

**ORIGINAL**

Decision No. 53877

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 CLYDE HENRY, doing business under the )  
 firm name and style of KLAMATH WATER )  
 COMPANY for an order authorizing him )  
 to increase rates charged for water )  
 service in the system serving the )  
 unincorporated community of Klamath, )  
 Del Norte County. )

Application No. 37731  
 Amended

Investigation on the Commission's own )  
 motion into the operations, practices, )  
 contracts, rates, rules, charges and )  
 service of CLYDE W. HENRY doing busi- )  
 ness as KLAMATH WATER COMPANY, opera- )  
 ting a public utility water system in )  
 and near Klamath, Del Norte County, )  
 California. )

Case No. 5778

Ernest F. Sexton, for applicant;  
C. J. Paul and Mrs. E. Mohr by Walter F. Mohr,  
 protestant;  
Joe Greisler, for Del Norte County Health  
 Department; John J. Gannon, for State  
 Department of Public Health, interested  
 parties;  
John D. Reader, for the Commission staff.

O P I N I O N

Applicant's Request

Clyde Henry, doing business under the firm name and style of Klamath Water Company, on February 10, 1956 filed the above-entitled application seeking an increase in water rates which he represents would result in a fair and reasonable return upon the value of his property used in the service of water in the unincorporated community of Klamath. Also, he originally requested authority to complete negotiations with the Small Business Administration for a loan in the amount of \$24,000 to restore and improve the water system following damage done by a flood in December 1955. When

applicant was not successful in obtaining a loan to improve the system, he amended the application at the hearing to delete the provisions relating to the loan.

Commission Investigation

On March 26, 1956 the Board of Supervisors of the County of Del Norte passed a resolution requesting the Commission to make an investigation of the utility because of alleged inadequacy of the water system and of a dearth of water for fire protection.

Accordingly, on June 4, 1956 the Commission instituted the above-entitled Case No. 5778 for the following purposes:

1. To determine the effect of the December, 1955 flood on the operations and service of the applicant;
2. To determine whether applicant's service, source of supply and transmission, distribution, storage or other facilities are improper, inadequate, or insufficient, and whether applicant should be directed to make extensions, repairs, improvements or changes in or additions to its existing system, or to erect new structures in order to secure adequate facilities and service;
3. To enter any other order or orders that may be appropriate in the lawful exercise of the Commission's jurisdiction in the premises.

Public Hearing

After due notice, public hearing was held upon the application and the case on a consolidated record before Examiner M. W. Edwards on August 1, 1956 at Crescent City, California. Applicant presented 10 exhibits and the testimony of two witnesses in support of its application. The Commission staff presented an exhibit by a hydraulic engineer regarding the staff's investigation of this application and the service being rendered by the applicant.

A customer's representative, who at first protested the proposed rate increase, later withdrew after hearing the evidence, cross-examining the witnesses and introducing testimony. No other person entered any objections to the applicant's proposal, except that

health department representatives made recommendations regarding chlorination of the water and having a local service man available at all times.

#### Applicant's Position

Applicant represents that his expenses of operation during 1954 and 1955 were in excess of the revenues and that he lost \$444.69 in 1954 and \$1,014.44 in 1955. The 1955 figure does not include any revenues in December due to disruption of supply. Applicant is proposing to meter all customers and in time to do away with flat rates. He suggests meter rates that represent an increase of approximately 80 per cent over the level of present meter rates in order to stop the operating loss and show what he calls a fair return on the capital invested in the plant. Presently, about one third of applicant's customers are metered and applicant seeks an interim increase in the present flat rates while meters are being installed.

#### Flood Damage

Prior to the flood applicant's system consisted of approximately 2 miles of pipeline ranging in size from 3/4 to 8 inches in diameter, about two thirds of which was 2 inches in diameter or less in size. Water is obtained from a group of springs and one well operated by a 7½-hp pump. This well, which provides the major portion of the water during the summer months, became inoperative during the flood. Flood damage had affected a substantial portion of the distribution facilities of the system. Approximately 2,300 feet of distribution mains had been washed away by the flood or lost or destroyed by the subsequent land reclaiming operations. Records indicate that of the 115 customers served before the flood, 22 were still connected to the system in January, 1956.

Restoration of the system, with the exception of some emergency hose connections, was not undertaken until May. Since that time some 1,900 feet of pipe, varying in size from 1½ to 5 inches in diameter, have been installed. The applicant has not replaced some of the mains lost because the customers previously served from the destroyed mains have not returned as yet. The water service provided by means of the system, as restored, now appears to be almost equal to that provided before the storm. The two major faults of the system are: (1) the small size of the main crossing the highway and resulting dead ends on the north side of the highway, and (2) the 500-foot dead end in the alley south of the highway.

Applicant's Exhibit No. 1 shows that the distribution mains, services and meters lost in the flood had an original cost of \$3,920.50. Against this amount, applicant charged off \$940.92 from its depreciation reserve, leaving a net plant loss of \$2,979.58. Applicant is not seeking a return on this lost plant or any recoupment thereof from the rate payers.

Utility Plant and Rate Base

Applicant's books show that the recorded original cost as of December 31, 1955 was \$15,821.27. After deducting \$932 for retirements in past years and \$3,952 for plant destroyed by the flood, the staff determined the adjusted plant was \$10,938 on December 31, 1955. The staff estimated that in 1956 the applicant will install \$3,745 in new plant to reflect a completely metered system of 60 customers. In 1957 the staff estimated that the applicant will expend \$500 for a new highway crossing and \$2,950 to connect to the system an additional 40 customers.

The rate bases developed by the staff are as follows:

Item	Recorded	Estimated Year	
	Year 1955	1956	1957
Utility Plant	\$15,822	\$12,810	\$18,130
Materials and Supplies	-	200	200
Working Cash	570	480	480
Subtotal	16,392	13,490	18,810
Deduction for Depreciation	3,597	3,130	3,830
Depreciated Rate Base	12,795	10,360	14,980

Applicant did not contest the staff's rate base computations, but pointed out that the new highway crossing may be much more expensive than \$500 and might be as high as \$1,500. Also, if a chlorination system is required, the plant capital should be increased by another \$400 to \$500.

#### Earnings Results

Applicant's reported revenues and expenses for the years 1953, 1954 and 1955 follow:

Item	1953	1954	1955
Metered Revenue	\$1,327.10	\$1,641.15	\$1,379.60
Flat Rate Revenue	1,165.24	2,919.39	2,491.00
Total Revenues	2,492.34	4,560.54	3,870.60
Expenses:			
Pumping Expenses	415.26	1,668.22	1,038.50
Transmission and Distribution	927.19	1,891.80	2,848.41
General Expenses	1,337.35	621.68	51.64
Depreciation Expenses	632.85	632.85	758.89
Taxes	252.34	190.68	187.60
Total Expenses	3,564.99	5,005.23	4,885.04

Transmission and distribution and general expenses consist largely of the salary of the local operator, who is responsible for the operation of the system including meter reading and collecting. Some outside help is hired in connection with maintenance work. All bookkeeping was done in Redwood City and no charge was made for this service in 1955. The expenses in 1955 do not include any expenses incurred in connection with the December flood.

The staff's estimates of applicant's earnings during 1956 and 1957 under present and proposed rates are set forth in Exhibit No. 9 and may be summarized in the following manner:

Item	Present Rates		Proposed Rates	
	Year 1956	Year 1957	Year 1956	Year 1957
Metered Revenues	\$ 1,036	\$ 3,620	\$ 2,733	6,500
Flat Rate Revenues	889	-	-	-
Total Revenues	1,925	3,620	2,733	6,500
Expenses:				
Source of Supply	200	200	200	200
Pumping Expenses	1,010	1,040	1,010	1,040
Transmission & Distribution	1,220	1,300	1,220	1,300
Customers' Expenses	430	490	430	490
General Expenses	230	210	230	210
Depreciation Expenses	410	590	410	590
Taxes	190	210	190	780
Total Expenses	3,690	4,040	3,690	4,610
Net Revenue	(1,765)	(420)	(957)	1,890
Depreciated Rate Base	10,360	14,980	10,360	14,980
Rate of Return	-	-	-	12.6%

(Red Figure)

If additional capital of \$500 for a chlorinator and \$500 more for the highway crossing is considered, the rate base will increase to \$15,980 in 1957. Hypochlorate for chlorination is estimated to add \$135 per year to the expenses. Under such a condition the net revenue would decrease to approximately \$1,790, after allowing for reduced federal income tax, and show a rate of return of approximately 11.2 per cent on the larger rate base. Such a return is higher than customarily allowed for a small water utility and increased meter rates will be authorized which will result in about a 6.5 per cent rate of return, which we hereby find to be reasonable.

Present, Proposed and Authorized Rates

Applicant's present meter rates are 35 cents per 100 cubic feet for the first 1,000 cubic feet, 30 cents per 100 cubic feet for the next 1,000 cubic feet and 25 cents per 100 cubic feet for all over

2,000 cubic feet per month, subject to minimum monthly charges which start at \$1.50 for a 5/8-inch meter and graduate upward to \$6 for a 2-inch meter.

In authorizing new rates two levels will be provided, with the higher level to be applied after applicant installs and places in operation a chlorinator and a second connection across the highway. The applicant's proposed monthly rates and those being authorized are as follow:

Item	Proposed Rates	Authorized Rates	
		(A) Without Chlorination and Highway Crossing	(B) With Chlorination and Highway Crossing
First 500 cu.ft. or less	\$3.00	\$2.75	\$2.90
Next 1,500 cu.ft., per 100 cu.ft.	.55	.34	.35
Next 3,000 cu.ft., per 100 cu.ft.	.45	.30	.31
Over 5,000 cu.ft., per 100 cu.ft.	.35	.25	.26

For the interim period while applicant is converting the remaining flat rate customers to a metered basis an increase of 40 per cent will be authorized in the existing flat rates and this rate schedule will be authorized to be continued for a period not to exceed one year under limited circumstances.

Recommendations by the Staff

After investigating the system and preparing the report on the operations of the Klamath Water Company the staff had several recommendations which briefly may be stated as follows:

- a. Prepare bills at Klamath by the local operator.
- b. An improved method of keeping and sorting supporting invoices for the purchase of materials and services to substantiate entries in applicant's books.
- c. Reduce the depreciation allowance to a figure of 3.3 per cent on plant and use the straight-line remaining life method in the future.
- d. Install a second highway crossing, at least 4 inches in diameter, preferably on the east side of town.

- e. Loop the 500-foot dead-end main in the alley south of the highway as soon as economically possible.
- f. Future installations should be at least equal to the standards set forth in the Commission's General Order No. 103.

Findings and Conclusions

In view of the fact that only one customer appeared at the hearing and in light of the evidence of record the Commission concludes that the service conditions after the flood, which were responsible for the investigation, largely have been alleviated. The flood had a serious effect upon the applicant and he suffered a loss which he is not asking to recoup in rates. It is the conclusion of the Commission that a specific order be given requiring applicant to make certain extensions, repairs and improvements at this time. A second increase in rates will be authorized only after applicant installs and places in operation a chlorinator and additional crossing under the highway as hereinafter ordered. The applicant is expected to carry out the other recommendations of the staff as soon as economically possible.

Based upon the evidence of record it is apparent that applicant has not earned a fair rate of return during the past three years, or currently, on his investment and higher rates are warranted, but not as high as proposed by applicant. The Commission finds that the increases in rates and charges authorized herein are justified; that the existing rates, in so far as they differ therefrom are for the future unjust and unreasonable; and that an order should be issued authorizing the increased rates as set forth in Appendix A herein at this time and the increased rates as set forth in Appendix C herein upon completion and placing in operation of the chlorination equipment and a highway crossing. A temporary flat rate schedule, set forth in Appendix B herein, to be applied only to those



premises served at flat rates as of June 1, 1956, until meters may be installed and in no event beyond October 31, 1957, will be provided for by the order which follows.

O R D E R

Clyde Henry, doing business as Klamath Water Company, having applied to the Commission for an order authorizing increases in rates charged for water service in Klamath, investigation on the Commission's own motion having been conducted on the operations and service rendered by this utility, a public hearing having been held and the matter having been submitted for decision; therefore,

IT IS HEREBY ORDERED that:

- 1.a. Clyde Henry is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96 a revised schedule of meter rates as set forth in Appendix A attached hereto, and after not less than five days' notice to the Commission and the public to make said rates effective for service rendered on and after November 16, 1956.
- b. Coincident with the inauguration of increased meter rates, Clyde Henry is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96 the revised schedule of flat rates as set forth in Appendix B attached hereto, and after not less than five days' notice to the Commission and the public to make said rates effective for service rendered on and after November 16, 1956.
2. That within not to exceed six months after the effective date of this order, Clyde Henry shall make the following improvements and changes to his Klamath water system and within ten days following the completion of this requirement shall notify this Commission in writing thereof:
  - (a) Prepare and render customer billings at local Klamath water system office.
  - (b) Put into effect improved methods of keeping and sorting supporting invoices for the purchase of materials and services to substantiate book entries.

3. Beginning with the year 1956, Clyde Henry shall determine depreciation expense by multiplying the dollar amount of depreciable fixed capital, exclusive of plant provided through contributions in aid of construction, by a rate of 3.3 per cent, such rate to be used until further review indicates that it should be revised. Further, Clyde Henry shall review said rate whenever major changes in plant composition occur and at intervals of not more than five years, and shall submit to this Commission results of such reviews.
4. That within not to exceed one year after the effective date of this order, Clyde Henry shall make the following improvements and additions to his Klamath water system and within ten days following the completion of this requirement shall notify this Commission in writing thereof:
  - (a) Install a second highway crossing, at least 4 inches in diameter, preferably on the east side of town.
  - (b) Install and place in operation automatic chlorination equipment on the spring water supply.
5. Within thirty days after completion of the improvements, changes and additions referred to in paragraphs 2 and 4 above, Clyde Henry is authorized to file, in conformity with General Order No. 96, the rate schedule set forth in Appendix C attached hereto in substitution for the schedule of meter rates hereinabove authorized and set forth in Appendix A herein. Said rates shall become effective on five days' notice to the Commission and to the public after filing as hereinabove provided.
6. The Commission's investigation under Case No. 5778 is hereby terminated and dismissed.

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

Dated at San Francisco, California, this 9<sup>th</sup> day of OCTOBER, 1956.

[Signature]  
President

[Signature]

[Signature]

[Signature]

[Signature]  
Commissioners

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Klamath, Dol Norte County.

RATES

Per Meter  
Per Month

Quantity Rates:

First 500 cu.ft. or less .....	\$ 2.75
Next 1,500 cu.ft., per 100 cu.ft. ....	.34
Next 3,000 cu.ft., per 100 cu.ft. ....	.30
Over 5,000 cu.ft., per 100 cu.ft. ....	.25

Minimum Charge:

For 5/8 x 3/4-inch meter .....	\$ 2.75
For 3/4-inch meter .....	3.25
For 1-inch meter .....	4.25
For 2 1/2-inch meter .....	6.00
For 2-inch meter .....	8.50
For 3-inch meter .....	15.50
For 4-inch meter .....	25.00

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

## APPENDIX B

## Schedule No. 2-LX

LIMITED TEMPORARY FLAT RATE SERVICEAPPLICABILITY

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

TERRITORY

The unincorporated community of Klamath, Del Norte County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
For each single family residence including bath and toilet .....	\$ 2.80
For each house trailer with toilet .....	2.50
For each cafe with fountain and toilet .....	3.50
For each cafe without toilet facilities .....	2.10
For each store with two (2) toilets and sink ...	4.25
For each theater .....	5.00
For each barbershop .....	2.10
For each market with living quarters .....	7.00
For each bar .....	5.50
For each office .....	2.10
For each public hall with toilet facilities ....	5.50
For each public school .....	16.00

SPECIAL CONDITIONS

1. Service under this schedule will be limited to those premises served at flat rates as of June 1, 1956.
2. Service under this schedule will be furnished to existing customers only until such time as meters are installed. This schedule will be effective only to and including October 31, 1957.

APPENDIX C

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Klamath, Del Norte County.

RATES

Per Meter  
Per Month

Quantity Rates:

First 500 cu.ft. or less .....	\$ 2.90
Next 1,500 cu.ft., per 100 cu.ft. ....	.35
Next 3,000 cu.ft., per 100 cu.ft. ....	.31
Over 5,000 cu.ft., per 100 cu.ft. ....	.26

Minimum Charge:

For 5/8 x 3/4-inch meter .....	\$ 2.90
For 3/4-inch meter .....	3.45
For 1-inch meter .....	4.50
For 1 1/2-inch meter .....	6.25
For 2-inch meter .....	9.00
For 3-inch meter .....	16.50
For 4-inch meter .....	26.50

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