

Decision No. 55561**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation)
 on the Commission's own motion into)
 the service, rates, charges, con-)
 tracts, rules regulations, operations,)
 practices, or any of them, of)
 ALDERCROFT HEIGHTS COMPANY, INC., a)
 corporation, operating a public)
 utility water system in a subdivided)
 area known as Aldercroft Heights in)
 Santa Clara County, California.)

Case No. 5494

In the Matter of the Application of)
 the ALDERCROFT HEIGHTS COMPANY, INC.,)
 for authority to increase meter rates)
 and to make certain changes in the)
 flat rate schedule (Section 454 of)
 the Public Utilities Code).)

Application No. 38538

Earl F. LaPorte, for Aldercroft Heights
 Company, Inc.

John B. Ogden, for himself and certain
 consumers.

Miss Winifred Ferris, for Aldercroft Heights
 Improvement Association.

Mrs. Mildred S. Peters, for water users in
 favor of rate increase.

Clyde F. Norris, for the Commission staff.

O P I N I O NPreliminary Statement

Case No. 5494, an investigation on the Commission's own motion initiated on September 15, 1953, resulted in a decision and order by the Commission, after hearing, which directed the company, then owned by Harold Beucus: (a) to repair the system's spring water supply and storage facilities within 45 days after the effective date of the order; (b) to file with the Commission a plan for rehabilitation or replacement of distribution mains within 60 days after such effective date; (c) to install, not later than June 30, 1954, a larger pump, with automatic chlorinator, at the utility's

Los Gatos Creek source of supply and connected booster facilities, and to report compliance with that part of the order within 15 days after completion of the installations. (Decision No. 49580, January 18, 1954.)

On April 12, 1954, Beucus advised the Commission that he had repaired the springs and reservoirs; however, on May 10, 1954, the Commission received a letter from him stating that he was financially unable to proceed with the rehabilitation program outlined in the Commission's order. Beucus sold his stock in the company in 1954 to LaPorte, the present owner and operator of the system, who had knowledge of the Commission's order.

During the next two years consumers filed nine informal complaints relating to inadequate service or improper billing. In addition to the Commission's investigation case, two formal service complaints were filed by consumers and disposed of during that period.

On October 29, 1956, the company, alleging an operating deficit of \$461.01 in 1955, filed an application to increase rates for water service by approximately 40% (Application No. 38538). This was the first rate increase requested since 1947, when predecessors of Beucus were authorized to increase rates conditioned upon completion of certain improvements.^{1/}

On January 15, 1957, as a result of a communication addressed to the Commission by a group of consumers, indicating non-compliance by the present owners with the provisions of Decision No. 49580, the Commission issued an order to show cause in Case No. 5494, directing the utility to appear and show cause why its order had not been complied with. Following a hearing at Los Gatos on January 29, 1957, the Commission issued its decision (No. 54628, dated March 5, 1957), in which it found that although the present owners had

^{1/} Decisions Nos. 40422 and 40658, Application No. 28018, Cases Nos. 4853 and 4856. That was a consolidated proceeding involving an application to increase rates, a complaint charging poor service, and an investigation on the Commission's own motion into the utility's operations.

effected some improvement in the facilities of the system, including installation of an automatic chlorinator, they had not fully, or even substantially, complied with Decision No. 49580 because of lack of financial resources, and that the system was still in need of rehabilitation.

The Commission concluded that Case No. 5494 should be reopened for further hearing in conjunction with a hearing on the rate application. Such hearing was held at Los Gatos on May 20, 1957, before Examiner John M. Gregory, at the conclusion of which both matters were submitted for decision on a consolidated record.

History and Description of the System

The first units of the Aldercroft Heights water system were reportedly installed about 1925, in order to provide domestic water service to a portion of a 65-acre tract, owned by Stapp and Walton, located on the steep southwesterly slopes of Los Gatos Creek Canyon, Santa Clara County, about 7 miles south of Los Gatos. A certificate of public convenience and necessity was issued to the utility and rates for water service were established in 1932 (Decision No. 24453, Application No. 17768). In 1945, Harris and Cooper each purchased one-half of the outstanding stock of the corporation (Decision No. 38133, Application No. 26847), and in 1947 the present rates were fixed (See footnote 1, supra). Harold Beucus acquired the utility about April 1, 1948, and sold the outstanding stock to Earl LaPorte and his wife, the present owners, in 1954 for \$2,500.

The main source of supply for the system consists of four or five springs, with a combined summer flow of about 9 g.p.m., supplemented during the dry season by water pumped from Los Gatos Creek, pursuant to arrangements between the company and San Jose Water Works under which the company claims the right to pump not to exceed 20 g.p.m.

At present, the system serves approximately 115 customers, on a measured basis, through about 23,000 feet of mains varying in size from 3/4-inch to 2 inches in diameter. Storage facilities now in use have a total design capacity of approximately 103,000 gallons.

The Aldercroft Heights area was originally developed as a weekend and summer residential community, like many other such areas in the Santa Cruz Mountains. The water facilities that might have been considered adequate for such a community have become increasingly less as the complexion of the area has acquired a more permanent residential character. As a result, service complaints, especially during months of peak demand and critical supply, have become more frequent as the overtaxed pipe lines, deteriorating reservoirs and insufficient pumping and purification facilities have failed, on many occasions, to render a continuously adequate supply of potable water within standards considered acceptable by local health authorities.

To the foregoing considerations, made abundantly clear by the record, must be added the further fact, manifested by the evidence dealing with the utility's need for increased revenue, that this system, having a practically static patronage of only some 115 consumers during the past four years and producing, in 1956, only \$3,330 in gross revenue from the sale of water, cannot be considered as anything but a part-time operation from the standpoint of financial gain to its owners. The results of operation, as shown in the following tabulation, clearly establish this fact.

ITEM	Company Recorded ^a	1956 Staff-Recorded & Adjusted		1957 Staff-Estimated	
		: Present Rates	Proposed Rates	: Present Rates	Proposed Rates
<u>Operating Revenue</u>	\$3,330.06	\$3,330	\$4,665	\$3,330	\$4,665
Operating Expense, Excl. Taxes & Depr.	2,571.15	3,758	3,758	3,873	3,873
Taxes	246.61	292	359	297	297
Depreciation	<u>458.64</u>	<u>480</u>	<u>480</u>	<u>512</u>	<u>512</u>
Total Expense	3,276.40	4,530	4,597	4,682	4,682
Net Revenue	53.66	(<u>1,200</u>)	68	(<u>1,352</u>)	(<u>17</u>)
Av. Depr. Rate Base	---	14,117	14,117	14,677	14,677
Rate of Return	---	Loss	0.48%	Loss	Loss

a-1956 Annual Report

(Red Figure)

From the foregoing tabulation, it is evident that this utility is in a precarious financial condition, and that, taking account of necessary adjustments as shown in the staff engineer's report (Exhibit 2), the system will still suffer an operating deficit under the proposed rates.

Present and Proposed Rates

The following tabulation presents a comparison of the basic features of applicant's present and proposed rates. The proposed rates, it is estimated, will add \$1,335 to the company's gross revenues. The average monthly consumption of water is about 600 cubic feet per customer. There is a small number of large consumers, but none use more than 3,000 cubic feet monthly.

SCHEDULE NO. 1

Permanent Consumers

Monthly Meter Rates

For Period May 1 - January 1

Monthly Quantity Charges	<u>Per Meter</u>	<u>Per Month</u>
	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>
First 400 cubic feet or less	\$2.00	\$3.00
Next 200 cubic feet, per 100 cu. ft.	.60	.60
Next 200 cubic feet, per 100 cu. ft.	.75	.50
Over 800 cubic feet, per 100 cu. ft.	1.00	.50

For Period January 1 - May 1

First 800 cubic feet or less	2.00	----
Over 800 cubic feet, per 100 cu. ft.	.25	----
First 400 cubic feet or less	----	3.00
Next 200 cubic feet, per 100 cu. ft.	----	.60
Over 600 cubic feet, per 100 cu. ft.	----	.50

Also included in the proposed rate schedules is an increase in the annual charge for summer and vacation consumers from \$24 to \$36, entitling such consumers to 400 cubic feet of water monthly. In addition, applicant has proposed a swimming pool rate, consisting of a connection charge of \$25 and \$18 per year for the first 4,000 cubic feet of water, with diminishing rates per 100 cubic feet for increased quantities delivered either before or after June 1. There is also proposed a charge of 10 cents per month per domestic meter connection for water for fire hydrants, which are to be supplied at the customers' expense. As applicant's costs for water for fire hydrants are included in operating expenses, and as no justification appears for a special swimming pool rate in view of the scarcity of water on this system, both such proposed charges are found to be unreasonable and they will not be authorized.

As stated above, revenues under the rates requested by applicant, as estimated for 1957, could not be expected to return the cost of operating the system.

Service Conditions

The report of the Commission's engineer (Exhibit 2) contains certain conclusions reached by him as a result of a recent inspection of the records and facilities of this system. These records show that during the period 1947 through 1956 total additions and betterments amounted to \$4,972.91; of this amount approximately \$2,000 was spent for pumping equipment.

The Commission's staff has made numerous recommendations for improvement of service since the utility was certificated in 1932. Very little progress has been made, however, subsequent to that time.

The conclusions reached by the staff engineer, as shown in his report, are that, in order for this utility to be able to serve adequate amounts of potable water to its consumers, it would be necessary to develop additional sources of supply, install more modern automatic pumping equipment, and replace most of the small distribution lines with larger diameter pipe. The report notes that such a program, essentially similar to that recommended in an engineer's report included in the 1953 proceedings in Case No. 5494 (Exhibit 1), apparently is not financially possible for this utility without community cooperation.

The report also states - and we find this to be a fact - that the system has reached the limit of its capacity to serve its present consumers. We conclude, therefore, that no new or additional customers should be served until after the utility has met its primary obligations to its existing consumers. (Pub. Util. Code, Sec. 2708.)

The present owner, LaPorte, offered a written plan at the hearing on May 20 for rehabilitation of the system, to be completed in about four years at an estimated cost of \$13,950. (Exhibit 1 in the consolidated proceeding.) The plan includes a program for enlargement of pumps, increasing the sizes of certain mains, enclosure of springs,

repair of existing reservoirs and installation of new reservoirs having a total capacity of about 48,000 gallons. LaPorte estimated that about 25,000 gallons of water per day would be available upon completion of this program. Present consumption is about 15,000 gallons per day.

LaPorte testified that he had spent "pretty close to \$5,000 of labor and money" to bring the system to its present state since he acquired it about October 1, 1954. The annual reports filed by this utility with the Commission show additions to plant amounting to \$54.40 in 1954, \$965.25 in 1955, and \$1,082.68 in 1956.

Conclusions

The record in this proceeding, viewed in the light of the past performance of this utility, has led us to conclude that it would not be feasible, under present conditions, to require the owners of this water system to carry out a complete rehabilitation of facilities. Moreover, the plan submitted by LaPorte, described above, appears to be unsound in stressing additional storage facilities at the expense of increasing pumping capacity and removing bottlenecks in the main pump lines, as well as financially impracticable when the limited resources of the company are considered.

Certain propositions, however, are clear. The utility needs additional revenue and it also needs enlarged facilities for delivering water into existing reservoirs. Applicant has asked the Commission to authorize the proposed rates "or such other rates and/or conditions that will give applicant relief." The proposed rates are insufficient to produce a return on the depreciated capital investment or to provide for even a minimum program for increasing pumping and main capacities, although it is noted that the form of the proposed schedules is more conducive to greater water use - and hence to greater revenue - than that of the present schedules.

We therefore find that the proposed rates are insufficient, but that a minimum charge of \$3.50 per meter per month, which will be authorized instead of the \$3.00 minimum charge requested by applicant, and the estimated results calculated to flow from such a charge, together with the other rates proposed by applicant, are reasonable under the circumstances disclosed by this record. Applicant's present schedules do not include a minimum meter charge. The schedules authorized herein should include such a charge. Those estimated results are shown in the following tabulation.

<u>ITEM</u>	<u>Estimated @ \$3.50 monthly minimum charge - future year</u>	
Operating Revenue		\$5,355
Operating Expense, Excl. Taxes & Depr.	\$3,873	
Taxes	501	
Depreciation	512	
Total Expense		<u>4,886</u>
Net Revenue		469
Av. Depr. Rate Base	14,677	
Rate of Return		3.20%

The company, in order to be in a position to render better service before the next dry season, should be directed to provide two automatically controlled pumps; one at the Los Gatos Creek intake (elev. 680') having a capacity of at least 20 g.p.m., and the other, at Tank No. 4 near the County Road (elev. 850'), having a capacity of at least 25 g.p.m. Furthermore, the 1½-inch pipe line between Tank No. 4 and Road No. 2-A, and the 1-inch line from Road No. 2-A to the 30,000 gallon reservoir (Reservoir No. 11 - elev. 1275'), should either be replaced or paralleled by a pipe line of not less than 2 inches inside diameter. In addition, the company should be directed to file with the Commission, within 30 days after the issuance of this decision,

an itemized estimate of the cost of such installations, since the present record does not disclose these costs.

Upon completion of the installations as described above, which should be accomplished before May 1, 1958, and after inspection of the system and a report thereof by the staff, the Commission will consider whether this proceeding should be reopened for the purpose of reviewing the action taken herein in the light of circumstances as they may then exist.

O R D E R

Public hearing having been held and the Commission now being fully advised and hereby finding as a fact that the increases in rates and charges authorized herein are justified and that present rates and charges, insofar as they differ from those herein prescribed, for the future are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that:

(1) Applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformance with General Order No. 96, the schedules of rates shown in Appendix A attached hereto, and upon not less than ^{one day} ~~five days~~ notice to the Commission and the public, to make said rates effective for service rendered on and after October 1, 1957. SM

(2) Applicant, within forty days after the effective date of this order, shall file with this Commission four copies of a tariff service area map, acceptable to the Commission and in accordance with the requirements of General Order No. 96. Such tariff service area map shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

(3) Applicant, within forty days after the effective date of this order, shall file with this Commission four copies of a comprehensive map drawn to an indicated scale not smaller than 100 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 various properties of applicant.

(4) Beginning with the year 1957, applicant shall determine depreciation expense by multiplying the depreciable fixed capital by a rate of 3.1 percent. 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 fixed capital 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 the Commission.

(5) Aldercroft Heights Company, Inc., within thirty days after the date of issuance of this decision, shall file with the Commission an itemized estimate of the cost of procurement and installation of

- a. A suitable pump of a capacity not less than 20 g.p.m., automatically controlled, to be installed at the utility's pumping plant in Los Gatos Creek.
- b. A suitable pump of a capacity not less than 25 g.p.m., automatically controlled, to be installed at the utility's pumping plant at the County Road, adjacent to Tank No. 4, as designated on the map, Exhibit 4 herein.
- c. Sufficient pipe of suitable quality, not less than 2 inches inside diameter, together with necessary valves and fittings, to connect the pump at Tank No. 4 with the 30,000-gallon reservoir at elevation 1275', described on Exhibit 4 as Reservoir No. 11.

(6) On or before May 1, 1958 Aldercroft Heights Company, Inc. shall complete and connect to its system the installations described in paragraph (5) above.

(7) Aldercroft Heights Company, Inc. shall not serve any new or additional individual consumers or extend service to any tract or subdivision unless and until it has available an adequate supply of

water and adequate facilities to serve existing consumers as well as such new or additional individual consumers, tracts, or subdivisions, and the Commission, upon a satisfactory showing having been made, shall first have modified this service restriction by subsequent order or orders.

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

Dated at San Francisco, California, this 10th day of SEPTEMBER, 1957.

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

APPENDIX A

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community known as Aldercroft Heights, located adjacent to Los Gatos Creek and approximately 7 miles south of the City of Los Gatos, Santa Clara County.

RATES

Monthly Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
First 400 cu. ft. or less.....	\$3.50
Next 200 cu. ft., per 100 cu. ft.....	.60
Over 600 cu. ft., per 100 cu. ft.....	.50
Annual Minimum Charge:	<u>Per Meter</u> <u>Per Year</u>
For 5/8 x 3/4-inch meter.....	\$42.00
For 3/4-inch meter.....	57.00
For 1-inch meter.....	78.00

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 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.