

ORIGINAL

Decision No. 56142

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of the LONE PINE WATER COMPANY )  
for authority to increase the )  
rates charged by it for water and )  
to make changes in its rules. )

Application No. 38795

Robert J. Milliken, consultant, for applicant.

Wm. J. Bauer, superintendent, for Lone Pine Union  
High School District; Willis Smith, attorney, for  
a group of consumers and for Lone Pine Chamber of  
Commerce; and E. A. Burnore, president, for Lone  
Pine Chamber of Commerce; protestants.

I. B. Joseph, for Lone Pine Fire Protection District;  
Opal I. Burkhardt, John Robert Boyes and Murel  
Sherrod, in propria personae; interested parties.

James G. Shields and Richard R. Entwistle, for the  
Commission staff.

#### INTERIM OPINION

Lone Pine Water Company, a corporation, by the above-entitled application filed February 4, 1957, seeks authority to increase its rates for water service in and in the vicinity of the community of Lone Pine in unincorporated territory of Inyo County, and to modify its Rule No. 18 and to put into effect a new Rule No. 19. The proposed increase in rates would amount to about \$5,000 on a gross annual basis over the present rates. The modified Rule No. 18 is shown in Exhibit G, and the new Rule No. 19 is shown in Exhibit H, each attached to the application.

Public hearings were held before Examiner Stewart C. Warner on October 2 and 3, 1957, at Lone Pine. Several consumers appeared

to protest the increase in rates unless service conditions were improved. The service conditions complained of pertained primarily to very low water pressure in the water system particularly in east Lone Pine and the subdivisions known as Lake View Terrace and Lubkin Tract. All consumers complained of dirty water, sand, and foreign particles at certain times of the year as hereinafter discussed.

#### General Information

Applicant furnishes domestic and commercial water service on a flat rate basis only, and during the year 1956 there was an average of 576 services and 44 fire hydrants on the system.

Lone Pine Water Company was incorporated in 1881, and, in 1902, by the so-called Lucian Shaw Decree, applicant was awarded 30 miner's-inches of water from Lone Pine Creek, one of the major streams in the locality of Lone Pine having its source on the steep slopes of Mt. Whitney on the eastern side of the Sierra Nevada Mountains. Applicant's entire source of water supply is obtained by gravity flow from said creek. The creek's flow of water fluctuates throughout the year depending on the melted snow runoff and the frequency of heavy rains and cloudbursts. During periods of extremely heavy flow, which may last two or three weeks at a time, especially in the spring season of the year, sand, leaves, debris, and finely suspended matters are brought down the creek and enter the distribution system and consumers' services despite applicant's having constructed a 30- x 100-foot concrete settling basin, at the point where water is diverted by applicant from Lone Pine Creek, about 6,000 feet west of and at an elevation of approximately 180 feet above the Lone Pine distribution system point of entry.

Applicant's service conditions have been the subject of almost continuous complaint since at least 1937, both on a formal and informal basis, and applicant has from time to time taken some modest steps to remedy such conditions or to satisfy the poor service conditions by the installation of the aforementioned settling basin, the replacement of about 1,000 feet of transmission main, the installation of chlorination equipment, and the replacement of distribution mains which had deteriorated beyond further usefulness. In this latter connection, it should be noted that the record shows that the constant erosion effect of sand and high turbidity of the water, when it contains excess amounts of oxygen, have caused both the transmission and distribution mains to become tuberculated, clogged up, and reduced in length of service life.

Corporate and Management Organization

Applicant's president is Alpha Heady of Lone Pine who, the record shows, exercises very little direct supervision or management of the water system; its vice president is a Mr. Randall Slack, who is in bad health and is inactive; its secretary-treasurer is Mr. E. E. Heliker, certified public accountant whose resident office is in Los Angeles and who is also in business for himself. Applicant's Board of Directors includes the three aforementioned officers and Mr. Wm. Vrooman, a consulting engineer who is regularly employed by Southern California Water Company as its water supply engineer, and Mr. Wm. Forbes who is not otherwise active in the operations of applicant. The resident superintendent and operator is Mr. Don Branson, and his wife, Mrs. Branson, maintains the consumers' billing ledger and sends out monthly water bills.

Basis of Application

Applicant based its request to increase rates on its allegation that such increased rates were necessary to allow it to earn a fair, just, and reasonable return on capital invested in its facilities used and useful in water service to its customers. Its statement of revenues and expenses for the 9 months ending September 30, 1956, (Exhibit A) shows net profit for the 9 months ending September 30, 1956 of \$2,463.05. A similar statement for the year ending December 31, 1956, (Exhibit No. 5) shows a net profit for the year 1956 of \$1,578.49. A like statement (Exhibit No. 1) for the six months ending June 30, 1957, shows a net loss for the first six months of 1957 of \$193.80.

Rates

Applicant's present rates were established by Decision No. 44239, dated May 26, 1950, in Application No. 30896. In said application authority was requested to increase flat rates from \$2 to \$2.50 per month, and a flat rate, for a single family dwelling on a lot not exceeding 50 x 150 feet, of \$2.20 was authorized. In the instant application, authority is requested to increase the present rate of \$2.20 to \$2.85 for a single family dwelling of 6 rooms or less and 1 bath on lot or parcel of land not to exceed 7,500 square feet, or for the first unit of multiple housing or apartment of 6 rooms or less and 1 bath on lot or parcel of land not to exceed 7,500 square feet. Increases are requested for some 19 other flat rate classifications plus their subclassifications. A major proposed increased rate is for the Lone Pine Union High School from \$62.50 to \$80 per month. The latter amount includes swimming pool.

Earnings

Applicant's consultant submitted a report, as Exhibit No. 3, of applicant's operations for the years 1953 through 1956, recorded, 1956, adjusted, 1957 and 1958 estimated, at present rates, and the years 1957 and 1958, estimated, at proposed rates. A Commission staff engineering witness submitted a report, as Exhibit No. 4, of applicant's results of operations for the years 1955 and 1956, recorded, and the year 1956, adjusted, and the year 1957, estimated, at present and proposed rates. The following tabulation is a summary and comparison of the earnings data contained in Exhibits Nos. 3 and 4:

SUMMARY OF EARNINGS

Item	Year 1956		Year 1957 Estimated			
	Recorded Present Rates Per Co. Ex. 3	Ex. 3	Present Rates		Proposed Rates	
			Per Co. Ex. 3	Per P.U.C. Ex. 4	Per Co. Ex. 3	Per P.U.C. Ex. 4
Operating Revenue	\$17,701	\$17,930	\$18,545		\$23,000	\$23,046
Operating Expenses	11,573	13,260	8,350		13,260	8,350
Depreciation	2,285	2,290	1,510		2,290	1,510
Taxes	1,962	1,540	3,336		3,200	4,812
Total Oper. Exp.	15,820	17,090	13,196		18,750	14,672
Net Oper. Revenue	1,881	840	5,349		4,250	8,374
Rate Base	46,414	44,620	46,400		44,620	46,400
Rate of Return	4.06%	1.88%	11.5%		9.53%	18.0%

Analysis of the earnings tabulation hereinbefore shown discloses no substantial or significant difference between the estimates of operating revenues for the year 1957, at either the present or proposed rates, submitted by applicant and the staff.

The record shows that on November 27, 1956, applicant's Board of Directors voted salary increases of \$25 per month to the superintendent and his wife, \$65 per month to the secretary- -

treasurer, \$62.50 to the accounting firm for accounting services, \$10 per month for office rent to the accounting firm, and \$50 per month to the consulting engineer. The net profit for the 9 months ended September 30, 1956 of \$2,463.05 (Exhibit A supra) occurred before such salary increases were voted. Exhibit No. 5 (supra), copy of a letter to applicant's stockholders accompanied by a balance sheet and income statement for the year ended December 31, 1956 which shows net profit for the year 1956 of \$1,578.49, and Exhibit No. 1 (supra) the statement of revenues and expenses for the 6 months ended June 30, 1957 which includes 6 months effect of the salary increases voted in November, 1956, shows the net loss of \$193.80 for the first 6 months in 1957, hereinbefore noted. The total annual salaries which include the following: president \$100 per month, secretary-treasurer \$145 per month, engineer \$150 per month, accounting services \$125 per month, superintendent and collection \$400 per month, and directors' fees of \$50, amount to \$11,090. The staff engineer included an amount of \$7,300 per year for management and officers' salaries, accounting services, and directors' fees in his estimates of operating expenses for the year 1957. He also included an allowance in operating expenses for a program of main cleaning and flushing for Public Utilities Commission regulatory expenses, amortized over a five-year period, water treatment expense, and deferred maintenance spread over a five-year period.

Applicant computed its estimated annual depreciation expense according to the straight-line total life method, whereas the staff computed the depreciation reserve requirement for the estimated average year 1957 and the annual depreciation expense according to

the straight-line remaining life method, after excluding items of nonoperative plant such as meters.

Applicant included in its estimated rate base for the average year 1957 only \$400 of additions to fixed capital whereas the staff reflected the addition of 15 consumers during the year and 2 sections of 8-inch interconnecting main in its fixed capital for the average year 1957.

#### Findings and Conclusions

The Commission finds and concludes that the estimates of operating revenues, expenses, including depreciation and taxes, and rate base for the year 1957, as submitted by the staff are reasonable and they will be and hereby are adopted for the purposes of this proceeding.

It is evident that, at both the present rates and proposed rates, applicant's rate of return for the estimated year 1957 of 11.5 percent and 18.0 percent, respectively, are excessive and that under normal conditions applicant's present rates should be reduced rather than increased. The record shows, however, that historically and currently, applicant's service has been and is poor. Charts 9-A, 9-B, and 9-C of Exhibit No. 4 show water pressure readings during July and August of 1957 substantially below the minimum standards of General Order No. 103 for entire 24-hour periods and for a period of one week.

The consumer protestants complained bitterly and showed general discouragement over the quality of their water service in the community of Lone Pine. They alleged, however, that they did not object to and would, in fact, support a rate increase if applicant's service conditions were substantially improved.

The record shows and the Commission finds and concludes that applicant is grossly overmanaged to the detriment of the rate payers and consumers. For a domestic water system of applicant's character, which derives its entire source of water supply by gravity without accompanying pumping power costs and installations, with all water service furnished on a flat rate basis not requiring meter readings or computations, applicant should be able to operate within the costs estimated by the staff engineer shown in Exhibit No. 4 and provide first class water service. It appears that the pay roll increases voted by applicant's Board of Directors were grossly unwarranted in view of the fact that they were voted prior to applicant's having taken any steps to improve its water service. Such increases in pay roll were then followed by a plea to this Commission to increase rates in order that applicant's annual financial operating statement would reflect earnings which would be attractive to a bank and the Small Business Administration. By Application No. 39445, filed September 30, 1957, applicant seeks authority to issue and deliver its promissory notes representing loans not exceeding an aggregate principal amount of \$15,000 to install some pipe lines in Washington Street from Post Street to Court Street, in Court Street to Washington Street, to the alley east of Main Street, in Post Street to Washington Street in Lone Pine, for work at the reservoir, for new service replacements, and to retire an existing indebtedness of \$2,000.

As an alternative to an Investigation on our Own Motion into the reasonableness of applicant's present rates, which, on the basis of the record herein, would probably lead to a reduction of



applicant's present rates, the order which follows hereinafter will require that applicant effect a major overhaul of its entire system to eliminate the low pressure service conditions complained of and to reduce to a minimum the foreign particles and debris which appear in consumers' services during the periods of heavy runoff of Lone Pine Creek. The solution to this operating problem rests with applicant's management, but it is incumbent on the Commission to require applicant to furnish adequate service at reasonable rates. Applicant should direct its financial intentions in accordance with reasonable operating practices; this should afford it the opportunity of obtaining the necessary financing to carry out the required program.

Applicant will be ordered to submit a written report to the Commission within 90 days, setting forth a program of water system improvements required to eliminate the poor service conditions complained of, to initiate such program, and to report to the Commission every 90 days thereafter until such program has been completed. When applicant has satisfied the Commission that its water system improvement program has evolved and has been initiated to an extent sufficient to provide adequate water service to its consumers, the Commission will give consideration to a further and final order herein.

The record does not warrant the granting of applicant's requests to amend its Rule No. 18, and to file a new Rule No. 19 and said requests will be denied.

INTERIM ORDER

Application as above-entitled having been filed, public hearings having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED as follows:

(1) That applicant shall, within ninety days after the effective date hereof, submit to the Commission, in writing, a water system improvement program to eliminate the poor service conditions complained of, particularly low pressures, and debris and foreign material which appear in applicant's consumers' services at the times of high runoff of Lone Pine Creek, including the estimated cost and completion date of each such improvement and to report to the Commission its progress in connection therewith every ninety days thereafter until such program is completed.

(2) That applicant shall, within ninety days after the effective date hereof, submit a study of its existing flat rate structure, including the number of customers in each classification and the necessary data to effect a simplification of this schedule of rates.

(3) That when applicant has filed a report of its program and rate study and has initiated such program to the satisfaction of the Commission, the Commission will then issue its final order setting an appropriate level of rates and the date on which such rates for water service will become effective.

IT IS HEREBY FURTHER ORDERED that applicant's requests to amend its Rule No. 18 and to file a new Rule No. 19 be and they are denied.

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

Dated at San Francisco California, this 21<sup>st</sup>  
day of January, 1958.

[Signature]  
President  
[Signature]  
Re. Hardy.  
[Signature]  
Commissioners