500-gallon pressure tank into the system. The water furnished by the Lake Brook Park Water System is delivered by gravity flow. A booster pump is used in the system to maintain pressure and to raise water to one of four 20,000-gallon storage tanks now being used.

Service Complaints

Many service complaints of low pressure and inadequate water supply were entered at the hearing. One consumer complained that he was without water for five or six weeks during the past winter and had to melt snow, and carry drinking water and water for bathing and washing into his cabin from an outside source. This consumer also complained of unannounced shutoffs of water for periods of as long as six hours. He complained of foreign materials, such as

rocks and twigs, and discoloration in the water. Another consumer complained of the freezing of mains adjacent to his property and of being without water for 10 days at a time. He melted snow for washing and for lavatory facilities. Still another consumer complained of water having been shut off last summer 10 times within a three-month period, without notice. Another consumer complained of being without water except about one-half dozen times during each recent winter from November to April. Another consumer had a sick wife and was without water for 82 days at one time. Another complaint of oily substances in the water since 1948 was entered.

Applicant's Statement Regarding Service Conditions

Applicant's witness, E. R. Capstaff, stated that most of the service conditions complained of were in one or two certain areas. He further stated that the poor service conditions could be corrected by the lowering of mains and at rather nominal cost, and that such corrections would be undertaken immediately.

The record shows that in Case No. 5010 applicant, as defendant, in a complaint by Arrowhead Manor Country Club, Inc., and Arthur L. Harris, regarding poor water service and impure water, was ordered in Decision No. 43359, dated October 4, 1949, to improve service conditions and report to the Commission its progress in effecting such improvements. Applicant's manager stated that he had never received a copy of the Commission's order, and had no knowledge of it.

Rates

Applicant's present rates, as noted hereinbefore, were established by Decision No. 39396, dated September 10, 1946.

The following tabulation is a comparison of present rates with those proposed in the application, and with those 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 household residential use only, payable on or before March 1st of each year	\$18.00	\$ -	\$ -
For each single family residence or for the first unit of multiple housing units	-	40.00	27.00
For each additional residence, living quarters, flat or apartment on the same premises	-	25.00	22.00

Quantity Rates:	<u>Annual Meter Rates</u>		
	<u>Per Meter Per Month</u>	<u>Per Meter Per Year</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
First 300 cu.ft. included in annual minimum charge of \$18.			
Next 700 cu.ft., per 100 cu.ft.	\$0.35		
Next 1,000 cu.ft., per 100 cu.ft.	0.25		
Over 2,000 cu.ft., per 100 cu.ft.	0.15		
First 4,500 cu.ft. or less		\$40.00	\$27.00
Next 1,500 cu.ft., per 100 cu.ft.		0.40	0.35
Over 6,000 cu.ft., per 100 cu.ft.		0.30	0.25

Although applicant owns and maintains nine fire hydrants on its system, no charges to any public body for their use is made.

Earnings

Applicant's consulting engineer witness submitted as Exhibit No. 4 a report on applicant's operations and earnings, and a Commission staff engineering report was submitted as Exhibit No. 5. The following tabulation summarizes the earnings information contained in said exhibits for the year 1954 adjusted at present rates, and for the year 1955 estimated at present and proposed rates.

Summary of Earnings

Item	:Year 1954:		Year 1955 Estimated		
	:Adjusted :				
	: Present		Present Rates		Proposed Rates
	: Rates		Per Co.	Per PUC	Per Co.
	: Exh. 5	: Exh. 4	: Exh. 5	: Exh. 4	: Exh. 5
Operating Revenues	\$2,096	\$ 2,054	\$2,096	\$ 4,295	\$4,295
Operating Expenses	2,145	2,135	2,145	2,135	2,145
Depreciation	449	661	449	661	449
Taxes	259	345	272	739	364
Subtotal	2,853	3,141	2,866	3,535	2,958
Net Revenue	(757)	(1,087)	(770)	760	1,337
Rate Base	6,400	11,201	6,200	11,201	6,200
Rate of Return	-	-	-	6.8%	21.6%

(Red Figure)

The record shows that applicant's books of accounts have been improperly and inadequately kept and could not be relied upon for the purposes of the instant application.

The major differences between applicant's estimated earnings for the year 1955 and those of the staff are in depreciation expense and reserve calculations, federal income tax expense, and estimated rate base. The staff calculations of depreciation expense and reserve and federal income tax appear to be more sound than those of applicant, and the staff estimates will be, and hereby are, adopted as reasonable for the purposes of this proceeding.

Applicant's average fixed capital in service for the year 1955 estimated amounts to approximately \$52,000. However, contributions in aid of construction amounted to an average of \$18,500, and consumers advances for construction amounted to an average of \$9,500. These amounts were deducted from fixed capital in determining a rate base. In addition thereto, the staff made an adjustment of \$13,400 for the overdeveloped portion of the water system. The appraisal of the water system submitted by applicant's engineer shows about 35,300 feet of distribution mains to serve approximately 63 service connections in the originally certificated portion of the system. Of this

total footage, the staff has considered 9,450 feet or 150 feet per consumer as reasonable. The staff treatment of this item of fixed capital, together with the related depreciation reserve treatment, appear to be reasonable and will be, and hereby are, adopted for the purposes of this proceeding.

The staff estimates of operating expenses likewise are adopted as reasonable.

Conclusion

It is evident that applicant cannot continue to operate at a loss under the present rates, and that it is in need of financial relief. However, the rates proposed in the application, which would produce a rate of return of 21.6 per cent are considered to be excessive, and a new schedule of rates will be authorized to be filed.

The authorized increase of the annual flat rate from \$18 to \$27 for the first residential unit and to \$22 for each additional unit served from the same service connection will produce estimated gross operating revenues of \$3,358, and net revenue of \$492. When such net revenue is related to an estimated depreciated rate base of \$6,200, hereinbefore adopted as reasonable, a rate of return of 7.9 per cent will result. This rate of return is found to be just and reasonable for this proceeding.

Applicant is put on notice that the rates authorized to be filed are contingent on its correcting the deficiencies in service complained of at the hearing. The order which follows will provide that applicant shall carry out an improvement program and file monthly reports of its progress in correcting the service deficiencies complained of at the hearing, including monthly reports of all service interruptions.

Should service conditions not be materially improved within a 12-month period, the Commission 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 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.a. That applicant be, and it 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 schedule 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 200 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 its water system referred to in the preceding opinion of this order, as follows:
- (1) 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.
 - (2) Eliminate the other service deficiencies complained of at the hearing.
- b. That on the twentieth day of the month after the effective date of this order, and on the twentieth 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 relocation and lowering of mains and elimination of other service deficiencies required by subparagraphs 3.a(1) and 3.a(2) above.
4. That on the tenth day of the month after the effective date of this order, and on the tenth 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 J. Caemer
President
Paul W. ...
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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. 1921, 2423 and 2898, approximately one mile south of Lake Arrowhead, San Bernardino County.

RATES

	<u>Per Meter per Year</u>
Annual Quantity Rates:	
First 4,500 cu.ft. or less	\$27.00
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	\$27.00
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.

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. 1921, 2423 and 2898; approximately one mile south of Lake Arrowhead, San Bernardino County.

RATES

	<u>Per Service Connection per Year</u>
For one single-family residence or residential unit	\$27.00
For each additional single-family residence or residential unit served from the same service connection	22.00

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.