

ORIGINALDecision No. 55427

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 RIVERSIDE GROVE WATER CO., INC., a)
 corporation, for authority to in-)
 crease the rates for water service)
 rendered in and adjoining a sub-)
 divided area known as Riverside)
 Grove, located near the Town of)
 Boulder Creek, Santa Cruz County,)
 California.)

Application No. 38674

Paul Teilh and William Stava, for applicant;
George M. Adams, Mrs. Slocum F. Douglas,
Mrs. May Sewall and Miss Beulah Phelps,
 protestants;
Edgar L. Williams, interested party;
Walter J. Cavagnaro, for the Commission staff.

O P I N I O N

By the above-entitled application, filed December 19, 1956, Riverside Grove Water Co., Inc., seeks an order of this Commission authorizing it to increase rates and charges for water service rendered in an approximately 700 acre area about four miles northerly from the Town of Boulder Creek, Santa Cruz County. The new rates which applicant seeks would produce a 50 per cent increase in each customer's water bill.

After due notice to the public and to each of applicant's customers, public hearing in the matter was held before Examiner F. Everett Emerson on June 25, 1957, at Boulder Creek and the matter was submitted on that date.

Applicant's service area was subdivided in 1930 as Tract No. 4, Subdivision No. 2 of Riverside Grove, Santa Cruz County. The area now contains 357 lots and certain portions of unsubdivided lands along the San Lorenzo River. Applicant was formed and certificated

to serve the area in 1937. From the inception of the water system until 1944, water was obtained by pumping from the river. Since 1944, water for the system has been obtained from a 3,000,000 gallon lake, owned by Big Basin Water Company, through a purchase agreement approved by this Commission in 1946. Water from the lake is delivered to a reservoir in the Robin Hood Retreat Subdivision, lying outside of applicant's service area, and is there pumped into applicant's system.

The record discloses that applicant is serving some unstated number of customers in the Robin Hood Retreat Subdivision, such subdivision being an area for which applicant holds no certificate, at either free or reduced rates under an "understanding," with Big Basin Water Company, outside of or beyond the terms of the agreement for water purchase approved by this Commission.

Applicant's directors, stockholders and officers are Paul R. Tielh and his two sons. Applicant maintains no water utility office within the service area. Customer inquiries, complaints or service matters must be directed to the office of applicant's president in San Francisco, about 65 miles away, where Mr. Tielh is engaged in other business ventures.

The accounting records of applicant consist of a meter reading book and a check book and nothing else. The bank account to which the check book relates is a joint account in which the cash funds of a number of ventures are comingled. It is impossible to determine water utility receipts, either collected or deposited, from utility records, nor is it possible to determine water utility expenditures with any reasonable degree of accuracy. What few and incomplete records might have been available have been both lost and unlawfully destroyed by applicant.

Applicant's original plant account entries were based upon a 1937 appraisal of the properties made by an engineer employed by the utility to make the appraisal. The appraisal indicated a total tangible plant amount of \$9,811. No verifiable record of additions of plant items has been kept by applicant, although applicant's annual reports to the Commission have shown additions totalling about \$11,876. This latter sum, in view of the complete absence of supporting records such as invoices for material or vouchers for labor charges, appears to be wholly unreliable. Proof that such additions ever were made was not supplied by applicant. It is known, however, that certain physical items of plant enumerated in the original appraisal are either no longer in place or are no longer used and useful in serving the public. These items totaled \$5,155 in the appraisal and should be retired in such amount.

Applicant receives its revenues entirely from residential customers, most of whom are summer residents only. Although the utility reported 101 customers as of the end of 1956, a customer count made by a Commission engineer disclosed only 93. The president of applicant has been receiving service at three locations which are not metered and for which revenues are not recorded. As above mentioned, certain unrecorded service is also rendered in the Robin Hood Retreat Subdivision. Revenues properly derivable from water sales, therefore, can not be determined either from receipts or bank deposits or from repricing of consumptions recorded in the meter reading book. The Commission engineer did, however, obtain the total quantity of water purchased from Big Basin Water Company and, after making reasonable assumptions and estimates regarding its probable distribution amongst existing customers, arrived at an estimated and adjusted revenue of \$2,860 for the year 1956.

Applicant's claimed operating expenses for the year 1956 total \$2,626. Included in such total is an amount of \$578 for depreciation, such amount being related to an assumed gross depreciable plant figure of approximately \$15,500.

With respect to 1957 and near-future years, applicant estimated that its normal operating expenses will total \$3,384. Such sum includes an amount sufficient to provide for adequate bookkeeping as well as amounts sufficient to meet all other expenses for the system, including a depreciation expense of \$597. The Commission engineer estimated that the total of all reasonable expenses for 1957 would not exceed \$3,055 such total including an item of \$621 for depreciation expense as related to an assumed depreciable fixed capital of \$19,332.

A rate base for this utility may range anywhere between \$4,656 and \$21,488 as an undepreciated base or between \$0 and \$13,600 as a depreciated base. In view of the evidence respecting applicant's records, it becomes an idle gesture to attempt either to establish a rate base or to relate net revenues thereto for the purpose of rate fixing in this proceeding. While both applicant and the Commission engineer did make such an attempt, neither's results are supported by facts. Applicant's need or entitlement to increased revenues, therefore, will be viewed without the customary measurement of net revenues related to a depreciated rate base as a test of the reasonableness of applicant's rate proposal.

In addition to the protests of the appearances in this matter, there was filed at the hearing a protesting petition signed by 46 of applicant's customers. The petition opposes the sought increase on three grounds; viz., (1) present rates are more than sufficient for the water service supplied, (2) the utility has never at any time furnished an adequate supply of water during the summer months and on

many occasions customers have been without water on week ends, and (3) all users pay flat rates during 8 months of the year when little, if any, water is used.

Applicant's distribution mains are under-sized. While the system apparently has an abundant supply, the mains are inadequate to provide sufficient quantities and pressures to meet the reasonable demands of the customers. That applicant's president has been and is aware of such inadequacy is evident from the fact that, after continuing complaints, the utility has recently installed a small pressure tank in order to alleviate one poor service situation for one customer and that it intends to install 800 feet of 4-inch main in parallel with an existing 1½-inch pipe by the end of September, 1957. Adequate service will not be forthcoming from such partial improvements, however. In the opinion of the Commission engineer, no less than 2000 feet of larger-sized main is required. It is apparent that even applicant's proposed partial improvement will provide no relief during the 1957 season.

Applicant's metering and billing practices are not in accord with filed tariffs. Neither the general public nor applicant's customers can be informed with respect to rates or rules governing customer-utility relationships except by finding or telephoning the office of applicant's president in San Francisco. As one result of such situation, it seems that no customer is aware that applicant has a rate applicable for service during nine months of the year and that, therefore, year-around service is not mandatory.

As above mentioned, applicant does not bill all customers. Such situation is unreasonably discriminatory and must immediately be corrected.

In view of the evidence we find the facilities, instrumentalities and equipment of applicant to be inadequate, insufficient and unreasonable. Applicant will be required to make the minimum system improvements recommended by the Commission engineer (estimated to cost \$4,200) and is entitled to a return on such added investment. Applicant is also entitled to some return on existing plant. In view of the evidence and for the purposes of this rate proceeding only, we find the following derived total sum of \$8,856 to be that reasonable amount on which applicant is entitled to a rate of return of 5 per cent. In essence such sum constitutes an undepreciated rate base.

Appraisal of physical plant	\$9,811
<u>Less</u> plant known to be retired	5,155
<u>Plus</u> plant now to be added	<u>4,200</u>
Total	\$8,856

Five per cent of such amount, or \$443, will therefore constitute the net revenues to which applicant will be entitled during the first year after system improvements are properly operative. We also find that total operating expenses of \$2,717, derived as follows, are reasonable for the operations of this system under the prospective methods of operations hereinafter ordered.

Expenses	\$2,170
Taxes	264
Depreciation (on \$8,856 plant)	<u>283</u>
Total	\$2,717

The gross revenues to which applicant is entitled are therefore \$3,160. The rates hereinafter authorized are designed to produce such an amount.

We find that the increases in rates and charges authorized herein are justified and that existing rates and charges, insofar as they differ from those authorized herein, are for the future unjust and unreasonable.

O R D E R

Based upon the evidence and upon the findings contained in the foregoing opinion,

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 hereto 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 water service rendered on and after January 1, 1958.

(2) Applicant shall forthwith install meters on any and all service connections not now provided with the same, shall bill each and every metered delivery of water strictly in accord with its regularly filed tariffs and shall cease delivering water at less than filed rates in Robin Hood Retreat Subdivision or elsewhere. Applicant shall notify this Commission, in writing, within ten days after the completion of the installation of said meters.

(3) By not later than December 31, 1957, applicant shall have installed and in proper operation the approximately 2000 feet of 4-inch main reinforcement described in paragraph 4 on page 25 of Exhibit No. 3 in this proceeding and shall notify this Commission, in writing, of the completion date of such installation not more than five days after said date of completion.

(4) By not later than December 31, 1957, applicant shall have set up and thereafter shall maintain its accounting records in accordance with the applicable uniform system of accounts for water

utilities as prescribed by this Commission. Coincident therewith applicant shall establish its own bank account, to which all receipts from water operations shall be deposited and from which all disbursements relating to utility operations are to be made only by check. Applicant shall notify this Commission, in writing, of the establishment of such accounting system and bank account within ten days thereafter.

(5) Applicant shall properly maintain and preserve, and in no instance destroy, any and all books, records and other papers, vouchers or data which support entries to its books of accounts.

(6) 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.

(7) 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.

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

Dated at San Francisco, California, this 20th day of August, 1957.

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

Commissioners

Commissioner Ray E. Untereiner, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Riverside Grove Subdivision, and vicinity, three miles north of the unincorporated community of Boulder Creek, Santa Cruz County.

RATES

Per Meter
Per Month

Quantity Rates:

First 500 cu. ft. or less	\$ 2.30
Next 1,500 cu. ft., per 100 cu. ft.....	.30
Over 2,000 cu. ft., per 100 cu. ft.....	.20

Minimum charge:

For 5/8 x 3/4-inch meter	\$ 2.30
For 3/4-inch meter	3.25
For 1-inch meter	4.75
For 1½-inch meter	8.25
For 2-inch meter	11.50

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

Schedule No. 1S

SEASONAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Riverside Grove Subdivision and vicinity, three miles north of the unincorporated community of Boulder Creek, Santa Cruz County.

RATES

Per Meter
Per Month

Quantity Rates:

First 500 cu. ft., or less, included in Minimum Charge	\$
Next 1,500 cu. ft., per 100 cu. ft.	0.30
Over 2,000 cu. ft., per 100 cu. ft.	0.20

Seasonal Minimum Charge:

	Per Meter <u>Per Season</u>	Quantity Allowed Per Month <u>Per Minimum Charge</u>
For any nine consecutive months in a calendar year, or any portion thereof:		
For 5/8 x 3/4-inch meter	\$ 25.00	500 cu. ft.

SPECIAL CONDITIONS

1. The seasonal minimum charge is due in advance and will entitle the customer to the above-stated quantity of water each month on a noncumulative basis.
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 other months of the same calendar year at the quantity rates in Schedule No. 1, General Metered Service, upon written notice to the utility stating the months in which such service is desired.