

Decision No. 52903**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 JOHN SCIARRA (Del Rio Water Co. and)
 Camp Rose Water Company) for an)
 order authorizing increases in water)
 rates.)

Application No. 37103
 (As Amended)

Francis M. Passalacqua, for applicant;
John A. O'Kane, for Del Rio Woods Home
 Owners Association and 32 individuals,
 protestants;
E. Ronald Foster and Martin Abramson,
 for the Commission staff.

O P I N I O NNature of Proceeding

By the above-entitled application, filed July 6, 1955 and as amended September 28, 1955, John Sciarra, owner and operator of two adjoining water systems (sometimes known as Camp Rose Water Company and Del Rio Water Co.) in a resort area along the Russian River near Healdsburg, seeks an order of this Commission authorizing consolidated operation of the two systems under the fictitious name of Sciarra Water Company and increases in rates and charges for the water service rendered.

Public Hearing

After due notice, public hearings in the matter were held before Examiner F. Everett Emerson on November 16, 1955, at Healdsburg, and on February 23, 1956, at San Francisco. The matter was submitted on the latter date.

Rates, Present and Proposed

Existing basic rates for the Camp Rose system were established by this Commission's Decision No. 40926, in Application

No. 28277 and became effective on December 1, 1947. Effective July 1, 1948, an additional charge of \$5 per year was authorized for each additional residence on the same lot as the primary service connection.

Existing rates for the Del Rio system were established by this Commission's Decision No. 43114, in Application No. 30034, and became effective on August 1, 1949.

Applicant proposes one set of rates for integrated operation of the once separate systems. A comparison of present basic rates with those which applicant seeks is as follows:

Item	Present Rates		Proposed Rates:
	Camp Rose	Del Rio	Sciarra
<u>Flat Rates</u>			
<u>Annual Flat Rate</u>			
For nonpermanent residents ...	\$24.00	\$21.00	\$39.00
For permanent residents	24.00	21.00	39.00
For each additional residence			
With toilet and sink	5.00	-	27.00
With bath/shower, lavatory, sink and toilet or outside shower	5.00	-	39.00
With sink only	5.00	-	15.00
<u>Monthly Flat Rate</u>			
For permanent residents	-	1.90	3.25
<u>Meter Rates</u>			
<u>Annual Meter Rate Minimum</u>			
For nonpermanent residents	\$24.00	\$20.00	\$39.00
For permanent residents	24.00	20.00	39.00
<u>Monthly Meter Rate Minimum</u>			
For permanent residents	-	1.80	3.25
<u>Typical Monthly Bills at Quantity Rates</u>			
400 cubic feet	2.00	2.20	3.70
800 cubic feet	3.60	3.80	5.50
1,200 cubic feet	5.10	5.20	7.20
1,600 cubic feet	6.50	6.40	8.80
2,000 cubic feet	7.90	7.60	10.40

Revenues from flat rate customers presently produce approximately 90 per cent of gross operating revenues. On the average, the rates which applicant seeks would provide increases in revenues as follows:

	<u>Amount</u>	<u>Per Cent</u>
<u>Camp Rose System</u>		
Flat Rate Revenue	\$1,741	72.8%
Meter Rate Revenue	120	44.0
Total	<u>1,861</u>	69.8
<u>Del Rio System</u>		
Flat Rate Revenue	2,419	75.7
Meter Rate Revenue	173	65.0
Total	<u>2,592</u>	74.9
Integrated System Total	4,453	72.9

Description of Water Systems

The source of water supply for the Camp Rose System consists of two springs and the Russian River. The springs constitute the primary source of water, with the river being used as a source only during peak load periods. Water flowing from the springs and pumped from the river is collected in tanks, treated with chlorine, and boosted to storage tanks located at varying elevations throughout the extremely hilly service area. In addition, water pumped from the river is filtered before entering the system. The water is distributed from storage of about 33,500 gallons through approximately 14,000 feet of 1½- and 2-inch mains.

The source of water supply for the Del Rio system consists of a leased 10-inch diameter, 40-foot deep well located near the bank of the Russian River. Applicant has an option to purchase the well. Water from the well is treated with chlorine and pumped to storage tanks at varying elevations in the system. From storage of about 20,000 gallons, water is distributed through approximately 20,000 feet of mains which vary in diameter from 1 to 3½ inches O. D.

The two systems are now interconnected by means of an 825-foot section of main newly installed along Fitch Mountain Road. The integrated system served approximately 243 customers as of January 1, 1956.

Summary of Earnings

With respect to the financial results of operations, both applicant and the Commission staff presented exhibits and oral testimony. A summary of the presentations is as follows:

Present Rates
Year 1955

Item	Applicant ^a		CPUC Staff ^b	
	Del Rio	Camp Rose	Del Rio	Camp Rose
Operating Revenues				
Flat Rate	\$ 2,905	\$ 2,427	\$ 3,197	\$ 2,393
Meter Rate	215	278	266	273
Total	3,120	2,705	3,463	2,666
Operating Expenses				
Before Taxes and Deprec.	2,558	2,510	4,298	3,551
Taxes	236	159	217	213
Depreciation	375	444	375	367
Total	3,167	3,113	4,890	4,131
Net Revenue	(47)	(408)	(1,427)	(1,465)

(Red Figure)

- a As recorded, Exhibit No. 4.
b As estimated, Exhibit No. 3.

The major differences between the two presentations lie in the group of operating expenses, totaled in the above tabulation as "operating expenses before taxes and depreciation." Applicant used recorded expenses, for the year 1955, which include no salary for himself. The Commission staff figure includes judgment amounts for such items as office space rental, telephone expenses, legal fees spread over a 4-year period, cost of leasing a well and an over-all amount for management salary. The staff showing, therefore, was intended to reflect a "normalized" operation.

The evidence is clear, as illustrated in the foregoing summary tabulation, that applicant is not receiving sufficient revenues from the presently effective water rates to offset operating expenses.

With respect to earnings under the rates which applicant seeks, it seems necessary to look to near-future operations, for the once separate systems are now physically one and also because applicant intends to more fully meter water deliveries. Thus, both the present usage pattern and the revenues which are respectively produced by flat rate and meter rate consumptions would be materially altered. Based upon an assumed 100 meters being added to the integrated system, 50 on each of the two sections, the Commission staff showing in this regard is summarized as follows:

Applicant's Requested Rates
Near-Future Year

<u>Item</u>	<u>Amount</u>
Operating Revenues	
Flat Rate	\$ 5,900
Meter Rate	7,932
Total	<u>13,832</u>
Operating Expenses	
Before Taxes and Depreciation	8,000
Taxes	1,552
Depreciation	1,200
Total	<u>10,752</u>
Net Revenue	3,080
Rate Base (Average, Depreciated)	28,310
Rate of Return	10.9%

Protestant's Participation

At the first hearing in this matter, counsel for protestants entered a special appearance alleging improper notice of hearing, objecting to the jurisdiction of this Commission and alleging failure of applicant to comply with the rules of procedure as established by this Commission. Protestants also moved for dismissal on the same grounds. Such objections were overruled and the motion to

dismiss was denied by the presiding officer. In view of the evidence we find that due notice had been given and that the matter was not jurisdictional. ✓

At the second hearing, once postponed by the Commission on its own behalf and twice postponed in order to accommodate counsel for protestants, protestants withdrew their special appearance and appeared generally in the proceeding. The presentation of protestants consisted of oral testimony by three witnesses and the offering of six exhibits. Four of these exhibits concerned a post-card poll of water users by protestants.

One of protestants' witnesses was an accountant for the water system prior to ownership by applicant. This witness presented a balance sheet and income statement covering the year 1954, the exhibit (No. 11) showing that in order for the system to earn a return of 6 per cent on applicant's investment, the Del Rio portion should produce an average gross revenue of \$30.50 per customer annually while the Camp Rose portion of the system should produce annual gross revenues of \$38.31 per customer. This witness' analysis showed losses for each portion of the system during 1954.

Protestants' principal witness testified at length with respect to system facilities and their alleged deficiencies. His report on his inspection of the properties is contained in an exhibit (No. 10) which is basically an arithmetical manipulation of financial or earnings figures taken from either applicant's or the Commission's staff exhibits. Analysis of this showing indicates that it is not factual. It appears to be based on a misconception of what constitutes a rate base for rate-fixing purposes as well as a general misunderstanding of the requirements of utility financing. Suffice

it to say that the conclusions of this witness seem clearly to be that certain system improvements are needed and that the protestants are willing to pay (through water rates) for the costs thereof when the service is available. However, the witness objects to the installation of additional meters on the system on the supposition that the revenues to be derived therefrom will not meet the expenses incurred.

Conclusions

In view of the evidence we find that the gross revenues obtainable from existing water rates are insufficient to meet the reasonable costs of operating and maintaining the existing water system. Applicant is in need of and entitled to rate relief.

In our opinion a fair and reasonable rate of return on a depreciated rate base for this utility is 6.5 per cent. Rates for water service should be made prospectively; that is, the rates should be designed to yield the required revenues on near-future prospective operations. Accordingly, for this utility, a prospective depreciated rate base which will result from reasonable plant additions to be made in the immediate future will be used as the basis for an authorization of increased rates. Such procedure will be fair to utility and customer alike. It will place applicant in a financial situation sufficiently improved to assure that needed capital may be obtained and that reasonably adequate facilities will be in place for rendering service. It will provide water users with an improved service and one which will meet their reasonable demands. In this latter connection, we find that applicant's integration of the once separated systems ought to have been made, is prudent and is for the public benefit.

The depreciated rate base hereby found to be fair and reasonable for this utility for the year 1956 is \$29,221, developed from the detailed exhibits of record in this proceeding as follows:

Total Plant in Service, December 31, 1954	\$ 22,458
Net Plant Additions, 1955	<u>3,976</u>
Plant in Service, December 31, 1955	26,434
Net Plant Additions, 1956	<u>13,500</u>
Weighted Plant in Service, 1956	39,934
Average Materials and Supplies	650
Working Cash	<u>750</u>
Subtotal	41,334
Contributions	<u>(1,273)</u>
Depreciation Reserve	<u>(10,840)</u>
Subtotal	<u>(12,113)</u>
Depreciated Rate Base, Year 1956	29,221
	<u>(Subtractive Item)</u>

A rate of return of 6.5 per cent on such rate base would develop a net revenue of approximately \$1,900. After due allowance for all reasonable operating expenses totaling \$11,000 a gross revenue requirement of \$12,900 is indicated. The rates hereinafter authorized should produce such revenues. Applicant is placed upon notice, however, that such authorization is predicated upon his providing the intended system improvements as set forth in this record as well as upon his financial requirements and that anything less than satisfactory performance in such regard may bring about a reopening of this proceeding with a view toward rescinding a part or all of the increases granted.

Some of applicant's present customers feel that they are now paying excessive bills for the short periods in which they occupy their summer homes. It should be apparent to them however, that the water system must be so constructed and maintained that the total demands of all customers may be met. The physical system may not be expanded during periods of high demand and contracted during periods when little water is used, nor can year-round maintenance and repairs be foregone if the system is to continue to serve its customers.

The costs of operation provided for in the above-adopted expenses are in no instance more than reasonable. Applicant will be required to render satisfactory service and is entitled to have present losses halted and to be assured of an improved financial position.

Apparently many of the summer people bring bottled water from other areas for their occasional usage over week-end and holiday trips to their summer homes. Such a situation may aggravate a condition of poor taste and discoloration of water by permitting accumulation of rust and other suspended matter in the lines and particularly in the pipes on their own premises. Regular flushing of mains by the utility and regular flushing of house lines by customers should lessen disagreeable turbidity.

Although partial metering of a system is an objectionable situation to a few of the customers whose water usage is metered, if fairly and impartially administered such partial metering will meet or balance the economics of a metering program by permitting lower costs of capital, operation and maintenance and thus insure somewhat lower rates for all consumers. It is to the best interest of customers and applicant that neither condone wastage of water. We find no element of discrimination in the present metering practices of applicant.

At the conclusion of the hearings in this matter, counsel for applicant entered a plea that any increase in rates be made effective as of January 1, 1956, basing such plea on equity and pointing to losses which might earlier have been halted except for the delay occasioned by protestants being unwilling or unprepared to proceed. In connection with the effective date for new rates for this system, we note that the rates basically have been annual rates for many years. The rates to be authorized herein are also basically annual or seasonal rates and, in our opinion, the over-all operation

of this system is best suited to such treatment. However, we find that it is reasonable to make the new rates effective as of June 1, 1956. Equitable proration of annual and seasonal charges by applicant will be in order. It is 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 herein authorized, are unjust and unreasonable.

O R D E R

John Sciarra (Sciarra Water Company) having applied to this Commission for an order authorizing increases in rates and charges for water service rendered in Sonoma County, public hearing thereon having been held, the matter having been submitted and now being ready for decision, and based upon the evidence and the foregoing opinion respecting certain of its elements,

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformance with the provisions of General Order No. 96, the schedules of rates attached to this order as Appendix A and, on not less than five days' notice to the public and to this Commission, to make said rates effective for all service rendered on and after June 1, 1956.

2. Within sixty days after the effective date of this order applicant shall file in quadruplicate with this Commission, in conformity with the provisions of General Order No. 96, rules revised to reflect present-day practices and relations with the utility customers, together with four copies of a tariff service area map acceptable to this Commission.

3. Within 180 days after the effective date of this order applicant shall file with this Commission four copies of a comprehensive map, drawn to an indicated scale of approximately 100 feet

to the inch, clearly indicating thereon by appropriate markings the various tracts of land and territory served, the production, storage and distribution facilities and the various properties of applicant as they pertain to the over-all water system.

4. Beginning with the year 1956, applicant shall determine depreciation expense by multiplying the dollar amount of depreciable fixed capital by a rate of 3.7 per cent, using such rate thereafter until review indicates that it should be revised. Further, applicant shall review such rate, using the straight-line remaining life method of depreciation accounting, whenever major changes in plant composition occur and at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.

5. By not later than May 15, 1956, applicant shall subscribe to local exchange telephone service in the Healdsburg exchange under the name of Sciarra Water Company. Applicant shall inform this Commission, in writing, of the establishment of such telephone service immediately after it has been placed in service.

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

Dated at San Francisco, California, this 17th day of April, 1956.

[Signature]
President
[Signature]
[Signature]
[Signature]
Commissioners

APPENDIX A
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Schedule No. 1

ANNUAL GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated communities of Camp Rose and Del Rio, located approximately two miles east of the City of Healdsburg, Sonoma County.

RATES

Quantity Rates:		<u>Per Meter Per Month</u>
First	500 cu.ft. or less	\$ 3.00
Next	500 cu.ft., per 100 cu.ft.45
Next	1,500 cu.ft., per 100 cu.ft.40
Over	2,500 cu.ft., per 100 cu.ft.30
Annual Minimum Charge:		<u>Per Meter Per Year</u>
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

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 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 non-cumulative monthly consumption basis.

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Schedule No. 1S

SEASONAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service furnished on a seasonal basis.

TERRITORY

The unincorporated communities of Camp Rose and Del Rio, located approximately two miles east of the City of Healdsburg, Sonoma County.

RATES

Quantity Rates:

	<u>Per Meter Per Month</u>
First 500 cu.ft. or less included in Seasonal Minimum Charge.	
Next 500 cu.ft., per 100 cu.ft.	\$0.45
Next 1,500 cu.ft., per 100 cu.ft.40
Over 2,500 cu.ft., per 100 cu.ft.30

Seasonal Minimum Charge:

	<u>Per Meter Per Season</u>	<u>Quantity Allowed per Month for Minimum Charge</u>
For the 6-month period, May to October, inclusive:		
For 5/8 x 3/4-inch meter	\$ 32.00	500 cu.ft.
For 3/4-inch meter	40.00	500 cu.ft.
For 1-inch meter	55.00	1,000 cu.ft.
For 1 1/2-inch meter	85.00	2,000 cu.ft.
For 2-inch meter	130.00	2,500 cu.ft.

SPECIAL CONDITIONS

1. The seasonal minimum charge is due in advance and will entitle the customer to the quantity of water in each of the months, May through October, 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 or bimonthly 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 of the other months of the same calendar year under Schedule No. 1, General Metered Service, upon written notice to the utility stating the months in which such service is desired.

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Schedule No. 2R

ANNUAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated communities of Camp Rose and Del Rio, located approximately two miles east of the City of Healdsburg, Sonoma County.

RATES

	<u>Per Service Connection Per Year</u>
For a single-family residence including premises	\$39.00
For each additional single-family residential unit on the same premises served from the same service connection	18.00

SPECIAL CONDITIONS

1. The above annual flat rates 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 flat rate charge on a monthly basis equal to one twelfth the annual flat rate charge.

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

3. A meter may be installed only at option of utility. In the event a meter is installed, service thereafter will be furnished on the basis of Schedule No. 1, General Metered Service.

Schedule No. 2RS

SEASONAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated communities of Camp Rose and Del Rio, located approximately two miles east of the City of Healdsburg, Sonoma County.

RATES

Seasonal Charge:

Per Service
Connection
Per Season

For the 6-month period,
May to October, inclusive:

For a single-family residence including premises .. \$35.00

For each additional single-family residential
unit on the same premises served from the same
service connection 14.00

SPECIAL CONDITIONS

1. The seasonal charge is payable in advance.
2. Customers who have paid the above seasonal charge may obtain service during any of the other months of the same calendar year at a monthly charge of one twelfth of the annual charge under Schedule No. 2R, Annual Residential Flat Rate Service, upon written notice to the utility stating the months for which service is desired.
3. All seasonal service not covered by the above classification will be furnished only on a metered basis.
4. A meter may be installed only at option of utility. In the event a meter is installed, service thereafter will be furnished on the basis of Schedule No. 1S, Seasonal Metered Service.