

ORIGINAL

Decision No. 52121

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

KURT SCHAMBER, et al.,
 Complainants,
 vs.
 CLEAR LAKE PARK WATER COMPANY,
 Defendant.

Case No. 5415
 (Further Hearing)

In the Matter of the Application
 of CLEAR LAKE PARK WATER COMPANY,
 a corporation, to increase rates
 for water service rendered in
 Lake County, California.

Application No. 36561
 (As Amended)

James O'Brien, and William Stava, for Clear Lake
 Park Water Company;
Kurt Schamber, for complainants, Case No. 5415;
C. F. Steiner, Assistant Sanitary Engineer, for
 State Department of Public Health, Bureau of
 Sanitary Engineering;
C. J. Maher, for Lake County Health Department;
John Williams, for Clear Lake Highlands Mutual
 Water Company;
Clyde F. Norris and Harold H. Webster, for the
 Commission staff.

O P I N I O N

Nature of Proceeding

This is a consolidated proceeding, involving a further hearing on the complaint of Kurt Schamber and others against Clear Lake Park Water Company, a public utility, relating to alleged deficiencies in the company's service, and an application by the company to increase rates for water service at Clear Lake Park, in Lake County.¹

¹ The complaint was originally filed on September 19, 1952. Certain improvements to the system were ordered, after hearing, by Decision No. 48555, dated April 28, 1953, as modified by two Supplemental Orders, Decision No. 49099, dated September 15, 1953, and Decision No. 49909, dated April 13, 1954 (Order Extending Time). On Sept. 28, 1954, the Commission ordered a further hearing in the case, following unsuccessful efforts by local residents to form a public water district. The application to increase rates was filed December 15, 1954, and was amended on March 14, 1955, to show detailed cost estimates of proposed improvements.

Applicant requests that present rates, alleged to be unreasonably low, be increased so as to yield annual net operating revenue equal to three and one half times interest requirements on borrowing necessary to finance capital additions essential for adequate service. Applicant, thus far, has been unable to obtain funds by a proposed bond issue, authorized by the Commission, in the amount of \$20,000, due to its inability to show sufficient net operating revenue under present rates. The Commission has granted several extensions of time to applicant to issue its bonds, but the last extension of time expired on March 31, 1955. (See Decision No. 49942, April 20, 1954, Application No. 31767.)

Public Hearing

The proceeding was submitted for decision at a public hearing held June 14, 1955, at Clear Lake Highlands, before Examiner John M. Gregory.

Description of System

Applicant serves approximately 488 seasonal and permanent customers (as of May 31, 1955) in the resort area along the lower eastern shore of Clear Lake, including the Clear Lake Park and Pine Dell areas. All water is obtained by pumping from Clear Lake. The Pine Dell system has separate pumping, chlorinating, storage and distribution facilities which appear to be adequate for the 19 consumers in that area, which lies northwest of the main service area extending about 7 miles along the lake.

At the main pumping plant a 3-hp centrifugal pump, with a chlorinator on the suction side of the pump, delivers water into a 4,000-gallon redwood retention tank at the tested rate of 172 gpm. Water from that tank is pumped by means of high head pumps directly into the distribution system, with the surplus being delivered into three storage tanks having a combined capacity of 121,000 gallons. The company serves its customers, on a measured basis, through about 80,000 feet of mains which vary from 3/4 to 10 inches in diameter.

Service Matters

Formal complaints regarding service matters, set forth in the original pleadings and in the petition, filed in 1954, which resulted in the Commission reopening this case, have resulted chiefly from interruptions to service, dirty water, and inadequate pressure at certain times and at certain points on the main system.

Applicant, following rendition of Decision No. 48555 early in 1953, proceeded to install additional pumping equipment and an automatically controlled chlorination unit at the main pumping plant, at a total reported cost of \$4,763.16. The Commission had also directed applicant, in that decision, to install a filtration plant and to improve its transmission facilities. Upon being advised by applicant, however, that funds for such improvements could not be obtained, the Commission twice extended the time for compliance with its order. The last extension of time expired March 31, 1955. (See Decision No. 49909, April 13, 1954, Case No. 5415.)

Although some improvement in pumping capacity and service may have resulted from the installations made following the Commission's 1953 order, the evidence shows that nine informal complaints were received in the Commission's offices against the company in the 3-year period immediately preceding the hearing in the instant proceeding, of which number four were on account of inadequate service, three were for extension of mains and two were in connection with interpretation of rules and regulations. Moreover, recent staff investigations, conducted in January and May, 1955, revealed that only 201 gallons of water per minute were available to the system from the Clear Lake intake, a rate of flow which, the record shows after consideration of available storage, is inadequate for the number of customers served. The Austin area, at the southern end of the system, is the most seriously affected, since it is situated at the greatest distance from the source of supply and is served through small mains.

The evidence shows that the water supplied by applicant occasionally has a high degree of turbidity and also contains substantial concentrations of algae.

Present and Proposed Rates

Present rate schedules have been in effect since 1949 (Decision No. 43016, Application No: 29943). They include metered service rates for permanent and seasonal residents: Basic rates for a 5/8 by 3/4-inch meter are shown below.

Permanent Resident: Per Meter Per Month

Minimum Charge:

For 5/8 x 3/4-inch meter which will entitle the customer to 500 cu.ft. of water each month	\$ 1.80
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Quantity Charge:

First 500 cu.ft. or less	Included in Minimum Charge.
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(Other blocks are omitted.)

Seasonal Resident:

Annual Minimum Charge: Per Meter Per Year

Based upon 5/8 x 3/4-inch meter which will entitle the customer to 400 cu.ft. of water each month of the calendar year	\$19.00
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Quantity Charge:

First 400 cu.ft. per month	Included in Annual Minimum Charge.
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(Other blocks are omitted.)

Applicant has proposed increased rates in four categories, based on four studies among which are included amounts considered by applicant to be required for capital improvements which the Commission has directed to be installed. Those studies, together with the rate proposals which reflect their results, are extremely detailed as to subject matter and highly complex as to form. It will suffice here to note only the basic meter rate proposals for

permanent and seasonal customers corresponding to the above present rates shown.

Permanent Resident:

	<u>Per Meter Per Month.</u>			
	<u>1st Study</u>	<u>2nd Study</u>	<u>3rd Study</u>	<u>4th Study</u>
Minimum Charge:				
For 5/8 x 3/4-inch meter which will entitle the customer to 600 cu.ft. each month	\$3.80	\$4.20	\$4.50	\$4.95

Quantity Charge:
 First 600 cu.ft. or less Included in Minimum Charge.

(Other blocks are omitted.)

Seasonal Resident:

	<u>Per Meter Per Year</u>			
	Annual Minimum Charge:			
Based upon 5/8 x 3/4-inch meter which will entitle the customer to 600 cu.ft. of water each month of the year for which the annual minimum charge accrues	\$45.60	\$50.40	\$54.00	\$59.40

Quantity Charge:
 First 600 cu.ft. per month Included in Annual Minimum Charge.

(Other blocks are omitted.)

The proposed rate increases shown in the last column above, which are based on data (derived from applicant's Study "E") that includes Column "G" of Exhibits 8 and 9 (corrected by applicant at the hearing in Exhibit 10, Column G), have been designed by applicant to produce revenue, for the ensuing rate year, adequate for financing various improvements, including improved pumping facilities, mains and a filtration plant. Results of operation under those rates, as well as under rates proposed by the staff which also are designed to produce the approximate net revenue required by applicant, are discussed in the next section. Applicant suggested still another

schedule of rates at the hearing, which rates and resulting revenue are also discussed in the next section.

Results of Operation

A report of an investigation by the staff of the utility's operations, including results of an examination of the company's books and records, a summary of earnings and staff recommendations, is included in this record as Exhibit 12. The study includes results for 1953, as recorded by applicant, for 1954 as recorded by applicant and adjusted by the staff, and for 1955, as estimated by the staff. Since the recorded and adjusted figures for 1953 and 1954, as well as the estimates for 1955, show either an insignificant rate of return (1.46 per cent for 1953), or net losses, at present rates, a comparison of only the 1955 estimates of applicant, as presented at the hearing, and those of the staff, both estimates based on optimum capital additions, will be indicated in the following tabulation. Also included in the tabulation are results estimated by the staff on the basis of adjusted rates, designed to yield the approximate net revenues required by applicant to finance improvements and to provide a reasonable return on invested capital.

Applicant's estimates of operating results under the four studies, as presented at the hearing, were substantially lower in volume than those included in exhibits attached to the application, which were used by the staff as a basis for the calculations contained in its report. The degree of difference is strikingly illustrated by comparison of the first two columns of figures in the following tabulation. The first column contains the staff's estimated results based on figures submitted in exhibits attached to the application, at the rates requested by applicant. The second column indicates results estimated by applicant, at amended rate proposals, based on recalculated and corrected figures submitted as exhibits at

the hearing. The third column represents the staff's estimates resulting from minor adjustments to applicant's amended figures, as corrected, but using rates somewhat lower than those requested by applicant. The amended rates, as adjusted, proposed by applicant included a minimum charge of \$3.34 per month for the first 500 cubic feet or less and quantity charges which began at 66.2 cents per 100 cubic feet.

Item	1955 Estimated from Study "E"		
	As Included in Original Application at Requested Rates (Staff)	As Amended at Requested Rates (Applicant)	Adjusted Amended Rates (Staff)
Operating Revenues	\$37,060	\$25,140	\$23,208
Operating Expenses, including Taxes and Depr.	23,370 ^a	19,470 ^a	17,629
Net Revenue	13,690	5,670	5,579 ^b
Rate Base, Depr.	74,016 ^b	65,399	74,016 ^b
Rate of Return	18.50%	8.67% ^c	7.54%

- a. Staff computed depreciation expense on straight-line remaining life basis, whereas applicant used 5% sinking fund method.
- b. Average depreciated rate base.
- c. Calculated from applicant's corrected figures.

Applicant's corrected figures and the staff's adjusted estimates, for 1955, are in substantial agreement. The staff has included the sum of \$24,435 in the 1955 rate base as the estimated cost of improvements to the system recommended in the report. The net revenue of about \$5,600, indicated by both applicant and the staff in the tabulation above, is slightly in excess of three and one half times the interest requirement, at 6 per cent, on the total cost of improvements as estimated by the staff. These net revenues also approximately equal three and one half times the interest requirement, at 6 per cent, on the sum of \$27,000 estimated by applicant to be required for capital additions.

Applicant's estimates for a future rate year, though not substantially higher than those of the staff, result in a rate of return that, in our opinion is somewhat excessive. This is due, in part, to the fact that applicant estimated gross revenues for a future year on the basis of its amended rates requested at the hearing, as indicated above for a 5/8 by 3/4-inch meter, whereas the rates hereinafter authorized include a basic minimum monthly rate of \$3 and an annual minimum charge of \$36, with corresponding charges for larger meter sizes and for increased quantities of water used.

Summary and Conclusions

The record establishes that applicant's present rates are unduly low and that the company is in need of increased revenue in order to achieve and maintain adequate service standards as well as to finance the cost of capital additions which we consider to be essential for this system.

The rates hereinafter authorized are designed to produce a rate of return of approximately 7.5 per cent on a depreciated rate base of \$74,016 for the ensuing rate year. We find such rates, rate of return, and rate base to be reasonable on the basis of this record.

Recommendations by the staff for installation of improvements, reading of meters and use of specified depreciation accrual rates; as set forth in Chapter 12 of its report, Exhibit 12 herein, are also hereby found to be reasonable. The order to follow will direct the company to carry them out. Effectuation of such improvements should place the system in condition to render reasonably adequate service and should, therefore, satisfy the complaint filed by Schamber and other consumers. That proceeding will be terminated as of the effective date of this decision.

O R D E R

Clear Lake Park Water Company, a corporation, having applied to this Commission for an order authorizing increases in rates and a public hearing having been held on said application; a further hearing having been held on the complaint of Kurt Schamber and others against said Clear Lake Park Water Company, both of said matters having been submitted for decision upon a consolidated record and being now 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, for the future are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that:

1. Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, the schedules of rates shown in Appendix A attached hereto, together with revised rules satisfactory to the Commission, and, upon not less than one day's notice to the Commission and the public, to make said rates and rules effective for service rendered on and after January 1, 1956.
2. Applicant shall file with this Commission within one hundred and eighty days after the effective date of this order, four copies of a comprehensive map acceptable to this Commission, 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.
3. Beginning with the year 1955, applicant shall determine depreciation expense by multiplying the depreciable fixed capital by a rate of 3.64 per cent. This rate shall be used until review indicates it should be revised. Applicant shall review the depreciation rate using the straight-line remaining life method whenever substantial changes in depreciable fixed capital occur or at intervals of not more than five years, and shall revise the above rate in conformance with such reviews. Results of these reviews shall be submitted to the Commission.

- 4. Applicant shall, within one hundred and fifty days after the effective date of this order, install the facilities on its system and carry out the recommendations set forth in Paragraph 1 through 5 in Chapter 12 of Exhibit 12 in this proceeding and shall report to the Commission on or before the tenth day of each month following the effective date of this order the progress made in connection with said installations and recommendations until completed.
- 5. Except as granted by this order, the relief prayed for by complainants in Case No. 5415 herein be and it hereby is denied and said complaint proceeding hereby is terminated.

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

Dated at San Francisco, California, this 25th day of October, 1955.

John E. Mitchell
 President

William K. DeLoach

R. Hoover

 Commissioners

Justus F. Craemer
 Commissioner Ray E. Untereiner, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated communities of Clear Lake Park, Austins and Pine Dell, and vicinity, on the southeasterly shore of Clear Lake, Lake County.

RATES

Monthly Quantity Rates:		<u>Per Meter</u> <u>Per Month</u>
First 400 cu.ft. or less		\$ 3.00
Next 1,600 cu.ft., per 100 cu.ft.40
Next 3,000 cu.ft., per 100 cu.ft.30
Over 5,000 cu.ft., per 100 cu.ft.20
Annual Minimum Charge:		<u>Per Meter</u> <u>Per Year</u>
For 5/8 x 3/4-inch meter		\$ 36.00
For 3/4-inch meter		54.00
For 1-inch meter		108.00
For 1 1/2-inch meter		180.00
For 2-inch meter		264.00

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

SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1 and is due and payable in advance on January 1 of each year but may, at the option of the customer, be paid in two equal installments on January 1 and June 1.

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

SPECIAL CONDITIONS—Contd.

2. A customer who has established his permanency by having taken water service at the same location during each of 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.

3. Charges for water used in excess of the monthly allowance under the minimum charge may be billed monthly, bimonthly, or quarterly, at the option of the utility.