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Decision No. 52497

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
ALBERT B. SAGE and ORA MAE SAGE for)
a certificate of Public Convenience)
and Necessity to conduct operations)
as a Public Utility Water System in)
unincorporated territory, near the)
City of Shafter, County of Kern, and)
to establish rates for water service.)

Application No. 37340
(Amended)

Cherokee Water System by Mr. and Mrs. Albert B. Sage, applicants.
R. D. Perry, for people of Cherokee Strip;
J. W. Harris, for Shafter Public Utility District;
interested parties.
W. B. Stradley, for Commission Staff.

O P I N I O N

Albert B. Sage and Ora Mae Sage, joint tenants, doing business as the Cherokee Water System, by the above entitled application filed on September 23, 1955 and amended on November 15, 1955, request a certificate of public convenience and necessity to operate a public utility water system in an area known as Cherokee Strip, located approximately 2 miles south of Shafter in Kern County, California. A map of the system is set forth in Exhibit "B" attached to the application, the area being further defined as Tract No. 774, a portion of Section 26, Township 28 South, Range 25 East, M.D.B. & M., Kern County. Applicants also request approval of rates set forth in Exhibit "E" in the amendment to application.

Public Hearing

After due notice, public hearing on this application was held before Commissioner Rex Hardy and Examiner M. W. Edwards

on December 7, 1955, at Shafter, California.

Testimony was presented by both of the applicants. Mrs. Sage stated that she will collect the bills and keep the records under guidance of a professional bookkeeper. She testified that this involves about three full days of work per month and suggested that she be paid \$50 per month for her time. Mr. Sage stated that he will operate the pump and maintain the system. He testified that once the system is improved by means of a new pump and an individual service connection is installed for each customer, the system should not require more than 15 minutes to 30 minutes of his time per day for maintenance and operation. Testimony also was presented by the Commission staff's representative, an engineer in the Hydraulic Section. He had prepared a "Report on an Investigation of the Operations of Cherokee Water System" which was presented as Exhibit No. 1 at the hearing.

A large number of the customers attended the hearing, two presented testimony, several asked questions and the position of the customers was stated by a spokesman for the group. In general, their position was that they desired higher water pressure and were willing to pay reasonable rates to the end that the owners and operators would not suffer any loss. One witness testified that several years ago when Mr. Eagle ran the system the flat rate was \$2.00 per month, that later when Mr. Baker took the system over the rate was increased to \$2.50 per month, and that Mr. Sage continued the \$2.50 rate after he purchased the system until April 1955, when he increased the flat rate to \$3.50 per month and that there was question among the customers as to the need for this higher charge.

Description of System

The source of water supply for the system is a well located in the service area. It is ten inches in diameter to a depth of 102 feet, and eight inches in diameter from this point to its total depth of 252 feet. The well is equipped with a 7½ h.p. electric motor, directly connected to a deep-well turbine pump set at a depth of about 140 feet. The well was tested in November, 1955 and was found to produce 62 gallons per minute against 20 pounds per square inch pressure. This water is distributed through 2,346 feet of 3-inch diameter asbestos cement pipe, located in a 10-foot easement in the lots, to 34 service connections of 3/4-inch diameter. Some service connections are used jointly by two or more customers. A total of 39 customers is being served. ✓

Cost of the System

The applicants are husband and wife, and purchased the system in December, 1953 and started to operate it about January 1, 1954. They paid \$5,500 for the system including a residence and the lot on which the pump is located. No separate purchase price for the system was stated; however, the applicants state in their application that the appropriate historical cost is \$5,770. The record indicates that the system was first installed in 1938, but the present owners do not have any of the original cost records. The appraisal made by the Commission's staff in Exhibit No. 1 indicated an estimated original cost of \$5,653 segregated as follows:

<u>Account Number</u>	<u>Description</u>	<u>Amount</u>
301	Organization	\$ 200
306	Landed Capital (wellsite)	100
315	Well (252 feet deep)	1,300
321	Pumping Plant Structure	100
324	Pumping Equipment	975
342	Tank (4,000 gallons)	900
343	Distribution Mains	1,877
345	Services (34)	136
348	Hydrants (5)	65
	Total Utility Plant	\$5,653

The record indicates that the present 7½ h.p. motor and pump is inadequate and that it should be replaced with a 10 h.p. to 15 h.p. motor and pump at an added cost of \$1,500 to \$2,500. One of the applicants works as a well driller and represented that he could borrow money from his employer if necessary to finance the new pump and motor. The principal occupation of the other applicant is that of a housewife.

Rates, Present and Proposed

Applicants are now charging a flat rate of \$3.50 per month for a single family dwelling on a lot, and \$2.50 per month for each additional house on the same lot. The flat rates proposed by applicants in the amendment to application are:

<u>Proposed Rates</u>	<u>Per Month</u>
For each service connection to a lot not exceeding 16,000 square feet . . .	\$3.50
For each additional dwelling house or single unit establishment on the same service connection . . .	1.75
For each 100 square feet in excess of 16,000 square feet	0.025
For each air cooler during the months June through September, inclusive . .	0.50

In addition, applicants propose optional meter rates which allow 700 cubic feet or less for \$3.50 per month with quantity

rates for usage in excess of 700 cubic feet at rates varying from 35 cents down to 20 cents per 100 cubic feet.

Results of Operations

For the year 1954 the applicants showed operating revenues of \$1,146.50 and expenses of \$1,393.11 indicating a net operating loss of \$246.61. Included in this expense figure was an allowance of \$400.00 for depreciation which was approximately twice as great as the staff engineer computed as necessary.

In Exhibit No. 1 the staff engineer estimated earnings and rate of return on the bases of present and proposed rates for the year 1955. In addition, he showed the operating results after allowing for recommended system improvements (including a 10 h.p. motor and new pump) as follows:

	<u>Proposed Rates</u>		
	<u>Present Rates</u>	<u>With Present System</u>	<u>After System Improvements</u>
Operating Revenue	\$1,720	\$1,890	\$1,890
Operating Expenses			
Source of Water Supply	402	402	402
Power and Pumping	410	410	722
Transmission and Distribution	240	240	240
Customer Acct. and Collecting	257	260	260
General Expenses	108	108	108
Depreciation	197	197	242
Taxes	92	127	143
Total Expenses	1,706	1,744	2,117
Net Revenue	14	146	(227)
Depreciated Rate Base	3,423	3,423	4,348
Rate of Return	0.4%	4.3%	-

(Denotes Red Figure)

Miscellaneous Items

o Applicants state that there are no other public utility water systems contiguous to this area for which a certificate is requested, and no showing to the contrary was

made at the hearing.

With regard to the purity of the water, one of applicants testified that the water had been tested five different times by health authorities and that he had never been advised the water was found to be unfit for human consumption. He also testified that no cesspools or sewer pipes are located within 50 feet of the well. While there was indication that at times small amounts of lubricating oil or sand might be found in the water there was no evidence that normally the water was not potable.

The question was raised as to the need for a utility as small as this one to require applications for service. In the event this operation is certificated, it will be required to file rules with the Commission. One of these rules will require the utility to furnish service only upon application by the customers.

Also, a question was raised as to the need for furnishing monthly bills and the date they should be rendered. Applicants requested payment in advance which, for flat rate service, customarily and usually is specified in the proposed tariff schedules. It is the Commission's general view that the preparation and mailing or delivery of monthly bills would expedite payments, reduce uncollectibles and provide a business-like basis of furnishing to customers a receipt when payment is made. If a bill stub is provided, this could be retained by the utility at the time of payment as its original evidence of receipt of revenue from customers and help simplify customer accounting. As to the date of billing, if these bills were mailed or delivered on the 20th or the 25th of the month, payment reasonably could be expected within the 15-day period required by the rules.

Applicants contend that no franchise or permit is required

by the County of Kern to maintain or operate the system.

Conclusions and Findings

After considering the evidence of record, the statements and questions by the customers, it is the Commission's conclusion that a certificate of public convenience and necessity should be granted as requested in the application. Also, it is concluded that the service should be improved which will require replacement of the motor and pump by one of larger size and certain additional service connections. Customers may have to increase their service pipe sizes where long runs are involved. The economics of operation require the authorization of the proposed \$3.50 monthly flat rate, but the Commission concludes that it is desirable to alter somewhat the rate for additional dwellings on one service connection and the rate for lots larger than 16,000 square feet in area. Where these additional dwellings have running water facilities the authorized charge will be \$2.00 per month, and where the additional dwellings have no running water facilities installed the charge will be \$1.00 per month. The rate for lots in excess of 16,000 square feet will be graduated down from the proposed 2.5 cents per 100 square feet to 1.5 cents where the area exceeds 22,000 square feet.

The Commission finds that public convenience and necessity require the operation and maintenance of a public utility water system by Albert B. Sage and Ora Mae Sage, doing business as the Cherokee Water System, in Tract No. 774, Kern County, in the area more particularly delineated by map marked Exhibit "B" attached to the application and as described in the application; that rates should be established at the approximate levels requested; with revisions as noted, subject to improvements in service as discussed herein; and that an order should be issued in general granting the certificate and authority requested.

The certificate of public convenience and necessity issued herein is subject to the following provision of law:

That the Commission shall have no power to authorize the capitalization of this certificate of public convenience and necessity or the right to own, operate or enjoy such certificate of public convenience and necessity in excess of the amount (exclusive of any cost or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right.

O R D E R

The above-entitled application having been considered, a public hearing having been held, the matter having been submitted and now being ready for decision; therefore

IT IS HEREBY ORDERED that a certificate of public convenience and necessity be, and it is granted to Albert B. Sage and Ora Mae Sage, doing business as the Cherokee Water System, to operate and maintain a public utility water system for the distribution and sale of water within the territory hereinbefore described.

IT IS HEREBY FURTHER ORDERED as follows:

1. Applicants are authorized and directed to file after the effective date of this order, the rates set forth in Appendix A, attached to this order, to be effective for service rendered on or after March 1, 1956, together with rules and tariff service area map acceptable to this Commission and in accordance with General Order No. 96. Such rates, rules and tariff service area map shall become effective upon not less than five days' notice to the Commission and to the public after filing as hereinabove provided.
2. Applicants shall file within sixty 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 for which this certificate is issued; the principal water production, storage and distribution facilities; and the location of the various properties of applicant.

3. Beginning with the year 1956, applicants shall determine depreciation expense by multiplying the depreciable fixed capital by a rate of 3.7 per cent. This rate shall be used until review indicates it should be revised. Applicants 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. Applicants shall set up on their books the plant accounts and depreciation reserve as of December 31, 1954, substantially as shown in Table 3-A of Exhibit 1.
5. The continuation of the level of rates set forth in Appendix A herein beyond July 1, 1956 is conditioned upon the installation of a new pump and motor of 10 h.p. or greater size by June 1, 1956. Applicants shall give written notice to the Commission within 10 days after the new pump and motor installation is completed.

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

Dated at San Francisco, California, this 23rd day of January, 1956.

Edward E. Mitchell
President
JUSTIN J. GARDNER
ROBERT WINTERKIN
MURRAY DUBOIS
B. H. HANCOCK
Commissioners

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated area known as Cherokee Strip, also designated Tract No. 774, located approximately 2 miles south of the City of Shafter, Kern County.

RATES

	<u>Per Meter per Month</u>
Quantity Rates:	
First 700 cu.ft. or less	\$ 3.50
Next 1,300 cu.ft., per 100 cu.ft.35
Next 2,000 cu.ft., per 100 cu.ft.30
Next 6,000 cu.ft., per 100 cu.ft.25
Over 10,000 cu.ft., per 100 cu.ft.20
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$ 3.50
For 3/4-inch meter	4.75
For 1-inch meter	7.25
For 1 1/2-inch meter	13.00

The Minimum Charge will entitle the customer to the quantity of water which the minimum charge will purchase at the Quantity Rates.

SPECIAL CONDITION

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. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

The unincorporated area known as Cherokee Strip, also designated Tract No. 774, located approximately 2 miles south of the City of Shafter, Kern County.

RATES

	<u>Per Service Connection per Month</u>
1. For a single family residence, including premises not exceeding 16,000 square feet in area	\$3.50
(a) For each additional residential unit on the same premises, including trailer or tent used as a residence, served from the same service connection:	
With inside water facilities	2.00
Without inside water facilities	1.00
(b) Additional for each 100 square feet of area of premises over 16,000 square feet and less than 22,000 square feet025
(c) Additional for each 100 square feet of area of premises in excess of 22,000 square feet015
(d) Additional for each noncirculating type evaporative cooler during months of June through September, inclusive.....	.50

Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE—Cont'd

SPECIAL CONDITIONS

1. All service not covered by the above classification will be furnished only on a metered basis.
2. Meters will be installed at option of utility or customer for above classification, 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.