

ORIGINAL

Decision No. 52984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
the FELTON WATER COMPANY, a corpora-)	
tion, for authority to increase rates)	Application No. 37224
for water service in and in the)	
vicinity of the Town of Felton, Santa)	
Cruz County, California.)	

John C. Luthin, for applicant.

John R. Barber, Jr., for T. N. Toft, W. F. Sinnott,
Vern Terry, Clark Griffen and E. B. Sinnott,
 protestants.

Alice Earl Wilder, for San Lorenzo Valley Chamber
 of Commerce, interested party.

E. Ronald Foster, for the Commission staff.

O P I N I O N

Nature of Proceeding

By the above-entitled application, filed August 17, 1955, Felton Water Co., a California corporation, seeks an order of this Commission authorizing increases in rates and charges for water service rendered in Felton and its vicinity in Santa Cruz County. Basically, applicant seeks increased revenues in the approximate amount of \$5,000 annually.

Public Hearing

Public hearing in the matter was held before Examiner F. Everett Emerson on February 2, 1956 at Santa Cruz and on February 21, 1956 at Felton. The matter was submitted subject to the receipt of closing briefs, that of protestants having been received on March 3, 1956, and that of applicant on March 21, 1956.

Rates, Present and Proposed

The presently effective basic rates for water service were authorized by this Commission's Decision No. 48592 in

Application No. 33747 and became effective July 1, 1953. The following tabulation is a comparison of existing rates with those which applicant now requests.

Rate Comparison

	<u>Present</u>	<u>Requested</u>
Annual Flat Rate Service	\$28.80	\$34.50
Seasonal Flat Rate Service (6 months)	21.00	25.20
Annual Metered Service, Typical Monthly Bills:		
For 500 cubic feet of water	2.25	2.70
For 1,000 " " " "	3.75	4.50
For 1,500 " " " "	5.25	6.30
Annual Minimum	27.00	32.50
Seasonal Metered Service, Typical Monthly Bills:		
For 500 cubic feet of water		(Included in minimum charge)
For 1,000 " " " "	1.50	1.80
For 1,500 " " " "	3.00	3.60
Seasonal Minimum (6 months)	19.80	23.80

Applicant's System and Operations

The company obtains its water from certain springs and from four creeks in the area, all of which sources except Fall Creek are situated high enough in elevation to deliver water to the system by gravity. At the Fall Creek source (used only during summer peak-load periods) water is chlorinated and pumped into the distribution system with a centrifugal pump driven by a 30-hp electric motor. At Bennett Creek water is collected in two small reservoirs from which a transmission main carries the water to a concrete diversion box. At this point, some of the water is delivered into the distribution system, with the remainder being chlorinated and transmitted to the Bull Creek reservoir. From the Bull Creek reservoir the water is delivered into the distribution system. The Shingle Mill Creek source also supplies water to the system by gravity.

A pumping plant in the Felton Acres area boosts water to the upper pressure zone, and a small booster plant provides water for several customers in the Tanglewood area. Major storage is provided by the Bull Creek reservoir with a number of small tanks at strategic locations throughout the area. The system contains approximately 86,000 feet of transmission and distribution mains, varying in size from 1½ to 6 inches in diameter.

At the end of the year 1954, there were 684 active services, of which 548 were metered and 136 served on a flat rate basis. There were also 22 fire hydrants of various types and sizes connected to the system. At the end of the year 1955, the company had 710 customers in Felton and twelve adjacent subdivisions covering a total area of about 600 acres. The present rate of growth is about 25 customers per year.

The utility, although a corporation, is in actuality a "manager and helper" type of enterprise, managed and supervised by the president and sole stockholder of the corporation. The president, as manager and full-time employee, attends to the matters of customer billing, collections, customer records, customer accounting, receiving inquiries and complaints, purchasing, planning and contracting for system additions, and generally oversees the work of the superintendent. The superintendent, as the second full-time employee, attends to all of the field work, including meter reading, turn-ons and turn-offs, field investigation of customers' inquiries and complaints, checking water levels of supply and storage, operation of pumps and chlorinators, maintenance and repair of all facilities, installation of services and meters and inspection and general supervision of contracted construction work. The balance of the utility's operations are handled by part-time or occasional employees who do relief work or field labor. General

accounting and engineering work are done by outside firms under the general supervision of the treasurer of the corporation. Major construction work is performed under contract by independent firms. For the year 1955, the utility's total payroll amounted to \$8,833.52 or approximately 40 per cent of the total of operating expenses.

During December 1955, storms did considerable damage to the physical system. Bull Creek reservoir was flooded and its dam was holed. One wing of the dam on Fall Creek was washed out, a bridge on Shingle Mill Creek was washed away, roads were either washed out or badly eroded and about one-half mile of a 2-inch distribution main was damaged by earth slides. Earth slides also carried away distribution pipe in Redwood Drive. Preliminary estimates of damage indicate a probable cost of repair or replacement of about \$7,200.

In addition to repair of storm-damaged facilities, applicant will in 1956 install an additional storage tank, on property already acquired for the purpose, in order to eliminate periods of low pressure and lack of water in the Felton Acres area.¹ Installation of new sections of 3-inch and 2-inch mains is also programmed for 1956.

Results of Operations

Exhibits and oral testimony respecting the financial results of water system operations were presented by applicant's treasurer and by an engineer of the Commission staff. A summary of these presentations, taken from the respective exhibits as modified or revised by oral testimony, is shown in the following tabulations.

¹ Since this matter was submitted for decision, the Commission has been informed that installation of this tank is actually under way and that it is scheduled for full operation by not later than June 15, 1956.

Summary of Earnings

Item	Present Rates					
	Year 1954		Year 1955		Year 1956 ^a	
	Appli- cant	CPUC Staff	Appli- cant	CPUC ^a Staff	Appli- cant	CPUC Staff
Operating Revenues	\$24,249	\$24,249	\$24,680	\$25,017	\$25,595	\$25,974
Operating Expenses						
Before taxes & Depr.	15,562	16,764	16,803	18,440	19,145	18,780
Taxes	2,396	1,536	2,145	1,607	1,749	1,870
Depreciation	3,068	3,068	3,257	3,571	3,333	3,586
Total Oper. Exps.	21,026	21,368	22,205	23,618	24,227	24,236
Net Revenue	3,223	2,881	2,475	1,399	1,368	1,738
Rate Base (Depr.)	66,255	63,300	70,384	79,200	74,390	80,000
Rate of Return	4.9%	4.6%	3.5%	1.8%	1.8%	2.2%

a. Estimated

Item	Requested Rates		
	Year 1955 ^a		Year 1956 ^a
	CPUC Staff	Applicant	CPUC Staff
Operating Revenues	\$29,911	\$30,605	\$31,053
Operating Expenses			
Before Taxes & Depr.	18,440	19,145	18,780
Taxes	3,213	3,392	3,536
Depreciation	3,571	3,333	3,586
Total Oper. Exps.	25,224	25,870	25,902
Net Revenue	4,687	4,735	5,151
Rate Base (Depr.)	79,200	74,390	80,000
Rate of Return	5.9%	6.4%	6.4%

a. Estimated

Differences between applicant's and the staff's calculations summarized above lie primarily in operating expenses and in rate base. With respect to operating expenses, applicant has included amortization of flood damage costs, while the staff did not include such costs because they were as yet unknown at the time the staff analysis was prepared. Such amortization is proper when spread over a reasonable period of time and will be recognized herein.

With respect to rate base, the staff analysis included an amount for prospective construction to be occasioned by highway rebuilding which would cause abandonment and replacement of some plant. Applicant's testimony, however, is clear that the Division

of Highways' plans have been revised and that, therefore, the water system work first contemplated as being necessary during the year 1956 will not now be required. Applicant included an amount of \$1,495 as working cash in its claimed rate base. The staff, on the other hand, included no amount for working cash on the premise that advance payments for water service provide applicant with sums of money in excess of those which a working cash allowance would indicate are needed.

In view of the evidence we find that the following tabulation represents a reasonable estimate of prospective results of operations during the year 1956 under present rates and under the rates requested by applicant.

<u>Item</u>	<u>Year 1956</u>	
	<u>Present Rates</u>	<u>Requested Rates</u>
Operating revenues	\$26,000	\$31,000
Total Operating Expenses	24,225	25,725
Net Revenue	1,775	5,275
Rate Base (Depreciated)	73,000	73,000
Rate of Return	2.4%	7.2%

Position and Participation of Protestants

Protestants object to the interlocking position of sole owner-president-manager, to the salary of the manager and to the methods of operation with respect to the contracting of major construction work. Protestants' participation consisted of the direct testimony of one witness, the cross-examination of other witnesses and the filing of a brief in the matter.

Protestants allege that the president-manager does not possess the requisite qualifications for managing a water company, that the president-manager has assumed only a slight portion of the collateral duties of operation and that, although some services of value are performed, an annual salary of \$4,800 is far in excess of

the value received by the corporation for such services. Protestants point to the fact that applicant's records show expenditures of \$179.50 during the year 1954 for clerical assistance to the manager and to an expenditure of \$853.95 for engineering and accounting services during the same year. Apparently protestants are urging that this Commission either determine that such sums are improper or that such work should have been performed by the manager. With respect to the propriety of these sums there is nothing in this record which will support any allegation as to their unreasonableness. Indeed, the staff's expert witness fully accepted such sums as being a proper part of the average or normalized operations of this utility by including them without adjustment in his analysis of applicant's financial results of operations. Any contention that the manager of a water system can without any assistance whatever perform all of the functions or provide all of the skills necessary to a successful operation is unrealistic, and we find no merit in protestants' position regarding such matters.

As hereinbefore mentioned, major construction work is performed by outside contractors. According to applicant, contracts are let to firms which applicant has found to be responsible contractors who are readily responsive to the prompt meeting of applicant's needs for such work. Protestants allege that lower costs would result if other contractors were to do the work but no convincing evidence was produced to support their allegations and arguments in this respect.

Customer Participation

The testimony of four of applicant's customers is contained in this record. Their testimony indicates dissatisfaction with the recent-past and present status of owner-customer relationships, claiming inattention to the reasonable requests and complaints of

the customers. Without exception, they objected to any increase in water rates. They testified to periods when rusty or discolored water was served by applicant, to periods when portions of the system were without water and to areas wherein inadequate water pressure is maintained. One witness complained about the condition of the roads as left by applicant following repair or construction work. In order to avoid cumulative testimony it was stipulated that other customers present at the hearing would similarly testify if called to the witness stand.

Conclusions

The evidence is clear that applicant is earning a less than reasonable return under existing water rates and is entitled to rate relief.

In our opinion a fair and reasonable rate of return on a depreciated rate base for this utility is 6.0 per cent. In view of the evidence we find a depreciated rate base of \$73,000 to be fair and reasonable for the year 1956. A rate of return of 6 per cent on such rate base would develop a net revenue of \$4,380. After due allowance for all reasonable operating expenses totaling \$25,725 a gross revenue requirement of approximately \$30,105 is indicated. The rates hereinafter authorized should produce such revenues. Applicant is placed upon notice, however, that such authorization is predicated upon providing system improvements, particularly with respect to increased storage and alleviation of low pressure conditions, as set forth in this record as well as upon applicant's financial requirements and that 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.

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 interests of applicant and its customers that neither condone wastage of water. We find no element of discrimination in the present metering practices of applicant.

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 total expenses of \$25,725 hereinabove set forth are believed to be no more than reasonable.

A condition of poor taste and discoloration of water often results from permitting accumulation of rust or other suspended matter in the lines and particularly in the pipes on the premises of casual water users or summer residents. Regular flushing of mains by the utility and regular flushing of house lines by customers should lessen disagreeable turbidity.

With respect to comments of customers respecting applicant's public relations we are constrained to point out that applicant and each of its employees should be acutely conscious of its obligations to the public and should ever guard against any expression, or impression, of discourtesy. Customers should be

equally aware of the fact that the utility's paramount purpose must be to serve them reasonably and adequately, and that the utility and its employees are entitled to courtesy from the public they serve.

It is found as a fact that the increases in rates and charges authorized herein are justified and are just and reasonable, 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

Felton Water Co., a corporation, having applied to this Commission for an order authorizing increases in rates and charges for water service, public hearings thereon having been held, the Commission having been fully informed in the matter, the matter having been submitted and now being ready for decision, and based upon the evidence and the foregoing opinion and findings 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 with this Commission four copies of a comprehensive map, drawn to an indicated scale of approximately 330 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. Further, applicant shall within the same period file four copies of a tariff service area map, in conformity with the provisions of General Order No. 96, acceptable to this Commission, revised to reflect the extent of present service.

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

Dated at San Francisco, California, this 1st day of May, 1956.

Edwin E. Mitchell
President

Justice J. Casanova

Ralph L. Fintermeier

Washington Dooly

Commissioners

Commissioner..... Rex Hardy....., 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 community of Felton, Santa Cruz County.

RATES

Quantity Rates:		<u>Per Meter Per Month</u>
First	500 cu.ft. or less	\$2.60
Next	1,500 cu.ft., per 100 cu.ft.36
Next	8,000 cu.ft., per 100 cu.ft.25
Over	10,000 cu.ft., per 100 cu.ft.23
Annual Minimum Charge:		<u>Per Meter Per Year</u>
For	5/8 x 3/4-inch meter	\$31.20
For	3/4-inch meter	42.00
For	1-inch meter	78.00
For	1½-inch meter	120.00
For	2-inch meter	168.00
For	3-inch meter	288.00
For	4-inch meter	456.00

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 noncumulative monthly consumption basis.

APPENDIX A
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Schedule No. 1S

SEASONAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Felton, Santa Cruz County.

RATES

		<u>Per Meter Per Month</u>
Quantity Rates:		
First	500 cu.ft. or less included in Seasonal Minimum Charge	
Next	1,500 cu.ft., per 100 cu.ft.	\$.36
Next	8,000 cu.ft., per 100 cu.ft.25
Over	10,000 cu.ft., per 100 cu.ft.23

		<u>Per Meter Per Season</u>	<u>Quantity Allowed per Month For Minimum Charge</u>
Seasonal Minimum Charge:			
For any six consecutive months beginning and ending in the same calendar year, or any portion thereof:			
For	5/8 x 3/4-inch meter	\$22.50	500 cu.ft.
For	3/4-inch meter	33.00	750 cu.ft.
For	1-inch meter	69.00	1,600 cu.ft.
For	1 1/2-inch meter	111.00	2,700 cu.ft.
For	2-inch meter	159.00	4,000 cu.ft.
For	3-inch meter	279.00	8,200 cu.ft.
For	4-inch meter	447.00	14,400 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 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.

Schedule No. 1S

SEASONAL METERED SERVICE

SPECIAL CONDITIONS - Contd.

3. Customers who have paid the seasonal minimum charge may obtain service during any of the other months of the same calendar year under the quantity rates in Schedule No. 1, Annual General Metered Service, upon written notice to the utility stating the months in which such service is desired.

4. For a new customer, the first period of six consecutive months will not be required to be completed in the same calendar year.

Schedule No. 2

ANNUAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Felton, Santa Cruz County.

RATES

	<u>Per Service Connection per Year</u>
For each residence or commercial enterprise receiving continuous service throughout the calendar year through a 3/4-inch connection	\$33.00

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 at option of utility or customer. In the event a meter is installed, service thereafter will be furnished on the basis of Schedule No. 1, Annual General Metered Service.

Schedule No. 2S

SEASONAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Felton, Santa Cruz County.

RATES

Seasonal Charge:

Per Service
Connection
per Season

For any six consecutive months beginning and
ending in the same calendar year or any
portion thereof;

For each residence or commercial enterprise
receiving service through a 3/4-inch
connection \$23.90

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. 2, Annual 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 at option of utility or customer. In the event a meter is installed, service thereafter will be furnished on the basis of Schedule No. 1S, Seasonal Metered Service.

APPENDIX A
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Schedule No. 5

PUBLIC FIRE HYDRANT SERVICEAPPLICABILITY

Applicable to all public fire hydrant service.

TERRITORY

The unincorporated community of Felton, Santa Cruz County.

RATES

: Hydrant : Owned By :	: Size of : Hydrant :	: Type :	: Attached to :			
			: 2" or 2½" Main :	: 3" Main :	: 4" Main :	: 6" Main :
District	2½-inch	Wharf	\$1.00	\$1.25	\$1.50	\$1.75
Company	2½-inch	Wharf	1.25	1.50	1.75	2.00
District	3-inch	Wharf	-	1.50	1.75	2.00
Company	3-inch	Wharf	-	1.75	2.00	2.25
District	4-inch	Standard	-	-	2.00	2.50
Company	4-inch	Standard	-	-	2.50	3.00

SPECIAL CONDITIONS

1. The above rates are for the use of water required for fire fighting purposes and as may be used during scheduled fire drills. Quantities of water delivered through fire hydrants for any other purpose will be estimated or measured and charges will be made at the monthly quantity rates under Schedule No. 1, Annual General Metered Service.

2. The utility will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.