

Decision No. 54795**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of the REDWAY WATER CO., INC., )  
 for authority to increase rates of )  
 REDWAY SUBDIVISION and adjacent )  
 area, Redway, California; to estab- )  
 lish rates and to issue a \$10,000 )  
 note. )

Application No. 38369

Frank H. McKee, for applicant;  
Walter J. Cavagnaro and A. Albert Ehrman,  
 for the Commission staff.

O P I N I O NNature of Proceeding

By the above-entitled application, filed August 27, 1956, and as amended September 25, 1956, Redway Water Co., Inc., seeks an order of this Commission authorizing (1) increased rates and charges for water service rendered in the unincorporated community of Redway, Humboldt County, and (2) the issuance of a note in the amount of \$10,000 for capital additions proposed to be installed during the year 1957.

Public Hearing

After due notice, public hearing in the matter was held before Examiner F. Everett Emerson on February 19, 1957 at Garberville.

Rates, Present and Proposed

Applicant's present rates have been effective since July 15, 1949. Of the total of 315 active service connections, approximately

180 are supplied metered service. A comparison of charges for typical metered usages is shown in the following tabulation.

Quantity :(Cubic Feet)	Monthly Charge		Per Cent : Increase :
	Present Rate	Proposed Rate	
0	\$ 1.50	\$ 4.50	200
500	1.50	4.50	200
1,000	2.75	6.50	136
1,500	4.00	8.50	112
1,548 (Avg. Usage)	4.12	8.69	111
2,500	6.50	12.25	88
5,000	11.75	21.00	79

Applicant has been metering all new customers and, as funds have permitted, has placed meters on flat-rate services. Such program is to be continued and eventually all services will be metered. Applicant's present flat-rate charges consist of a basic monthly charge of \$1.75 to which are added charges for additional residential units on the same premises. For those services still to be served at flat rates, applicant proposes basic charges of \$4.50 per month for residential usage, \$6.75 for service stations, \$5.50 for auto courts and \$3.50 for summer homes. To these charges would be added charges for additional units and for irrigated areas.

#### Applicant's Operations

The two sources of water supply are a sump located on the bank of the south fork of the Eel River and a spring located in the subdivision. Water is taken through a number of perforated pipes located in the river bed to the sump. A 50-hp electric motor drives a centrifugal pump, capable of supplying 300 gpm of water through the system, to two redwood tanks of 60,000- and 80,000-gallon capacity. The spring, with a minimum output of 80 gpm, empties into a 40,000-gallon concrete reservoir. A centrifugal pump driven by a 10-hp electric motor delivers water from this reservoir to the two storage tanks. A stand-by pump and motor, located in the spring pump house, may be used for emergency purposes. Water from the river source is chlorinated, but from the spring source is not so treated.

The transmission and distribution system consists of approximately 46,000 feet of pipe, ranging in size from 1½ to 6 inches. The "backbone" of the distribution system is a 4-inch main which, while adequate when the system was first installed, has become inadequate in recent years. As a result, applicant has prohibited "open-hose" usage, swimming pool service and the washing of automobiles during the past three summer seasons. In order to correct system inadequacies, applicant proposes, by midsummer 1957, to install approximately 3,500 feet of 8-inch main in parallel with the existing primary 4-inch main. By so doing, the major portion of the system will experience a vastly improved service during times of heavy or peak water usage. An additional 1,500 to 2,000 feet of 8-inch main may be needed in the near future in order to provide a similarly improved service on the balance of the system.

Applicant's officers have personally accomplished nearly all construction, repair and maintenance work on the system. Prior to April, 1956, practically all of such work was done without labor charge to the company. Even so, applicant has barely met operating expenses through its revenues. If full normal expenses and costs had been charged to the system, losses would have been readily apparent in each year's operations. Nevertheless, applicant has from the beginning invested all of its income, from whatever sources, in meeting the public's demands for water service. No dividends have ever been declared or paid on its \$48,000 of outstanding stock.

Applicant does not have internal sources sufficient to finance its proposed 1957 capital additions for improvement of the water system. It proposes to borrow the funds from a bank and to that end has arranged for a loan of \$10,000 unsecured by mortgage but on the cosignatures of two of its officers, repayable monthly in equal amounts of \$300, including payment on principal and 6 per cent

interest. Applicant's understanding with the bank officials, however, is that granting of the loan is contingent upon applicant's obtaining rate relief in an amount sufficient to enable applicant to earn a fair return on its over-all investment in plant. The loan is to be expended for 3,500 feet of 8-inch main, the reroofing of a reservoir and the purchase of additional meters.

Summary of Earnings

Evidence respecting applicant's earning position was presented through exhibits attached to the application and supporting oral testimony by applicant's officers. In addition, as is usual in proceedings of this nature, members of the Commission staff presented both oral and documentary evidence as to the results of their independent investigation of applicant's operations. From such evidence we conclude that the following tabulation fairly indicates the results of system operations during the year 1956 and prospectively for the year 1957 at applicant's existing rates and at the rates which applicant requests this Commission to authorize.

SUMMARY OF EARNINGS

Item	Year 1956		Year 1957	
	Present Rates	Present Rates	Present Rates	Requested Rates
Operating Revenues	\$12,510	\$14,400		\$31,300
Operating Expenses				
Before Taxes & Deprec.	10,420	10,800		10,800
Taxes	1,160	1,300		6,800
Depreciation	2,280	2,400		2,400
Total Oper. Exps.	<u>13,860</u>	<u>14,500</u>		<u>20,000</u>
Net Revenue	(1,350)	(100)		11,300
Rate Base (Deprec.)	69,800	70,000		70,000
Rate of Return	Loss	Loss		16.1%

(Red Figure)

The evidence is clear, as the above tabulation indicates, that revenues obtained from existing water rates are inadequate to meet applicant's reasonable needs. Applicant has conclusively demonstrated that it is entitled to rate relief. The rates which

applicant has proposed, however, would yield revenues substantially greater than a reasonable return would require. In this connection, applicant's president testified that applicant had little experience to draw upon for the design of a proper rate structure, this being its first rate proceeding, and that the proposed rates were selected by him "in the abstract."

#### Customer Participation

Two of applicant's customers testified at the hearing. Two others, while in attendance, did not testify but placed questions to applicant's witnesses through the examiner. The testimony of one witness concerned the ability of customers to pay higher rates and emphasized the seasonal nature of employment in the area and the wage or salary brackets of residents. The other witness testified that although service generally has been good, chlorine content seems to be high in the summer and muddy water is experienced during or following heavy storms in the winter. The questions of the non-witnesses elicited the information that much recurring damage has been done to water mains by heavy lumber mill machines operating in the area, all such damage being beyond the control of applicant but requiring frequent emergency repairs and attendant interruptions to water service.

#### Conclusions

Applicant is in need of and entitled to an improvement in its earning position. In view of the evidence we conclude that a rate of return of 6.5 per cent on a depreciated rate base of \$70,000 is fair and reasonable for this utility. Such a return will produce a net revenue, after due allowances for all reasonable operating expenses including provisions for taxes and depreciation, of \$4,550, a sum more than adequate to service its debt. The rates hereinafter authorized should provide applicant with such sum. We find,

therefore, that the increases in rates and charges authorized are justified and that present rates and charges, in so far as they differ from those authorized herein, are for the future unjust and unreasonable.

The order herein will authorize applicant to undertake the proposed loan of \$10,000 and to issue a note therefor as requested, it being the opinion of the Commission that the money, property or labor to be procured or paid for through such issuance is reasonably required for the purposes hereinabove stated and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. While such loan will meet the immediate needs of applicant, it seems apparent that applicant should now also look towards financing another 1,500 to 2,000 feet of 8-inch main and attempt to negotiate a longer term loan of an amount sufficient to meet the combined financial requirements of the 1957 construction and the soon-to-be-required additional main.

At the present time, two motels, one trailer court and two service stations are being served on a flat rate basis, although the flat rate schedule is applicable only to residential service. These customers and any other business or nonresidential customers should receive metered service as soon as practicable. No further or similar rate deviations should be permitted to exist.

Applicant's existing rules governing its relations with its customers do not reflect present-day utility practices. Applicant will be required to file revised rules, together with an up-to-date tariff service area map and a comprehensive service and facilities map.

With respect to applicant's metering program, applicant should meter all new customers as they are connected. All multiple dwelling premises should be transferred from flat rate to metered

service during the year 1957. The balance of flat rate services should be transferred to metered service as rapidly as funds will permit, to the end that applicant's entire system may be fully metered within a reasonable time.

Applicant should initiate a regular program of flushing mains and should pay particular attention to the desirability of flushing during and following stormy weather, to the end that turbidity of the water may be kept at a minimum.

O R D E R

Redway Water Co., Inc., having applied to this Commission for an order authorizing increases in rates and charges for water service rendered in Redway and vicinity, Humboldt County, and authorizing issuance of a \$10,000 note, public hearing thereon having been held, the matter having been submitted and now being ready for decision,

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 such rates effective for all service rendered on and after May 1, 1957.

2. Applicant is authorized to issue a note in the sum of \$10,000 substantially in the form and under the terms set forth in the exhibit attached to the amendment to application herein filed September 25, 1956, for the purposes described in the foregoing opinion.

3. Applicant, within sixty days after the effective date of this order, shall file in quadruplicate with this Commission rules

governing customer relations revised to reflect present-day operating practices, together with four copies of a tariff service area map, acceptable to this Commission and in accordance with the requirements of General Order No. 96. Such rules and tariff service area map shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

4. Applicant, within sixty days after the effective date of this order, shall file four copies of a comprehensive map drawn to an indicated scale not smaller than 400 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 water system properties of applicant.

5. Beginning with the year 1957, applicant shall determine depreciation expense by multiplying the depreciable utility plant by a rate of 3.0 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 utility plant occur and 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 this Commission.

6. Applicant, on or before August 15, 1957, shall install and place in operation not less than 3,000 feet of 8-inch main extending from the river pumping plant toward the storage tanks.

7. Applicant, on or before December 31, 1957, shall install and place in service meters on all active service connections now being furnished service under Schedule No. 2LX, Limited Temporary Flat Rate Service, and shall inform this Commission in writing of the completion of such metering within ten days after the date on



which the last of such meters shall have been installed and placed in service.

8. Applicant, on or before July 1, 1958, shall install a new roof on its 40,000-gallon concrete reservoir.

9. Within fifteen days after compliance with each requirement as set forth in the foregoing paragraphs 6 and 8, applicant shall advise this Commission in writing of the date on which such compliance was effected.

10. Applicant shall file a report as required by General Order No. 24-A, which order, in so far as applicable, is made part of this order.

11. The authority hereinabove granted to issue a note will become effective when applicant has paid the minimum fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$25. In other respects the effective date of this order shall be twenty days after the date hereof.

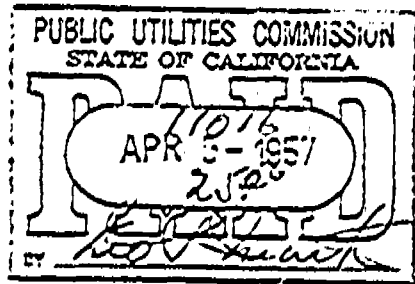
Dated at San Francisco, California, this 2<sup>nd</sup> day of April, 1957.

[Signature]  
 President

[Signature]

[Signature]

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 Commissioners



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 Redway and vicinity, Humboldt County.

RATES

## Monthly Quantity Rates:

	<u>Per Meter</u> <u>Per Month</u>
First 500 cu.ft. or less .....	\$ 3.00
Next 1,500 cu.ft., per 100 cu.ft. ....	.30
Next 3,000 cu.ft., per 100 cu.ft. ....	.25
Next 15,000 cu.ft., per 100 cu.ft. ....	.20
Over 20,000 cu.ft., per 100 cu.ft. ....	.15

## Annual Minimum Charge:

	<u>Per Meter</u> <u>Per Year</u>
For 5/8 x 3/4-inch meter or 3/4-inch meter .....	\$ 36.00
For 1-inch meter .....	60.00
For 1 1/2-inch meter .....	108.00
For 2-inch meter .....	156.00
For 3-inch meter .....	264.00
For 4-inch meter .....	420.00

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 Monthly Quantity Rates.

SPECIAL CONDITIONS

1. The utility at its option will install either a 5/8 x 3/4- or 3/4-inch meter.
2. 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 paid for service during each of the

Schedule No. 1

ANNUAL GENERAL METERED SERVICE

SPECIAL CONDITIONS—Contd.

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. 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.

Schedule No. 1S

SEASONAL METERED SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Rodway and vicinity, Humboldt County.

RATES

Monthly Quantity Rates:

	<u>For Meter</u> <u>For Month</u>
First 500 cu.ft. or less .....	\$ 3.00
Next 1,500 cu.ft., per 100 cu.ft. ....	.30
Next 3,000 cu.ft., per 100 cu.ft. ....	.25
Next 15,000 cu.ft., per 100 cu.ft. ....	.20
Over 20,000 cu.ft., per 100 cu.ft. ....	.15

Seasonal Minimum Charge:

For Meter  
For Season

For the 6-month period May through October:

For 5/8 x 3/4-inch meter or 3/4-inch meter .. \$27.00

SPECIAL CONDITIONS

1. The seasonal minimum charge is due in advance and will entitle the customer to 500 cubic feet of water each month on a noncumulative basis during the months May through October.
2. The charge for water used in excess of the quantity allowed each month for the seasonal minimum charge may be billed monthly, bimonthly or quarterly 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 other months of the same calendar year at the monthly quantity rates upon written notice to the utility stating the months in which such service is desired.

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Schedule No. 2

ANNUAL GENERAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Rodway and vicinity, Humboldt County.

RATES

	<u>Per Service Connection For Year</u>
1. For a single family residence or business establishment including premises not exceeding 7,500 square feet in area .....	\$39.00
	<u>Per Month</u>
a. For each 100 square feet of area in excess of 7,500 square feet during the 6-month period May through October .....	\$ .05

SPECIAL CONDITIONS

1. The above annual flat rate applies to service during the 12-month period commencing January 1, and is 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 of the annual flat rate charge.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. A meter may be installed at option of utility only for above classification in which event service thereafter will be furnished on the basis of Schedule No. 1, Annual General Metered Service, or Schedule No. 1S, Seasonal Metered Service.

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Schedule No. 2SR

SEASONAL RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Redway and vicinity, Humboldt County.

RATES

Per Service Connection

Seasonal Charge:

For the 6-month period May  
through October:

For a single family residence  
including premises ..... \$30.00

Monthly Charge:

For each additional month  
of the same calendar year ..... \$ 3.50

SPECIAL CONDITIONS

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

Schedule No. 2LX

LIMITED TEMPORARY FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

The unincorporated community of Rodway, Humboldt County.

RATES

Per Service Connection  
Per Month

<p>1. For a single family residence or business establishment including premises not exceeding 7,500 square feet in area .....</p> <p>a. For each additional residential unit on the same premises .....</p> <p>2. For each service station, garage, or used car lot with car washing facilities .....</p> <p>3. Base rate for auto court or trailer park ..</p> <p>a. Additional for each auto court unit or auto trailer on premises ....</p>	<p>\$3.25</p> <p>2.00</p> <p>4.50</p> <p>3.25</p> <p>1.25</p>
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SPECIAL CONDITIONS

1. Service under this schedule will be continued to customers served hereunder as of the effective date of this tariff sheet, and until such time as meters are installed. Service thereafter will be furnished on the basis of Schedule No. 1, Annual General Metered Service.

2. This schedule will be effective only to and including December 31, 1957, and will thereafter be withdrawn.